



Comprehensive Annual Financial Report

Michael C. Taylor
Mayor

Joseph V. Romano
Mayor Pro Tem

Deanna Koski
Councilwoman

Maria G. Schmidt
Councilwoman

Doug Skrzyniarz
Councilman

Barbara A. Ziarko
Councilwoman

Nate Shannon
Councilman

Mark D. Vanderpool
City Manager

Jeff Bahorski
Assistant City Manager

Brian S. Baker
Finance and Budget Director

Nick Makie, CPA
Controller

For the Fiscal Year Ended June 30, 2016

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

City of Sterling Heights, Michigan

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City of Sterling Heights, Michigan

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CITY OF Sterling Heights

InnovatingLiving

Richard J. Notte Sterling Heights City Center
 City Hall
 40555 Utica Road | P.O. Box 8009
 Sterling Heights, MI | 48311-8009

City Council

<i>Mayor</i>	Michael C. Taylor
<i>Mayor Pro Tem</i>	Doug Skrzyniarz
<i>Councilwoman</i>	Deanna Koski
<i>Councilman</i>	Joseph V. Romano
<i>Councilwoman</i>	Maria G. Schmidt
<i>Councilman</i>	Nate Shannon
<i>Councilwoman</i>	Barbara A. Ziarko

City Manager Mark D. Vanderpool

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

November 22, 2016

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

The Comprehensive Annual Financial Report (CAFR) of the City of Sterling Heights, Michigan (the "City") as of and for the year ended June 30, 2016 is hereby submitted. As required by City Charter and state laws, the basic financial statements as defined in the table of contents were audited by Plante & Moran, PLLC, certified public accountants. Their unmodified opinion follows this letter of transmittal. An unmodified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with City management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that fairly presents the financial position and results of operations of the governmental activities, business-type activities, the various funds and component units of the City of Sterling Heights. All disclosures necessary to enable the reader to gain an understanding of the City activities have been included.

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

In addition, during the current year, an audit was performed in accordance with the requirements of the Single Audit Act Amendments of 1996 (P.L. 104-156). The auditor's reports related specifically to the single audit are issued under separate cover.

The Reporting Entity and Services Provided

The City of Sterling Heights has defined its financial reporting entity in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The City includes all the funds, boards, commissions, and authorities that are controlled by or dependent upon the mayor and City Council. Based upon these criteria, the Brownfield Redevelopment Authority, Corridor Improvement Authority, Economic Development Corporation, and Local Development Finance Authority have been included in this report.

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

Governmental Structure and Local Economy

Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. Located in the northwest quadrant of Macomb County, at 36.8 square miles, there are 395 miles of roadway in Sterling Heights, of which 349 miles are maintained by the City. City services are provided to 49,576 households and 4,297 commercial and industrial businesses. The 2016 estimated population for the City stands at 129,699, making Sterling Heights the fourth largest populated city in Michigan. At the end of the fiscal year, the City had a 4.6 percent unemployment rate as compared to a Macomb County rate of 4.8 percent, a statewide rate of 4.5 percent, and a national average of 4.5 percent.

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

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

Long-term Financial Planning

The City has successfully followed its long-term financial plan of providing excellent services with a low tax rate and by continually monitoring revenue trends. Due to revenue losses, and despite continual expenditure cuts, General Fund reserves fell from \$14.0 million in 2005 to \$5.2 million in 2014. In addition, the City used Internal Service Fund reserves to help offset General Fund losses. As a result, a six-year 2.5 mill Safe Streets tax was approved by City residents in November 2013 and was first levied in 2015. The millage has allowed the City to partially recover a portion of lost tax revenue. The millage provides \$3.3 million in new funding for neighborhood street repairs and \$7.1 million to prevent further reductions in the number of sworn police and firefighters.

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

Even with the Safe Streets millage, the growth of the City's existing tax base remains limited to inflation under State law (Proposal A) such that past tax losses are permanent. Further, the State has reduced commercial personal property taxes and eliminated manufacturing personal property taxes that together account for 15 percent of tax revenue. While the State has promised full reimbursement of personal property tax losses, concern remains about the State's ability to preserve this commitment over the long run.

Despite labor contract savings and lower full-time staffing, funding for long-term retirement liabilities is expected to continue to rise primarily due to the lower assumed rates of return compounded by the temporary impact of closing plans to new employees. However, with the approval of the 2.5 mills, the City is able to restore funding for replacement capital equipment and infrastructure, which had been dramatically reduced.

Unfortunately, the City does not have the resources available to make major new investments in park improvements and repairs due to the loss of tax revenue and reduced State funding. Since 2008, the City lost a cumulative \$106 million in property taxes compared to a normal inflationary housing market. The City has also lost \$84 million in revenue sharing since 2002. As a result, the City placed a Recreating Recreation millage proposal on the November 2016 ballot. The millage was approved by the voters and will provide \$45 million in dedicated funds for park improvements and repairs, as well as funds to operate and maintain the new facilities.

Relevant Financial Policies

The City continues to rely on its five-year financial plan to make financial adjustments as needed. The plan enables administration to project fund balance given various assumptions based on changes in major revenue and expenditures. This plan has resulted in a full-time workforce reduction of 200 positions since 2002 and labor contract savings totaling 15 percent, as well as a reduction in future long-term legacy costs. Going forward, the plan allows the City to maintain low operational costs, while offering modest wage adjustments, and provides the resources to make the necessary long-term investments in the community as part of the City's Visioning process. This strategy benefits the City by helping to eliminate the past structural imbalance caused by declining revenue and allows the City to continue to provide excellent services and maintain adequate reserves and strong bond ratings.

Major Initiatives

The following were among the many activities and accomplishments to which both the elected officials and staff devoted their energies in fiscal year 2015-2016:

- I. With a return to financial stability, the City built on the 2030 Visioning Plan by focusing on place-making initiatives including a Farmer's Market, an expanded Music in the Park concert series, and Clinton River Corridor and City Center improvements. The City proposed a plan to fund recreation improvements for residents of all ages and interests.

2. The City developed a 2017 budget that continued to fund increased road improvements and needed facility repairs, while also restoring reserves. The budget funded City place-making efforts resulting from the Visioning process, a new long-term refuse contract that increased services while saving money, and needed technology improvements identified through the City's new Technology Plan. The budget restored Library Sunday hours, phased out unpaid employee furlough days, and increased social media outreach efforts.
3. For the third consecutive year, the City increased funding for neighborhood road repairs, and the replacement of much-needed capital equipment and vehicles which had been delayed during the economic downturn. The budget also funded needed capital infrastructure repairs including upgrades to City parking lots, the reconstruction of Van Dyke, Dodge Park Road, and M-59, including regional median improvements as well as repairs to 14 Mile, 15 Mile, and the widening of Dequindre Road.
4. The City continued its focus on Economic Development with news of large reinvestments in the FCA Sterling Heights Assembly Plant and both Ford plants, and the development of Sterling Enterprise Park. The City also focused on retail development encouraging reuse, expansion and updating of existing commercial centers, while developing a multi-faceted approach to attract unique commercial uses consistent with the Visioning 2030 plan. A renewed effort is also underway in and around the Lakeside Mall area to make sure this important commercial sector is well positioned for future prosperity.
5. The Fire Department improved its statewide ranking and is now one of only two departments in the state with an Insurance Services Organization (ISO) rating of 2. The City continues to be one of the safest in the state due to outstanding policing efforts and broad-based community support.

Major Initiatives for July 1, 2016 and Thereafter

1. After successfully weathering the financial storm and achieving a path toward financial stability, the City is now able to focus on the future. The City's new Visioning plan will help guide future growth and redevelopment of the City. During the year, the City will formally approve updates to the City's Master Land Use Plan, Parks & Recreation Plan, and Master Road Plan.
2. The City will further advance its economic development initiatives with renewed emphasis on marketing for VELOCITY, the Defense Corridor, the Blue Water Economy (Clinton River) and Sterling Heights Initiative for Neighborhood Excellence (SHINE). The Economic Development Team will include a renewed focus on areas like Lakeside Mall and the M-59 Corridor.
3. The City will continue to implement its succession plan for directors, managers and employees to prepare for staff turnover, will further develop employee training opportunities, and continue to provide the tools employees need to provide excellent services.
4. With voter approval of the new Recreating Recreation initiative in November 2016, the City has begun the process of competitively bidding out the park improvements and repairs, as well as coordinating the required bond financing.

Budgeting and Internal Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "funds basis." Each fund is a distinct, self-balancing accounting entity. The *Fund Organization Chart* on page x provides a list of funds used by the City.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. The City's budget is prepared on the modified accrual basis for governmental-type funds, and its accounting records are also maintained on that basis. Under modified accrual accounting, revenue is recorded when it is both measurable and available. Expenditures are recorded when a liability is incurred, except for interest on long-term debt and accrued leave time. The City's governmental fund types, such as the General Fund, special revenue funds, debt service funds, and capital project funds, are reported on the modified accrual basis. The City's enterprise funds, internal service fund, and pension and other retirement benefits trust funds are reported on the full accrual basis, under which revenue is recorded when earned and expenses are recorded when incurred.

Also required under the Uniform Budgeting Act are budgetary controls. The objective of the budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level for the General Fund, special revenue funds, and certain debt service funds. However, budgetary control is maintained by object class (line account) for all funds for internal accounting purposes. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. The City Council approves necessary transfers between budgetary centers or from fund balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify all variances.

The City relies on a sound system of internal controls over financial reporting and federal program compliance. A system of internal control has been established for the purpose of preventing or detecting errors, misappropriations of assets, and fraudulent financial reporting. The system of internal controls relies on the integrity of the people who work for the City. Since the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatement.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. 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 28 consecutive years (fiscal years 1988-2015). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of the entire staff of the Office of Financial Services. We wish to express our sincere appreciation to each of them and to various employees from other offices for their cooperation and assistance. Appreciation is also expressed to the City Council for their consistent support throughout the year in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Mark D. Vanderpool
City Manager



Brian S. Baker
Finance and Budget Director



Government Finance Officers Association

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

Presented to

**City of Sterling Heights
Michigan**

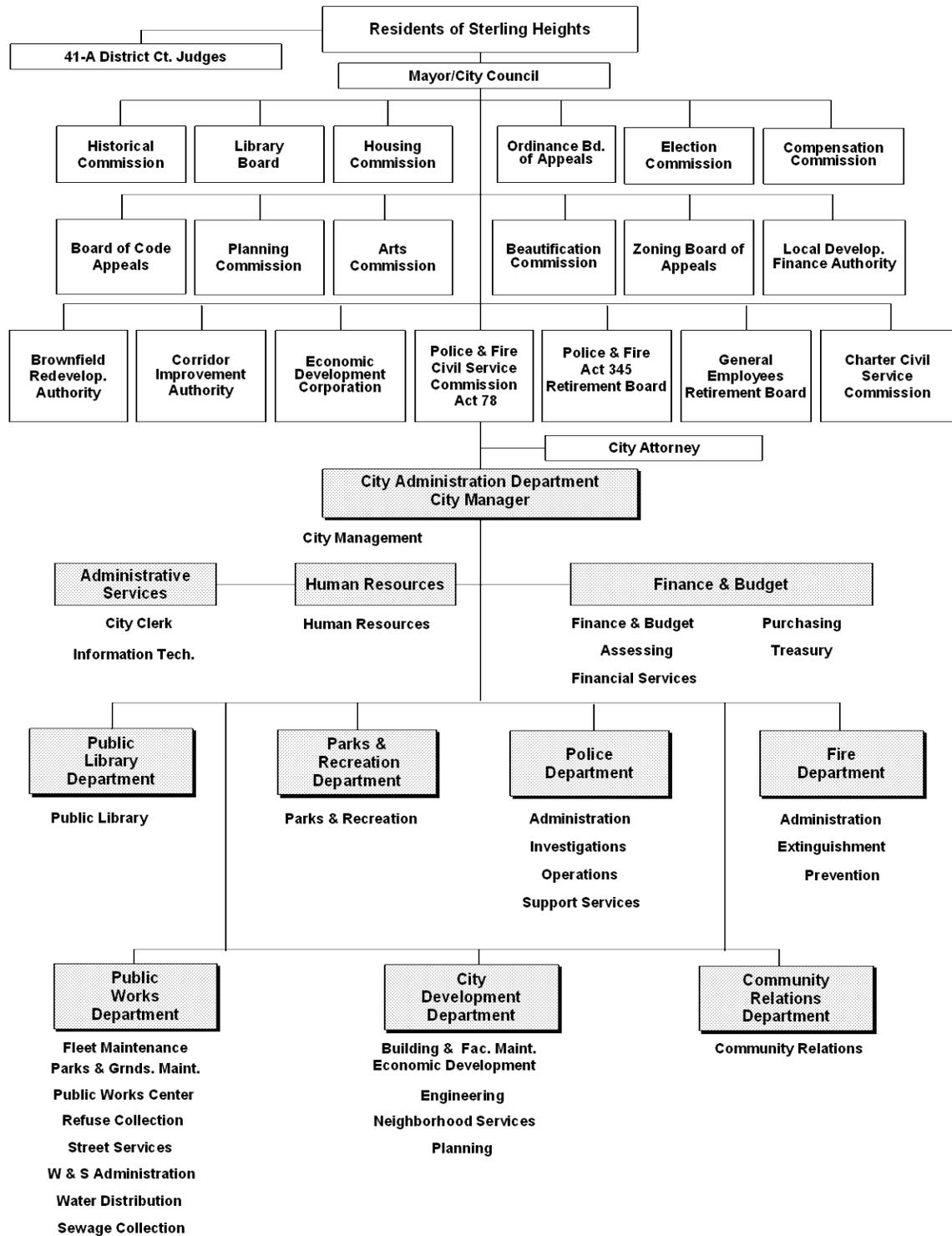
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
Assistant City Manager	Jeffery Bahorski
Building Official/Facilities Maintenance Manager	Michael Viazanko
City Assessor	Dwayne McLachlan
City Attorney	Marc Kaszubski
City Clerk/Risk Manager	Mark Carufel
City Development Director	Denice A. Gerstenberg
City Development Manager	Jason Castor
City Engineer	Brent S. Bashaw
City Planner	Christopher McLeod
City Treasurer	Jennifer L. Varney
Community Relations Director	Bridget Doyle
Community Services/Library Director	Tammy L. Turgeon
Controller	Nick Makie
Economic Development Manager	Luke Bonner
Finance and Budget Director	Brian S. Baker
Fire Chief	Christopher Martin
Human Resources Director	Walter C. Blessed
Information Technology Director	Steve Deon
Parks and Recreation Director	Kyle Langlois
Police Chief	John Berg
Public Works Director	Michael Moore
Purchasing Manager	James P. Buhlinger

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

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

Proprietary Funds

Enterprise	Internal Service
Water and Sewer *	Self-insurance

Fiduciary Funds

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

Component Units

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

* Major funds under GASB No. 34

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Sterling Heights, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2016 and the respective changes in its financial position, and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the City net pension liability and related ratios, schedule of City contributions, other postemployment benefits schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

The statistical and continuing disclosure sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of the City of Sterling Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sterling Heights, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

November 22, 2016

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Overview of the Financial Statements

Our discussion and analysis of the City of Sterling Heights' (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. This narrative should be considered in conjunction with the additional information presented in the letter of transmittal found on pages i-vi and is intended to serve as an introduction to the City of Sterling Heights' basic financial statements which begin on page 18.

Financial Highlights

- As a result of this year's operations, the City's overall net position decreased by \$1.9 million or 0.9 percent. The net position of our governmental activities increased by \$1.7 million or 2.4 percent and the net position of our business-type activities decreased by \$3.6 million or 2.6 percent. The decrease in overall net position related to an increase in business-type long-term liabilities and a decrease in deferred pension charges. In the prior year, the implementation of GASB No. 68 resulted in the recording of \$165.6 million of net pension liabilities of the City for the first time.
- Net position for governmental activities increased as total assets and deferred outflows exceeded total liabilities and deferred inflows resulting from the recording of net pension liabilities. Generally accepted accounting principles (GAAP) require the measurement of pension expense as it is earned, rather than as it is funded. The decrease in liabilities was partially offset by the \$47.7 million recognition of deferred pension inflows which will be amortized over future periods. Additional information regarding these accounting changes may be found in Notes 7 and 12 of the notes to the financial statements. Assets increased by \$18.8 million due largely to increased capital asset activity and deferred pension outflows increased by a \$14.3 million.
- The General Fund reported a \$1.1 million or 1.2 percent increase in revenue. Property tax revenue rose by \$2.2 million or 3.8 percent due to a 2.0 percent increase in City taxable property values and fewer property tax refunds. Transfers from the Self-insurance Fund decreased by \$1.7 million due to the planned equity drawdown in the prior year to stabilize General Fund reserves. 41-A District Court revenue rose \$0.5 million or 14.1 percent due to an increase in traffic violations. Building revenue increased \$0.4 million or 17.9 percent due to increased building permits. A total of \$0.2 million was received from the State for the reimbursement of lost personal property taxes. Public Works cross-charge revenue fell \$0.4 million or 11.8 percent due to less snow plowing needs, while engineering revenue declined \$0.2 million or 12.6 percent due to the timing of road inspections.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

- General Fund expenditures decreased by \$0.4 million or 0.4 percent. Transfers to the Major Road Fund declined by \$2.8 million due to the one-time use of self-insurance reserves to fund the reconstruction of Van Dyke. A \$0.8 million credit was recorded as a one-time use of insurance reserves to fund needed capital replacements. Transfers to the Capital Projects Fund rose by \$1.3 million to fund City Hall parking lot repairs. Contracted services increased \$1.3 million due to the transfer of dispatch operations to Macomb County mid-way through the prior year. Transfers to the Land & Water Conservation Fund rose by \$0.5 million for a replacement Dodge Park trail bridge.
- Due to lower expenditures and higher revenue, the General Fund increased its contribution to reserves by \$1.5 million over the prior year as \$3.9 million was added to reserves. The stabilization of City finances due to the passage of the Safe Streets initiative has allowed the City to avoid further reductions in police and fire staffing, has funded needed capital replacements and repairs, and has allowed the City to partially restore depleted General Fund reserves.
- Despite an increase in State gas tax revenue starting in 2017, long-term funding remains inadequate to repair all major roads in the City. The respective portion of the 2.5 mills approved by the voters in 2013 has generated \$3.3 million in its second year and will allow the City to invest \$20 million in neighborhood road repairs over six years. The City is actively working with the Michigan Municipal League to ensure that local communities receive their fair share of State road funds so that monies go toward the roads most in need of repair and funding continues to be allocated based on population requirements.
- The City continues to fully fund its retirement systems and has done so even through the economic downturn. Due to a reduction in retirement benefits and by eliminating retiree health insurance benefits for all new hires, the growth in retiree liabilities is anticipated to be moderate. In addition, the City will be reviewing its actuarial assumption to ensure realistic assumed investment returns. By fully funding long-term obligations, maintaining low debt levels and having a diversified tax base, the City is able to maintain very low tax and water and sewer rates, while continuing to provide core services to residents and business customers.

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the City's assets and liabilities. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's assets and liabilities which is one way to measure the City's financial health.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The City's government-wide financial statements are divided into three categories:

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

The City as a Whole

The City's overall net position decreased 0.9 percent from a year ago, decreasing from \$207.4 million to \$205.5 million. A review of the governmental activities, separate from the business-type activities, shows an increase of \$1.7 million in net position, or 2.5 percent, during fiscal year 2016. This marks an improvement over the \$1.3 million decrease in net position in 2015. The improvement is a result of a \$3.2 million increase in revenue compared to a \$0.1 million increase in expenditures. Going forward, we anticipate a further increase in net position due to positive General Fund performance.

As of June 30, 2016, unrestricted net position for governmental activities, which is the part of total net position available to finance day-to-day operations and future growth, was a negative \$110.4 million. This represents a \$3.2 million decrease as compared to June 30, 2015. The major factor contributing to the negative amount was the recognition of future pension liabilities. These long-term liabilities will continue to be funded on a yearly basis.

The business-type activities experienced a decrease in net position of \$3.6 million, an improvement from the \$5.7 million net decrease the previous year. The improvement is due to increased capital contributions due to an improved economy and higher operating revenue due to a rate increase. The \$3.6 million decrease in net position was primarily due to continued lower water and sewer consumption without a corresponding decrease in fixed water and sewer charges from the City of Detroit and Macomb County. The decrease was due to depreciation expense which the City does not fund through its operating rates. The overall decrease in net position flowed through the balance sheet of the business-type activities as a decrease in restricted net position of \$9.2 million, which was offset by an increase in capital assets net of debt of \$1.0 million and a \$4.6 million increase in unrestricted net position.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows net position (in millions of dollars) as of June 30, 2016 and 2015:

	Governmental		Business-type		Total	
	Activities	Activities	Activities	Activities	Activities	Activities
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 50.5	\$ 42.4	\$ 23.1	\$ 16.5	\$ 73.6	\$ 58.9
Noncurrent assets:						
Restricted assets and other assets	8.0	5.8	1.3	10.5	9.3	16.3
Capital assets	<u>190.4</u>	<u>181.9</u>	<u>175.8</u>	<u>172.9</u>	<u>366.2</u>	<u>354.8</u>
Total assets	248.9	230.1	200.2	199.9	449.1	430.0
Deferred Outflows	45.3	31.0	2.3	1.0	47.6	32.0
Liabilities						
Current liabilities	13.2	9.3	5.2	3.9	18.4	13.2
Long-term liabilities	<u>162.8</u>	<u>183.0</u>	<u>62.3</u>	<u>58.4</u>	<u>225.1</u>	<u>241.4</u>
Total liabilities	176.0	192.3	67.5	62.3	243.5	254.6
Deferred Inflows	<u>47.7</u>	-	-	-	<u>47.7</u>	-
Net Position						
Net investment in capital assets	172.6	166.3	119.1	118.1	291.7	284.4
Restricted	8.3	9.7	1.3	10.5	9.6	20.2
Unrestricted	<u>(110.4)</u>	<u>(107.2)</u>	<u>14.6</u>	<u>10.0</u>	<u>(95.8)</u>	<u>(97.2)</u>
Total net position	<u>\$ 70.5</u>	<u>\$ 68.8</u>	<u>\$ 135.0</u>	<u>\$ 138.6</u>	<u>\$ 205.5</u>	<u>\$ 207.4</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

In a condensed format, the table below shows the change in net position (in millions of dollars) as of June 30, 2016 and 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue						
Charges for services	\$ 11.5	\$ 11.4	\$ 40.0	\$ 36.0	\$ 51.5	\$ 47.4
Operating grants and contributions	4.1	3.6	-	0.6	4.1	4.2
Capital grants and contributions	8.6	8.1	5.0	2.0	13.6	10.1
Property taxes	64.0	62.2	-	-	64.0	62.2
State-shared revenue	10.7	10.8	-	-	10.7	10.8
Investment earnings	0.9	0.6	0.7	0.6	1.6	1.2
Other nonprogram revenue	2.6	2.5	-	-	2.6	2.5
Total revenue	102.4	99.2	45.7	39.2	148.1	138.4
Program Expenses						
General government	7.5	6.2	-	-	7.5	6.2
41A District Court	3.9	3.3	-	-	3.9	3.3
Public safety	55.1	61.1	-	-	55.1	61.1
Public works	28.0	24.4	-	-	28.0	24.4
Recreation and culture	5.7	4.9	-	-	5.7	4.9
Interest on long-term debt	0.5	0.6	-	-	0.5	0.6
Water and sewer	-	-	49.3	44.9	49.3	44.9
Total program expenses	100.7	100.5	49.3	44.9	150.0	145.4
Change in Net Position	1.7	(1.3)	(3.6)	(5.7)	(1.9)	(7.0)
Net Position - Beginning of year	68.8	70.1	138.6	144.3	207.4	214.4
Net Position - End of year	\$ 70.5	\$ 68.8	\$ 135.0	\$ 138.6	\$ 205.5	\$ 207.4

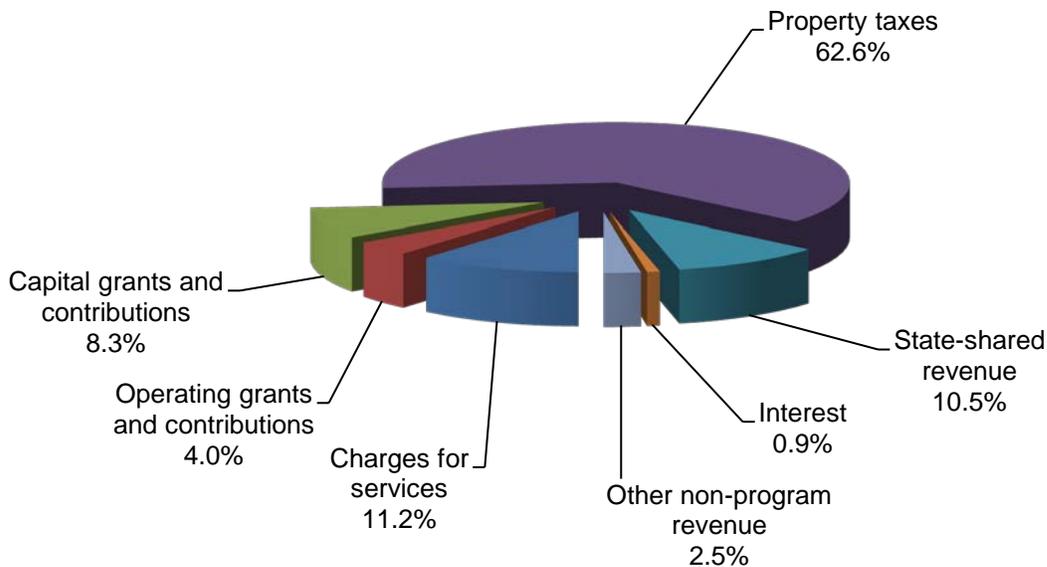
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

During fiscal year 2016, the City's total governmental revenue increased by \$3.2 million or 3.2 percent. The increase was largely due to higher property tax receipts, increased District Court revenue, and higher building permit revenue due to increased construction.

Revenue by Source - Governmental Activities

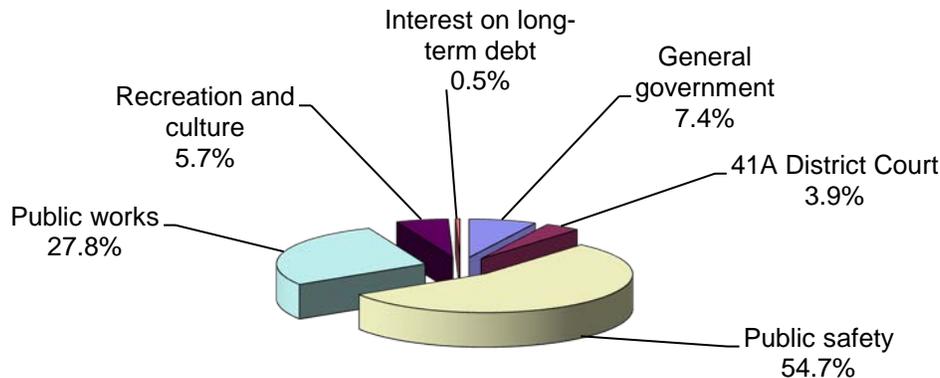


Expenses decreased by \$1.9 million or 1.9 percent over the previous fiscal year. Governmental expenses rose due to increased road and capital related investments but the increases were offset by lower debt service costs, snow plowing and fuel costs, savings from employee turnover due to retirements, and the fluctuations in pension expense recognized due to GASB 68.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Program Expenses - Governmental Activities



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

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the Great Lakes Water Authority (GLWA), to nearly all residents. Water rates and fixed charges from the GLWA for fiscal year 2016 increased by 12.2 percent, while the City passed on an 11.9 percent water rate adjustment to its retail customers, due primarily to declining sales volumes. The City provides sewage treatment to 99.0 percent of its residents through the Macomb County Sewage District. The City passed on a 15.5 percent sewage rate adjustment to its customers primarily due to higher debt payments from the City's share of the District's sewer rehabilitation projects. During fiscal year 2016, the water and sewer system experienced a 2.1 percent decrease in water sold to our residents and commercial customers. Volumes are down 28.7 percent since 2008.

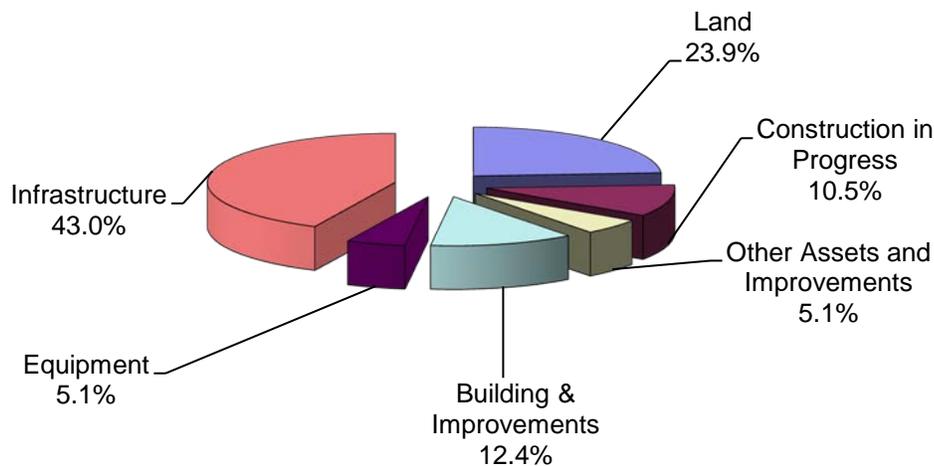
City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2016, the City had \$291.7 million invested (net of related debt) in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains), and water and sewer lines. The value of the infrastructure assets contained in this report (including water and sewer lines), net of depreciation, is \$240.8 million and \$232.4 million for fiscal years 2016 and 2015, respectively (see Note 6 of the notes to the basic financial statements for additional information).

Capital Assets (Net of Depreciation) - Governmental



The City's general obligation bonds maintained their excellent ratings from two of the City's bond rating agencies including Fitch (AA+), and Moody's (Aa1). As part of the City's \$9.6 million bond sale in April 2016, Standard & Poor's lowered the City's rating one notch from AA+ to AA and affirmed the City's stable outlook. Debt service for all outstanding direct debt during fiscal year 2016 consisted of \$1.8 million in principal and \$0.5 million in interest after adjustments for recognition of amortized premiums (see Note 10 of the notes to the basic financial statements for additional information).

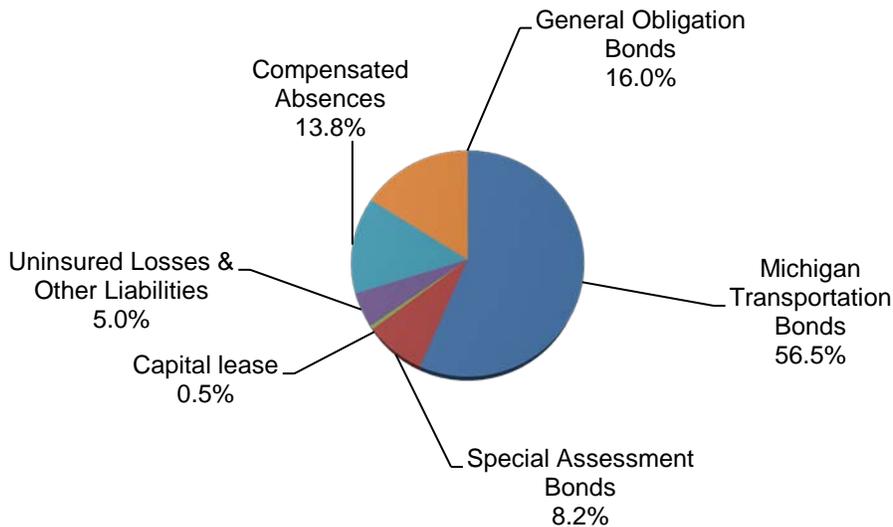
City of Sterling Heights, Michigan

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:

	2016	2015
Net debt outstanding (direct and indirect)	\$ 36,655,264	\$ 38,457,473
Ratio of net debt outstanding to total taxable value	0.7451%	0.9308%
Net debt outstanding per capita	\$ 282.62	\$ 296.51

Long-term Obligations - Governmental



Fund Financial Statements

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

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

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

The fund financial statements begin on pages 21-22 and provide detailed information on the most significant funds. The City's major funds for 2016 include the General Fund, Major Roads Fund, Community Development Block Grant Fund, Road Bond Debt Retirement Fund, General Improvements Fund, and Road Bond Construction Fund.

The major components of revenue for all funds are property taxes and state sources. The major components of expenditures of governmental funds are public safety (police and fire), public works, and capital outlay. Revenue was higher than expenditures (including transfers) in these funds by \$11.4 million. In the General Fund, revenue exceeded expenditures by \$3.9 million as revenue rose 1.2 percent compared to a 0.4 percent decline in expenditures. For the second time in 10 years, the City was able to contribute to General Fund reserves. Total government fund expenditures rose primarily due to increased investments in capital replacements, facility repairs, and road construction. The Major Roads Fund net decrease of \$0.4 million in fund balance was a result of a planned drawdown of reserves for the reconstruction of Van Dyke Road. The Community Development Block Grant Fund is a reimbursement-based grant fund. Road Bond Construction Fund revenue exceeded expenditures by \$6.5 million due to the issuance of a \$9.6 million bond and the payment of remaining road construction costs in the following year. Other nonmajor governmental funds showed a \$1.2 million net increase due to the timing of neighborhood road and park improvement projects.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, City administration and the City Council monitor and amend the budget to take into account unanticipated events that occur during the year. The budget was amended twice during fiscal 2016. Final budgeted expenditures were \$1.0 million or 1.2 percent higher than the original budget primarily due to one-time increased funding for bridge repairs and the needed replacement of City vehicles. Final budgeted revenue was \$3.1 million higher than the original budget due to the use of self-insurance reserves for one-time capital items, lower property tax refunds, as well as increased District Court, building permit, and cable revenue.

At year end, actual General Fund expenditures came in at 99.1 percent of the budget or \$0.8 million under budget due to a slight delay in hiring additional police officers. General Fund revenue came in at 100.1 percent or \$0.1 million higher than budgeted due to higher public works equipment rental charges and investment gains, partially offset by lower property tax revenue.

Current Economic Conditions

The City's finances have stabilized due to the passage of the Safe Streets millage by voters in November 2013 and the improvement in the housing market. As a result, the City now has the ability to stabilize operations and reinvest in the community. While the City will never recover the lost property tax revenue that occurred between 2008 and 2014, the City was able to take corrective action that will continue to financially benefit the community going forward. The City's cost structure has been reduced, and legacy benefit reforms have been achieved including the closing of the general employees' pension system to new members and eliminating retiree medical benefits for all new hires.

While the City continues to carry out its long-term financial plan, there still remains a structural funding problem facing communities in Michigan. Unfortunately, the City's future revenue growth is limited. The City will only see an inflationary adjustment from property tax revenue going forward as most of the City is developed. Of long-term concern is the State's ability to fully fund the reimbursement of lost personal property tax for major manufacturers which has been eliminated. State revenue sharing, the City's second largest revenue, is tied to sales tax receipts and is always at risk of further cuts. In fact, there is talk that the State could have to cut revenue sharing in order to make up for the promised increase in road funding to communities.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Assessments Caused Lower Property Tax Bills and Related Revenue

The City's overall property tax assessments rose 2.0 percent in fiscal year 2016 - the second increase in eight years. However, due to the elimination of manufacturing personal property taxes, taxable values declined in fiscal year 2017 by 4.1 percent. Taxable values have now fallen by 25.3 percent since 2008, resulting in a cumulative \$8 million loss and a \$106 million loss of tax revenue growth. Even as property values grow, Proposal A will limit increases to the rate of inflation, such that the City has permanently lost property tax dollars. As a result, taxable values are not projected to return to 2008 levels until 2026 at the earliest. In addition, the inflationary adjustment for 2016 was only 0.3 percent, which was well below the average 2.4 percent adjustment over the past 21 years. Furthermore, the inflationary adjustment for 2017 is expected to be less than 1.0 percent, resulting in a loss of an additional \$0.8 million of tax revenue growth compared to historical inflationary growth. As a result of these revenue losses and despite the new Safe Streets millage, the City will not be able to restore the millions in operational cuts made to date. The average property tax bill remains \$200 or 7.2 percent less than it was nine years ago. The City's tax rate remains lower than two-thirds of all cities in the state and one of the lowest of any city in Macomb County. The City's tax rate is 5.4 mills below the average of all cities in the County.

State Revenue-sharing Cuts

The City's second largest revenue source is state revenue sharing, which is distributed to communities from sales tax receipts collected by the State of Michigan. Revenue sharing previously represented 20.0 percent of the City's budget, while it currently represents less than 12.0 percent. The State has cut revenue-sharing payments, resulting in a cumulative \$40.5 million loss since 2002, despite a growing City population. When inflation is factored in, the City has now cumulatively lost \$84.3 million.

Road Funding

The City receives gas tax revenue from the State to pay for road maintenance and construction. Due to the use of more efficient vehicles, the State's flat gas tax has brought in less tax revenue to the City over the past 10 years. While gas tax receipts from the State have risen slightly over the past several years, the City has still lost \$2.7 million cumulatively since 2005. When adjusted for inflation, the City has lost \$18.5 million over the same period. While the State has increased the gas tax starting in 2017, this is only the second gas tax increase in the past 31 years. Unfortunately, half of the promised increase in State road funding will come from existing State revenue, so there is a concern that cuts to existing local funds may result. While the Safe Streets millage will provide \$3.3 million annually for neighborhood road repairs, the ability of the City to fund major road construction remains a concern.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Expenditure Savings

As a result of the declining revenue, the City developed a proactive multi-faceted financial strategy to successfully navigate the financial challenges. The City implemented numerous budgeted savings and limited revenue enhancement measures over the past several years. During this time, the City also achieved 15.0 percent wage and benefit concessions from all 12 labor groups. The City has eliminated 200 full-time budgeted positions or 31.0 percent of its full-time workforce since 2002 while relying more on part-time staff, saving \$15.6 million annually.

The City has also achieved significant reform of employee retirement benefits which has begun to reduce the growth in long-term retirement liabilities. The City no longer offers fixed pensions for general employees, has reduced pensions for future retirees who are still entitled to fixed pensions, eliminated retiree medical for all new employees, and reduced future retiree healthcare benefits. The City has contracted out the police detention facility, the cleaning of City buildings and certain park maintenance functions, as well as transferred dispatch operations to the County. The City continues to pursue service-sharing agreements with surrounding communities, and outsources services where feasible. Today, nearly 70.0 percent of the budget is directed toward the City's largest departments which are police, fire, and public works.

With the rebound in housing and the passage of the Safe Streets millage, the City is now able to avoid further staffing reductions, grant modest wage adjustments, and restore funding for needed capital replacements and facility repairs that had been delayed. The City has also funded the early hiring of replacement police officers and firefighters, developed succession plans, and funded more place-making initiatives as part of the City's new Visioning plan.

City Staffing

Due to past revenue losses, the City had to eliminate numerous positions over the past nine years given that over 75.0 percent of the City budget is comprised of personnel costs. The City now has 449 budgeted full-time employees - one of the lowest numbers since the 1970s. With the approval of the Safe Streets millage for 2015, the City was able to restore eight full-time positions, most of which were converted from part-time. An additional 13 new full-time positions were funded in 2016, but this increase was offset by a reduction of 22 full-time positions eliminated due to the transfer of dispatch operations to Macomb County. Two additional full-time positions were funded in the 2017 budget. Part-time staffing has increased by 59 percent since 2004. Our ratio of full-time employees per 1,000 residents is well below any comparable city in Michigan and is lower than 89.0 percent of cities across the country. Over the years, staffing reductions have primarily occurred at City Hall and public works, as fewer cuts have been made to public safety. Going forward, no further staffing reductions are planned.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Use of Fund Balance

Despite the expenditure savings, the City needed to use its fund balance reserves in both the General Fund and Self-insurance Fund during the economic slowdown. Between 2007 and 2014, the City used \$10.5 million of General Fund reserves. The City used \$9.8 million of Self-insurance fund reserves between 2012 and 2016. With the passage of the Safe Streets millage, the City was able to contribute \$2.3 million to General Fund reserves in 2015 and \$3.9 million in 2016. General Fund reserves now total \$11.4 million. Furthermore, the 2017 budget also contributes to General Fund reserves and continues to set the City on its path to restore reserves to acceptable levels. By following the City's long-term financial plan, the City has avoided compromising its superior AA+ bond rating, which saves hundreds of thousands of dollars in annual interest costs.

Future Actions Needed for 2017 and Beyond

Because the City has successfully approached challenging financial times in a comprehensive, long-term manner, we have weathered the financial storm and achieved financial stability. As such, we are now able to continue to focus on the future by implementing the City's new Visioning plan. This process will further guide our master land use, parks and recreation, and succession and technology plans, allowing the City to better plan for its long-term success.

Due to the City's cost-cutting efforts, the City is better positioned than most communities. Regularly updating the City's financial forecast allowed the City to take corrective action early on. The City has low debt levels, high bond ratings, and excellent services funded by very low property taxes and water and sewer rates. The City's tax rate continues to be one of the lowest of any city in the county and is lower than the vast majority of cities throughout the state. The City also continues to have the lowest residential water and sewer rates of any city in the state with more than 25,000 residents. While we are not able to return to prior staffing levels due to property tax losses, with the Safe Streets millage we are able to invest in replacing needed capital, make repairs to local neighborhood streets, and avoid further police and fire staffing reductions.

While further revenue growth is limited due to State policies, the City will continue to balance service delivery needs, the need for capital investments, and the continued need to set funds aside for promised long-term retirement liabilities based on realistic actuarial investment assumptions.

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

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

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

City of Sterling Heights, Michigan

Statement of Net Position June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 21,644,018	\$ 44,026	\$ 21,688,044	\$ 1,107,810
Investments - At fair value (Note 3)	12,197,400	10,963,099	23,160,499	550,000
Receivables:				
Customers	-	11,757,401	11,757,401	9,324
Special assessments - Current	189,290	-	189,290	-
Accrued interest	204,206	78,640	282,846	-
Other	1,181,390	-	1,181,390	-
Internal balances	(53,238)	53,238	-	-
Due from other governmental units	5,262,156	-	5,262,156	-
Prepaid costs and other assets	4,878,884	-	4,878,884	-
Inventories	606,579	282,091	888,670	-
OPEB asset (Note 13)	959,947	52,248	1,012,195	-
Special assessments	1,833,976	-	1,833,976	-
Restricted assets (Note 4)	7,993,788	1,307,099	9,300,887	-
Loans receivable (Note 5)	1,634,925	-	1,634,925	-
Capital assets:				
Nondepreciable (Note 6)	65,851,118	14,081,328	79,932,446	1,209,203
Depreciable - Net (Note 6)	124,510,950	161,654,284	286,165,234	2,204,272
Total assets	248,895,389	200,273,454	449,168,843	5,080,609
Deferred Outflows of Resources -				
Deferred outflows related to pension (Notes 7 and 12)	45,337,606	2,348,277	47,685,883	-
Liabilities				
Accounts payable	7,750,303	4,527,489	12,277,792	83,288
Accrued and other liabilities	1,738,519	576,030	2,314,549	5,046
Due to other governmental units	37,222	-	37,222	19,035
Unearned revenue (Note 8)	3,758,209	103,927	3,862,136	-
Noncurrent liabilities:				
Due within one year (Notes 9 and 10)	3,385,581	2,547,342	5,932,923	-
Net pension liability (Note 12)	133,545,607	5,508,377	139,053,984	-
Due in more than one year (Notes 9, 10, and 11)	25,783,875	54,296,102	80,079,977	-
Total liabilities	175,999,316	67,559,267	243,558,583	107,369
Deferred Inflows of Resources -				
Deferred inflows related to pension (Notes 7 and 12)	47,710,127	20,727	47,730,854	-
Net Position				
Net investment in capital assets	172,609,179	119,117,466	291,726,645	3,413,475
Restricted:				
Roads	5,484,887	-	5,484,887	-
Public safety	333,099	-	333,099	-
Debt service	2,507,578	-	2,507,578	-
County drains (Note 4)	-	1,307,099	1,307,099	-
Unrestricted	(110,411,191)	14,617,172	(95,794,019)	1,559,765
Total net position	<u>\$ 70,523,552</u>	<u>\$ 135,041,737</u>	<u>\$ 205,565,289</u>	<u>\$ 4,973,240</u>

City of Sterling Heights, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 7,351,777	\$ 3,227,800	\$ 182,061	\$ -
41A District Court	3,877,503	2,692,034	137,172	-
Public safety	55,117,055	1,633,571	210,265	54,451
Public works	28,014,220	3,189,189	3,194,318	8,499,335
Recreation and culture	5,735,889	733,620	324,892	-
Interest on long-term debt	514,247	-	-	-
Total governmental activities	100,610,691	11,476,214	4,048,708	8,553,786
Business-type activities - Water and sewer	49,351,047	40,026,642	96,712	5,014,380
Total primary government	<u>\$ 149,961,738</u>	<u>\$ 51,502,856</u>	<u>\$ 4,145,420</u>	<u>\$ 13,568,166</u>
Component units:				
Economic Development Corporation	\$ -	\$ -	\$ 300,000	\$ -
Brownfield Redevelopment Authority	41	-	438,723	-
Corridor Improvement Authority	-	-	20,640	-
Local Development Finance Authority	663,102	159,453	877,519	-
Total component units	<u>\$ 663,143</u>	<u>\$ 159,453</u>	<u>\$ 1,636,882</u>	<u>\$ -</u>
General revenue:				
Property taxes				
Unrestricted state revenue-sharing program				
Investment income				
Other nonprogram generated revenue				
Total general revenue				
Change in Net Position				
Net Position - Beginning of year				
Net Position - End of year				

Statement of Activities Year Ended June 30, 2016

Net (Expenses) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,941,916)	\$ -	\$ (3,941,916)	\$ -
(1,048,297)	-	(1,048,297)	-
(53,218,768)	-	(53,218,768)	-
(13,131,378)	-	(13,131,378)	-
(4,677,377)	-	(4,677,377)	-
(514,247)	-	(514,247)	-
(76,531,983)	-	(76,531,983)	-
-	(4,213,313)	(4,213,313)	-
(76,531,983)	(4,213,313)	(80,745,296)	-
-	-	-	300,000
-	-	-	438,682
-	-	-	20,640
-	-	-	373,870
-	-	-	1,133,192
64,036,721	-	64,036,721	-
10,694,421	-	10,694,421	-
886,403	676,162	1,562,565	5,830
2,595,396	-	2,595,396	-
78,212,941	676,162	78,889,103	5,830
1,680,958	(3,537,151)	(1,856,193)	1,139,022
68,842,594	138,578,888	207,421,482	3,834,218
\$ 70,523,552	\$ 135,041,737	\$ 205,565,289	\$ 4,973,240

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant
Assets			
Cash and cash equivalents (Note 3)	\$ 7,777,541	\$ 2,714,812	\$ -
Investments - At fair value (Note 3)	4,587,659	-	-
Receivables:			
Special assessments:			
Current	-	-	-
Unavailable	-	-	-
Accrued interest	43,964	1,010	-
Other	965,214	140	-
Prepaid costs and other assets	132,976	942,732	-
Due from other funds (Note 14)	633,665	260,275	-
Due from other governmental units	2,977,019	1,009,573	348,063
Inventories	602,382	-	-
Restricted assets (Note 4)	-	-	-
Rehabilitation loans (Note 5)	-	-	1,634,925
Total assets	\$ 17,720,420	\$ 4,928,542	\$ 1,982,988
Liabilities			
Accounts payable	\$ 2,287,263	\$ 1,135,760	\$ 254,071
Accrued and other liabilities	1,304,667	61,002	-
Due to other funds (Note 14)	652,159	-	93,992
Due to other governmental units	37,222	-	-
Unearned revenue (Note 8)	69,193	140	1,634,925
Total liabilities	4,350,504	1,196,902	1,982,988
Deferred Inflows of Resources -			
Unavailable revenue (Note 7)	1,975,047	-	-
Fund Balances			
Nonspendable:			
Inventory	602,382	-	-
Prepaid costs	132,976	942,732	-
Restricted for:			
Road improvements	-	2,788,908	-
Public safety	-	-	-
Debt service	-	-	-
Committed - Park acquisitions and improvements	-	-	-
Assigned to:			
Debt service	356,080	-	-
Other capital projects	4,739,420	-	-
Unassigned	5,564,011	-	-
Total fund balances	11,394,869	3,731,640	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 17,720,420	\$ 4,928,542	\$ 1,982,988

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

**Governmental Funds
Balance Sheet
June 30, 2016**

Road Bond Debt Retirement	General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 89,660	\$ 1,975,836	\$ 781,451	\$ 2,214,259	\$ 15,553,559
399,565	1,000,000	-	750,001	6,737,225
145,489	13,370	-	30,431	189,290
1,745,870	4,849	-	83,257	1,833,976
97,178	1,747	-	5,861	149,760
-	-	-	-	965,354
-	-	1,062,825	-	2,138,533
1,553	-	-	7,400	902,893
-	28,782	401,050	497,669	5,262,156
-	-	-	4,197	606,579
-	2,049,108	5,944,680	-	7,993,788
-	-	-	-	1,634,925
\$ 2,479,315	\$ 5,073,692	\$ 8,190,006	\$ 3,593,075	\$ 43,968,038
\$ -	\$ 1,101,609	\$ 1,282,501	\$ 1,003,028	\$ 7,064,232
-	117,364	119,976	135,510	1,738,519
-	68,431	200,744	270,498	1,285,824
-	-	-	-	37,222
-	2,049,108	-	4,843	3,758,209
-	3,336,512	1,603,221	1,413,879	13,884,006
1,745,870	4,849	-	83,257	3,809,023
-	-	-	4,197	606,579
-	-	1,062,825	-	2,138,533
-	-	5,523,960	1,111,142	9,424,010
-	-	-	328,902	328,902
733,445	-	-	28,263	761,708
-	-	-	623,435	623,435
-	-	-	-	356,080
-	1,732,331	-	-	6,471,751
-	-	-	-	5,564,011
733,445	1,732,331	6,586,785	2,095,939	26,275,009
\$ 2,479,315	\$ 5,073,692	\$ 8,190,006	\$ 3,593,075	\$ 43,968,038

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2016

Total Fund Balances of Governmental Funds	\$ 26,275,009
Amounts reported for governmental activities in the statement of net position are different because:	
Certain receivables are expected to be collected over several years in the General Fund, special revenue funds, and debt service funds	3,809,023
Capital assets used in governmental activities are not financial resources and are not reported in the funds	190,362,068
Certain changes in pension plan net position are reported as deferred outflows of resources in the statement of net position which are not reported in the General Fund	45,337,606
Certain changes in pension plan net position are reported as deferred inflows of resources in the statement of net position which are not reported in the General Fund	(47,710,127)
Net pension liability is not due and payable in the current period and is not reported in the funds	(133,545,607)
OPEB asset is not reported in the funds	959,947
Long-term liabilities not due and payable in the current period are not reported in the funds	(23,113,978)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources and are not reported as fund liabilities	(4,024,099)
Bond premiums are amortized over the life of the bonds, while recognized as an other financing source in the funds when received	(583,591)
Internal service fund is included as part of governmental activities	<u>12,757,301</u>
Net Position of Governmental Activities	<u>\$ 70,523,552</u>

City of Sterling Heights, Michigan

	General Fund	Major Roads	Community Development Block Grant	Road Bond Debt Retirement
Revenue				
Property taxes	\$ 60,054,659	\$ -	\$ -	\$ -
Fees and permits	2,149,069	-	-	-
Federal sources	210,266	-	645,061	-
State and local sources	11,561,815	7,240,176	-	-
Fines and forfeitures	3,057,417	-	-	-
Charges for services	9,719,467	-	-	-
Investment income	381,084	13,093	-	2,565
Special assessments	-	-	-	148,867
Rental income	1,564,907	14,070	-	-
Cable revenue	2,595,396	-	-	-
Other	1,097,572	194,095	-	129,510
Total revenue	92,391,652	7,461,434	645,061	280,942
Expenditures				
Current:				
General government	8,154,052	-	-	-
41A District Court	3,223,740	-	-	-
Public safety	49,520,577	-	-	-
Public works	16,352,057	2,309,222	300,609	-
Recreation and culture	4,393,760	-	-	-
General expenditures	1,025,080	-	-	1,600
Capital outlay	-	3,437,960	344,452	-
Debt service	-	-	-	1,320,931
Total expenditures	82,669,266	5,747,182	645,061	1,322,531
Excess of Revenues Under (Over) Expenditures	9,722,386	1,714,252	-	(1,041,589)
Other Financing Sources (Uses)				
Issuance of debt	-	-	-	-
Bond premium	-	-	-	-
Proceeds from sale of assets	-	-	-	-
Payments to refunded bond escrow agents	-	-	-	-
Interfund transfers in (Note 14)	1,350,064	-	-	1,130,000
Proceeds from capital financing	-	-	-	-
Interfund transfers out (Note 14)	(7,217,315)	(2,100,000)	-	-
Total other financing (uses) sources	(5,867,251)	(2,100,000)	-	1,130,000
Net Change in Fund Balances	3,855,135	(385,748)	-	88,411
Fund Balances - Beginning of year	7,539,734	4,117,388	-	645,034
Fund Balances - End of year	\$ 11,394,869	\$ 3,731,640	\$ -	\$ 733,445

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

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2016**

General Improvements	Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,982,062	\$ 64,036,721
-	-	-	2,149,069
42,944	401,050	690,934	1,990,255
-	-	2,477,934	21,279,925
-	-	-	3,057,417
-	-	-	9,719,467
10,695	10,672	8,889	426,998
15,560	-	37,152	201,579
-	-	-	1,578,977
-	-	-	2,595,396
<u>335,332</u>	<u>138,986</u>	<u>64,546</u>	<u>1,960,041</u>
404,531	550,708	7,261,517	108,995,845
-	-	-	8,154,052
-	-	-	3,223,740
-	-	183,580	49,704,157
-	-	1,968,046	20,929,934
-	-	-	4,393,760
-	-	875	1,027,555
6,458,867	3,790,470	5,090,528	19,122,277
<u>-</u>	<u>-</u>	<u>949,400</u>	<u>2,270,331</u>
<u>6,458,867</u>	<u>3,790,470</u>	<u>8,192,429</u>	<u>108,825,806</u>
(6,054,336)	(3,239,762)	(930,912)	170,039
-	9,630,000	-	9,630,000
-	254,555	-	254,555
-	-	-	-
-	-	-	-
6,156,240	-	2,161,075	10,797,379
-	-	-	-
<u>-</u>	<u>(130,000)</u>	<u>-</u>	<u>(9,447,315)</u>
<u>6,156,240</u>	<u>9,754,555</u>	<u>2,161,075</u>	<u>11,234,619</u>
101,904	6,514,793	1,230,163	11,404,658
<u>1,630,427</u>	<u>71,992</u>	<u>865,776</u>	<u>14,870,351</u>
<u>\$ 1,732,331</u>	<u>\$ 6,586,785</u>	<u>\$ 2,095,939</u>	<u>\$ 26,275,009</u>

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 11,404,658
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (net of prior year's construction in progress placed in service):	
Capital outlay	19,047,371
Depreciation expense	(10,449,986)
Net book value of assets disposed of	(147,113)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(2,544,384)
Special assessment revenue is recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); it is not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(196,795)
Repayment of bond and lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,761,707
Debt issuance and financing is not reported as an other financing source in the statement of activities	(9,630,000)
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	(223,471)
Changes in accumulated employee sick and vacation pay, as well as estimated general liability claims reported in the statement of activities, do not require the use of current resources, and therefore are not reported in the funds statements until they come due for payment	(321,517)
Governmental funds report expenditures for pension and other postemployment benefits as they make contributions; in the statement of activities, the OPEB cost is recognized as contributions are required and the change in net pension liability does not require the use of current financial resources	(3,763,043)
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	<u>(3,256,469)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,680,958</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Position June 30, 2016

	Business-type	Governmental
	Activities	Activity
	Enterprise	Internal Service
	Fund -	Fund - Self-
	Water and Sewer	insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 44,026	\$ 6,090,459
Investments - At fair value (Note 3)	10,963,099	5,460,175
Receivables:		
Customers	11,757,401	-
Accrued interest	78,640	54,446
Other	-	216,036
Prepaid costs and other assets	-	2,740,351
Due from other funds (Note 14)	53,238	329,693
Due from other governmental units	-	-
Inventories	282,091	-
Total current assets	23,178,495	14,891,160
Noncurrent assets:		
Restricted assets (Note 4)	1,307,099	-
OPEB asset (Note 13)	52,248	-
Capital assets - Net (Note 6)	175,735,612	-
Total noncurrent assets	177,094,959	-
Total assets	200,273,454	14,891,160
Deferred Outflows of Resources -		
Deferrred outflows related to pension (Notes 7 and 12)	2,348,277	-
Liabilities		
Current liabilities:		
Accounts payable	4,527,489	686,071
Accrued and other liabilities	576,030	-
Compensated absences (Note 10)	39,008	-
Due to other governmental units	-	-
Current portion of long-term debt (Notes 9 and 10)	2,503,008	-
Provision for uninsured losses and liabilities (Note 11)	-	557,731
Unearned revenue (Note 8)	103,927	-
Total current liabilities	7,749,462	1,243,802
Noncurrent liabilities:		
Compensated absences (Note 10)	186,289	-
Long-term debt (Notes 9 and 10)	54,115,139	-
Provision for uninsured losses and liabilities (Note 11)	-	890,057
Net pension liability (Note 12)	5,508,377	-
Total noncurrent liabilities	59,809,805	890,057
Total liabilities	67,559,267	2,133,859
Deferred Inflows of Resources -		
Deferrred inflows related to pension (Notes 7 and 12)	20,727	-
Net Position		
Net investment in capital assets	119,117,466	-
Restricted for county drains (Note 4)	1,307,099	-
Unrestricted (Note 15)	14,617,172	12,757,301
Total net position	\$ 135,041,737	\$ 12,757,301

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

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2016

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Operating Revenue		
Water sales	\$ 14,828,529	\$ -
Sewage treatment	22,494,502	-
Service charges	883,639	-
City contributions	-	4,542,443
Federal sources	96,712	-
Other	1,819,972	199,812
Total operating revenue	40,123,354	4,742,255
Operating Expenses		
Wages and fringe benefits	4,544,646	-
Contractual services	265,474	-
Water purchases	14,678,922	-
Sewage disposal charges	17,856,040	-
Materials and supplies	354,142	-
Repairs and maintenance	833,686	-
Building and equipment rental	105,456	-
Insurance	2,460	-
Depreciation	5,788,498	-
Administration expenses	2,001,990	314,269
Reinsurance charges and claims	-	6,633,266
Other	225,274	160,529
Total operating expenses	46,656,588	7,108,064
Operating Loss	(6,533,234)	(2,365,809)
Nonoperating Revenue (Expenses)		
Investment income	676,162	459,404
Loss on disposal of assets	(47,883)	-
Interest expense	(2,646,576)	-
Total nonoperating (expenses) revenue	(2,018,297)	459,404
Loss - Before contributions and operating transfers	(8,551,531)	(1,906,405)
Capital Contributions		
Contributions from developers	4,308,781	-
Other capital contributions	705,599	-
Total capital contributions	5,014,380	-
Operating Transfers Out (Note 14)	-	(1,350,064)
Change in Net Position	(3,537,151)	(3,256,469)
Net Position - Beginning of year	138,578,888	16,013,770
Net Position - End of year	<u>\$ 135,041,737</u>	<u>\$ 12,757,301</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2016

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 41,898,625	\$ 5,875,453
Payments to suppliers for goods and services	(33,119,872)	-
Payments to employees for services	(3,764,544)	-
Payments connected with interfund services	(2,019,294)	260,025
Claims paid	-	(6,717,025)
Other receipts (payments)	96,712	(775,495)
Net cash provided by (used in) operating activities	3,091,627	(1,357,042)
Cash Flows from Noncapital Financing Activities - Transfer to governmental funds		
	-	(1,350,064)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	705,599	-
Principal paid for long-term debt	(2,143,735)	-
Interest paid for long-term debt	(2,646,576)	-
Purchase of capital assets	(1,102,747)	-
Net cash used in capital and related financing activities	(5,187,459)	-
Cash Flows from Investing Activities		
Income received on investments	270,252	342,146
Purchase of investment securities	(9,648,678)	(16,588,205)
Proceeds from sales and maturities of investment securities	10,718,705	23,089,242
Net cash provided by investing activities	1,340,279	6,843,183
Net (Decrease) increase in Cash and Cash Equivalents	(755,553)	4,136,077
Cash and Cash Equivalents - Beginning of year	799,579	1,954,382
Cash and Cash Equivalents - End of year (Note 3)	\$ 44,026	\$ 6,090,459

(This statement is continued on the following page.)

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2016

	Business-type Activities	Governmental Activity
		Internal Service
	Enterprise Fund - Water and Sewer	Fund - Self- insurance
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (6,533,234)	\$ (2,365,809)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	5,788,498	-
Change in net pension liability	789,686	-
Changes in assets and liabilities:		
Receivables	1,859,977	13,574
Prepaid costs and other assets	-	504,658
Due from other funds	(17,304)	260,025
Inventory	(61,438)	-
Accounts payable	1,263,020	271,137
Provision for compensated absences	(9,584)	-
Provision for uninsured losses and liabilities	-	(40,627)
Unearned revenue	12,006	-
Net cash provided by (used in) operating activities	<u>\$ 3,091,627</u>	<u>\$ (1,357,042)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2016, developer constructed water and sewer lines with an estimated value of \$3,726,264 were donated to the City's water and sewer fund. Assets were disposed of at a loss totaling \$47,883. The Oakland-Macomb Interceptor Drainage District (OMID) constructed and contributed Segment I drainage system improvements totaling \$7,058, which was funded through assigned debt and advanced funding (\$61,243) by other communities; constructed and contributed Segment II drainage system improvements totaling \$475,393, which were funded through assigned debt; constructed and contributed Segment III drainage system improvements totaling \$1,316,276, which were funded through assigned debt; and constructed and contributed Segment IV drainage system improvements totaling \$1,527,306, which were funded through assigned debt. The Macomb Interceptor Drainage District (MIDD) constructed and contributed drainage system improvements totaling \$566,675, which were funded through assigned debt and advanced funding (\$120,893) by other communities. The MIDD also refunded all outstanding 2008 North Gratiot Interceptor Drainage District Bonds, of which the City's share was \$2,232,679, and issued 2015 North Gratiot Interceptor Drainage District Refunding Bonds, of which the City's share was \$2,260,389 which includes \$193,184 of issuance premiums.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Position June 30, 2016

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 21,851,852	\$ 2,090,445
Investments - At fair value (Note 3):		
Government securities	45,884,509	-
Short-term investment fund	-	1,856,783
Mutual funds	22,499,088	-
Corporate bonds	29,728,161	-
Common and preferred stocks	271,082,351	-
Private real estate	1,854,283	-
Receivables	82,887	45
Total assets	392,983,131	\$ 3,947,273
Liabilities		
Accounts payable	6,533,715	\$ -
Accrued and other liabilities	27,267	896,359
Due to other governmental units	234,494	19,930
Provision for uninsured losses and liabilities (Note 11)	528,029	-
Cash bonds and deposits	-	3,030,984
Total liabilities	7,323,505	\$ 3,947,273
Net Position - Restricted for pensions	\$ 385,659,626	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Position Year Ended June 30, 2016

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 8,783,083
Net adjustment to fair value of investments	(8,243,037)
Less investment expenses	<u>(2,556,168)</u>
Net investment loss	(2,016,122)
Contributions:	
Employer	23,339,932
Employee	2,216,286
Purchase of prior year's service credits	8,238
Insurance recovery	<u>29,435</u>
Total additions	23,577,769
Deductions	
Benefit payments	37,359,302
Withdrawals and refunds of contributions	<u>1,370,529</u>
Total deductions	<u>38,729,831</u>
Change in Net Position	(15,152,062)
Net Position - Beginning of year	<u>400,811,688</u>
Net Position - End of year	<u><u>\$ 385,659,626</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Position June 30, 2016

	Economic Development Corporation	Brownfield Redevelopment Authority	Corridor Improvement Authority	Local Development Finance Authority	Total
Assets					
Cash and cash equivalents	\$ 315,446	\$ 445,388	\$ 64,306	\$ 282,670	\$ 1,107,810
Investments	300,000	-	-	250,000	550,000
Receivables	238	-	-	9,086	9,324
Capital assets:					
Nondepreciable (Note 6)	-	-	-	1,209,203	1,209,203
Depreciable - Net (Note 6)	-	-	-	2,204,272	2,204,272
Total assets	615,684	445,388	64,306	3,955,231	5,080,609
Liabilities					
Accounts payable	-	-	-	83,288	83,288
Accrued and other liabilities	-	-	-	5,046	5,046
Due to other governmental units	-	-	-	19,035	19,035
Total liabilities	-	-	-	107,369	107,369
Net Position					
Net investment in capital assets	-	-	-	3,413,475	3,413,475
Unrestricted	615,684	445,388	64,306	434,387	1,559,765
Total net position	\$ 615,684	\$ 445,388	\$ 64,306	\$ 3,847,862	\$ 4,973,240

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2016

	Program Revenue			Net (Expenses) Revenue and Changes in Net Position				Total
	Expenses	Charges for Services	Operating Grants and Contributions	Economic Develop-ment Corporation	Brownfield Redevelop- ment Authority	Corridor Improvement Authority	Local Develop- ment Finance Authority	
Economic Development								
Corporation - Public works	\$ -	\$ -	\$ 300,000	\$ 300,000	\$ -	\$ -	\$ -	\$ 300,000
Brownfield Redevelopment								
Authority - Public works	41	-	438,723	-	438,682	-	-	438,682
Corridor Improvement								
Authority - Public works	-	-	20,640	-	-	20,640	-	20,640
Local Development Finance								
Authority - Public works	663,102	159,453	877,519	-	-	-	373,870	373,870
Total component units	<u>\$ 663,143</u>	<u>\$ 159,453</u>	<u>\$ 1,636,882</u>	300,000	438,682	20,640	373,870	1,133,192
General Revenue - Investment income				2,591	1,370	107	1,762	5,830
Change in Net Position				302,591	440,052	20,747	375,632	1,139,022
Net Position - Beginning of year				313,093	5,336	43,559	3,472,230	3,834,218
Net Position - End of year				<u>\$ 615,684</u>	<u>\$ 445,388</u>	<u>\$ 64,306</u>	<u>\$ 3,847,862</u>	<u>\$ 4,973,240</u>

Note 1 - Summary of Significant Accounting Policies

Accounting and Reporting Principles

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

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

Reporting Entity

The City is governed by an elected seven-member council. The accompanying basic financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standards Board Statement No. 61, for determining the various governmental organizations to be included in the reporting entity. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

Blended Component Unit

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

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements. Component unit financial statements have also been presented to display the financial position and results of operations for each of the discretely presented component units. Complete financial statements for each of these component units are available at the administrative office at 40555 Utica Road, Sterling Heights, MI 48313.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation - The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or 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 Brownfield Redevelopment Authority - The Brownfield Redevelopment Authority (the "BR Authority") was created to encourage and provide assistance in environmentally distressed areas in the City. The BR Authority's governing body, which consists of nine individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the BR Authority.

The Corridor Improvement Authority - 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 Local Development Finance Authority - The Local Development Finance Authority (the "LDF Authority") was created to encourage development, prevent conditions of unemployment, and promote economic growth. The LDF Authority's governing body, which consists of seven individuals, is selected by the City Council. In addition, the City Council sets the annual budget for the LDF Authority.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the City has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they become due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Fund Accounting

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

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

- The General Fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund (a special revenue fund type) accounts for the resources of state gas and weight tax revenue that is restricted for use on major streets.
- The Community Development Block Grant Fund (a special revenue fund type) accounts for federal grant funds received from the U.S. Department of Housing and Urban Development for purposes of developing a viable urban community by providing economic opportunities principally for persons of low and moderate income.
- The Road Bond Debt Retirement Fund (a debt service fund type) accounts for revenue accumulated to pay principal and interest on outstanding debt associated with various road and infrastructure assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

- The General Improvements Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of constructing all major capital improvement projects of the City other than special assessment, road, and enterprise projects.
- The Road Bond Construction Fund (a capital projects fund type) accounts for the proceeds of bond issues and all other resources used for the purpose of construction activity for roads and storm drains.

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the city water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 1 - Summary of Significant Accounting Policies (Continued)

Specific Balances and Transactions

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

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

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

Restricted Assets - Restricted assets consist of amounts on deposit at the county being held for construction, maintenance, or debt service and unspent bond proceeds in the Road Bond Construction Fund (a capital projects fund), which are required to be set aside for construction.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position/use of fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2016, the City had two items that qualified for reporting in this category. They are deferred costs of bond refundings and pension expense. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See Note 7 and Note 12 for a description of deferred inflows and outflows related to pensions and Note 10 for more information related to bond refundings.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position/fund balance that applies to future period and so will not be recognized as an inflow of resources (revenue) until that time. During 2016, the City had three items that qualified for reporting in this category. They are revenue collected outside of the designated period of availability, including state shared revenue and deferred charges for fees billed, special assessments, and pension expense. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See Note 7 and Note 12 for a description of deferred inflows and outflows related to pensions.

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Position Flow Assumptions

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Property Taxes

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

The 2016 taxable valuation of the City totaled approximately \$4,335,537,000, on which ad valorem taxes levied consisted of 10.633 for operating purposes, 1.9026 for police and fire pension, 2.5000 for safe streets, and 0.1499 for debt service. The ad valorem taxes raised approximately \$44,946,000 for operating, \$7,992,000 for police and fire pension, \$10,465,000 for safe streets, and \$631,000 for debt service. These amounts are recognized in the respective General Fund, special revenue funds, and debt service funds financial statements as tax revenue.

Pensions - The City offers a defined benefit pension plan to certain employees under two separate plans. The City's plans are the General Employees' Retirement System (GERS) and the Police and Fire Retirement System (PFRS). The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plans' fiduciary net position. For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the pension plans, and additions to/deductions from the pension plans' fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2015		\$ (9,125,896)
Current year building permit revenue		2,324,066
Related expenses:		
Direct costs	\$ 1,325,998	
Estimated indirect costs	<u>1,003,071</u>	
Total construction code expenses		<u>(2,329,069)</u>
Net shortfall for the year ended June 30, 2016		<u>(5,003)</u>
Cumulative shortfall at June 30, 2016		<u><u>\$ (9,130,899)</u></u>

Note 3 - Deposits and Investments

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

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

Note 3 - Deposits and Investments (Continued)

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

The Pension Trust Funds and the Retiree Medical Benefits Trust Fund are also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5.0 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 operating funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City had \$32,355,950 in bank deposits (certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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

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

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy sets forth restrictions on the types of investment instruments and length of investment maturities the City may hold. The restrictions are indicated in the table below:

Instrument	Security Type	
	Maximum	Maturity Maximum
U.S. treasuries	100%	10 years
U.S. agencies and instrumentalities (date specific maturities only)	100%	10 years (subset of above)
CDs (non-negotiable)	50%	1 year
CDs (negotiable)	50%	3 years (subset of above)
Commercial paper (rated A1/A2 or equivalent)	15%	270 days
Bankers' acceptances	20%	184 days
Overnight deposits	25%	1 day
Mutual funds	25%	N/A

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Average Maturity
Government-wide		
Commercial paper	\$ 7,395,087	0.09 years
U.S. government agencies	15,221,626	5.82 years
Municipal obligations	2,284,540	4.34 years
General Employees' Retirement System		
Corporate bonds	11,374,783	4.48 years
U.S. government agencies	7,524,029	3.46 years
U.S. government obligations	4,206,756	14.30 years
Foreign government obligations	191,360	4.16 years
Police and Fire Retirement System		
Corporate bonds	12,665,753	6.42 years
U.S. government agencies	14,830,706	3.15 years
Municipal obligations	310,122	13.80 years
U.S. government obligations	11,468,823	8.47 years
Foreign government obligations	564,406	4.15 years
Retiree Medical Benefits		
Corporate bonds	5,687,625	4.97 years
U.S. government agencies	4,185,422	3.54 years
U.S. government obligations	2,435,175	12.36 years
Foreign government obligations	167,709	4.16 years

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

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

Investment	Fair Value	Rating	Organization
Government-wide			
Pooled funds	\$ 6,486,067	N/R	
Pooled funds	3,205,892	AAA	S&P
Commercial paper	7,395,087	A2	S&P
Municipal obligations	2,284,540	AA-	S&P
U.S. government agencies	15,221,626	AA+	S&P
General Employees' Retirement System			
Money market	935,297	N/R	
U.S. government agencies	7,524,029	AA+	S&P
U.S. government obligations	4,206,756	AA+	S&P
Foreign government obligations	191,360	BBB+	S&P
Corporate bonds	556,367	AAA	S&P
Corporate bonds	444,836	AA+	S&P
Corporate bonds	1,778,844	A+ to A-	S&P
Corporate bonds	547,683	Aaa	Moody
Corporate bonds	5,636,956	BBB+ to BBB-	S&P
Corporate bonds	2,410,097	BB+ - BB-	S&P
Police and Fire Retirement System			
Money market	5,535,966	N/R	
Municipal obligations	135,222	AAA	S&P
Municipal obligations	174,900	AA+ - AA	S&P
U.S. government agencies	14,830,706	AA+ - AA-	S&P
U.S. government obligations	11,468,823	AA+	S&P
Foreign government obligations	564,406	BBB+	S&P
Corporate bonds	790,659	AAA	S&P
Corporate bonds	54,747	AAA	Fitch
Corporate bonds	59,253	AAA	Dominion
Corporate bonds	1,719,265	AA+ - AA-	S&P
Corporate bonds	3,799,232	A+ to A-	S&P
Corporate bonds	480,634	Aaa	Moody
Corporate bonds	4,875,644	BBB+ to BBB-	S&P/Fitch
Corporate bonds	714,232	BB+ to BB-	S&P
Corporate bonds	108,693	B+ to B-	S&P
Corporate bonds	63,394	CCC	S&P

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Organization
Retiree Medical Benefits			
Pooled funds	\$ 53,919	N/R	
U.S. government agencies	4,185,422	AA+	S&P
U.S. government obligations	2,435,175	AA+	S&P
Foreign government obligations	167,709	BBB+	S&P
Corporate bonds	232,606	AAA	S&P
Corporate bonds	261,064	AA+ to AA-	S&P
Corporate bonds	1,086,870	A+ - A-	S&P
Corporate bonds	232,335	Aaa	Moody
Corporate bonds	2,836,654	BBB+ to BBB-	S&P
Corporate bonds	1,038,096	BB+ to BB-	S&P

Concentration of Credit Risk

Through its investment policy, the City places a 15.0 percent limit on the amount the City may invest in any one issuer.

A total of \$1,896,441 or 1.0 percent of the Police and Fire Retirement System plan's net position as of June 30, 2016 is not publicly traded and therefore does not always have a readily determinable market value. Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Since alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ significantly from the values that would have been used had a ready market for these securities existed. The difference could be material.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency denominated investments to 5.0 percent of total pension system investments.

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

Note 3 - Deposits and Investments (Continued)

Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The City has the following recurring fair value measurements as of June 30, 2016:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

Assets Measured at Fair Value on a Recurring Basis - Pension and Non-Pension Funds

	Balance at June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities:				
U.S. Treasury securities	\$ 18,110,754	\$ -	\$ 18,110,754	\$ -
U.S. government agencies	41,761,783	-	41,761,783	-
Foreign government obligations	923,475	-	923,475	-
Municipal obligations	2,594,662	-	2,594,662	-
Corporate bonds	<u>37,123,248</u>	<u>-</u>	<u>37,123,248</u>	<u>-</u>
Total debt securities	100,513,922	-	100,513,922	-
Equity securities:				
Consumer discretionary	38,698,195	38,698,195	-	-
Consumer staples	18,889,066	18,889,066	-	-
Energy	13,277,514	13,277,514	-	-
Financials	47,248,065	47,248,065	-	-
Health care	31,273,012	31,273,012	-	-
Industrials	30,163,220	30,163,220	-	-
Information technology	45,436,928	45,436,928	-	-
Materials	14,235,381	14,235,381	-	-
Telecommunications	5,521,183	5,521,183	-	-
Utilities	3,329,571	3,329,571	-	-
Other	<u>21,377,414</u>	<u>21,377,414</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>269,449,549</u>	<u>269,449,549</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	369,963,471	\$ 269,449,549	\$ 100,513,922	\$ -
Investments Measured at Net Asset Value (NAV)				
Michigan CLASS Investment Pool	3,205,892			
Mutual funds - Western Asset Management	22,499,088			
Mutual funds - Other	1,632,803			
Intercontinental Real Estate Investment Fund III	1,171,574			
U.S. Real Estate Investment Fund	<u>682,709</u>			
Total investments measured at NAV	<u>29,192,066</u>			
Total investments measured at fair value	\$ <u>399,155,537</u>			

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

At the year ended June 30, 2016, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS Investment Pool	\$ 3,205,892	\$ -	n/a	None
Mutual funds - Western Asset Management	22,499,088	-	n/a	None
Mutual funds - Other	1,632,803	-	n/a	None
Intercontinental Real Estate Investment Fund III	1,171,574	-	Quarterly	90-180 days
U.S. Real Estate Investment Fund	682,709	-		
	<u>\$ 29,192,066</u>	<u>\$ -</u>		
Total	<u>\$ 29,192,066</u>	<u>\$ -</u>		

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high-grade commercial paper (rated "A-1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

The Western Asset SMASH series mutual funds are open-ended funds whose objective is total return consisting of capital appreciation and income, consistent with prudent investment management. The funds invest primarily in a combination of U.S.-dollar denominated and non-U.S. dollar investment grade debt obligations of both U.S. and non-U.S. issuers.

Mutual funds are also held by multiple equity managers as a temporary investment vehicle for cash prior to entrance into the equity market.

The Intercontinental Real Estate Investment Fund III is a closed-end, commingled real estate investment fund. The fund is driven by an enhanced core investment strategy and targets properties which are generating a current return and also have the potential for capital appreciation.

The investments in the Intercontinental Real Estate Investment Fund III above can never be redeemed. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next three to six months.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 3 - Deposits and Investments (Continued)

The U.S. Real Estate Investment Fund is a balanced portfolio of yield-driven real estate and real estate-related assets that are broadly diversified by geography and product type. The objectives of the fund are to preserve and protect investors' capital, provide potential for capital appreciation, produce income on invested capital of 6-8 percent per annum, and target total annual average returns of 10 percent per annum.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost.

Note 4 - Restricted Assets

Specific assets of the Water and Sewer Fund and the General Improvements Fund are restricted as the result of external governments issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Also, unspent bond proceeds are restricted for specific construction projects. The following is the detail of restricted assets at June 30, 2016:

Water and Sewer Fund - Due from Oakland County*	\$ 1,307,099
Road Bond Construction Fund - Unspent Bond Proceeds	5,944,680
General Improvements Fund - Due from Macomb County**	<u>2,049,108</u>
Total restricted assets	<u>\$ 9,300,887</u>

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

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

There were no unrecorded liabilities payable from the county restricted assets.

Note 5 - Loans Receivable

The City utilizes Community Development Block Grant funds to provide housing rehabilitation loans to eligible applicants. Such loans are made to low- and moderate-income persons to improve or rehabilitate residences. The City accounts for this program in the Community Development Block Grant special revenue fund. Loans receivable of \$1,634,925 at June 30, 2016 have been reflected in the accompanying fund financial statements as rehabilitation loans receivable with an offsetting unearned revenue for the recording of related grant funding.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Capital Assets

Primary Government

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

	Balance June 30, 2015	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2016
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 45,414,228	\$ -	\$ -	\$ 45,414,228
Construction in progress	18,257,243	16,665,639	(14,822,143)	20,100,739
Works of art	336,151	-	-	336,151
Net capital assets - Nondepreciable	64,007,622	16,665,639	(14,822,143)	65,851,118
Capital assets being depreciated:				
Building and building improvements	40,164,716	223,794	-	40,388,510
Improvements other than buildings	10,413,192	3,075,572	-	13,488,764
Equipment	38,000,826	2,188,461	(2,423,318)	37,765,969
Furnishings and fixtures	1,130,178	27,798	(40,363)	1,117,613
Infrastructure	243,130,767	11,766,564	-	254,897,331
Subtotal	332,839,679	17,282,189	(2,463,681)	347,658,187
Accumulated depreciation:				
Building and building improvements	15,918,507	907,296	-	16,825,803
Improvements other than buildings	3,633,919	368,782	-	4,002,701
Equipment	28,319,714	2,131,773	(2,208,914)	28,242,573
Furnishings and fixtures	988,405	23,921	(29,340)	982,986
Infrastructure	166,074,960	7,018,214	-	173,093,174
Subtotal	214,935,505	10,449,986	(2,238,254)	223,147,237
Net capital assets being depreciated	117,904,174	6,832,203	(225,427)	124,510,950
Net governmental capital assets	\$ 181,911,796	\$ 23,497,842	\$ (15,047,570)	\$ 190,362,068

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Capital Assets (Continued)

	Balance June 30, 2015	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2016
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	15,527,101	3,411,631	(4,922,275)	14,016,457
Net capital assets - Nondepreciable	15,591,972	3,411,631	(4,922,275)	14,081,328
Capital assets being depreciated:				
Building and building improvements	374,997	149,663	-	524,660
Equipment	4,629,200	924,977	(139,360)	5,414,817
Furnishings and fixtures	21,075	-	-	21,075
Water and sewer mains	279,312,101	9,127,236	-	288,439,337
Subtotal	284,337,373	10,201,876	(139,360)	294,399,889
Accumulated depreciation:				
Building and building improvements	131,090	13,375	-	144,465
Equipment	2,922,016	313,105	(91,477)	3,143,644
Furnishings and fixtures	20,206	382	-	20,588
Water and sewer mains	123,975,272	5,461,636	-	129,436,908
Subtotal	127,048,584	5,788,498	(91,477)	132,745,605
Net capital assets being depreciated	157,288,789	4,413,378	(47,883)	161,654,284
Net business-type capital assets	\$ 172,880,761	\$ 7,825,009	\$ (4,970,158)	\$ 175,735,612

Construction in progress includes \$13,997,180 (of which the current year amount is \$3,892,708) of drain improvements constructed by the Oakland-Macomb Interceptor Drainage District (OMID), which represents the City's portion of total OMID improvements in the amount of \$172,979,133. These improvements will be completed by OMID using state revolving loan funds; state stormwater, asset management, and wastewater loan (SAW); and bonded debt. See Note 10 for additional information.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Capital Assets (Continued)

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

Governmental activities:

General government	\$ 598,804
41A District Court	13,662
Public safety	1,349,063
Public works	7,819,485
Recreation and culture	<u>668,972</u>

Total governmental activities	<u>\$ 10,449,986</u>
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Business-type activities - Water and sewer	<u>\$ 5,788,498</u>
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Discretely Presented Component Units

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

	Balance June 30, 2015	Additions	Disposals, Adjustments, and Reclassifications	Balance June 30, 2016
Local Development Finance Authority				
Capital assets not being depreciated -				
Land	\$ 1,209,203	\$ -	\$ -	\$ 1,209,203
Capital assets being depreciated:				
Building and building improvements	2,150,353	300,148	-	2,450,501
Equipment	<u>1,950</u>	<u>49,497</u>	-	<u>51,447</u>
Subtotal	2,152,303	349,645	-	2,501,948
Accumulated depreciation:				
Building and building improvements	239,546	55,800	-	295,346
Equipment	<u>146</u>	<u>2,184</u>	-	<u>2,330</u>
Subtotal	<u>239,692</u>	<u>57,984</u>	-	<u>297,676</u>
Net capital assets being depreciated	<u>1,912,611</u>	<u>291,661</u>	-	<u>2,204,272</u>
Net component units capital assets	<u>\$ 3,121,814</u>	<u>\$ 291,661</u>	<u>\$ -</u>	<u>\$ 3,413,475</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 6 - Capital Assets (Continued)

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Construction and other contracts	\$ 11,991,591	\$ 14,823,342

Note 7 - Deferred Inflows/Outflows of Resources

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

	<u>Governmental Funds</u>
Special assessments - Unavailable	\$ 1,833,976
Other revenues - Unavailable	<u>1,975,047</u>
Total deferred inflows	<u><u>\$ 3,809,023</u></u>

	<u>Primary Government</u>
Pension expense - GERS (Note 12)	\$ 112,462
Pension expense - PFRS (Note 12)	<u>47,618,392</u>
Total deferred inflows	<u><u>\$ 47,730,854</u></u>

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

	<u>Primary Government</u>
Pension expense - GERS (Note 12)	\$ 12,219,901
Pension expense - PFRS (Note 12)	35,369,841
Deferred cost of bond refunding (Note 10)	<u>96,141</u>
Total deferred outflows	<u><u>\$ 47,685,883</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 8 - Unearned Revenue

Unearned revenue in the governmental activities represents various rents and fees paid to the City in 2016 that are applicable to future periods. Unearned revenue in the Water and Sewer Fund represents payments made by system users to be applied as payment for future capital charges. Unearned revenue in the General Improvements Fund represents funds on deposits with Macomb County for future drain repairs.

Note 9 - Capital Leases

In 2015, the City entered into a lease agreement as lessees for financing the acquisition of multi-functional devices (MFDs - copiers) for departments throughout the city buildings. The total amount of the financing is \$233,353, which is shared in the amounts of \$198,633 and \$9,348 by the General Government and Water and Sewer Funds, respectively. This lease agreement qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through the capital lease is as follows:

Asset	General Government	Water and Sewer Fund	Total
Machinery and Equipment	\$ 198,633	\$ 9,348	\$ 207,981
Less accumulated depreciation	<u>49,656</u>	<u>2,337</u>	<u>51,993</u>
Total	<u>\$ 148,977</u>	<u>\$ 7,011</u>	<u>\$ 155,988</u>

The future minimum lease obligations and the net present value of the minimum lease payments are as follows:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 9 – Capital Leases (Continued)

<u>Years</u>	<u>General Government</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
2017	\$ 44,573	\$ 2,098	\$ 46,671
2018	44,573	2,098	46,671
2019	44,572	2,098	46,670
2020	<u>29,715</u>	<u>1,398</u>	<u>31,113</u>
Total minimum lease payments	163,433	7,692	171,125
Less amount representing interest	<u>13,371</u>	<u>629</u>	<u>14,000</u>
Present value	<u>\$ 150,062</u>	<u>\$ 7,063</u>	<u>\$ 157,125</u>

Note 10 - Long-term Debt

The City 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, 2016

Note 10 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds:					
2005 Limited Tax Refunding Bonds:					
Amount of Issue - \$2,820,000					
Maturing through 2019					
Interest Rate Ranges 4.00% - 5.00%					
Principal Maturity Range \$215,000 - \$600,000	\$ 1,460,000	\$ -	\$ (260,000)	\$ 1,200,000	\$ 305,000
Unamortized Premium on refunding	49,664	-	1,979	51,643	(4,685)
2008 Unlimited Tax Fire Station Improvements:					
Amount of Issue - \$5,000,000					
Maturing through 2023					
Interest Rate Ranges 3.25% - 4.00%					
Principal Maturity Range \$250,000 - \$600,000	3,725,000	-	(325,000)	3,400,000	350,000
Unamortized Premium on refunding	19,286	-	(3,815)	15,471	3,517
2010 Michigan Transportation Recovery Zone Bonds:					
Amount of Issue - \$1,570,000					
Maturing through 2025					
Interest Rate Ranges 2.35% - 6.05%					
Principal Maturity \$50,000 - \$200,000	1,425,000	-	(50,000)	1,375,000	50,000
2012 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,780,000					
Maturing through 2020					
Interest Rate Ranges 2.00% - 4.00%					
Principal Maturity Range \$400,000 - \$585,000	2,575,000	-	(455,000)	2,120,000	475,000
Unamortized Premium on refunding	250,974	-	(28,296)	222,678	32,742
2013 Michigan Transportation Fund Refunding Bonds:					
Amount of Issue - \$3,275,000					
Maturing through 2022					
Interest Rate 2.05%					
Principal Maturity Range \$30,000 - \$515,000	3,205,000	-	(335,000)	2,870,000	430,000
Unamortized Premium on refunding	9,112	-	(952)	8,160	1,222
2016 Michigan Transportation Fund Bonds:					
Amount of Issue - \$9,630,000					
Maturing through 2031					
Interest Rate Ranges 2.00% - 3.00%					
Principal Maturity Range \$520,000 - \$785,000	-	9,630,000	-	9,630,000	520,000
Unamortized Premium on refunding	-	254,555	-	254,555	4,888
County Drain contract obligations:					
17 Mile Extension Drain Drainage District:					
Amount of Issue - \$1,725,000					
Maturing through 2016					
Interest Rate Ranges 4.30% - 4.50%					
Principal Maturity \$150,000	150,000	-	(150,000)	-	-

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Governmental Activities (Continued)					
Special Assessment Bonds:					
2008 Special Assessment Limited Tax Bonds:					
Amount of Issue - \$3,260,000					
Maturing through 2028					
Interest Rate Ranges 3.25% - 4.50%					
Principal Maturity Range \$150,000 - \$400,000	\$ 2,550,000	\$ -	\$ (150,000)	\$ 2,400,000	\$ 150,000
Total bond obligations	15,419,036	9,884,555	(1,756,084)	23,547,507	2,317,684
Other long-term obligations:					
Capital lease (Note 9)	186,769	-	(36,707)	150,062	38,441
Provision for uninsured losses and other liabilities	1,488,415	5,008,231	(5,048,858)	1,447,788	557,731
Compensated absences - General Fund obligations	3,702,582	626,223	(304,706)	4,024,099	471,725
Total other long-term obligations	5,377,766	5,634,454	(5,390,271)	5,621,949	1,067,897
Total governmental activities	\$ 20,796,802	\$ 15,519,009	\$ (7,146,355)	\$ 29,169,456	\$ 3,385,581
Business-type Activities - Water and Sewer					
County Drain Contract Obligations:					
General obligation bonds:					
2010A MID Drainage District:					
Amount of Issue - \$26,725,795					
Maturing through 2035					
Interest Rate Ranges 1.25% -5.50%					
Principal Maturity Range \$834,308 - \$1,573,586	\$ 23,332,664	\$ -	\$ (877,630)	\$ 22,455,034	\$ 895,798
2010B OMID Drainage District:					
Amount of Issue - \$1,104,832					
Maturing through 2030					
Interest Rate Ranges 1.15% -5.90%					
Principal Maturity Range \$31,331 - \$85,748	917,674	-	(42,874)	874,800	44,523
2011 Clintondale Pump Station Improvements Drainage District:					
Amount of Issue - \$9,862,021					
Maturing through 2032					
Interest Rate 5.00%					
Principal Maturity Range \$224,137 - \$800,489	8,821,386	-	(320,195)	8,501,191	352,215
Special Assessment Bonds:					
2008 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$2,597,695					
Maturing through 2033					
Interest Rate Ranges 3.50% -5.00%					
Principal Maturity Range \$60,836 - \$146,006	2,232,679	-	(2,232,679)	-	-
2010 North Gratiot Interceptor Drainage District:					
Amount of Issue - \$252,751					
Maturing through 2035					
Interest Rate Ranges 1.00% -6.35%					
Principal Maturity Range \$4,842 - \$14,526	216,548	-	(8,120)	208,428	8,269

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Business-type Activities - Water and Sewer (Continued)					
2014A Sewer Lining Repairs					
Amount of Issue - \$1,649,117					
Maturing through 2034					
Interest Rate Ranges 2.00% - 3.13%					
Principal Maturity Range \$411,073 - \$522,193	\$ 1,649,117	\$ -	\$ (63,822)	\$ 1,585,295	\$ 64,962
2015 North Gratoit Interceptor Drainage District Refunding Bonds					
Amount of Issue - \$2,067,205					
Maturing through 2033					
Interest Rate Ranges 3.75% - 5.00%					
Principal Maturity Range \$85,170 - \$136,881	-	2,067,205	-	2,067,205	85,170
Unamortized Premium on refunding	-	193,184	-	193,184	6,046
Total bond obligations	37,170,068	2,260,389	(3,545,320)	35,885,137	1,456,983
State Revolving Loan Funds (Michigan Municipal Finance Authority)					
Special Assessment Roll No. 1 Series 2010A (Segment 1 - ARRA funding)					
Maximum Loan Amount - \$4,299,957					
Balance Drawn - \$3,783,653					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$86,616 - \$263,017	3,603,087	-	(185,514)	3,417,573	190,461
Special Assessment Roll No. 1 Series 2011A (Segment 2)					
Maximum Loan Amount - \$5,168,777					
Balance Drawn - \$4,966,319					
Maturing through 2031					
Interest Rate - 2.50%					
Principal Maturity Range \$99,360 - \$265,221	4,724,934	241,385	(207,521)	4,758,798	212,582
Special Assessment Roll No. 1 Series 2013A (Segment 3)					
Maximum Loan Amount - \$11,278,994					
Balance Drawn - \$10,960,196					
Maturing through 2023					
Interest Rate - 2.50%					
Principal Maturity Range \$63,822 - \$108,270	9,264,663	1,695,534	(464,042)	10,496,155	473,565
2015 Oakland-Macomb Interceptor Drainage District SAW Loan					
Maximum Loan Amount - \$3,298,735					
Balance Drawn - \$1,955,637					
Maturing through 2036					
Interest Rate - 2.50%					
Principal Maturity Range \$128,219 - \$172,902	-	1,955,637	-	1,955,637	128,219
Special Assessment Roll No. 1 Series 2015A (MIDD Project #5624-01))					
Maximum Loan Amount - \$3,675,000					
Balance Drawn - \$97,767					
Maturing through 2035					
Interest Rate - 2.50%					
Principal Maturity Range \$6,897 - \$45,435	-	97,784	-	97,784	45,435
Total state revolving loan funds	17,592,684	3,990,340	(857,077)	20,725,947	1,050,262
Total county drain obligations	54,762,752	6,250,729	(4,402,397)	56,611,084	2,507,245

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions and Refundings	Ending Balance	Due Within One Year
Other long-term obligations - Compensated					
Capital lease (Note 9)	\$ 8,789	\$ -	\$ (1,726)	\$ 7,063	\$ 1,089
Compensated absences - Water and Sewer Fund	234,881	43,978	(53,562)	225,297	39,008
Total other long-term obligations	243,670	43,978	(55,288)	232,360	40,097
Total business-type activities	55,006,422	6,294,707	(4,457,685)	56,843,444	2,547,342
Total	\$ 75,803,224	\$ 21,813,716	\$ (11,604,040)	\$ 86,012,900	\$ 5,932,923

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

Years	Governmental Activities		
	Principal	Interest	Total
2017	\$ 2,280,000	\$ 700,971	\$ 2,980,971
2018	2,355,000	644,539	2,999,539
2019	2,605,000	569,792	3,174,792
2020	2,705,000	482,861	3,187,861
2021	1,955,000	397,664	2,352,664
2022-2026	6,800,000	1,193,748	7,993,748
2027-2031	4,295,000	376,175	4,671,175
Total	\$ 22,995,000	\$ 4,365,750	\$ 27,360,750

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - Long-term Debt (Continued)

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

Years	Business-type Activities		
	Principal	Interest	Total
2017	\$ 1,450,937	\$ 1,682,504	\$ 3,133,441
2018	1,506,142	1,628,997	3,135,139
2019	1,595,127	1,570,158	3,165,285
2020	1,655,957	1,504,291	3,160,248
2021	1,720,113	1,432,701	3,152,814
2022-2026	9,568,636	5,918,573	15,487,209
2027-2031	11,473,184	3,419,739	14,892,923
2032-2036	6,721,857	865,774	7,587,631
Total	<u>\$ 35,691,953</u>	<u>\$ 18,022,737</u>	<u>\$ 53,714,690</u>

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

Years	State Revolving Loan Funds		
	Principal	Interest	Total
2017	\$ 1,050,262	\$ 458,253	\$ 1,508,515
2018	1,072,854	434,668	1,507,522
2019	1,058,747	416,387	1,475,134
2020	1,076,091	392,050	1,468,141
2021	1,099,443	361,404	1,460,847
2022-2026	5,885,611	1,418,734	7,304,345
2027-2031	6,228,534	714,987	6,943,521
2032-2036	3,254,405	121,652	3,376,057
Total	<u>\$ 20,725,947</u>	<u>\$ 4,318,135</u>	<u>\$ 25,044,082</u>

The Oakland-Macomb Interceptor Drainage District (OMID) is a construction and rehabilitation project that began in 2010 and is projected to continue through 2017. The OMID Series 2010B bonds were issued as Federally Taxable Recovery Zone Economic Development Bonds and are eligible to recover tax credit payments from the United States Treasury equal to 45 percent of the interest payable on the bonds.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 10 - Long-term Debt (Continued)

OMID was also approved for \$42 million of loans in which \$16 million of the debt was federally forgiven and \$119 million will be loans from the Michigan State Revolving Fund (SRF) (OMID Series 2010A \$26 million, OMID Series 2011 \$25 million, OMID Series 2013 \$65 million, OMID Series 2014 \$20 million, and State of

Michigan SAW \$9 million). During the year, the City's portion of SRF draws was \$3,990,323.

During the year, the Macomb Interceptor Drain Drainage District (MIDD) was approved for \$3,675,000 of loans through the Michigan State Revolving Loan Fund Program (SRF), of which approximately \$1,151,500 was anticipated as the City's share. The City's share of SRF funds drawn and payable at June 30, 2016 is \$97,767. In addition, a portion of construction costs was paid from advance funding received from other communities. The City has recognized its portion of those construction costs, in the amount of \$120,893, as funds due to other governmental units.

Refundings

In August 2015, the North Gratiot Interceptor Drainage District issued Drain Refunding Bonds, Series 2015, in the amount of \$16,990,000, of which \$2,067,206 was allocated to the City. The debt refunded amounted to \$17,600,000 of North Gratiot Drainage District Drain Bonds, Series 2008, maturing in years 2017 through 2033. The City's allocated share of the refunded bonds amounted to \$2,232,679. The refunding was undertaken to reduce the debt service payment over the next 14 years with net savings of \$1,792,303 and to obtain an economic (present value) gain of \$1,400,477. The City's allocated net savings is \$218,073 and the City's economic gain resulting from the refunding is \$170,399.

Note 11 - Risk Management

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Risk Management (Continued)

The City is self-funded for medical benefits and workers' compensation up to a retention amount, at which time the City's reinsurance coverage begins.

Property and Liability

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

It is estimated, based on past experience, that \$537,710 will be paid for all claims reported to date and \$206,889 will be paid for claims incurred but not reported. The estimated liability for reported and incurred but not reported claims has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2016</u>	<u>2015</u>
Estimated liability - Beginning of year	\$ 914,155	\$ 706,696
Estimated claims incurred, including changes in estimates	97,078	1,158,886
Claim payments	<u>(266,634)</u>	<u>(951,427)</u>
Estimated liability - End of year	<u>\$ 744,599</u>	<u>\$ 914,155</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent healthcare coverage. Under the program, the City was liable for claims up to a retention amount of \$250,000 per active and retired employee (including dependents) for the contract year ended June 30, 2016. At January 1, 1990, the City became self-insured for short-term disability.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Risk Management (Continued)

It is estimated, based on past experience, that \$10,636 will be paid for all claims reported to date and \$491,068 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Retired employee medical claims are reflected in the Retiree Medical Benefits Trust Fund. Changes in the estimated liability for the past two fiscal years are as follows:

	Self-insurance Internal Service Fund	
	2016	2015
Estimated liability - Beginning of year	\$ 412,614	\$ 437,025
Estimated claims incurred, including changes in estimates	4,998,898	3,824,105
Claim payments	<u>(4,909,808)</u>	<u>(3,848,516)</u>
Estimated liability - End of year	<u>\$ 501,704</u>	<u>\$ 412,614</u>
	Retiree Medical Benefits Trust Fund	
	2016	2015
Estimated liability - Beginning of year	\$ 403,013	\$ 460,827
Estimated claims incurred, including changes in estimates	8,469,447	7,030,446
Claim payments	<u>(8,344,431)</u>	<u>(7,088,260)</u>
Estimated liability - End of year	<u>\$ 528,029</u>	<u>\$ 403,013</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 11 - Risk Management (Continued)

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City was liable for the first \$400,000 of any occurrence for the contract year ended June 30, 2016. The City has purchased excess insurance to cover claims greater than \$400,000. At June 30, 2016, it was estimated, based on past experience, that \$201,485 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:

	2016	2015
Estimated liability - Beginning of year	\$ 161,646	\$ 399,463
Estimated claims incurred, including changes in estimates	302,525	226,759
Claim payments	<u>(262,686)</u>	<u>(464,576)</u>
Estimated liability - End of year	<u>\$ 201,485</u>	<u>\$ 161,646</u>

Note 12 - Defined Benefit Pension Plans

The City participates in two retirement plans, the General Employees' Retirement System and the Police and Fire Retirement System. The financial statements of the plans are included in these financial statements as Pensions and Other Retirement Benefits trust funds. Separate statements are not available for these plans.

Accounting and Reporting Principles

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

Note 12 - Defined Benefit Pension Plans (Continued)

Pension Plan Description

Plan Administration

General Employees' Retirement System (GERS) - The General Employees' Pension Board administers the General Employees' Retirement System plan, a single-employer plan that provides pensions for approximately 36.9 percent of all active permanent full-time general employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

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

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

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

Plan Membership

Employees Covered by Benefit Terms – At the June 30, 2016 measurement date, the following employees were covered by the benefit terms:

	<u>GERS</u>	<u>PFRS</u>
Inactive plan members or beneficiaries currently receiving benefits:	357	378
Inactive plan members entitled to but not yet receiving benefits	19	4
Active plan members	<u>110</u>	<u>210</u>
Total members	<u>486</u>	<u>592</u>

Note 12 - Defined Benefit Pension Plans (Continued)

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

Benefits Provided

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

General Employees Retirement System Benefits - Retirement benefits for general plan members are calculated in a range of 2.0 to 2.3 percent of the member's final best three of the last 10 years average salary times the member's years of service. Under the point system (age plus years of service), members are eligible under 70, 75, or 80 points. Some members with 10 years of service are eligible to retire at age 60. Members may retire at any age after 30 years of service or at age 55 with 25 years of service.

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Worker's compensation claims offset benefits. Duty death before benefit eligibility for normal retirement provides 75.0 percent of the member's regular retirement benefit to the spouse with service credited from the date of death to age 60. Non-duty death provides the same as regular retirement but is actuarially reduced with 100.0 percent joint and survivor election. A member who leaves City service may withdraw their employee required contributions, plus any accumulated interest. General plan members are not eligible for annual cost-of-living increases subsequent to their retirement.

Police and Fire Retirement System Benefits - Retirement benefits for police and fire plan members are calculated in a range of 2.0 to 2.8 percent of the member's final best three of the last 10 years average salary times the member's first 25 years of service plus 1.0 percent of average salary times the years of service exceeding 25. The maximum benefit is 75.0 percent of annual final compensation for police members and 70 points for fire members. Eligibility for normal retirement is 25 years of service regardless of age.

Note 12 - Defined Benefit Pension Plans (Continued)

All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire or after 10 years of service for fire members hired after July 1, 1985. Duty disability retirement benefits are determined at 50.0 percent of average salary until service retirement conversion occurs at the earlier of age 55 or the date the member would have had at least 25 years of service. Worker's compensation claims offset benefits with the exception of lump-sum settlements. Non-duty disability prior to age 55 is 1.5 percent of annual final compensation times years of service until attaining age 55. Duty death before benefit eligibility for normal retirement provides a pension which is the greater of the amount paid by workers' compensation or the member's regular retirement benefit actuarially reduced with a 100.0 percent joint and survivor pension. Non-duty death provides the same as regular retirement but is actuarially reduced with 100.0 percent joint and survivor election. A member who leaves City service may withdraw their employee required contributions, plus any accumulated interest. Certain members hired prior to 1994 are eligible to receive annual cost-of-living increases subsequent to their retirement which is payable annually on January 1 in the range of \$500 - \$800 per applicable member.

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Boards retain an independent actuary to determine the annual contributions. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the plan year ended June 30, 2016, the average active member contribution was 8.0 percent of annual pay. The City's average contribution rate was 36.4 percent and 37.6 percent of annual payroll for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

Deferred Retirement Option Program (DROP) and Early Retirement Option Program (EROP)

The City offered certain police and fire employees the ability to continue services and be paid a salary after they were fully vested; this program credits the employee for benefit payments that would have been paid, and pays them out with interest at 4.0 percent after the employee has fully retired (discontinued providing employee services to the City). At plan year end June 30, 2016, the Police and Fire Retirement System has accumulated \$26,853,080 in DROP and EROP account reserves.

Pension Plan Investments - Policy and Rate of Return

Investment Policy

The pension plans' policies, in regard to the allocation of invested assets, are established and may be amended by the Pension Boards by a majority vote of their members. It is the policy of the Pension Boards to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plans' investment policies discourage the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following were the boards' adopted asset allocation policies as of fiscal year end June 30, 2016:

Asset Class	Target Allocation %	
	GERS	PFRS
Large capitalization growth equities	11.0	15.0
Large capitalization value equities	11.0	15.0
Large capitalization core equities	10.0	14.0
Small/Middle capitalization equities	15.0	6.0
International equities	17.0	17.0
Fixed income	32.0	30.0
Real estate	4.0	3.0
Total allocation percentages	<u>100.0</u>	<u>100.0</u>

Note 12 - Defined Benefit Pension Plans (Continued)

Rate of Return

For the fiscal year end June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.24) percent and (0.40) percent for the General Employees' and Police and Fire Retirement Systems, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

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

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

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

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

The balances of the reserve accounts at June 30, 2016 are as follows:

	GERS		PFRS	
	Required Reserve	Amount Funded	Required Reserve	Amount Funded
Retiree reserve	\$ 109,390,019	\$ 100,372,879	\$ 205,071,744	\$ 176,438,994
Employee reserve	6,310,150	6,310,150	15,676,767	15,676,767
Employer reserve	N/A	-	N/A	-

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

Net Pension Liability of the City

Effective July 1, 2014, the City adopted GASB Statement No. 68, which requires the measurement of pension expense as it is incurred, rather than as it is funded. The June 30, 2016 total pension liability was determined by an actuarial valuation performed as of that date. The components of the net pension liability of the City at June 30, 2016 were as follows:

	<u>GERS</u>	<u>PFRS</u>
Total pension liability	\$ 136,571,013	\$ 301,281,758
Plan fiduciary net position	<u>106,683,028</u>	<u>192,115,760</u>
City's net pension liability	<u>\$ 29,887,985</u>	<u>\$ 109,165,998</u>
Plan fiduciary net position, as a percentage of the total pension liability	78.1%	63.8%

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

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

	GERS	PFRS
Total Pension Liability		
Service cost	\$ 999,822	\$ 4,566,392
Interest	10,251,133	21,627,043
Difference between expected and actual experience of the total pension liability	(220,359)	4,075,015
Changes of benefits	468,337	-
Changes of assumptions	3,043,452	(60,488,228)
Benefit payments, including refunds of member contributions	(11,221,254)	(19,003,316)
Net change in total pension liability	3,321,131	(49,223,094)
Total pension liability - Beginning of year	<u>133,249,882</u>	<u>350,504,852</u>
Total pension liability - End of year	<u>\$ 136,571,013</u>	<u>\$ 301,281,758</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,768,790	\$ 7,986,312
Contributions - Members	619,418	1,538,401
Net investment income	(288,329)	(1,776,431)
Benefit payments, including refunds of member contributions	(11,221,254)	(19,003,316)
Other	20,440	12,268
Net change in plan fiduciary net position	(8,100,935)	(11,242,766)
Plan fiduciary net position - Beginning of year	<u>114,783,963</u>	<u>203,358,526</u>
Plan fiduciary net position - End of year	<u>\$ 106,683,028</u>	<u>\$ 192,115,760</u>
City's net pension liability - End of year	<u>\$ 29,887,985</u>	<u>\$ 109,165,998</u>
Plan fiduciary net position as a percent of total pension liability	78.1%	63.8%
Covered employee payroll	\$ 7,491,549	\$ 19,321,315
City's net pension liability as a percent of covered employee payroll	399.0%	565.0%

Note 12 - Defined Benefit Pension Plans (Continued)

Actuarial Assumptions

Total pension liabilities were determined by an actuarial valuation as of June 30, 2016. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	GERS	PFRS
Inflation	3.5%	2.0%
Salary increases (average, including inflation)	3.75 - 11.5 %	3.0 - 20.1 %
Investment rate of return (net of pension plan investment expense, including inflation)	7.75%	8.00%

Mortality rates were based on the *RP-2000 Healthy Life Mortality Table* and the *RP2014 Health Annuitant Mortality Table* for the General Employees' Retirement System and the Police and Fire Retirement System, respectively.

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

Changes of Assumptions

For the General Employees' Retirement System actuarial valuation dated June 30, 2016, a discount rate of 7.75 percent was used, which is lower than the discount rate used in the actuarial report dated June 30, 2015 (8.00 percent). This change in actuarial assumptions resulted in an increase in the total pension liability of \$3,043,452 and more accurately reflects future expected rates of return.

For the Police and Fire Retirement System actuarial valuation dated June 30, 2016, a discount rate of 8.0 percent was used, which is higher than the discount rate used in the actuarial report dated June 30, 2015 (6.3 percent). The valuation also included a change in the mortality table used from the RP2000 projected to 2014 Mortality Table to the RP2014 Health Annuitant Mortality Table. These changes in actuarial assumptions resulted in a decrease in the total pension liability of \$60,488,228 and more accurately reflects future expected rates of return and life expectancy trends. The amortization period was also changed from an open 30-year period to a close period.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$19,021,332 and reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	GERS		PFRS	
	Deferred Outflows	Deferred Inflows	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 177,532	\$ (112,462)	\$ 5,820,892	\$ -
Changes of assumptions	1,553,244	-	11,327,154	(47,618,392)
Net difference between projected and actual earnings on pension plan investments	10,489,125	-	18,221,795	-
Total	\$ 12,219,901	\$ (112,462)	\$ 35,369,841	\$ (47,618,392)

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

Year Ending June 30	GERS	PFRS	Total
2017	\$ 4,445,648	\$ 230,228	\$ 4,675,876
2018	2,944,276	(503,460)	2,440,816
2019	2,885,805	(7,106,644)	(4,220,839)
2020	1,831,711	(4,868,675)	(3,036,964)

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent and 8.00 percent for the General Employees' Retirement System and the Police and Fire Retirement System, respectively. The projection of cash flows used to determine this discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Note 12 - Defined Benefit Pension Plans (Continued)

Projected Cash Flows

Based on those assumptions with regard to the General Employees' Retirement System and the Police and Fire Retirement System, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return for both pension plans' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of the plans' year end, June 30, 2016, for each major asset class included in the pension plans' target allocation, as disclosed in the investment footnote, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return (%)	
	GERS	PFRS
Large capitalization growth equities	7.8	7.8
Large capitalization value equities	7.5	7.5
Large capitalization core equities	7.7	7.7
Small/Middle capitalization equities	8.9	8.9
International equities	7.7	7.7
Fixed income	2.5	2.5
Real estate	6.8	6.8

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

For the General Employees' Retirement System, the following presents the net pension liability of the City calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability of City	\$ 43,350,260	\$ 29,887,985	\$ 18,388,808

For the Police and Fire Retirement System, the following presents the net pension liability of the City calculated using the discount rate of 8.0 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net pension liability of City	\$ 138,105,774	\$ 109,165,998	\$ 84,680,500

	General Employees' Retirement System	Police and Fire Retirement System
Statement of Net Position		
Assets		
Cash and cash equivalents	\$ 4,402,857	\$ 14,242,356
Investments - At fair value:		
Government securities	11,922,145	27,174,057
Mutual funds	4,720,872	13,619,059
Corporate bonds	11,374,783	12,665,753
Common and preferred stocks	75,561,855	127,193,342
Private real estate	-	1,854,283
Receivables	550	67,701
Total assets	107,983,062	196,816,551
Liabilities - Accounts payable	1,300,034	4,700,790
Net Position - Held in trust for pensions	<u>\$ 106,683,028</u>	<u>\$ 192,115,761</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 12 - Defined Benefit Pension Plans (Continued)

Statement of Changes in Net Position		
Additions		
Investment income (loss):		
Interest and dividends	\$ 2,662,410	\$ 4,203,502
Net adjustment to fair value of investments	(2,273,636)	(4,583,094)
Less investment expenses	(656,661)	(1,384,570)
Net investment loss	(267,887)	(1,764,162)
Contributions:		
Employer	2,768,790	7,986,312
Employee	619,418	1,530,163
Purchase of prior year's service credits	-	8,238
Total additions - Net	3,120,321	7,760,551
Deductions		
Benefit payments	10,661,378	18,192,664
Refunds of contributions	559,877	810,652
Total deductions	11,221,255	19,003,316
Change in Net Position	(8,100,934)	(11,242,765)
Net Position - Beginning of year	114,783,962	203,358,526
Net Position - End of year	<u>\$ 106,683,028</u>	<u>\$ 192,115,761</u>

Note 13 - Postemployment Benefits

Plan Description - The City provides other postemployment benefits (OPEB) to eligible employees and their spouses or beneficiaries through the Sterling Heights Retiree Medical Benefits Trust plan. Health and life insurance benefits are provided to all public safety and general employees. Additionally, public safety employees are provided with dental benefits. At December 31, 2014, the date of the most recent actuary report, the plan has 999 members (including employees in active service and retirees or beneficiaries currently receiving benefits). Of those members, 275 general and 296 police and fire retirees are receiving benefits.

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

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

Note 13 - Postemployment Benefits (Continued)

As of June 30, 2008, labor contracts included a clause that requires new general employees to contribute 50.0 percent of the monthly retiree healthcare coverage premium upon retirement except for the U.A.W. Professional and Technical Employees Union, which requires employees hired after July 1, 2003 to contribute 25.0 percent and for employees hired after July 1, 2008 to contribute 60.0 percent of the monthly retiree premium. All new contracts settled after July 1, 2011 require contributions from retiring plan members. Plan members who retired after this date and are receiving benefits contributed approximately \$21,300 during the fiscal year. General employees hired after June 30, 2012 are not eligible for retiree health benefits.

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

The City purchases Medicare supplemental insurance for retirees eligible for Medicare. The cost of retiree healthcare benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund postemployment benefits. During the current year, the contribution made by the General Fund and the Water and Sewer Fund totaled \$12,584,830. Healthcare payments totaled \$8,469,445.

Funding Progress - For the year ended June 30, 2016, the City estimated the cost of providing postemployment benefits through an actuarial biennial valuation as of December 31, 2014. The valuation computes an annual required contribution (ARC) which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. For the fiscal year ended June 30, 2016, the City's annual contribution of \$12,584,830 to the plan exceeded the recommended contribution by \$1,012,195.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 13 - Postemployment Benefits (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset:

Annual required contribution (recommended)	\$ 11,572,635
Payments of current premiums	8,584,830
Contributions	<u>4,000,000</u>
Increase in net OPEB asset	1,012,195
OPEB asset - Beginning of year	<u>-</u>
OPEB asset - End of year	<u><u>\$ 1,012,195</u></u>

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

	Fiscal Year Ended		
	2016	2015	2014
Annual OPEB costs (AOC)	\$ 11,572,635	\$ 12,334,370	\$ 12,195,350
Percentage of AOC contributed	108.7%	100.0%	100.0%
Net OPEB obligation (asset)	\$ (1,012,195)	\$ -	\$ -

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

Valuation as of December 31, 2014:

Actuarial value of assets	\$ 78,902,067
Actuarial value of liability (AAL)	183,380,675
Unfunded AAL (UAAL)	104,478,608
Funded ratio	43.0%
Annual covered payroll	\$ 35,568,006
Ratio of UAAL to covered payroll	293.7%

Note 13 - Postemployment Benefits (Continued)

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

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

The annual recommended contribution was determined as part of an actuarial valuation at December 31, 2014 using the individual entry age actuarial cost method. The actuarial assumptions included an 8.0 percent rate of return on investments (net of applicable expenses identified above) which was based on the historical rate of return achieved by the asset mix used within the plan. An annual healthcare cost trend ranging downward from 9.0 percent to 3.5 percent was used in fiscal year 2014, grading to 3.5 percent in fiscal year 2021 and thereafter. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value of the assets at the date of the valuation. The UAAL is being amortized as a level percent of projected payroll on an open basis. The remaining amortization period is 28 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 13 - Postemployment Benefits (Continued)

Statement of Net Position		<u>Retiree Medical Benefits</u>
Assets		
Cash and cash equivalents		\$ 3,206,639
Investments - At fair value:		
Government securities		6,788,307
Mutual funds		4,159,157
Corporate bonds		5,687,625
Common and preferred stocks		68,327,154
Receivables		<u>14,636</u>
Total assets		<u>88,183,518</u>
Liabilities		
Accounts payable		532,891
Accrued and other liabilities		27,267
Due to other governmental units		234,494
Provision for uninsured losses and liabilities		<u>528,029</u>
Total liabilities		<u>1,322,681</u>
Net Position - Held in trust for other retiree benefits		<u><u>\$ 86,860,837</u></u>

Statement of Changes in Net Position		
Additions		
Investment income (loss):		
Interest and dividends		\$ 1,917,171
Net adjustment to fair value of investments		(1,386,307)
Less investment expenses		<u>(514,937)</u>
Net investment income		15,927
Contributions - Employer		12,584,830
Contributions - Employees		66,705
Insurance recovery		<u>29,435</u>
Total additions		<u>12,696,897</u>
Deductions - Benefit payments		<u>8,505,260</u>
Net Change in Net Position		4,191,637
Net Position - Beginning of year		<u>82,669,200</u>
Net Position - End of year		<u><u>\$ 86,860,837</u></u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 14 - Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables Reported in the Fund Statements

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

Receivable Fund	Payable Fund	Amount
General Fund	Local Roads Fund	\$ 181,247
	CDBG Fund	93,992
	General Improvements Fund	68,431
	Road Bond Construction Fund	200,744
	Nonmajor governmental funds	<u>89,251</u>
	Total General Fund	633,665
Major Roads Fund	General Fund	260,275
Road Bond Debt Retirement	General Fund	1,553
Nonmajor governmental funds	General Fund	<u>7,400</u>
	Total governmental activities	902,893
Proprietary Fund	General Fund	53,238
Self-insurance Fund	General Fund	<u>329,693</u>
	Total	<u>\$ 1,285,824</u>

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 14 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	General Improvements Fund	\$ 6,156,240
	Nonmajor governmental funds	<u>1,061,075</u>
	Total General Fund	7,217,315
Major Roads Fund	Road Bond Debt Retirement Fund	1,000,000
	Nonmajor governmental funds	<u>1,100,000</u>
	Total Major Roads Fund	2,100,000
Road Bond Construction Fund	Road Bond Debt Retirement Fund	130,000
Self-insurance Fund	General Fund	<u>1,350,064</u>
	Total	<u>\$ 10,797,379</u>

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

The transfer from the Major Roads Fund to the Road Bond Debt Retirement Fund represents restricted resources for debt service payments; the transfer from the Major Roads Fund to the nonmajor governmental funds represents restricted resources for current road repair and replacement programs.

The transfer from the Road Bond Construction Fund to the Road Bond Debt Retirement Fund represents restricted resources for debt service payments.

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 15 - Unrestricted Net Position

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

<u>Designated for</u>	<u>Enterprise Fund - Water and Sewer</u>
Capital improvement	\$ 2,540,000
Undesignated	<u>12,077,172</u>
Total	<u>\$ 14,617,172</u>

Note 16 - Defined Contribution Pension Plan

The City provides pension benefits to all new general employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council resolution, the City contributes 4.0 percent of employees' base wages, while the employees contribute a minimum of 5.0 percent of gross wages to the employees' individual accounts. The City's contributions to the employees' accounts including investment earnings are fully vested after five years of service. In accordance with these requirements, the City contributed \$217,835 during the current year and employees contributed \$321,133.

Note 17 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is currently a defendant in a lawsuit regarding a special use land permit in which payment in the form of legal fees and damages may be possible. It is the City's intent to litigate this matter and the claim is covered by the City's insurance policy for amounts in excess of self-insured retention limits. No liability can be estimated at this time and has not been recorded for this lawsuit as of June 30, 2016.

Note 18 - Changes in Accounting

Effective July 1, 2015, the City implemented the provisions of the following Governmental Accounting Standards Board (GASB) Statement:

No. 72, *Fair Value Measurement and Application* - This statement enhanced comparability of financial statements by requiring measurement of certain assets and liabilities at fair value using a consistent and detailed definition of fair value and accepted valuation techniques. This statement also enhanced related disclosures in order to provide information to financial statement users about the impact of fair value measurement on a government's financial position. As a result of implementing this statement, additional disclosures regarding investments at fair value were added to Note 3.

Note 19 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statements more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB Statement No. 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB Statement No. 74 is effective for fiscal years beginning after June 15, 2016 whereas GASB Statement No. 75 is effective one year later.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will be in effect for the City's 2017 fiscal year. This statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand how tax abatements affect a government's future ability to raise resources and meet its financial obligations and the impact on the government's financial position and economic condition.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2016

Note 19 - Upcoming Accounting Pronouncements (Continued)

In January 2016, the Governmental Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The requirements of this Statement enhance the comparability of financial statements among governments by clarifying the financial statement presentation requirements for certain component units. GASB Statement No. 80 is required to be adopted for years beginning after June 15, 2016. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2017 fiscal year.

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 7,539,734	\$ 7,539,734	\$ 7,539,734	\$ -
Resources (Inflows)				
Property taxes	39,678,770	40,338,770	40,154,336	(184,434)
Refuse taxes	4,795,150	4,805,150	4,786,968	(18,182)
Police and fire pension taxes	7,986,310	7,986,310	7,992,154	5,844
Safe streets taxes	7,135,880	7,160,880	7,121,201	(39,679)
Licenses and permits	1,805,000	2,196,000	2,149,069	(46,931)
Federal, state, and local returns	11,710,310	11,722,570	11,772,081	49,511
Charges for services	9,821,770	9,750,770	9,719,467	(31,303)
Fines and forfeitures	2,355,000	3,067,000	3,057,417	(9,583)
Cable revenue	2,450,000	2,600,000	2,595,396	(4,604)
Other revenue	2,845,180	2,661,220	3,043,563	382,343
Transfers from other funds	-	1,360,140	1,350,064	(10,076)
Total resources (inflows)	90,583,370	93,648,810	93,741,716	92,906
Charges to Appropriations (Outflows)				
41A District Court	3,202,320	3,222,620	3,223,740	(1,120)
City administration	7,227,810	7,141,520	7,131,274	10,246
Community relations	1,036,470	1,028,460	1,022,778	5,682
Police department	33,935,610	33,145,280	32,935,268	210,012
Fire department	17,183,210	16,966,360	16,585,309	381,051
City development department	3,961,630	4,000,210	4,017,062	(16,852)
Public works department	8,141,680	7,739,110	7,567,970	171,140
Refuse collection	4,817,150	4,787,000	4,767,025	19,975
Community services department	4,477,990	4,442,360	4,393,760	48,600
General expenditures	1,213,620	1,014,370	1,025,080	(10,710)
Transfers to other funds	4,457,140	7,217,320	7,217,315	5
Total charges to appropriations (outflows)	89,654,630	90,704,610	89,886,581	818,029
Fund Balance - End of year	\$ 8,468,474	\$ 10,483,934	\$ 11,394,869	\$ 910,935

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 4,117,388	\$ 4,117,388	\$ 4,117,388	\$ -
Resources (Inflows)				
Federal sources	-	164,600	-	(164,600)
State sources	6,714,000	7,207,190	7,240,176	32,986
Other	342,000	184,070	221,258	37,188
Total resources (inflows)	7,056,000	7,555,860	7,461,434	(94,426)
Charges to Appropriations (Outflows)				
Public works:				
Administration	130,610	115,610	117,084	(1,474)
Routine maintenance	2,252,500	2,379,450	2,192,138	187,312
Improvements	1,427,000	5,245,370	3,437,960	1,807,410
Transfers to other funds	1,750,000	2,100,000	2,100,000	-
Total charges to appropriations (outflows)	5,560,110	9,840,430	7,847,182	1,993,248
Fund Balance - End of year	\$ 5,613,278	\$ 1,832,818	\$ 3,731,640	\$ 1,898,822

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Community Development Block Grant Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	879,780	845,530	645,061	(200,469)
Charges to Appropriations (Outflows)				
Administrative expenses	160,000	171,460	127,700	43,760
Books	6,000	6,000	5,980	20
Senior citizens home chore	20,000	20,000	20,000	-
Single parent education program	13,000	13,000	13,000	-
Minor home repair	30,000	34,000	29,110	4,890
Handicapped recreation program	19,000	19,000	19,000	-
Macomb homeless coalition	3,000	3,000	-	3,000
Housing rehabilitation program	125,000	53,000	41,830	11,170
Awards to nonprofit organizations	49,970	49,970	49,970	-
Capital improvements	453,810	476,100	338,471	137,629
Total charges to appropriations (outflows)	<u>879,780</u>	<u>845,530</u>	<u>645,061</u>	<u>200,469</u>
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2016

Note - Stewardship, Compliance, and Accountability

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

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

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

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

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

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

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2016

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:		
41A District Court	\$ 3,222,620	\$ 3,223,740
City development	4,000,210	4,017,062
General expenditures	<u>1,014,370</u>	<u>1,025,080</u>
Total General Fund	<u>\$ 8,237,200</u>	<u>\$ 8,265,882</u>
Major Roads Fund - Administration	<u>\$ 115,610</u>	<u>\$ 117,084</u>
Neighborhood Stabilization Fund - Administration costs	<u>\$ 2,180</u>	<u>\$ 2,354</u>

The General Fund had unfavorable variances in the activity of the following:

- 41A District Court as a result of higher than anticipated personnel costs associated with accrued leave time
- City development as a result of higher than anticipated personnel costs associated with increased ordinance activity
- General expenditures as a result of higher than anticipated street lighting costs resulting from the completion of construction projects and the related street lighting coming back on line

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

- Administration as a result of higher than anticipated personnel costs due to increased road construction and maintenance

The Neighborhood Stabilization Fund had an unfavorable variances in the activity of the following:

- Administration costs as a result of higher than anticipated personnel costs due to analysis of potential program close-out

City of Sterling Heights, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of Changes in the City's Net Pension Liability and Related Ratios Last Two Fiscal Years

	Fiscal Year	
	2016	2015
Total Pension Liability		
Service cost	\$ 999,822	\$ 1,059,741
Interest	10,251,133	10,094,749
Changes in benefits	468,337	-
Difference between expected and actual experience of the total pension liability	(220,359)	1,896,980
Changes in actuarial assumptions	3,043,452	-
Benefit payments, including refunds of member contributions	(11,221,254)	(10,912,153)
Net change in total pension liability	3,321,131	2,139,317
Total pension liability - Beginning of year	133,249,881	131,110,564
Total pension liability - End of year	\$ 136,571,012	\$ 133,249,881
Plan Fiduciary Net Position		
Contributions - Employer	\$ 2,768,790	2,610,080
Contributions - Members	619,418	712,397
Net investment (loss) income	(288,329)	3,903,536
Benefit payments, including refunds of member contributions	(11,221,254)	(10,912,153)
Other	20,440	-
Net change in plan fiduciary net position	(8,100,935)	(3,686,140)
Plan fiduciary net position - Beginning of year	114,783,962	118,470,102
Plan fiduciary net position - End of year	\$ 106,683,027	\$ 114,783,962
City's net pension liability - End of year	\$ 29,887,985	\$ 18,465,919
Plan fiduciary net position as a percent of total pension liability	78.1%	86.1%
Covered employee payroll	\$ 7,491,549	\$ 8,903,144

City of Sterling Heights, Michigan

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

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-0.24%	3.40%	17.90%

City of Sterling Heights, Michigan

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

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 204,054	\$ 486,906	\$ 1,089,481	\$ 1,790,556	\$ 2,735,453	\$ 2,610,074	\$ 2,768,786
Contributions in relation to the actuarially determined contribution	-	-	-	204,054	486,906	1,089,481	1,790,556	2,735,453	2,610,074	2,768,786
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 15,012,036	\$ 15,382,785	\$ 15,406,591	\$ 14,794,008	\$ 15,000,778	\$ 13,709,541	\$ 12,375,670	\$ 10,007,272	\$ 8,527,956	\$ 8,610,706
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	1.38%	3.25%	7.95%	14.47%	27.33%	30.61%	32.16%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of the December 31, 2014 actuarial valuation. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Amortization period (perpetual)	15 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	3.75% - 11.5%
**Includes inflation at	3.5%
Cost-of-living adjustments	None
Retirement age	Experienced-based table rates that are specific to type of eligibility
Mortality	RP2000 Male and Female Healthy Life Mortality (unadjusted) tables, adjusted for mortality improvements to 2015 using projection scale AA
Other	Benefit multiplier and employee contribution rates changed for certain members

City of Sterling Heights, Michigan

Required Supplemental Information Police and Fire Retirement System Schedule of Changes in the City's Net Pension Liability and Related Ratios Last Two Fiscal Years

	Fiscal Year	
	2016	2015
Total Pension Liability		
Service cost	\$ 4,566,392	3,745,877
Interest	21,627,043	20,597,428
Difference between expected and actual experience of the total pension liability	4,075,015	5,363,325
Changes of assumptions	(60,488,228)	23,250,473
Benefit payments, including refunds of member contributions	(19,003,317)	(18,772,663)
	<u>(49,223,095)</u>	<u>34,184,440</u>
Net change in total pension liability	(49,223,095)	34,184,440
Total pension liability - Beginning of year	<u>350,504,853</u>	<u>316,320,413</u>
Total pension liability - End of year	<u>\$ 301,281,758</u>	<u>\$ 350,504,853</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 7,986,312	7,953,970
Contributions - Members	1,538,401	1,297,931
Net investment income	(1,776,431)	9,106,541
Benefit payments, including refunds of member contributions	(19,003,316)	(18,772,663)
Administrative expense	(64,145)	(51,574)
Other	76,413	53,294
	<u>(11,242,766)</u>	<u>(412,501)</u>
Net change in plan fiduciary net position	(11,242,766)	(412,501)
Plan fiduciary net position - Beginning of year	<u>203,358,526</u>	<u>203,771,027</u>
Plan fiduciary net position - End of year	<u>\$ 192,115,760</u>	<u>\$ 203,358,526</u>
City's net pension liability - End of year	<u>\$ 109,165,998</u>	<u>\$ 147,146,327</u>
Plan fiduciary net position as a percent of total pension liability	63.8%	58.0%
Covered employee payroll	\$ 19,321,315	\$ 16,589,288

City of Sterling Heights, Michigan

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

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-0.40%	4.90%	19.06%

City of Sterling Heights, Michigan

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	\$ 2,646,459	\$ 1,707,910	\$ 2,594,194	\$ 4,925,570	\$ 6,135,053	\$ 7,368,876	\$ 8,815,031	\$ 8,095,472	\$ 7,953,970	\$ 7,986,312
Contributions in relation to the actuarially determined contribution	2,646,459	1,707,910	2,594,194	4,925,570	6,135,053	7,368,876	8,815,031	8,095,472	7,953,970	7,986,312
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 19,787,496	\$ 19,837,496	\$ 20,979,120	\$ 22,064,557	\$ 22,510,638	\$ 22,432,921	\$ 19,213,007	\$ 14,671,724	\$ 14,300,045	\$ 15,378,745
Contributions as a percentage of covered-employee payroll	13.37%	8.61%	12.37%	22.32%	27.25%	32.85%	45.88%	55.18%	55.62%	51.93%

Note to Schedule of City Contributions

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions - The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of the December 31, 2014 actuarial valuation. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedules:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll, open
Amortization period (perpetual)	25 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases**	17.0% - 4.0%
**Includes inflation at	3.0%
Cost-of-living adjustments	None
Retirement age	Experienced-based table rates that are specific to type of eligibility
Mortality	RP2014 Health Annuitant Mortality Table
Other	Benefit multiplier and employee contribution rates changed for certain members

City of Sterling Heights, Michigan

Required Supplemental Information Retiree Medical Benefits Trust Schedule of Funding Progress and Employee Contributions June 30, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c) Underfunded/ (Overfunded)
12/31/08	\$ 17,328,970	\$ 160,689,774	\$ 143,360,804	10.8	\$ 46,814,550	306.2
12/31/10	38,675,481	178,487,654	139,812,173	21.7	43,400,000	322.1
12/31/12	52,663,559	181,013,043	128,349,484	29.1	40,887,900	313.9
12/31/14	78,902,067	183,380,675	104,478,608	43.0	35,568,006	293.7

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
6/30/11	12/31/08	\$ 12,070,700	100.0
6/30/12	12/31/10	11,523,820	100.0
6/30/13	12/31/10	11,984,780	100.0
6/30/14	12/31/12	12,195,350	100.0
6/30/15	12/31/12	12,334,370	100.0
6/30/16	12/31/14	11,572,635	108.7

* Expressed as a percentage of payroll

Additional information as of December 31, 2014, the latest actuarial valuation, follows:

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

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	Total Nonmajor Special Revenue Funds
Assets				
Cash and cash equivalents	\$ 1,431,343	\$ 348,307	\$ -	\$ 1,779,650
Investments	500,001	-	-	500,001
Receivables:				
Special assessments:				
Current	30,431	-	-	30,431
Unavailable	83,257	-	-	83,257
Accrued interest	5,689	-	-	5,689
Prepaid costs and other assets	-	-	-	-
Due from other funds	-	2,557	4,843	7,400
Due from other governmental units	357,835	-	-	357,835
Inventories	-	4,197	-	4,197
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,408,556</u>	<u>\$ 355,061</u>	<u>\$ 4,843</u>	<u>\$ 2,768,460</u>
Liabilities				
Accounts payable	\$ 901,880	\$ 21,962	\$ -	\$ 923,842
Accrued and other liabilities	131,030	-	-	131,030
Due to other funds	181,247	-	-	181,247
Unearned revenue	-	-	4,843	4,843
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,214,157	21,962	4,843	1,240,962
Deferred Inflows of Resources -				
Unavailable revenue	83,257	-	-	83,257
Fund Balances				
Nonspendable - Inventory	-	4,197	-	4,197
Restricted for:				
Road improvements	1,111,142	-	-	1,111,142
Public safety	-	328,902	-	328,902
Debt service	-	-	-	-
Committed - Park acquisitions and improvements	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	1,111,142	333,099	-	1,444,241
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,408,556</u>	<u>\$ 355,061</u>	<u>\$ 4,843</u>	<u>\$ 2,768,460</u>

**Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016**

Nonmajor Debt Service Funds				Nonmajor Capital Projects Funds			
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Clinton River Restoration	Land and Water Conservation	Total Nonmajor Capital Projects Funds	Total Nonmajor Governmental Funds
\$ 20,258	\$ 11,512	\$ 340	\$ 32,110	\$ -	\$ 402,499	\$ 402,499	\$ 2,214,259
-	-	-	-	-	250,000	250,000	750,001
-	-	-	-	-	-	-	30,431
-	-	-	-	-	-	-	83,257
-	-	-	-	-	172	172	5,861
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	7,400
-	-	-	-	139,834	-	139,834	497,669
-	-	-	-	-	-	-	4,197
\$ 20,258	\$ 11,512	\$ 340	\$ 32,110	\$ 139,834	\$ 652,671	\$ 792,505	\$ 3,593,075
\$ 82	\$ 89	\$ -	\$ 171	\$ 50,583	\$ 28,432	\$ 79,015	\$ 1,003,028
1,485	2,191	-	3,676	-	804	804	135,510
-	-	-	-	89,251	-	89,251	270,498
-	-	-	-	-	-	-	4,843
1,567	2,280	-	3,847	139,834	29,236	169,070	1,413,879
-	-	-	-	-	-	-	83,257
-	-	-	-	-	-	-	4,197
-	-	-	-	-	-	-	1,111,142
-	-	-	-	-	-	-	328,902
18,691	9,232	340	28,263	-	-	-	28,263
-	-	-	-	-	623,435	623,435	623,435
18,691	9,232	340	28,263	-	623,435	623,435	2,095,939
\$ 20,258	\$ 11,512	\$ 340	\$ 32,110	\$ 139,834	\$ 652,671	\$ 792,505	\$ 3,593,075

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			Total Nonmajor Special Revenue Funds
	Local Roads	Public Safety Forfeiture	Neighborhood Stabilization Fund	
Revenue				
Property taxes	\$ 3,344,947	\$ -	\$ -	\$ 3,344,947
Federal sources	-	53,746	2,354	56,100
State sources	2,284,238	193,696	-	2,477,934
Investment income	5,874	998	-	6,872
Special assessments	37,152	-	-	37,152
Other	59,198	-	-	59,198
Total revenue	5,731,409	248,440	2,354	5,982,203
Expenditures				
Current:				
Public safety	-	183,580	-	183,580
Public works	1,965,692	-	2,354	1,968,046
Other	-	-	-	-
Capital outlay	4,001,352	246,971	-	4,248,323
Debt service	-	-	-	-
Total expenditures	5,967,044	430,551	2,354	6,399,949
Excess of Expenditures (Over) Under Revenue	(235,635)	(182,111)	-	(417,746)
Other Financing Sources - Interfund transfers in	1,100,000	-	-	1,100,000
Change in Fund Balances	864,365	(182,111)	-	682,254
Fund Balances - Beginning of year	246,777	515,210	-	761,987
Fund Balances - End of year	\$ 1,111,142	\$ 333,099	\$ -	\$ 1,444,241

**Other Financial and Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2016**

Nonmajor Debt Service Funds				Nonmajor Capital Projects Funds			Total Nonmajor Governmental Funds
General Drain	Voted Tax General Obligation	Limited Tax General Obligation	Total Nonmajor Debt Service Funds	Clinton River Restoration	Land and Water Conservation	Total Capital Projects Funds	
\$ 164,288	\$ 472,827	\$ -	\$ 637,115	\$ -	\$ -	\$ -	\$ 3,982,062
-	-	-	-	634,834	-	634,834	690,934
-	-	-	-	-	-	-	2,477,934
271	575	1	847	-	1,170	1,170	8,889
-	-	-	-	-	-	-	37,152
-	-	-	-	-	5,348	5,348	64,546
<u>164,559</u>	<u>473,402</u>	<u>1</u>	<u>637,962</u>	<u>634,834</u>	<u>6,518</u>	<u>641,352</u>	<u>7,261,517</u>
-	-	-	-	-	-	-	183,580
-	-	-	-	-	-	-	1,968,046
300	350	225	875	-	-	-	875
-	-	-	-	634,834	207,371	842,205	5,090,528
<u>156,750</u>	<u>470,500</u>	<u>322,150</u>	<u>949,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>949,400</u>
<u>157,050</u>	<u>470,850</u>	<u>322,375</u>	<u>950,275</u>	<u>634,834</u>	<u>207,371</u>	<u>842,205</u>	<u>8,192,429</u>
7,509	2,552	(322,374)	(312,313)	-	(200,853)	(200,853)	(930,912)
-	-	322,375	322,375	-	738,700	738,700	2,161,075
7,509	2,552	1	10,062	-	537,847	537,847	1,230,163
<u>11,182</u>	<u>6,680</u>	<u>339</u>	<u>18,201</u>	<u>-</u>	<u>85,588</u>	<u>85,588</u>	<u>865,776</u>
<u>\$ 18,691</u>	<u>\$ 9,232</u>	<u>\$ 340</u>	<u>\$ 28,263</u>	<u>\$ -</u>	<u>\$ 623,435</u>	<u>\$ 623,435</u>	<u>\$ 2,095,939</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2016

Special Revenue Fund - Local Roads

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 246,777	\$ 246,777	\$ 246,777	\$ -
Resources (Inflows)				
Safe streets taxes	3,376,400	3,382,400	3,344,947	(37,453)
State sources	2,190,000	2,230,000	2,284,238	54,238
Charges for services	40,000	50,000	53,630	3,630
Other	42,010	45,510	48,594	3,084
Transfers from other funds	<u>750,000</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>-</u>
Total resources (inflows)	6,398,410	6,807,910	6,831,409	23,499
Charges to Appropriations (Outflows)				
Administration	130,310	150,310	142,132	8,178
Local street maintenance	1,566,000	2,075,100	1,823,560	251,540
Local street improvements	<u>4,507,000</u>	<u>4,816,600</u>	<u>4,001,352</u>	<u>815,248</u>
Total charges to appropriations (outflows)	<u>6,203,310</u>	<u>7,042,010</u>	<u>5,967,044</u>	<u>1,074,966</u>
Fund Balance - End of year	<u>\$ 441,877</u>	<u>\$ 12,677</u>	<u>\$ 1,111,142</u>	<u>\$ 1,098,465</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2016

Special Revenue Fund - Public Safety Forfeiture Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 515,210	\$ 515,210	\$ 515,210	\$ -
Resources (Inflows)				
Federal forfeitures	-	45,890	53,746	7,856
State forfeitures	5,000	101,870	134,591	32,721
OWI forfeitures	-	15,300	15,300	-
Act 302 training funds	30,800	15,040	43,805	28,765
Interest income	440	720	998	278
	<u>36,240</u>	<u>178,820</u>	<u>248,440</u>	<u>69,620</u>
Total resources (inflows)				
Charges to Appropriations (Outflows)				
Federal forfeiture expenditures	164,730	324,370	295,459	28,911
State forfeiture expenditures	330,730	60,460	60,369	91
Gambling forfeiture expenditures	-	17,330	17,323	7
OWI forfeiture expenditures	22,000	39,660	32,777	6,883
Act 302 training expenditures	30,800	27,380	24,623	2,757
	<u>548,260</u>	<u>469,200</u>	<u>430,551</u>	<u>38,649</u>
Total charges to appropriations (outflows)				
Fund Balance - End of year	<u>\$ 3,190</u>	<u>\$ 224,830</u>	<u>\$ 333,099</u>	<u>\$ 108,269</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2016

Special Revenue Fund - Neighborhood Stabilization Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal sources	-	2,180	2,354	174
Charges to Appropriations (Outflows) - Administration costs	-	2,180	2,354	(174)
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Fund - General Drain

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 11,182	\$ 11,182	\$ 11,182	\$ -
Resources (Inflows)				
Property taxes	155,350	155,350	162,928	7,578
Delinquents and penalties	1,000	1,000	988	(12)
Other revenue	700	700	643	(57)
Total resources (inflows)	<u>157,050</u>	<u>157,050</u>	<u>164,559</u>	<u>7,509</u>
Charges to Appropriations (Outflows)				
Other charges	300	300	300	-
Principal	150,000	150,000	150,000	-
Interest	6,750	6,750	6,750	-
Total charges to appropriations (outflows)	<u>157,050</u>	<u>157,050</u>	<u>157,050</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 11,182</u>	<u>\$ 11,182</u>	<u>\$ 18,691</u>	<u>\$ 7,509</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2016

Debt Service Fund - Voted Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 6,680	\$ 6,680	\$ 6,680	\$ -
Resources (Inflows)				
Property taxes	469,300	469,300	471,534	2,234
Delinquents and penalties	1,350	1,350	1,293	(57)
Other revenue	200	200	575	375
Total resources (inflows)	470,850	470,850	473,402	2,552
Charges to Appropriations (Outflows) -				
Proposal F	470,850	470,850	470,850	-
Fund Balance - End of year	<u>\$ 6,680</u>	<u>\$ 6,680</u>	<u>\$ 9,232</u>	<u>\$ 2,552</u>

Debt Service Fund - Limited Tax General Obligation

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 339	\$ 339	\$ 339	\$ -
Resources (Inflows)				
Transfer from other funds	322,380	322,380	322,375	(5)
Other revenue	-	-	1	1
Total resources	322,380	322,380	322,376	(4)
Charges to Appropriations (Outflows)				
Other charges	230	230	225	5
Principal	260,000	260,000	260,000	-
Interest	62,150	62,150	62,150	-
Total charges to appropriations (outflows)	322,380	322,380	322,375	5
Fund Balance - End of year	<u>\$ 339</u>	<u>\$ 339</u>	<u>\$ 340</u>	<u>\$ 1</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2016

Capital Projects Fund - Land and Water Conservation Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 85,588	\$ 85,588	\$ 85,588	\$ -
Resources (Inflows)				
Other	200	800	6,518	5,718
Transfers from other funds	<u>325,000</u>	<u>738,700</u>	<u>738,700</u>	<u>-</u>
Total resources (inflows)	325,200	739,500	745,218	5,718
Charges to Appropriations (Outflows) -				
Land improvements	<u>391,000</u>	<u>309,630</u>	<u>207,371</u>	<u>102,259</u>
Fund Balance - End of year	<u><u>\$ 19,788</u></u>	<u><u>\$ 515,458</u></u>	<u><u>\$ 623,435</u></u>	<u><u>\$ 107,977</u></u>

Capital Projects Fund - Clinton River Restoration Land Fund

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows) - Federal and state sources	-	1,000,000	634,834	(365,166)
Charges to Appropriations (Outflows) -				
Land improvements	<u>-</u>	<u>1,000,000</u>	<u>634,834</u>	<u>365,166</u>
Fund Balance - End of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds Year Ended June 30, 2016

Debt Service Fund - Road Bond Debt Retirement

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 645,034	\$ 645,034	\$ 645,034	\$ -
Resources (Inflows)				
Federal interest rebates	31,990	31,990	32,075	85
Special assessments	145,750	145,750	148,867	3,117
Interest income	97,970	98,870	100,000	1,130
Transfers in	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,130,000</u>	<u>-</u>
Total resources (inflows)	1,405,710	1,406,610	1,410,942	4,332
Charges to Appropriations (Outflows)				
Other	1,100	1,600	1,600	-
Principal	990,000	990,000	990,000	-
Interest	<u>330,940</u>	<u>330,940</u>	<u>330,931</u>	<u>9</u>
Total charges to appropriations (outflows)	<u>1,322,040</u>	<u>1,322,540</u>	<u>1,322,531</u>	<u>9</u>
Fund Balance - End of year	<u>\$ 728,704</u>	<u>\$ 729,104</u>	<u>\$ 733,445</u>	<u>\$ 4,341</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2016

Capital Projects Fund - General Improvements

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,630,427	\$ 1,630,427	\$ 1,630,427	\$ -
Resources (Inflows)				
Federal, state, and local sources	-	27,350	42,944	15,594
Other revenue	256,360	303,180	361,587	58,407
Transfer from other funds	<u>3,809,760</u>	<u>6,156,240</u>	<u>6,156,240</u>	<u>-</u>
Total resources (inflows)	4,066,120	6,486,770	6,560,771	74,001
Charges to Appropriations (Outflows)				
Capital equipment	285,260	386,220	364,210	22,010
Capital vehicles	902,500	1,727,350	1,732,395	(5,045)
Capital projects	<u>3,232,000</u>	<u>5,064,860</u>	<u>4,362,262</u>	<u>702,598</u>
Total charges to appropriations (outflows)	<u>4,419,760</u>	<u>7,178,430</u>	<u>6,458,867</u>	<u>719,563</u>
Fund Balance - End of year	<u>\$ 1,276,787</u>	<u>\$ 938,767</u>	<u>\$ 1,732,331</u>	<u>\$ 793,564</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Debt Service and Capital Projects Funds (Continued) Year Ended June 30, 2016

Capital Projects Fund - Road Bond Construction

	Original Budget (Unaudited)	Final Budget (Unaudited)	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 71,992	\$ 71,992	\$ 71,992	\$ -
Resources (Inflows)				
Federal, state, and local sources	-	-	401,050	401,050
Other revenue	-	6,000	10,672	4,672
Sale of capital assets	-	136,000	138,986	2,986
Bond proceeds	<u>8,150,000</u>	<u>9,884,560</u>	<u>9,884,555</u>	<u>(5)</u>
Total resources (inflows)	<u>8,150,000</u>	<u>10,026,560</u>	<u>10,435,263</u>	<u>408,703</u>
Charges to Appropriations (Outflows)				
Capital outlay	8,150,000	4,423,500	3,790,470	633,030
Transfer to other funds	<u>130,000</u>	<u>130,000</u>	<u>130,000</u>	<u>-</u>
Total charges to appropriations (outflows)	<u>8,280,000</u>	<u>4,553,500</u>	<u>3,920,470</u>	<u>633,030</u>
Fund Balance - End of year	<u><u>\$ (58,008)</u></u>	<u><u>\$ 5,545,052</u></u>	<u><u>\$ 6,586,785</u></u>	<u><u>\$ 1,041,733</u></u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Net Position Trust Funds June 30, 2016

	Trust Funds			
	Pension and Other Retirement Benefits Funds			
	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Assets				
Cash and cash equivalents	\$ 4,402,857	\$ 14,242,356	\$ 3,206,639	\$ 21,851,852
Investments - At fair value:				
Government securities	11,922,145	27,174,057	6,788,307	45,884,509
Mutual funds	4,720,872	13,619,059	4,159,157	22,499,088
Corporate bonds	11,374,783	12,665,753	5,687,625	29,728,161
Common and preferred stocks	75,561,855	127,193,342	68,327,154	271,082,351
Private real estate	-	1,854,283	-	1,854,283
Receivables	550	67,701	14,636	82,887
Total assets	107,983,062	196,816,551	88,183,518	392,983,131
Liabilities				
Accounts payable	1,300,034	4,700,790	532,891	6,533,715
Accrued and other liabilities	-	-	27,267	27,267
Due to other governmental units	-	-	234,494	234,494
Provision for uninsured losses and liabilities	-	-	528,029	528,029
Total liabilities	1,300,034	4,700,790	1,322,681	7,323,505
Net Position - Held in trust for pension and other retiree benefits	<u>\$ 106,683,028</u>	<u>\$ 192,115,761</u>	<u>\$ 86,860,837</u>	<u>\$ 385,659,626</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Fiduciary Net Position Trust Funds Year Ended June 30, 2016

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 2,662,410	\$ 4,203,502	\$ 1,917,171	\$ 8,783,083
Net adjustment to fair value of investments	(2,273,636)	(4,583,094)	(1,386,307)	(8,243,037)
Less investment expenses	(656,661)	(1,384,570)	(514,937)	(2,556,168)
Net investment (loss) income	(267,887)	(1,764,162)	15,927	(2,016,122)
Contributions:				
Employer	2,768,790	7,986,312	12,584,830	23,339,932
Employee	619,418	1,530,163	66,705	2,216,286
Purchase of prior year's service credits	-	8,238	-	8,238
Insurance recovery	-	-	29,435	29,435
Total additions - Net	3,120,321	7,760,551	12,696,897	23,577,769
Deductions				
Benefit payments	10,661,378	18,192,664	8,505,260	37,359,302
Withdrawals and refunds of contributions	559,877	810,652	-	1,370,529
Total deductions	11,221,255	19,003,316	8,505,260	38,729,831
Net Change in Net Position	(8,100,934)	(11,242,765)	4,191,637	(15,152,062)
Net Position - Beginning of year	114,783,962	203,358,526	82,669,200	400,811,688
Net Position - End of year	<u>\$ 106,683,028</u>	<u>\$ 192,115,761</u>	<u>\$ 86,860,837</u>	<u>\$ 385,659,626</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Fiduciary Assets and Liabilities Agency Funds June 30, 2016

	Agency Funds		
	Tax	General Agency	Total
Assets			
Cash and cash equivalents	\$ 12,949	\$ 2,077,496	\$ 2,090,445
Investments - At fair value -			
Short-term investment funds	-	1,856,783	1,856,783
Receivables - Accrued interest	45	-	45
	<u>45</u>	<u>-</u>	<u>45</u>
Total assets	<u>\$ 12,994</u>	<u>\$ 3,934,279</u>	<u>\$ 3,947,273</u>
Liabilities			
Accrued and other liabilities	\$ 45	\$ 896,314	\$ 896,359
Due to other governmental units	12,949	6,981	19,930
Cash bonds and deposits	-	3,030,984	3,030,984
	<u>-</u>	<u>3,030,984</u>	<u>3,030,984</u>
Total liabilities	<u>\$ 12,994</u>	<u>\$ 3,934,279</u>	<u>\$ 3,947,273</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2016

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
<u>Tax Collection</u>				
Assets - Cash and cash equivalents	\$ 10,797	\$ 131,699,346	\$ 131,697,149	\$ 12,994
Liabilities				
Accrued and other liabilities	\$ -	\$ 683,447	\$ 683,402	\$ 45
Due to other governmental units	10,797	177,897,437	177,895,285	12,949
Total liabilities	\$ 10,797	\$ 178,580,884	\$ 178,578,687	\$ 12,994
<u>General Agency</u>				
Assets				
Cash and cash equivalents	\$ 3,315,677	\$ 12,055,697	\$ 13,293,878	\$ 2,077,496
Investments - At fair value	245,265	12,092,275	10,480,757	1,856,783
Total assets	\$ 3,560,942	\$ 24,147,972	\$ 23,774,635	\$ 3,934,279
Liabilities				
Accrued and other liabilities	\$ 1,294,577	\$ 444,334	\$ 842,597	\$ 896,314
Due to other governmental units	11,341	3,775	8,135	6,981
Cash and bond deposits	2,255,024	2,409,591	1,633,631	3,030,984
Total liabilities	\$ 3,560,942	\$ 2,857,700	\$ 2,484,363	\$ 3,934,279
<u>Totals - All Agency Funds</u>				
Assets				
Cash and cash equivalents	\$ 3,326,474	\$ 143,755,043	\$ 144,991,027	\$ 2,090,490
Investments - At fair value	245,265	12,092,275	10,480,757	1,856,783
Total assets	\$ 3,571,739	\$ 155,847,318	\$ 155,471,784	\$ 3,947,273
Liabilities				
Accrued and other liabilities	\$ 1,294,577	\$ 1,127,781	\$ 1,525,999	\$ 896,359
Due to other governmental units	22,138	177,901,212	177,903,420	19,930
Cash and bond deposits	2,255,024	2,409,591	1,633,631	3,030,984
Total liabilities	\$ 3,571,739	\$ 181,438,584	\$ 181,063,050	\$ 3,947,273

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.

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Fund Balances of Governmental Funds	132
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Revenue Capacity

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

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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.

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

City of Sterling Heights, Michigan

Statistical Information and Continuing Disclosure Contents (Continued)

STATISTICAL INFORMATION (CONTINUED)

Operating Information

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

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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.

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Statistical Information

City of Sterling Heights, Michigan

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (1)	2016
Governmental activities:											
Invested in capital assets -											
Net of related debt	\$ 171,697,125	\$ 175,544,446	\$ 175,084,518	\$ 173,670,878	\$ 169,230,936	\$ 166,882,162	\$ 163,744,453	\$ 159,678,093	\$ 159,604,551	\$ 166,305,991	\$ 172,609,179
Restricted	13,956,025	6,601,883	12,015,678	10,040,331	9,733,081	9,413,052	10,876,504	11,385,681	9,040,309	9,687,600	8,325,564
Unrestricted	<u>7,320,525</u>	<u>20,524,819</u>	<u>19,437,952</u>	<u>19,880,753</u>	<u>34,565,371</u>	<u>31,667,843</u>	<u>27,712,790</u>	<u>26,650,520</u>	<u>24,290,676</u>	<u>(107,150,997)</u>	<u>(110,411,191)</u>
Total governmental activities											
net position	<u>\$ 192,973,675</u>	<u>\$ 202,671,148</u>	<u>\$ 206,538,148</u>	<u>\$ 203,591,962</u>	<u>\$ 213,529,388</u>	<u>\$ 207,963,057</u>	<u>\$ 202,333,747</u>	<u>\$ 197,714,294</u>	<u>\$ 192,935,536</u>	<u>\$ 68,842,594</u>	<u>\$ 70,523,552</u>
Business-type activities:											
Net investment in capital assets	\$ 139,088,895	\$ 137,413,059	\$ 135,723,619	\$ 133,050,974	\$ 130,990,910	\$ 128,950,328	\$ 127,122,039	\$ 125,395,977	\$ 122,324,204	\$ 118,109,220	\$ 119,117,466
Restricted	7,050,855	7,418,300	7,522,330	7,605,803	8,308,749	8,369,375	9,424,998	9,596,925	9,368,833	10,521,601	1,307,099
Unrestricted	<u>28,265,921</u>	<u>29,163,010</u>	<u>29,337,877</u>	<u>26,385,878</u>	<u>25,732,829</u>	<u>24,334,830</u>	<u>22,170,126</u>	<u>20,362,360</u>	<u>14,888,421</u>	<u>9,948,067</u>	<u>14,617,172</u>
Total business-type activities											
net position	<u>\$ 174,405,671</u>	<u>\$ 173,994,369</u>	<u>\$ 172,583,826</u>	<u>\$ 167,042,655</u>	<u>\$ 165,032,488</u>	<u>\$ 161,654,533</u>	<u>\$ 158,717,163</u>	<u>\$ 155,355,262</u>	<u>\$ 146,581,458</u>	<u>\$ 138,578,888</u>	<u>\$ 135,041,737</u>
Primary government:											
Net investment in capital assets	\$ 310,786,020	\$ 312,957,505	\$ 310,808,137	\$ 306,721,852	\$ 300,221,846	\$ 295,832,490	\$ 290,866,492	\$ 285,074,070	\$ 281,928,755	\$ 284,415,211	\$ 291,726,645
Restricted	21,006,880	14,020,183	19,538,008	17,646,134	18,041,830	17,782,427	20,301,502	20,982,606	18,409,142	20,209,201	9,632,663
Unrestricted	<u>35,586,446</u>	<u>49,687,829</u>	<u>48,775,829</u>	<u>46,266,631</u>	<u>60,298,200</u>	<u>56,002,673</u>	<u>49,902,461</u>	<u>47,012,880</u>	<u>39,179,097</u>	<u>(97,202,930)</u>	<u>(95,794,019)</u>
Total primary government											
net position	<u>\$ 367,379,346</u>	<u>\$ 376,665,517</u>	<u>\$ 379,121,974</u>	<u>\$ 370,634,617</u>	<u>\$ 378,561,876</u>	<u>\$ 369,617,590</u>	<u>\$ 361,070,455</u>	<u>\$ 353,069,556</u>	<u>\$ 339,516,994</u>	<u>\$ 207,421,482</u>	<u>\$ 205,565,289</u>

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

City of Sterling Heights, Michigan

	2007	2008	2009	2010	2011
Expenses					
Governmental activities:					
General government	\$ 10,348,927	\$ 11,017,399	\$ 8,877,803	\$ 8,804,497	\$ 8,011,940
41A District Court	2,992,184	3,164,448	3,251,224	3,470,065	3,523,447
Public safety	43,995,464	48,044,223	49,201,944	52,695,852	53,740,479
Public works	22,603,155	24,083,515	24,904,207	25,269,096	26,062,500
Recreation and culture	5,890,651	6,322,163	6,112,129	5,695,827	5,617,090
Interest on long-term debt	1,922,125	1,921,428	1,956,286	1,086,571	1,192,797
Total governmental activities expenses	87,752,506	94,553,176	94,303,593	97,021,908	98,148,253
Business-type activities - Water and sewer	30,290,386	32,784,120	32,292,608	30,901,624	33,562,610
Total primary government expenses	\$ 118,042,892	\$ 127,337,296	\$ 126,596,201	\$ 127,923,532	\$ 131,710,863
Program Revenue					
Governmental activities:					
Charges for services:					
General government	\$ 2,022,680	\$ 2,216,008	\$ 2,229,296	\$ 3,020,737	\$ 2,906,715
41A District Court	2,185,724	2,351,225	2,426,813	2,985,409	2,888,076
Public safety	1,326,061	1,984,318	1,571,100	1,629,846	1,695,612
Public works	8,125,228	6,363,346	2,869,634	2,545,211	2,295,345
Recreation and culture	563,152	629,818	733,598	948,463	982,981
Operating grants and contributions	9,148,913	8,525,230	8,957,951	9,676,314	9,091,234
Capital grants and contributions	2,638,714	3,173,757	478,767	1,090,732	1,809,917
Total governmental activities program revenue	26,010,472	25,243,702	19,267,159	21,896,712	21,669,880
Business-type activities - Water and sewer:					
Charges for services	25,404,755	27,456,965	24,495,066	25,057,683	28,222,756
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	2,662,317	2,461,289	867,991	2,912,917	1,459,851
Total business-type activities program revenue	28,067,072	29,918,254	25,363,057	27,970,600	29,682,607
Total primary government program revenue	\$ 54,077,544	\$ 55,161,956	\$ 44,630,216	\$ 49,867,312	\$ 51,352,487
Net Expense					
Governmental activities	\$ (61,742,034)	\$ (69,309,474)	\$ (75,036,434)	\$ (75,125,196)	\$ (76,478,373)
Business-type activities	(2,223,314)	(2,865,866)	(6,929,551)	(2,931,024)	(3,880,003)
Total primary government net expense	\$ (63,965,348)	\$ (72,175,340)	\$ (81,965,985)	\$ (78,056,220)	\$ (80,358,376)
General Revenue and Other Changes in Net Position					
Governmental activities:					
Property taxes	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,307	\$ 59,196,747
State-shared revenue	10,675,667	10,675,667	10,183,758	9,057,434	9,057,434
Investment income	3,383,824	3,075,919	2,278,601	1,098,458	707,426
Gain on disposal of capital assets	227,321	-	-	-	-
Insurance proceeds	-	-	-	16,318,640	-
Other nonprogram revenue	1,527,988	1,093,203	1,751,947	1,786,782	1,950,435
Total governmental activities expenses	71,439,417	73,176,471	72,090,248	85,062,621	70,912,042
Business-type activities - Investment income	1,812,012	1,455,323	1,388,380	920,857	502,048
Total primary government	\$ 73,251,429	\$ 74,631,794	\$ 73,478,628	\$ 85,983,478	\$ 71,414,090
Change in Net Position					
Governmental activities	\$ 9,697,383	\$ 3,866,997	\$ (2,946,186)	\$ 9,937,425	\$ (5,566,331)
Business-type activities	(411,302)	(1,410,543)	(5,541,171)	(2,010,167)	(3,377,955)
Total primary government	\$ 9,286,081	\$ 2,456,454	\$ (8,487,357)	\$ 7,927,258	\$ (8,944,286)

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

		Fiscal Year							
		2012	2013	2014	2015	2016			
\$	6,543,937	\$	5,918,474	\$	5,467,242	\$	6,200,880	\$	7,351,777
	3,379,925		3,334,854		3,288,275		3,351,422		3,877,503
	54,994,001		51,345,058		52,851,304		61,063,426		55,117,055
	23,959,824		22,852,033		24,439,731		24,385,159		28,014,220
	5,291,332		4,891,039		4,640,609		4,892,593		5,735,889
	1,081,347		1,099,714		718,646		603,500		514,247
	95,250,366		89,441,172		91,405,807		100,496,980		100,610,691
	37,438,961		38,788,850		41,790,235		44,886,232		49,351,047
\$	132,689,327	\$	128,230,022	\$	133,196,042	\$	145,383,212	\$	149,961,738
\$	3,513,053	\$	3,634,419	\$	3,272,341	\$	3,760,720	\$	3,227,800
	2,570,621		2,336,662		2,227,523		2,368,667		2,692,034
	1,519,175		1,558,701		1,445,007		1,562,339		1,633,571
	3,563,445		2,533,213		2,768,235		2,936,122		3,189,189
	807,387		677,068		724,114		760,007		733,620
	8,565,267		5,136,968		2,747,213		3,566,906		4,048,708
	2,546,378		4,547,019		8,552,754		8,129,304		8,553,786
	23,085,326		20,424,050		21,737,187		23,084,065		24,078,708
	31,028,424		35,282,896		32,097,323		36,020,248		40,026,642
	-		-		-		602,738		96,712
	2,721,482		601,903		338,004		1,954,700		5,014,380
	33,749,906		35,884,799		32,435,327		38,577,686		45,137,734
\$	56,835,232	\$	56,308,849	\$	54,172,514	\$	61,661,751	\$	69,216,442
\$	(72,165,040)	\$	(69,017,122)	\$	(69,668,620)	\$	(77,412,915)	\$	(76,531,983)
	(3,689,055)		(2,904,051)		(9,354,908)		(6,308,546)		(4,213,313)
\$	(75,854,095)	\$	(71,921,173)	\$	(79,023,528)	\$	(83,721,461)	\$	(80,745,296)
\$	53,247,883	\$	51,643,869	\$	51,344,025	\$	62,231,352	\$	64,036,721
	10,094,387		10,342,983		10,606,230		10,785,806		10,694,421
	1,159,709		118,280		596,654		630,068		886,403
	-		-		-		-		-
	-		-		-		-		-
	2,033,751		2,292,537		2,342,953		2,533,069		2,595,396
	66,535,730		64,397,669		64,889,862		76,180,295		78,212,941
	751,685		(457,850)		581,104		635,502		676,162
\$	67,287,415	\$	63,939,819	\$	65,470,966	\$	76,815,797	\$	78,889,103
\$	(5,629,310)	\$	(4,619,453)	\$	(4,778,758)	\$	(1,232,620)	\$	1,680,958
	(2,937,370)		(3,361,901)		(8,773,804)		(5,673,044)		(3,537,151)
\$	(8,566,680)	\$	(7,981,354)	\$	(13,552,562)	\$	(6,905,664)	\$	(1,856,193)

City of Sterling Heights, Michigan

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

	2007	2008	2009	2010	2011 (1)	2012	2013	2014	2015	2016
General Fund:										
Reserved	\$ 679,962	\$ 643,564	\$ 767,986	\$ 1,005,948	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	15,037,933	14,649,346	14,439,075	11,522,975	-	-	-	-	-	-
Nonspendable	-	-	-	-	861,449	823,640	821,876	538,644	580,872	735,358
Assigned	-	-	-	-	5,500,280	973,137	691,319	3,668,787	4,457,140	5,095,500
Unassigned	-	-	-	-	4,629,487	3,451,703	3,735,285	1,021,961	2,501,722	5,564,011
Total General Fund	\$ 15,717,895	\$ 15,292,910	\$ 15,207,061	\$ 12,528,923	\$ 10,991,216	\$ 5,248,480	\$ 5,248,480	\$ 5,229,392	\$ 7,539,734	\$ 11,394,869
All other governmental funds:										
Reserved	\$ 534,266	\$ 5,321,181	\$ 468,719	\$ 596,419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	5,810,853	6,950,614	4,665,274	5,168,942	-	-	-	-	-	-
Debt service funds	118,705	92,441	488,981	379,377	-	-	-	-	-	-
Capital projects funds	2,662,224	2,011,345	2,720,603	3,021,463	-	-	-	-	-	-
Nonspendable	-	-	-	-	463,096	219,826	175,383	24,079	222,835	2,009,754
Restricted	-	-	-	-	4,730,650	6,366,964	7,014,780	4,739,133	5,391,767	10,514,620
Committed	-	-	-	-	733,573	623,578	605,390	528,412	85,588	623,435
Assigned	-	-	-	-	2,113,709	1,181,275	1,012,786	657,869	1,630,427	1,732,331
Total all other governmental funds	\$ 9,126,048	\$ 14,375,581	\$ 8,343,577	\$ 9,166,201	\$ 8,041,028	\$ 8,391,643	\$ 8,808,339	\$ 5,949,493	\$ 7,330,617	\$ 14,880,140

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

City of Sterling Heights, Michigan

	2007	2008	2009	2010
Revenue				
Property taxes	\$ 55,624,617	\$ 58,331,682	\$ 57,875,942	\$ 56,801,306
Fees and permits	1,784,156	1,352,594	960,683	1,194,707
Federal sources	2,755,145	1,001,641	1,419,052	2,789,569
State and local sources	19,894,287	18,939,977	18,505,491	17,114,177
Fines and forfeitures	2,563,520	2,755,701	2,836,556	3,618,574
Charges for services	8,038,601	7,988,183	7,896,549	8,598,054
Investment income	2,511,234	2,316,653	1,580,754	582,435
Special assessments	130,082	92,745	243,123	215,118
Rental income	1,443,651	1,727,929	1,798,484	1,429,222
Cable revenue	1,527,988	1,671,094	1,771,978	1,799,495
Reimbursement of advance road construction	-	2,440,414	-	-
Other	1,511,396	1,755,645	2,007,807	1,898,739
Total revenue	97,784,677	100,374,258	96,896,419	96,041,396
Expenditures				
Current:				
General government	10,562,158	11,244,018	9,534,712	9,000,797
41A District Court	2,847,111	2,974,001	3,150,155	3,221,815
Public safety	41,610,977	44,435,670	46,327,145	49,130,527
Public works	18,734,562	20,134,496	21,273,705	20,321,669
Recreation and culture	5,180,497	5,358,825	5,321,281	4,747,596
General expenditures	3,791,084	2,945,761	2,793,240	2,814,058
Capital outlay	14,756,585	7,402,019	13,212,947	4,694,663
Debt service:				
Principal	14,000,000	5,685,000	5,730,000	15,235,000
Interest	2,336,756	1,938,403	1,987,533	1,628,030
Total expenditures	113,819,730	102,118,193	109,330,718	110,794,155
Excess of Expenditures (Over) Under Revenue	(16,035,053)	(1,743,935)	(12,434,299)	(14,752,759)
Other Financing Sources (Uses)				
Long-term financing	7,900,000	5,000,000	3,260,000	3,810,000
Proceeds from sale of fixed assets	-	-	149,466	115,724
Bond premium	26,815	50,143	-	33,935
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-	(2,200,000)
Transfers in	18,458,535	9,716,170	11,319,369	16,194,395
Transfers out	(8,681,215)	(8,197,830)	(8,412,389)	(5,056,810)
Total other financing sources	17,704,135	6,568,483	6,316,446	12,897,244
Net Change in Fund Balances	\$ 1,669,082	\$ 4,824,548	\$ (6,117,853)	\$ (1,855,515)
Debt Service as a Percentage of Noncapital Expenditures	16.49%	8.06%	8.05%	15.91%

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

2011	2012	2013	2014	2015	2016
\$ 59,045,208	\$ 53,149,713	\$ 51,665,928	\$ 51,344,025	\$ 62,231,352	\$ 64,036,721
1,438,197	2,271,967	1,789,803	1,735,413	1,800,968	2,149,069
3,085,016	2,661,338	1,126,423	1,921,050	1,456,596	1,990,255
17,184,734	18,065,838	18,825,672	19,920,337	21,054,148	21,279,925
3,353,875	2,770,160	2,489,252	2,326,870	2,567,229	3,057,417
8,583,882	8,443,205	8,306,458	9,048,012	10,085,731	9,719,467
308,422	672,239	58,534	257,632	247,437	426,998
203,298	254,977	206,501	314,871	212,828	201,579
1,685,041	1,508,954	1,536,939	1,951,540	1,829,381	1,578,977
1,950,435	2,033,751	2,292,537	2,342,953	2,533,069	2,595,396
-	-	-	-	-	-
1,526,205	2,044,415	1,700,076	1,619,427	1,414,282	1,960,041
98,364,313	93,876,557	89,998,123	92,782,130	105,433,021	108,995,845
8,613,941	8,571,928	7,700,466	7,175,604	7,803,567	8,154,052
3,246,811	3,252,852	3,258,362	3,078,766	3,087,262	3,223,740
50,929,421	52,297,573	48,644,125	48,807,450	49,752,772	49,704,157
21,034,821	18,680,870	18,062,177	20,790,973	21,450,688	20,929,934
4,603,108	4,489,169	4,339,952	4,002,476	4,189,468	4,393,760
2,540,873	2,766,125	2,294,184	2,171,473	1,119,452	1,027,555
4,867,162	4,275,883	3,115,621	7,026,982	14,388,416	19,122,277
3,970,000	3,940,000	3,895,000	3,235,000	2,620,000	1,725,000
1,221,055	1,098,474	1,114,056	744,170	628,563	545,331
101,027,192	99,372,874	92,423,943	97,032,894	105,040,188	108,825,806
(2,662,879)	(5,496,317)	(2,425,820)	(4,250,764)	392,833	170,039
-	3,780,000	3,275,000	-	198,633	9,630,000
-	-	-	-	-	-
-	274,196	9,311	-	-	254,555
-	(3,950,000)	(3,100,000)	-	-	-
3,953,940	3,526,740	6,158,405	5,639,290	13,594,435	10,797,379
(3,953,940)	(3,526,740)	(3,500,200)	(4,266,460)	(10,494,435)	(9,447,315)
-	104,196	2,842,516	1,372,830	3,298,633	11,234,619
\$ (2,662,879)	\$ (5,392,121)	\$ 416,696	\$ (2,877,934)	\$ 3,691,466	\$ 11,404,658
5.41%	5.31%	5.63%	4.44%	3.60%	3.62%

City of Sterling Heights, Michigan

General Governmental Tax Revenue by Source Last Ten Fiscal Years

Fiscal Year Ended June 30	General Fund Property Taxes					Local Roads Property Taxes	Debt Service Funds Property Taxes			Total All Property Taxes
	Operating	Refuse	Police and Fire Retirement System	Safe Streets	Total	Safe Streets	General Drain	Voted Tax General Obligation	Total	
2007	\$ 46,585,168	\$ 4,205,469	\$ 2,646,459	\$ -	\$ 53,437,096	\$ -	\$ 1,214,130	\$ 973,391	\$ 2,187,521	\$ 55,624,617
2008	50,198,476	4,359,680	1,707,910	-	56,266,066	-	1,089,261	976,355	2,065,616	58,331,682
2009	49,275,429	4,476,793	2,594,194	-	56,346,416	-	1,169,602	359,924	1,529,526	57,875,942
2010	45,954,154	4,561,110	4,925,570	-	55,440,834	-	1,178,018	182,454	1,360,472	56,801,306
2011	47,431,652	4,377,125	5,753,668	-	57,562,445	-	1,164,592	318,171	1,482,763	59,045,208
2012	40,120,585	4,376,626	7,157,201	-	51,654,412	-	1,150,140	345,161	1,495,301	53,149,713
2013	37,142,292	4,403,288	8,529,892	-	50,075,472	-	1,224,522	365,934	1,590,456	51,665,928
2014	38,262,436	4,400,850	7,444,408	-	50,107,694	-	823,757	412,574	1,236,331	51,344,025
2015	38,380,857	4,615,657	7,905,424	6,969,239	57,871,177	3,271,161	658,448	430,566	1,089,014	62,231,352
2016	40,154,336	4,786,968	7,992,154	7,121,201	60,054,659	3,344,947	164,288	472,828	637,116	64,036,722

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Tax Levy (1)	Collected Within the Fiscal Year of the Levy		Subsequent Collection of Delinquent Taxes	Total Collections to Date Amount	Percentage of Levy
			Amount	Percentage of Levy			
2007	2008	\$ 58,015,198	\$ 56,193,561	96.86	\$ 1,735,471	\$ 57,929,032	99.85
2008	2009	57,729,407	56,018,807	97.04	1,666,768	57,685,575	99.92
2009	2010	56,676,434	54,863,230	96.80	1,746,957	56,610,187	99.88
2010	2011	59,971,190	57,008,661	95.06	1,609,784	58,618,445	97.74
2011	2012	55,243,869	53,881,497	97.53	1,250,043	55,131,540	99.80
2012	2013	51,798,243	50,578,919	97.65	1,099,333	51,678,252	99.77
2013	2014	51,490,018	50,356,033	97.80	1,049,632	51,405,665	99.84
2014	2015	62,603,722	61,350,710	98.00	1,157,471	62,508,181	99.85
2015	2016	63,842,382	62,694,645	98.20	1,046,438	63,741,083	99.84
2016	2017	63,842,382 (2)					

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

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

Source: City Treasurer's Office

City of Sterling Heights, Michigan

Fiscal Year (Tax Year)	City Direct Rates							Overlapping Rates						
	Operating (1)	Refuse	Police and Fire Retirement System	Drain Debt Service	Public Improvement Debt Service	Safe Streets	Total	Macomb Intermediate School District	Macomb Community College	Huron/Clinton Metro Authority	S.M.A.R.T.	County Zoo Authority	Veterans Operations	D.I.A.
2007 (2006)														
Homestead	8.9776	0.8142	0.5118	0.2339	0.1875	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
Non-homestead	8.9776	0.8142	0.5118	0.2339	0.1875	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
2008 (2007)														
Homestead	9.2256	0.8057	0.3147	0.1998	0.1792	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
Non-homestead	9.2256	0.8057	0.3147	0.1998	0.1792	0.0000	10.7250	2.9430	1.4212	0.2146	0.5900	0.0000	0.0000	0.0000
2009 (2008)														
Homestead	9.1777	0.8381	0.4853	0.2180	0.0667	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000
Non-homestead	9.1777	0.8381	0.4853	0.2180	0.0667	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000
2010 (2009)														
Homestead	8.7180	0.8717	0.9372	0.2243	0.0346	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000
Non-homestead	8.7180	0.8717	0.9372	0.2243	0.0346	0.0000	10.7858	2.9430	1.4212	0.2146	0.5900	0.1000	0.0400	0.0000
2011 (2010)														
Homestead	10.1811	0.9474	1.2388	0.2501	0.0684	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000
Non-homestead	10.1811	0.9474	1.2388	0.2501	0.0684	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000
2012 (2011)														
Homestead	9.6617	0.9999	1.6694	0.2735	0.0813	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000
Non-homestead	9.6617	0.9999	1.6694	0.2735	0.0813	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.0000
2013 (2012)														
Homestead	9.1428	1.0838	2.0669	0.3020	0.0903	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.2000
Non-homestead	9.1428	1.0838	2.0669	0.3020	0.0903	0.0000	12.6858	2.9430	1.5712	0.2146	0.5900	0.1000	0.0400	0.2000
2014 (2013)														
Homestead	9.4703	1.0879	1.8225	0.2033	0.1018	0.0000	12.6858	2.9430	1.5312	0.2146	0.5900	0.1000	0.0400	0.2000
Non-homestead	9.4703	1.0879	1.8225	0.2033	0.1018	0.0000	12.6858	2.9430	1.5312	0.2146	0.5900	0.1000	0.0400	0.2000
2015 (2014)														
Homestead	9.3701	1.1267	1.9238	0.1605	0.1047	2.5000	15.1858	2.9430	1.5262	0.2146	1.0000	0.1000	0.0400	0.2000
Non-homestead	9.3701	1.1267	1.9238	0.1605	0.1047	2.5000	15.1858	2.9430	1.5262	0.2146	1.0000	0.1000	0.0400	0.2000
2016 (2015)														
Homestead	9.4909	1.1424	1.9026	0.0377	0.1122	2.5000	15.1858	2.9430	1.5302	0.2146	1.0000	0.1000	0.0400	0.2000
Non-homestead	9.4909	1.1424	1.9026	0.0377	0.1122	2.5000	15.1858	2.9430	1.5302	0.2146	1.0000	0.1000	0.0400	0.2000

(1) City general operating tax rate charter limit equals 12.0 mills.

(2) Sterling Heights' taxable valuation is based on 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2016.

Source: Municipal Advisory Council of Michigan

Property Tax Rates Direct and Overlapping Governments Last Ten Fiscal Years

Overlapping Rates										Total Direct and Overlapping Rates by Resident's School District	
Macomb County		Utica Community School District (2)			Warren Consolidated School District (2)					Utica Community	Warren Consolidated
Operating	Drain Debt Service	State Education Tax	Operating/ Local	Debt	State Education Tax	Operating/ Local	Supplemental	Sinking	Debt		
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	6.5530	0.9964	2.2800	29.5993	35.9287
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.9594	0.9964	2.2800	29.5993	35.3351
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.2800	47.5309	47.3757
4.2000	0.0055	6.0000	0.0000	3.5000	6.0000	0.0000	5.2688	0.9964	2.1500	29.8001	34.7153
4.2000	0.0055	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	47.7317	47.4465
4.5685	0.0050	6.0000	0.0000	3.5000	6.0000	0.0000	5.7814	0.9964	2.1500	30.1681	35.5959
4.5685	0.0050	6.0000	17.9316	3.5000	6.0000	18.0000	0.0000	0.9964	2.1500	48.0997	47.8145
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4057	0.9964	2.4400	32.5681	39.5602
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.9964	2.4400	50.4997	50.1545
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.5024	0.0000	3.8600	32.7681	40.2805
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.8600	50.6997	50.7781
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.4629	0.0000	3.9200	32.7281	40.2610
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.9200	50.6597	50.7981
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	7.1603	0.0000	3.6000	35.6331	42.5434
4.5685	0.0050	6.0000	17.9316	3.8500	6.0000	18.0000	0.0000	0.0000	3.6000	53.5647	53.3831
4.5685	0.0050	6.0000	0.0000	3.8500	6.0000	0.0000	6.7766	0.0000	3.9200	35.6371	42.4837
4.5685	0.0050	6.0000	17.9082	3.8500	6.0000	18.0000	0.0000	0.0000	3.9200	53.5453	53.7071

City of Sterling Heights, Michigan

	2007	2008	2009	2010	2011
State Equalized Value					
SEV equivalent	\$ 6,230,684,225	\$ 6,380,752,375	\$ 5,940,796,525	\$ 5,555,163,580	\$ 4,879,206,305
IFT exemption	<u>223,376,725</u>	<u>290,426,725</u>	<u>255,549,975</u>	<u>239,402,825</u>	<u>223,651,575</u>
Total SEV	<u>\$ 6,454,060,950</u>	<u>\$ 6,671,179,100</u>	<u>\$ 6,196,346,500</u>	<u>\$ 5,794,566,405</u>	<u>\$ 5,102,857,880</u>
Taxable Value					
By Class:					
Real property	\$ 4,451,151,600	\$ 4,645,291,550	\$ 4,599,077,850	\$ 4,508,088,655	\$ 4,046,809,230
Personal property	<u>944,127,850</u>	<u>1,053,774,300</u>	<u>1,007,788,550</u>	<u>986,259,050</u>	<u>917,612,350</u>
Total value	<u>\$ 5,395,279,450</u>	<u>\$ 5,699,065,850</u>	<u>\$ 5,606,866,400</u>	<u>\$ 5,494,347,705</u>	<u>\$ 4,964,421,580</u>
By Type:					
Residential	\$ 3,327,952,350	\$ 3,480,892,950	\$ 3,451,602,900	\$ 3,328,660,655	\$ 2,920,197,630
Commercial	638,272,700	692,716,600	706,330,000	726,513,650	704,190,150
Industrial	445,399,650	430,477,050	405,605,650	416,847,650	388,756,200
Personal property	540,032,000	515,469,150	532,258,650	545,007,250	504,729,350
IFT real and personal property	<u>443,622,750</u>	<u>579,510,100</u>	<u>511,069,200</u>	<u>477,318,500</u>	<u>446,548,250</u>
Total	5,395,279,450	5,699,065,850	5,606,866,400	5,494,347,705	4,964,421,580
Less exempt property	<u>(221,811,375)</u>	<u>(289,755,050)</u>	<u>(255,534,600)</u>	<u>(238,659,250)</u>	<u>(223,274,125)</u>
Total taxable value	<u>\$ 5,173,468,075</u>	<u>\$ 5,409,310,800</u>	<u>\$ 5,351,331,800</u>	<u>\$ 5,255,688,455</u>	<u>\$ 4,741,147,455</u>
Total direct tax rate (1)	<u>\$ 10.7250</u>	<u>\$ 10.7250</u>	<u>\$ 10.7858</u>	<u>\$ 10.7858</u>	<u>\$ 12.6858</u>
Total taxable value as					
a percentage of SEV equivalent	80.16%	81.08%	86.36%	90.70%	92.91%
Total taxable value as					
a percentage of total value	95.89%	94.92%	95.44%	95.66%	95.50%

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

Source: City of Sterling Heights, Assessor's Office

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

2012	2013	2014	2015	2016
\$ 4,488,430,900	\$ 4,154,032,625	\$ 4,201,961,947	\$ 4,421,529,781	\$ 4,796,034,350
<u>204,669,200</u>	<u>150,866,925</u>	<u>147,523,025</u>	<u>149,204,525</u>	<u>123,790,350</u>
\$ 4,693,100,100	\$ 4,304,899,550	\$ 4,349,484,972	\$ 4,570,734,306	\$ 4,919,824,700
\$ 3,743,670,800	\$ 3,503,196,250	\$ 3,526,557,005	\$ 3,564,635,642	\$ 3,665,393,466
<u>874,496,200</u>	<u>755,514,350</u>	<u>724,659,700</u>	<u>714,092,150</u>	<u>670,143,500</u>
\$ 4,618,167,000	\$ 4,258,710,600	\$ 4,251,216,705	\$ 4,278,727,792	\$ 4,335,536,966
\$ 2,714,198,550	\$ 2,527,262,250	\$ 2,584,362,566	\$ 2,640,642,487	\$ 2,717,724,673
651,408,200	609,340,350	564,052,015	558,328,319	574,872,887
348,879,800	314,238,500	305,334,016	296,637,552	305,821,724
494,463,050	506,194,400	502,509,250	488,607,400	494,865,700
<u>409,217,400</u>	<u>301,675,100</u>	<u>294,958,858</u>	<u>294,512,034</u>	<u>242,251,982</u>
4,618,167,000	4,258,710,600	4,251,216,705	4,278,727,792	4,335,536,966
<u>(204,608,700)</u>	<u>(150,837,550)</u>	<u>(147,479,429)</u>	<u>(147,256,017)</u>	<u>(121,125,991)</u>
\$ 4,413,558,300	\$ 4,107,873,050	\$ 4,103,737,276	\$ 4,131,471,775	\$ 4,214,410,975
\$ 12.6858	\$ 12.6858	\$ 12.6858	\$ 15.1858	\$ 15.1858
98.33%	98.89%	97.66%	93.44%	87.87%
95.57%	96.46%	96.53%	96.56%	97.21%

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2016			Year Ended June 30, 2007		
		Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
FCA US, LLC	Automotive assembly and stamping	\$ 158,526,347	1	3.76	\$ 275,309,675	1	5.32
Ford Motor Company	Automotive manufacturing and drive shafts	156,424,119	2	3.71	225,921,850	2	4.37
DTE Energy	Public electric utility	36,230,629	3	0.86	39,525,300	4	0.76
Detroit Media Partnership	Printing plant - Newspapers	26,839,538	4	0.64	41,244,025	3	0.80
General Dynamics	Administrative engineering and design	25,375,947	5	0.60	30,218,500	6	0.58
Lakeside Associates	Retail shopping center	23,369,844	6	0.55	34,303,100	5	0.66
GGP LP	Retail and rental properties	21,928,666	7	0.52	-	-	-
Comcast Communications	Cable communications	15,067,791	8	0.36	-	-	-
Consumers Energy	Public utility for gas	14,280,153	9	0.34	-	-	-
NJT Enterprises	Retail shopping center	9,971,800	10	0.24	-	-	-
Laurel/Shoal Creek	Office and apartment complex	-	-	-	17,352,550	7	0.34
Ledd's Development	Office/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
	Ten largest taxpayers	488,014,834		<u>11.58</u>	709,173,800		<u>13.70</u>
	Other taxpayers	3,726,396,141			4,464,294,275		
	Total taxable value	<u>\$ 4,214,410,975</u>			<u>\$ 5,173,468,075</u>		

Source: City of Sterling Heights Assessor's Office

City of Sterling Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities			Total Primary Government	Percentage of Estimated Total Taxable Value of Property (1)	Population	Per Capita
	General Obligation Bonds	County Issued Bonds	Capital Leases	Amounts Available in Debt Service Funds	County Issued Bonds	Capital Leases					
2007	\$ 21,590,000	\$ 7,325,000	\$ -	\$ (66,116)	\$ -	\$ -	\$ 28,848,884	0.5576	128,914	\$223.78	
2008	23,635,000	6,495,000	-	(68,694)	-	-	30,061,306	0.5557	128,500	233.94	
2009	20,985,000	5,590,000	-	(150,053)	-	-	26,424,947	0.4938	128,500	205.64	
2010	11,060,000	4,635,000	-	(9,821)	3,702,531	-	19,387,710	0.3689	128,500	150.88	
2011	9,595,000	3,655,000	-	(11,873)	27,799,300	-	41,037,427	0.8656	129,699	316.41	
2012	8,455,000	2,630,000	-	(22,232)	36,565,773	-	47,628,541	1.0791	129,699	367.22	
2013	7,690,000	1,525,000	-	(19,201)	35,428,997	-	44,624,796	1.0863	129,699	344.06	
2014	5,777,683	775,000	-	(20,308)	34,264,780	-	40,797,155	0.9941	129,699	314.55	
2015	5,253,950	150,000	186,769	(18,201)	33,071,724	8,789	38,653,031	0.9356	129,699	298.02	
2016	4,667,114	-	150,062	(28,263)	35,885,137	7,063	40,681,113	0.9653	129,699	313.66	

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

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

City of Sterling Heights, Michigan

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities					Business-type Activities				Total Primary Government	Percentage of Personal Income (1)	Population	Per Capita
	General Obligation Bonds	Michigan Transportation Bonds	Special Assessment Bonds	County- issued Bonds	Capital Leases	County Issued							
						General Obligation Bonds	Special Assessment Bonds	County State Revolving Loan Funds	Capital Leases				
2007	21,590,000	20,610,000	\$ -	\$ 7,325,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49,525,000	1.35%	128,914	\$ 384
2008	23,635,000	18,710,000	-	6,495,000	-	-	-	-	-	48,840,000	1.30%	128,500	380.08
2009	20,985,000	16,535,000	3,260,000	5,590,000	-	-	-	-	-	46,370,000	1.26%	128,500	360.86
2010	8,820,000	16,130,000	3,160,000	4,635,000	-	3,702,531	-	-	-	36,447,531	0.96%	128,500	283.64
2011	7,880,000	14,180,000	3,060,000	3,655,000	-	30,584,068	-	3,314,862	-	62,673,930	2.00%	129,699	483.23
2012	6,905,000	12,170,000	2,960,000	2,630,000	-	36,565,773	2,716,185	4,931,838	-	68,878,796	2.19%	129,699	531.07
2013	6,165,000	10,405,000	2,850,000	1,525,000	-	35,428,997	2,647,602	6,825,826	-	65,847,425	2.10%	129,699	507.69
2014	5,777,683	8,811,416	2,700,000	775,000	-	34,264,780	2,548,452	11,703,389	-	66,580,720	2.12%	129,699	513.35
2015	5,253,950	7,465,086	2,550,000	150,000	186,769	33,071,724	4,098,344	17,592,684	8,789	70,377,346	2.24%	129,699	542.62
2016	4,667,114	16,480,393	2,400,000	-	150,062	31,831,025	4,054,112	20,725,947	7,063	80,315,716	2.56%	129,699	619.25

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

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

City of Sterling Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2016

Direct Debt

General Obligation Bonds

04/27/05	Limited Tax	\$ 1,251,643	
06/09/08	Fire Stations, Unlimited tax	3,415,471	\$ 4,667,114

Michigan Transportation Fund Bonds

06/22/10	Recovery Zone Bonds, Series 2010	1,375,000	
02/07/12	Refunding Bonds, Series 2012	2,342,678	
02/14/13	Refunding Bonds, Series 2013	2,878,160	
04/05/16	MTF Bonds, Series 2016	9,884,555	16,480,393

Special Assessment Bonds

08/03/08	Improvements		2,400,000
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Capital Lease

Capital Lease - Office equipment		157,125	
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Total direct debt outstanding			23,704,632
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Indirect Debt

Share of County-issued Drain Bonds

MID District - 2010 A Series	22,455,034		
MID District SA - 2010 North Gratiot	208,428		
MID District - 2011 Clintondale Pump	8,501,191		
MID District SA - 2015 North Gratiot Refunding	2,260,389		
OMID District - 2010 Series B	874,800		
OMID District SA - 2014 Series A	1,585,295		35,885,137

Total direct and indirect debt outstanding			59,589,769
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Less:

MTF Bonds	16,480,393		
Special Assessment Bonds	2,400,000		
MID District Special Assessments	2,468,817		
OMID District Special Assessments	1,585,295		22,934,505

Net direct and indirect debt outstanding			36,655,264
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Overlapping Debt

38.38% Utica Community School District		65,485,875	
43.80% Warren Consolidated School District		80,839,470	
16.06% Macomb County at large		53,998,177	
16.06% Macomb Community College		1,503,216	

Total overlapping debt			201,826,738
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Net direct and indirect debt outstanding and overlapping debt			\$ 238,482,002
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Source: Assessed value data used to estimate applicable percentages is provided by the Municipal Advisory Council of Michigan, Detroit, Michigan. Debt outstanding data is provided by each governmental unit.

City of Sterling Heights, Michigan

Legal Debt Margin June 30, 2016

Valuation for debt limit:		
2015 state equalized value (2016 fiscal year)		\$ 4,672,244,000
Addback of assessed value equivalent - 2015 SEV of Act 198 exemptions		<u>247,580,700</u>
Total valuation for debt limit		<u>\$ 4,919,824,700</u>
Debt limit (10 percent of state equalized valuation and equivalent) (1)		\$ 491,982,470
Debt applicable to limit:		
Amount of total direct outstanding debt	\$ 59,037,263	
Less: Michigan Transportation Fund Bonds	15,995,000	
Special Assessment Bonds	2,400,000	
MID District Special Assessments	2,468,817	
OMID District Special Assessments	<u>1,585,295</u>	
Net debt applicable limit		<u>36,588,151</u>
Legal debt margin		<u>\$ 455,394,319</u>

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

City of Sterling Heights, Michigan

Legal Debt Margin Information Last Ten Fiscal Years

	Fiscal Year				
	2007	2008	2009	2010	2011
Debt limit	\$ 645,406,095	\$ 667,117,910	\$ 619,634,650	\$ 579,456,641	\$ 510,285,788
Total net debt applicable to limit	<u>(28,915,000)</u>	<u>(30,130,000)</u>	<u>(26,575,000)</u>	<u>(17,157,531)</u>	<u>(39,334,300)</u>
Legal debt margin	<u>\$ 616,491,095</u>	<u>\$ 636,987,910</u>	<u>\$ 593,059,650</u>	<u>\$ 562,299,110</u>	<u>\$ 470,951,488</u>
Total net debt applicable to the limit as a percentage of debt limit	4.48%	4.52%	4.29%	2.96%	7.71%

	Fiscal Year				
	2012	2013	2014	2015	2016
Debt limit	\$ 469,310,010	\$ 430,489,955	\$ 434,948,497	\$ 457,073,431	\$ 491,982,470
Total net debt applicable to limit	<u>(46,100,773)</u>	<u>(44,643,997)</u>	<u>(38,406,724)</u>	<u>(38,406,724)</u>	<u>(36,588,151)</u>
Legal debt margin	<u>\$ 423,209,237</u>	<u>\$ 385,845,958</u>	<u>\$ 396,541,773</u>	<u>\$ 418,666,707</u>	<u>\$ 455,394,319</u>
Total net debt applicable to the limit as a percentage of debt limit	9.82%	10.37%	8.83%	8.40%	7.44%

City of Sterling Heights, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Limited Tax Obligation Bonds					
Fiscal Year Ended	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	\$ 681,050	\$ 485,000	\$ 170,614	\$ 655,614	1.039
2008	1,339,073	1,075,000	263,348	1,338,348	1.001
2009	1,389,151	1,155,000	233,238	1,388,238	1.001
2010	1,047,761	890,000	157,097	1,047,097	1.001
2011	647,941	485,000	132,554	617,554	1.049
2012	608,680	495,000	113,291	608,291	1.001
2013	528,740	540,000	96,951	636,951	0.830
2014	297,080	215,000	81,850	296,850	1.001
2015	312,675	240,000	72,450	312,450	1.001
2016	322,375	260,000	62,150	322,150	1.001

Michigan Transportation Fund Bonds					
Fiscal Year Ended	Collections	Debt Service			Coverage
		Principal	Interest	Total	
2007	\$ 3,450,943	\$ 1,730,000	\$ 626,665	\$ 2,356,665	1.464
2008	3,398,754	1,900,000	735,012	2,635,012	1.290
2009	3,281,889	2,175,000	754,573	2,929,573	1.120
2010	3,241,801	2,115,000	611,907	2,726,907	1.189
2011	3,289,715	1,950,000	559,979	2,509,979	1.311
2012	3,559,189	1,840,000	517,614	2,357,614	1.510
2013	3,628,067	1,940,000	430,950	2,370,950	1.530
2014	3,970,676	1,870,000	314,858	2,184,858	1.817
2015	3,819,418	1,330,000	257,912	1,587,912	2.405
2016	4,025,210	1,165,000	227,707	1,392,707	2.890

Special Assessment Bonds					
Fiscal Year Ended	Collections (1)	Debt Service			Coverage (1)
		Principal	Interest	Total	
2007	\$ -	\$ -	\$ -	\$ -	-
2008	-	-	-	-	-
2009	331,654	-	-	-	-
2010	298,947	100,000	127,000	227,000	1.317
2011	311,450	100,000	123,400	223,400	1.394
2012	319,122	100,000	120,400	220,400	1.448
2013	267,645	110,000	117,250	227,250	1.178
2014	271,069	150,000	113,162	263,162	1.030
2015	250,699	150,000	108,207	258,207	0.971
2016	246,302	150,000	103,225	253,225	0.973

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

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population (1)	Median Age (2)	Education Age 25 or Older (2)		Per Capita Income (4)/(1)	Income (in thousands) (4)	Number of Households (2)	Median Household Income (1)	Unemployment Rate (3)/(4)
			High School Graduate or Higher	Bachelor's Degree or Higher					
2007	128,914	35-39	84.0%	22.9%	\$ 28,399	\$ 3,661,029	50,761	\$ 60,494	7.3%
2008	128,500	35-39	84.0%	22.9%	29,308	3,766,078	50,375	60,494	8.8%
2009	128,500	35-39	84.0%	22.9%	28,546	3,668,161	49,735	60,494	14.1%
2010	128,500	35-39	84.0%	22.9%	29,430	3,781,755	49,339	60,494	13.6%
2011	129,699	40-44	84.0%	22.9%	24,213	3,140,402	49,508	53,390	9.8%
2012	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	9.0%
2013	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	9.0%
2014	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	9.0%
2015	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	7.0%
2016	129,699	40-44	86.4%	22.9%	24,213	3,140,402	49,576	53,390	4.6%

Sources:

- (1) United States Census Bureau - 2000/2010 Census and 2010 American Community Survey One Year Estimates
- (2) Southeast Michigan Council of Governments (SEMCOG)
- (3) Michigan Department of Career Development, Employment Security Agency, Office of Labor Market Information
- (4) Michigan Department of Technology, Labor & Budget

City of Sterling Heights, Michigan

Miscellaneous Demographics

Population			Income Characteristics	
			Household Income	Number of Households
2010 U.S. Census	129,699		Less than \$14,999	3,147
2000 U.S. Census	124,471		\$15,000 - \$34,999	10,359
1990 U.S. Census	117,810		\$35,000 - \$49,999	7,128
1980 U.S. Census	108,999		\$50,000 - \$74,999	10,056
			\$75,000 - \$99,999	7,680
			\$100,000 or more	11,265
Housing Tenure			Labor Characteristics	
Types	2010	2000	By Occupation:	Number of Employees
Owner occupied	37,685	36,584	Management, professional, and related	24,779
Renter occupied	11,766	9,735	Service	10,570
Vacant:			Sales and office	18,202
Seasonal/Migrant	128	148	Natural resources, construction, and maintenance	3,399
Other vacant units	2,611	1,080	Production, transportation, and material moving	9,457
Total	52,190	47,547	Total	66,407
Household Characteristics			By Industry:	
Types	2010	2000		
With seniors 65+	14,229	10,252	Agriculture, forestry, fishing and hunting, and mining	173
Without seniors	35,222	36,067	Construction	2,618
Two or more without children	21,007	19,041	Manufacturing	12,414
Live alone, over 65	5,316	3,915	Wholesale trade	2,184
Live alone, under 65	7,791	7,245	Retail trade	9,512
With children	15,337	16,118	Transportation, warehousing, and utilities	2,122
Total households	49,451	46,319	Information	1,282
			Finance, insurance, real estate, rental, and leasing	4,147
			Professional, scientific, management, administrative, and waste management services	5,863
			Educational, health, and social services	13,543
			Arts, entertainment, recreation, accomodation, and food services	7,740
			Other professional and related services	2,819
			Public administration	1,990
			Total	66,407
Age Statistics			Educational Characteristics	
Years	2010	2000	Households:	Number
Under 5	5.5%	6.2%	With earnings	38,825
5 to 19	18.7%	20.3%	With Social Security income	16,911
20 to 24	6.3%	6.1%	With retirement income	11,492
25 to 44	25.8%	30.4%	With supplemental security income	2,526
45 to 64	28.5%	25.2%	With cash public assistance income	1,184
Over 64	15.2%	11.8%	With food stamps/SNAP benefits	5,629

Source: United States Census Bureau - 2000/2010 Census and 2014 American Community Survey One Year Estimates

City of Sterling Heights, Michigan

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

Company Name	Product/Service	Year Ended June 30, 2016			Year Ended June 30, 2007		
		Employees	Rank	Total City Employment	Employees	Rank	Total City Employment
FCA US, LLC	Automotive assembly and stamping	4,000	1	6.61%	6,875	1	12.39%
Ford Motor Company	Automotive axles and transmissions	3,600	2	5.95%	1,250	7	2.25%
General Dynamics	Defense-related manufacturing	2,000	3	3.30%	1,425	6	2.57%
Lakeside Associates	Retail shopping center	2,000	4	3.30%	2,500	4	4.51%
Utica Community Schools	Education (1)	1,150	5	1.90%	4,150	2	7.48%
Kuka Systems Corporation	Metalworking machinery and robotic systems	1,000	6	1.65%	-	-	0.00%
Detroit Media Partnership	Printing plant - Newspapers (3)	1,000	7	1.65%	1,200	8	2.16%
Warren Consolidated Schools	Education (1)	790	8	1.31%	2,200	5	3.97%
U.S. Farathane Corporation	Paints and finishes	750	9	1.24%	-	-	-
Mayco Plastics	Automotive plastics	600	10	99.00%	-	-	-
Henry Ford Health System	Healthcare provider (3)	600	11	0.99%	-	-	-
City of Sterling Heights	Government	496	12	0.82%	630	10	1.14%
ACH	Automotive axles and drive shafts	-	-	-	2,800	3	5.05%
MNP	Nut, bolt, and wire manufacturer	-	-	-	580	11	1.05%
Cadillac Products, Inc.	Plastic bags, sheets, paper	-	-	-	750	9	1.35%
Collins & Aikman	Automotive interior	-	-	-	580	12	1.05%
	Twelve largest employers	17,986		28.72%	24,940		44.97%
	Other employers	42,530		70.29%	30,533		55.03%
	Total employment (2)	60,516			55,473		

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

(2) U.S. Bureau of Labor Statistics

(3) Analyst Resource Center Employer Database Infogroup Inc.

Source: City of Sterling Heights, Economic Development Office

City of Sterling Heights, Michigan

Operating Indicators by Function Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Election Data										
Registered voters	83,639	84,082	88,258	85,345	85,953	86,231	85,436	88,164	87,576	86,465
Voters at polls	34,405	3,842	44,074	10,138	39,285	13,020	42,504	21,322	26,444	32,486
Absentee ballots	11,904	7,556	16,972	7,963	11,037	8,299	16,205	8,966	11,862	18,357
Percent voting	55.37%	13.56%	69.17%	21.21%	58.55%	24.72%	68.72%	34.35%	43.74%	58.80%
41A District Court										
Court Cases										
Civil	3,239	3,867	3,947	3,816	4,037	3,760	3,546	2,550	2,652	2,566
Criminal	4,533	5,677	4,922	4,818	4,254	3,654	3,408	3,813	4,279	3,644
Landlord and tenant	2,433	2,471	2,653	2,407	2,442	2,610	2,265	2,491	2,223	2,161
Small claims	432	425	524	448	451	404	313	400	333	386
Traffic	27,143	27,709	30,422	35,540	31,074	22,924	22,889	22,550	25,887	31,584
Public Safety										
Police Protection										
Adult arrests	3,326	3,747	3,079	3,000	2,691	2,686	3,083	3,113	3,882	3,919
Civil infractions	26,582	27,596	29,855	32,724	29,315	20,670	21,788	20,535	27,031	30,780
Group A offenses (1)	7,873	7,361	6,686	6,484	5,769	3,890	3,216	2,926	2,885	2,871
Group B offenses (2)	4,491	3,433	2,632	2,370	1,960	1,652	2,030	2,306	2,867	3,235
Injury accidents	806	1,004	824	704	752	616	598	860	952	1,300
Juvenile arrests	251	174	156	173	159	143	195	190	219	212
OUIL arrests	328	340	414	394	297	199	220	183	204	169
Parking violations	2,016	1,706	1,702	1,992	1,125	585	1,116	1,298	1,282	1,333
Property damage	3,415	4,353	3,191	3,071	3,408	2,849	2,974	3,488	3,625	3,638
Private property damage	1,322	1,133	1,037	944	846	820	712	741	700	644
Total traffic violations	29,166	30,484	32,154	37,022	32,752	24,109	22,428	24,142	31,777	35,610
Fire Protection										
Emergency alarms answered	10,261	10,500	10,480	10,383	11,062	11,589	11,653	12,451	13,588	14,293
Fire inspections conducted	4,624	3,767	3,874	2,859	2,288	1,029	882	878	863	1,232
Inspection violations issued	10,292	9,391	7,495	5,831	4,397	2,067	1,670	1,020	945	2,433
Medical emergencies	7,493	7,691	7,745	7,693	8,617	8,948	8,969	9,435	10,253	10,753
Training hours completed	33,538	33,857	31,121	30,955	29,986	23,230	22,790	24,994	26,086	24,359
Recreation and Culture										
Parks and Recreation										
Adult athletics attendance	18,782	20,135	15,360	25,477	21,221	21,221	24,357	21,967	19,006	17,914
Instructional rec. attendance	26,567	25,666	24,795	23,999	23,933	27,132	22,666	20,344	23,566	23,916
Nature program attendance	24,582	24,399	23,321	27,708	23,374	21,318	14,582	17,170	15,079	16,187
Senior program attendance	109,528	109,970	116,564	117,570	102,577	103,663	103,667	100,026	97,769	101,770
Special event attendance	73,000	73,100	74,449	65,551	72,321	62,015	53,734	46,379	80,680	114,295
Special recreation program attendance	14,878	16,060	15,679	11,351	10,803	10,766	9,895	8,395	8,847	8,460
Summer playground attendance	11,025	14,094	11,370	7,565	12,160	11,144	12,613	13,053	12,765	10,353

City of Sterling Heights, Michigan

Operating Indicators by Function (Continued) Last Ten Fiscal Years

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Library										
Book van deliveries	11,242	9,318	8,818	7,909	7,367	4,547	3,788	3,253	3,259	2,833
Community meeting room reservations	341	384	1,200	1,289	1,209	1,463	1,325	1,183	1,463	1,528
In-house materials usage	144,698	139,973	121,907	93,714	107,155	133,539	132,298	82,304	60,279	54,742
Interlibrary loan requests	120,393	123,142	125,167	110,778	97,588	93,068	90,764	86,950	80,545	78,015
Interlibrary loans - Lent	109,814	113,947	117,671	105,692	87,255	82,094	82,832	79,360	72,109	70,606
Items circulated	635,425	616,323	625,688	627,496	614,905	600,445	577,448	536,485	536,038	548,414
Library visits	420,716	442,768	581,046	560,035	484,259	453,690	412,656	384,063	376,007	385,398
Online computer uses	492,979	514,794	552,503	583,260	610,054	768,815	1,050,062	1,659,105	1,216,053	921,671
Program attendance	25,470	36,204	37,639	31,664	23,184	22,168	15,310	15,196	16,322	20,209
Reference transactions	132,557	141,610	148,978	131,039	120,873	93,243	83,000	68,052	65,368	65,587
Registered borrowers	50,599	51,098	52,043	53,114	53,181	52,733	51,248	49,863	48,490	47,334
	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Water and Sewer Services										
Customers: (3)										
Residential	35,021	35,048	34,811	34,846	34,869	34,995	35,077	35,155	35,223	35,319
Commercial/Industrial	4,477	4,539	4,233	4,234	4,126	4,262	4,280	4,280	4,274	4,297
Water (in thousand cubic feet):										
Purchased from Detroit	775,817	786,726	716,384	659,817	683,223	695,711	678,000	614,039	603,378	636,215
Sold to residents	789,033	827,893	711,126	667,792	692,621	677,554	698,650	618,799	602,994	590,426
Rates (per thousand):										
1,000 CU. FT.	\$ 28.64	\$ 30.74	\$ 31.94	\$ 37.22	\$ 40.59	\$ 42.07	\$ 43.97	\$ 48.52	\$ 55.37	\$ 62.59
Next 2,000 CU.FT.	28.64	30.74	31.94	37.22	40.59	42.07	43.97	48.52	55.37	62.59
Over 3,000 CU.FT.	29.50	31.67	32.90	38.32	41.77	46.18	48.24	53.13	60.53	68.26
Sewer only - Per billing	25.00	30.00	35.00	45.00	50.00	55.00	60.00	65.00	70.00	80.00

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

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

(3) Beginning in FY 2009, the customer count excludes approximately 370 and 260 inactive or suspended accounts for commercial and residential totals, respectively.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Capital Asset Statistics by Function Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Buildings										
City Center Commons	1	1	1	1	1	1	1	1	1	1
41A District Court	1	1	1	1	1	1	1	1	1	1
Public Safety										
Police Protection										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles - Marked	49	54	54	54	54	51	50	50	53	54
Vehicles - Unmarked	82	79	77	64	63	65	57	54	65	56
Fire Protection										
Stations	5	5	5	5	5	5	5	5	5	5
Vehicles - Extinguishment	15	16	16	16	16	16	16	16	16	16
Public Works										
Streets and Sidewalks										
Miles of City:										
Primary streets	60	60	63	63	63	63	63	63	63	63
Secondary streets	289	289	286	286	286	286	286	286	286	286
Sidewalks	607	608	609	609	610	610	611	612	614	615
Bridges	11	11	11	11	11	11	11	11	11	11
Buildings	2	2	2	2	2	2	2	2	2	2
Street lights	2,513	2,520	2,520	2,520	2,520	2,530	2,530	2,530	2,535	2,535
Vehicles - Snow plows	21	22	22	23	22	22	22	21	21	25
Water and Sewer Services										
Fire hydrants	7,015	7,050	7,162	7,203	7,221	7,238	7,261	7,270	7,281	7,292
Miles of water mains	569	570	573	574	575	576	576	576	576	667
Miles of sanitary sewers	428	429	430	430	430	430	430	430	430	430
Recreation and Culture										
Parks and Recreation										
Acres	820	820	820	820	820	820	820	820	820	820
Developed parks	28	28	28	28	28	28	28	28	28	28
Buildings	3	3	3	3	3	3	3	3	3	3
Library										
Book collections	188,365	197,412	199,968	203,593	204,977	208,102	209,040	195,656	196,437	196,019
Other collections (1)	35,619	36,619	37,344	37,051	37,603	42,507	46,306	37,848	57,623	53,447
Buildings	1	1	1	1	1	1	1	1	1	1
Vehicles - Library van	1	1	1	1	1	1	1	1	1	1

(1) Includes art prints, audio/video cassettes, compact discs, posters, puppets, software discs, etc.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits at Market Value Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential				Total Residential
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	
2007	152	\$ 25,895,984	598	\$ 2,454,254	\$ 28,350,238
2008	37	8,034,365	536	1,503,824	9,538,189
2009	14	3,481,198	429	1,261,884	4,743,082
2010	70	12,386,830	360	839,587	13,226,417
2011	87	15,494,221	402	1,147,729	16,641,950
2012	96	19,872,576	405	1,291,986	21,164,562
2013	89	20,919,441	442	2,528,899	23,448,340
2014	134	31,286,101	537	1,191,570	32,477,671
2015	96	22,656,130	585	1,126,895	23,783,025
2016	170	87,099,668	726	1,528,732	88,628,400

Fiscal Year Ended June 30	Commercial				Total Commercial
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	
2007	24	\$ 44,813,309	254	\$ 40,418,973	\$ 85,232,282
2008	17	38,153,479	239	26,322,149	64,475,628
2009	16	5,148,379	160	23,119,046	28,267,425
2010	27	31,115,804	165	28,194,133	59,309,937
2011	20	91,661,691	122	21,444,771	113,106,462
2012	46	97,795,253	114	16,137,512	113,932,765
2013	8	15,546,849	141	37,063,864	52,610,713
2014	8	6,077,060	129	25,288,174	31,365,234
2015	10	25,455,891	166	26,570,017	52,025,908
2016	31	31,932,939	135	15,628,005	47,560,944

Source: City of Sterling Heights Office of Building Services

City of Sterling Heights, Michigan

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

Function	Full-time and Part-time Employees as of June 30									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General government	95	83	78	71	74	60	56	57	60	61
41A District Court	40	40	39	40	40	39	38	37	39	39
Public safety:										
Police	260	261	259	251	243	228	222	222	203	203
Fire	108	106	106	104	101	91	86	86	88	88
Public works:										
City development (2) (3)	32	37	32	32	24	19	24	26	28	29
Public works	43	42	40	37	34	26	29	31	34	34
Street services	23	23	21	21	21	21	18	21	25	24
Engineering (1)	19	17	14	13	11	9	8	9	9	9
Recreation and culture:										
Parks and recreation	16	16	13	12	11	10	10	10	11	12
Library	41	42	42	42	41	38	36	37	38	38
Water and sewer	41	41	40	39	39	37	35	35	35	36
Total	718	708	684	662	639	578	562	571	570	573

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

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

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

Source: City of Sterling Heights

Continuing Disclosure

City of Sterling Heights, Michigan

State-shared Revenue Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Modified Accrual Basis of Accounting</u>	<u>Accrual Basis of Accounting</u>
2007	\$ 10,861,805	\$ 10,675,667
2008	10,683,045	10,675,667
2009	10,487,825	10,183,758
2010	9,136,700	9,057,434
2011	9,368,599	9,057,434
2012	9,615,531	10,094,387
2013	10,268,109	10,342,983
2014	10,541,415	10,606,230
2015	10,814,534	10,785,806
2016	10,694,421	10,776,313

Gas and Weight Taxes Last Ten Fiscal Years

<u>Fiscal Year Ended June 30</u>	<u>Type of Street</u>		<u>Total Gas and Weight Tax (Act 51) Receipts</u>
	<u>Major Roads</u>	<u>Local Roads</u>	
2007	\$ 5,006,831	\$ 1,895,054	\$ 6,901,885
2008	4,933,090	1,864,418	6,797,508
2009	4,763,221	1,800,557	6,563,778
2010	4,719,496	1,764,105	6,483,601
2011	4,788,874	1,790,555	6,579,429
2012	5,194,602	1,923,776	7,118,378
2013	5,297,645	1,958,488	7,256,133
2014	5,461,373	2,020,459	7,481,832
2015	5,575,631	2,063,204	7,638,835
2016	5,874,539	2,175,881	8,050,420

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Labor Agreements

Name	Contract Expiration Date	Actual Number of Employees Covered	
		Full Time	Part Time
Union Employees			
Police Officers Michigan Association of Police (MAP)	6/30/2017	115	-
Firefighters International Association of Firefighters, Local 1557	6/30/2018	84	-
Technical/Office Employees Michigan Association of Public Employees (MAPE)	6/30/2018	58	27*
Department of Public Works Field Employees Teamsters, Local 214	6/30/2017	52	-
Police Command Officers Sterling Heights Police Command Officers Association	6/30/2018	33	-
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	6/30/2019	27	13
Court Clerical AFSCME, Local 1884, Council 25	6/30/2018	18	7
Police Clerical Employees Michigan Association of Police (MAP)	6/30/2019	20	-
Supervisory Employees Michigan Association of Public Employees (MAPE)	6/30/2018	11	-
Executive Employees Sterling Heights Executive Group	6/30/2018	9	-
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	6/30/2017	7	-
Nonunion Employees			
41A District Court Administration	N/A	10	-
41A District Court Judges	N/A	3	-
Ordinance Employees	N/A	2	-

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

Source: City of Sterling Heights, Office of City Management