



Comprehensive Annual Financial Report

Richard J. Notte
Mayor

Joseph V. Romano
Mayor Pro Tem

Richard L. Bracci
Councilman

Deanna Koski
Councilwoman

Steve Rice
Councilman

Maria G. Schmidt
Councilwoman

Barbara A. Ziarko
Councilwoman

Steve M. Duchane
City Manager

Brian S. Baker
Finance and Budget Director

Rick J. Sanborn
Financial Services Manager

Leslie D. Reinhart
Controller

For the Fiscal Year Ended June 30, 2003

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

City of Sterling Heights, Michigan

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CITY COUNCIL
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Councilwoman Barbara A. Ziarko

CITY MANAGER
Steve M. Duchane

**City Manager's Comprehensive Summary of Fiscal Year 2002/2003
and a Prospective Look at
the Future of the City of Sterling Heights**

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the financial condition and results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for fiscal year 2002/2003. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, and a prospective look at the future.

Sterling Heights - An Established and Respected Community

The City of Sterling Heights was incorporated July 1, 1968 operating under a Council-Manager form of government. The City is governed by a mayor and a six-member City Council, who individually serve two-year terms. Elections are non-partisan and are held the first Tuesday of November in each odd-numbered year. The mayor is a directly elected position, while the Council candidate who receives the highest number of votes in the general election serves as the mayor pro tem. Under the Council-Manager form of government, the mayor and City Council appoint two officials: the City Manager and the City Attorney. The City Manager is the chief administrative officer of the City and is responsible for its daily operations.

Sterling Heights has developed into one of Macomb County's leading cities, offering a rich combination of commercial and residential life. This successful development results largely from the Master Land Use Plan created by the City in the early 1970s, which provided direction for the community's growth and development. At 36.8 square miles, the City is bordered by M-59 on the north, 14 Mile Road on the south, Hayes Road on the east, and Dequindre Road on the west. Geographically, Sterling Heights is the third largest city in the state.

The City of Sterling Heights is a vibrant community with a strong sense of civic pride and determination by its community leaders. It is a balanced community that is rich with cultural diversity, community wellness, and economic vitality. Sterling Heights continues to attract upscale housing developments, prestigious office complexes, and large commercial development projects. The 2003 estimated population for the City stands at 126,470, making Sterling Heights the state's fastest-growing community among cities with more than 100,000 residents. In terms of population, Sterling Heights is the fourth largest city in Michigan. City services are provided to 33,330 houses, 8,944 apartments, 5,483 condominiums, 1,693 mobile homes, and 3,076 commercial and industrial businesses. Of all communities nationwide with 100,000 people or more, Sterling Heights is one of the top 10 wealthiest.

To Strive on Behalf of All

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

The City of Sterling Heights has pursued a policy dedicated to attracting and retaining highly qualified management personnel. The City provides a level of compensation sufficient to attract and retain the management talent and expertise necessary to properly serve the community. A majority of our supervisory personnel hold graduate degrees in their respective fields with over 95 percent of our City department heads holding post-graduate degrees. In addition to these credentials, several of our employees have received special recognition for their abilities from their peers via election to state or national offices of professional associations and as instructors in professional seminars.

The City's current administration has been in place for several years and has taken many steps toward improved budgeting, controlled costs, and improved efficiency. Staff restructuring, pay increases mirroring inflation, and the use of privatization where economically feasible have kept salary expenditures manageable throughout the City. The 2003/2004 approved budget includes funding for 633 full-time and 80 part-time positions, a reduction of ten full-time and five part-time positions from last year. As evidenced by the ICMA's Center for Performance Measurement data, the City continues to maintain one of the lowest employee to resident ratios of any community in the state and nation. In addition, both City pension plans are fully funded. The City's annual strategic plan, "Sterling Vision," will guide the City in managing its capital improvement needs and equipment purchases over the next several years.

A Lifestyle for Everyone

Comprehensive plans have been established that will continue to enhance and secure the quality of life in Sterling Heights for many years to come. The "Cornerstone Projects" consist of four objectives that will heighten and embellish the community's existing foundation of quality programs and services for residents. With support from residents, the "Cornerstone Projects" will allow Sterling Heights to earn the following designations:

I. Most Informed City

Efforts to partner with area schools continue while plans have begun for the creation of a City Technology and Information Resources Center. Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency: (a) the City is the first in Michigan to introduce an on-line permit system that allows contractors to obtain plumbing, electrical, and mechanical permits via the City's Web site; (b) the On-line Assessing and Tax Information System allows residents to obtain assessment roll information on any parcel in Sterling Heights. The Public Record Data (PRD) provides users with the ability to gain information on school districts, administration fees, and current tax bills; (c) residents and non-profit groups have the opportunity to publicize activities, such as garage sales, golf outings, and lost pet notices on Sterling Heights Television (SHTV) at no charge; (d) vendors conducting business with the City now have access to a new central bid notification system to obtain information regarding posting bids, quotes, construction notices, etc; (e) Sterling Heights residents can review vital voting information on the City's new on-line Voter Information Center; and (f) Sterling Heights is the first in the state to offer the "Water Bill Review and Payment" service, which allows residents to review historical accounting of water usage on their address, as well as having the option to pay their bill on-line.

2. Safest Big City

The City enjoys an outstanding reputation for public safety. A new state-of-the-art police facility and continuous training for sworn personnel and police academy students will contribute to the emphasis on security within Sterling Heights. Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. According to FBI crime statistics, the City has continued to maintain its "Safest City in Michigan" and "9th Safest City in the U.S." rankings with crime decreasing overall in Sterling Heights. This year's Council-approved purchase of taser equipment will allow Sterling Heights police officers to protect the community while avoiding the use of deadly force. In addition, the Sterling Heights Police Department has recently acquired a new in-car computer system that will assist officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. Keeping crime rates down can be attributed to the City having the appropriate and necessary financial resources and a concerned public that cooperates with law enforcement. As a result, Sterling Heights is rated the second safest city in America with populations greater than 100,000.

Sterling Heights Fire Department became the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its fifth annual Civilian Fire Academy in which residents had the opportunity to receive hands-on experience on a variety of fire safety equipment and techniques. The Sterling Heights Fire Department continues to take the initiative toward offering advanced life support services, fire rescue and suppression activities, fire prevention/inspection/investigation, public education, hazardous materials response, and all forms of technical rescue.

3. Healthiest and Active City

A variety of athletic and instructional programs are provided to City residents through the Parks and Recreation Department. The creation of a health and recreation center promoting active lifestyles is expected to enhance the coordinated youth/career age/senior exercise and health center programs. Overall attendance rose nearly 10 percent from last year, due largely to expanded activities and an increased interest in the senior, nature, youth athletics, and special recreation programs. With Avis Neighborhood Park as the latest addition to the community's expansive network of major parks and neighborhood recreation areas, the City now maintains 28 developed park sites and several other undeveloped park properties totaling over 1,000 acres of land dedicated to recreational purposes. City parks provide various recreational and leisure opportunities from baseball diamond complexes to children's tot lots to miles of developed walking, jogging, and bicycle riding pathways. Sterling Heights, a *Tree City USA* for 18 consecutive years, supports policies to protect the woodlands, wetlands, and flood plains remaining in the City. In its continuing effort to preserve green space and open spaces, Sterling Heights is the only city in southeast Michigan that maintains a municipal nature preserve, the Plumbrook Forest, located at M-59 and Dequindre Road.

The expanded Sterling Heights Public Library maintains the highest per hour circulation rate in metropolitan Detroit, circulating over 687,000 items annually. The Library also offers compact discs, audiocassettes, computerized book and magazine catalogs, computer software for public use, and a collection of fiction books in CD format totaling well over 222,000. Recently, new English as a Second Language (ESL) videos and books were added to form an ESL collection which now complements the Library's International Language Collection. In addition, videotapes of City Council meetings are available for residents to check out and view at their leisure. Computerized reference services provide access to millions of references, abstracts, and statistics. Residents can search the Suburban Library Cooperative's database of book and non-print materials, along with an extensive on-line general interest magazine database from the comfort of their homes. From terminals within the Library, residents can enjoy the opportunity to "surf" the Internet, which is apparent by more than 296,000 on-line computer uses noted this past year. A book drop box is located in the median outside the Library and provides increased services to our residents. This added convenience has been well received as it better accommodates our busy residents. Hours of operation for library services are as

follows: Monday through Thursday from 9:30 a.m. to 9:00 p.m. and Friday and Saturday from 9:30 a.m. to 5:00 p.m. During the school year (September to May), the Library operates on Sundays from 1:00 p.m. to 5:00 p.m.

4. Most Efficient City

In a continued effort to provide quality services within the City, the municipal phone system is equipped with direct dialing capabilities, thus allowing incoming calls to be quickly received and expedited. The City's general information phone number (586/446-CITY (2489) serves as the City's "help" line. Establishing a "virtual" City Hall, Sterling Heights' "new and improved" official Web site (www.sterling-heights.net) can be accessed for informative City news and events, while the City's e-mail address (cityhall@sterling-heights.net) provides the opportunity to conveniently communicate with City Hall by means of e-mail transmissions. The City also offers free automatic electronic mail service for residents who want up-to-date information on City activities. Residents can e-mail their request to the City to be included in the distribution of City announcements, press releases, and other City information. Sterling Heights' radio station, WPTC-1700 AM, provides residents with round-the-clock information on community activities and emergencies, including up-to-the-minute weather bulletins. Sterling Heights is the first city in Macomb County to debut a municipal radio station. Collectively, the redesigned City quarterly publication - *Sterling Heights Magazine*, the *Community & Neighborhood Living Guide*, City Web site, SHTV, City radio station, the anticipated on-line Service Response System, continued enhancement of the City's Web site, and sustained performance rating for City services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

The renovation and expansion of City Hall and the Public Library have ultimately created a community focal point for municipal activities and cultural events and now provides a more inviting and functional campus-style layout. Residents have access to a modern, user-friendly Civic Center with state-of-the-art City Hall offices and meeting rooms, a 200-seat City Council Chambers, improved parking facilities, and landscaping improvements, including the placement of several sculptures throughout the complex. The newest sculpture to the City is the *Badge of Honor*, which is situated outside the Police Department. The expanded Public Library houses a cultural center and additional user space. Work at the City Center continues with the construction of the boulevard-style roadway on Utica Road in front of City Hall. Considered the last phase of the City Center Commons project, plans to create the four-lane boulevard between the Senior Activity Center and 18 Mile Road will also include a roundabout intersection at the corner of Utica and Dodge Park Roads.

Best Place to Raise a Family

The City has enjoyed a solid reputation for municipal planning and growth management. Currently under review, the Master Land Use Plan addresses maximum usage of all property within the City, including residential, multi-family, office, commercial, industrial, and public facilities and roads. This comprehensive plan has foreseen the Van Dyke corridor and the Lakeside Mall area as the most significant focal points of the community in terms of industrial and retail development. The commercial and industrial business environment is an exceptional mix of service, product, and technological employers. Sterling Heights continues to enjoy an extraordinary combination of business opportunities, allowing the City to maintain a relatively low unemployment rate of 4.8 percent. Employment in the City has also become more diversified in terms of new industry and trained workers. Principal employers include DaimlerChrysler Corporation, Visteon Corporation, Ford Motor Company, General Dynamics, and Detroit News Agency.

Property values in Sterling Heights remain high. Due to the passage of Proposal A, homeowners have seen only a 1.5 percent adjustment in taxable property assessments despite an average 6.0 percent increase in market values. The taxable value adjustment is the lowest in 10 years. In fact, the City's millage rate has now decreased for the eighth straight year, saving the average resident \$331 in City property taxes. Consequently, Sterling Heights continues to maintain a lower tax rate than many neighboring Macomb and Oakland County communities. The City's continued efforts toward aggressively pursuing property maintenance enforcement has resulted in this past year's televising of the Board of Ordinance Appeals meetings. An important component of government, the Board has been effective in promoting and enforcing quality community appearance standards which directly affect property values.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 1,078 permits issued this past year for residential home additions and/or improvements. New housing permits in the community totaled 763, an increase of 49 percent from last year. The total number of residential permits in 2002/2003 represents an investment of \$79.6 million. During the year, plans were reviewed and approved for innovative housing in the Forest Creek Subdivision No. 3, located at Dequindre and 19 Mile Road, and condominium developments including Henry's Timberland Rose, Bella Sera Condominiums, Heritage Square Condominiums, Palmer Woods Estates of Sterling Heights (Phase II), Glenmere Estates, Walden Estates, and Avalon Meadows. These developments confirm that the community continues to invest in new residential construction.

The combination of established neighborhoods and contemporary subdivisions in the community provides housing options ranging from modest to upscale. The typical home in Sterling Heights for 2002/2003 had a taxable value of \$69,000. The total tax for that home in the Utica Community School District was \$2,058, while the total tax for that same home in the Warren Consolidated School District was \$2,573. Of the total tax dollars collected, the City received only \$733 from the average resident for a full line of City services. It is estimated that the total average tax for 2003/2004 will be \$2,155 and \$2,688, respectively.

Sterling Heights continues to attract and retain business and industry. More than 3,500 commercial and industrial businesses, including three of the top 25 "Fortune 500" companies (Ford Motor Company, DaimlerChrysler Corporation, and Wal-Mart) are located in Sterling Heights. The DaimlerChrysler Automotive Assembly and Stamping Plants, the Visteon Automotive Axle and Driveshaft Plants, and the Ford Motor Automotive Chassis Plant comprise 11.8 percent of property valuation. The City's other major principal taxpayers include Detroit Edison, Lakeside Associates, General Dynamics, AIG Baker, Consumers Energy, and Detroit News Agency. It is this impressive mix of commercial and industrial businesses that has created the City's enviable economic base and low millage rate.

Economic development efforts in the community continue to flourish. Sterling Heights continues to benefit from the expansion of current local employers, as well as additional retail and commercial developments. More than \$700 million in new investment has occurred within the community in recent years, creating more than 2,000 jobs and retaining many others. Industrial, commercial, and retail developments approved during the past year include: Detroit Newspaper Agency - North Plant, a \$173.8 million investment of a 190,000 square foot addition to the existing facility and the acquisition of new machinery and equipment creating 102 new jobs; Visteon Plant, a \$71 million investment in new equipment; Lowe's Home Improvement, a new 134,574 square foot retail/commercial building located on Metropolitan Parkway and Dequindre Road; Kemp Progress Industrial Park, located near Mound Road and Metropolitan Parkway; Hydro-Cam, an industrial site located at Mound Road and Metropolitan Parkway; Carrabba's Restaurant, located on Schoenherr; UNO's Chicago Bar & Grill on Mound Road; and the completion of the 55,277 square foot construction of Hampton Inn and Suites on Van Dyke Avenue and Metropolitan Parkway.

Performance Matters

The City's strengths continue to be exceptional strategic planning and benchmarking, as well as strong financial management, sound finances with surpluses and significant fund balances stimulated by economic growth, moderately low tax rates, low debt levels, and strengthened wealth levels among its residents. It is with this goal of strong financial management in mind that several of this year's awards were received. Sterling Heights was recognized as being one of just two cities in Michigan to receive all three Government Finance Officers' Association (GFOA) awards: (1) For the 16th consecutive year, Sterling Heights has achieved national recognition for the City's annual budget; (2) The Comprehensive Annual Financial Report (CAFR) has attained national recognition for the past 15 years; and (3) The 2002/2003 Popular Annual Financial Report/City Calendar (PAFR) has earned six years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year. In addition, the 2002/2003 City budget received the outstanding designation as an operations guide - the only budget in the nation to receive such an honor.

The City also earned the Certificate of Recognition from the Governmental Accounting Standards Board (GASB) for implementing a new series of financial reporting requirements that better inform the public on the City's financial condition. Sterling Heights ranks as one of the first cities in Michigan and the nation to adopt GASB 34, a new set of financial reporting guidelines, thus confirming the City's commitment to the highest principles of governmental finances and budgeting.

Sterling Heights is one of ten communities in the nation to be honored with a Certificate of Distinction by the International City/County Management Association's (ICMA) Center for Performance Management. This is the second consecutive year that the City has received this recognition for incorporating performance data into the decision-making process.

The City of Sterling Heights was awarded a bond rating upgrade from ratings agency, Standard & Poor's. The upgrade from AA- to AA means the City will pay lower interest on general obligation bonds issued for future public improvements, along with refinancing of existing bonds.

Sterling Heights' "Virtual City Hall" has received several recognitions: (1) Rated #1 in Michigan for excellence in e-government best practices by Cyber-State.org and the Public Sphere Information (PSI) Group; (2) "Top Pick" by *MuniNet Guide & Review*, a leading national municipal-related information Web site; and (3) A "Golden Web Award" recipient, presented by the International Association of Webmasters and Designers.

The 2002/2003 Performance Objectives Status Report was released this year as an outline of the fiscal year's improvements and accomplishments. This report stated that 95 percent of the City's objectives were reached and the remaining 5 percent were pending or long-term improvements. These remarkable accomplishments have been compared with other cities of similar size by the ICMA's Center for Performance Management, which ranks Sterling Heights among the nation's leading municipalities.

The City takes pride in providing various community functions and events throughout the year to residents who can enjoy both City services and local camaraderie. The grand event highlighted this past year was the City's "Sterlingfest 2003". A huge success, this annual event once again provided members of the community the opportunity to take pleasure in the summer festivity of fun, crafts, and music without having to leave the City limits. Among other events this past year, Sterling Heights had the honor of hosting the "American Veterans Travelling Tribute", an exhibit of the country's largest replica of the Vietnam Veterans Memorial Wall in Washington, DC., which displayed the names of the 58,218 servicemen listed as killed, missing in action, or prisoners of war during the Vietnam conflict.

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

- The City of Sterling Heights was rated an A+ and "9th Best Family Friendly Suburban City in the U.S" by Population Connection, a Washington DC nonprofit environmental organization.
- Sterling Heights City Center received national distinction as one of "America's Great Community Places and Public Spaces" by Project for Public Spaces, a national nonprofit educational organization.
- Sterling Heights was recognized by the National Weather Service as a "Storm Ready Community" because of its proactive measures in preparing for local hazardous weather.
- *Ladies Home Journal* named Sterling Heights the "2nd Best Michigan City" and the "16th Best American City" for women to live and work.
- The City's unique *Family Emergency Preparedness Workbook* earned the prestigious *Grand APEX Award for Publication Pieces*.

- *Crain's Detroit Business* recently listed Sterling Heights among the "hot spots" for residential development in southeast Michigan.
- The Sterling Heights Print Shop received the 2002 Premier Print Award of Recognition honoring excellence in the creation and production of print communications.
- Sterling Heights Television (SHTV, Comcast Channel 5 and W.O.W. Channel 10) was twice named "Best in the Nation" for government programming.
- Sterling Heights' combined water and sewer rates remain the lowest among 51 Michigan communities with populations of more than 25,000, as determined in the 2003 Michigan Water/Wastewater Rate Survey, conducted by independent consultants, Black & Veatch.

Appreciation is extended to the elected officials, department directors, and employees responsible for contributing to the success and sound financial position of the City. The employees of Financial Services are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety.

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

Respectfully submitted,



Steve M. Duchane
City Manager



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September 19, 2003

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

The Office of Financial Services is pleased to submit the Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2003. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association. Responsibility for the accuracy, completeness, and fairness of the financial data herein, including all disclosures, rests with the City's management.

In 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 (GASB No. 34), which significantly changed the contents and format of municipal financial statements. GASB No. 34 was developed to promote comparability between various units of government and to demonstrate the operational, as well as the fiscal, accountability of each municipality. Prior to GASB No. 34, municipalities reported only on the fund basis. This demonstrated to the financial statement user that the municipality met its responsibility to the public and all legal requirements in the short term, usually a year or a budget cycle. With the adoption of GASB No. 34, a municipality must also include full accrual government-wide financial statements. The purpose of these statements is to demonstrate the operational accountability of the municipality. Operational accountability refers to the government's responsibility to assure that it is currently meeting and can continue to meet operational objectives into the foreseeable future. The accompanying report is the second issued by the City of Sterling Heights in compliance with the new format requirements of GASB 34.

A Management's Discussion and Analysis report, as well as entity-wide, full accrual financial statements have been added to the front of the financial statement section. The fund statements have been altered to provide reporting under the Major/Non-major Fund concept. Reconciliation between the two presentations is included and the note disclosures have been expanded to provide appropriate information on both the entity-wide and fund financial statements.

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

Reporting Entity and Services

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

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

Report Organization

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

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

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

Financial Section/Required Supplemental Information - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2002/2003 budget for the General and Major Roads Funds. Additionally, there are schedules showing the funding progress of both the General Employees and the Police and Fire Defined Benefit Retirement Systems.

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

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

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

Accounting System, Budgetary, 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 “fund basis.” Each fund is a distinct, self-balancing accounting entity. A list of funds used by Sterling Heights is found later in this section and a discussion of the nature of each fund type is found in Note I to the basic financial statements.

An annual budget is adopted in accordance with the legal requirements set forth in the Uniform Budgeting Act, State of Michigan P.A. 621 of 1978. Also required under this Act is a budgetary control to ensure that expenditures do not exceed appropriations. The City maintains this control through the use of an encumbrance system. As purchase orders are issued, corresponding amounts of appropriations are reserved by the use of encumbrances so that appropriations are not overspent. Budget transfers may be made within a budgetary center with approval of the Office of City Management. City Council approves necessary transfers between budgetary centers or from fund balances periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify variances.

The accuracy and reliability of the accounting system is dependent on adequate internal controls. Internal control is a plan of organization under which employees’ duties are so arranged and records and procedures so designed as to make it possible to exercise accounting control over assets, liabilities, revenues, and expenditures.

General Governmental Functions

Generally accepted accounting standards require that management provide a narrative introduction, overview, and analysis to accompany these basic financial statements in the form of a management’s discussion and analysis (MD&A) letter. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Sterling Heights’ MD&A can be found immediately following the report of the independent auditors. Since the MD&A focuses on the government-wide financial statements, the balance of this letter will be directed at the fund or activity level.

The General Fund receives all City revenues not designated for specific use by statutes or the City Charter and accounts for most of the services provided to residents. Information relative to the General Fund's revenues and expenditures is shown below:

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from June 30, 2002
Property taxes	\$ 43,906,903	61.4	\$ 2,506,093
Federal sources	251,257	0.4	202,125
State sources	13,114,050	18.4	(778,603)
Fees and permits	2,036,864	2.9	120,322
Fines and forfeitures	2,295,661	3.2	(3,728)
Charges for services	5,874,787	8.3	359,936
Interest income	1,247,649	1.7	(118,228)
Special assessments	4,551	0.0	(48,298)
Rental income	1,253,148	1.8	205,387
Cable revenue	1,120,768	1.6	(181,415)
Other	<u>315,020</u>	<u>0.3</u>	<u>59,523</u>
Subtotal	71,420,658	100.0	2,323,114
Transfers from other funds	<u>35,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 71,455,658</u>	<u>100.0</u>	<u>\$ 2,323,114</u>

Overall General Fund revenues increased 3.4 percent from the prior year. Property taxes in the General Fund increased by 6.0 percent due to new construction, a slight valuation adjustment for existing property, and a .1179 mills (1.2 percent) increase in the combined (operating, refuse, and Act 345 police and fire retirement) millage reported in the General Fund. However, the overall millage rate levied by the City was reduced .02 mills in fiscal 2003 due to an offsetting reduction in the debt service related mills levied. State sources decreased by 5.6 percent due to a decrease in total dollars distributed, as a result of a downturn in the State's economy. Fees and permits were up 6.3 percent due to an increase in the dollar value of building permits issued during the past year. Fines and forfeitures were down 0.2 percent due to a decrease in the number of violations issued. Charges for service revenue increased by 6.5 percent, primarily due to increased activity related to interfund cross charges and engineering inspection charges on projects by local developers. Interest income was down 8.7 percent due to the downturn in the national economy and the corresponding reduction of interest rates paid by the fixed income market.

Expenditures and Other Financing Uses	Amount	Percent of Total	Increase (Decrease) from June 30, 2002
General Government:			
City administration	\$ 6,707,785	9.4	\$ 383,668
Community and information services	2,025,918	2.9	148,302
41A District Court	2,173,817	3.1	60,531
Public Safety:			
Police department	21,839,774	30.7	2,906,135
Fire department	12,017,541	16.9	1,869,450
Public Works:			
City development	4,197,217	5.9	373,778
Public works	4,940,642	6.9	136,006
Refuse collection	4,658,801	6.6	284,288
Recreation and Culture:			
Parks and recreation	2,161,918	3.0	131,645
Public library	2,285,891	3.2	115,742
General expenditures	<u>2,665,340</u>	<u>3.8</u>	<u>137,754</u>
Subtotal	65,674,644	92.3	6,547,299
Transfers to other funds	<u>5,394,890</u>	<u>7.6</u>	<u>(3,226,530)</u>
Total	<u>\$ 71,069,534</u>	<u>100.0</u>	<u>\$ 3,320,769</u>

Total General Fund expenditures increased by 4.9 percent over the prior year. One of the major factors in the increase of fiscal 2003 expenditures over the prior year expenditures was the reduction of fiscal 2002 expenditures for the cumulative effect of accrued compensated absences (\$2.75 million) as a result of compliance with GASB 16, Interpretation 6. Additional items that resulted in the increase of General Fund expenditures were the actuarially determined pension contribution to the Police and Fire Retirement System (\$1,113,546 or 68.1 percent), health care costs increases (\$492,000 or 12.6 percent), and refuse collection and disposal cost increases (\$284,288 or 6.5 percent). The balance of the increase was inflationary increases in employee compensation and contracted services. These increases were offset by work force vacancies during the year of ten full-time and five part-time positions. These positions were eliminated from the fiscal 2004 budget. Additionally, expenditures on supplies throughout the City decreased by 2.7 percent. Transfers to other funds decreased by approximately 37 percent due to the timing of a large capital project in the prior year and planned reductions.

Special Revenue Funds

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

Major Roads - Gas and weight tax revenues received in this fund are used for construction, maintenance, and other authorized operations pertaining to all streets classified as “major” within the City. Total revenues and other sources decreased during the current year by \$549,366, due almost exclusively to the decreased transfer-in from the General Fund (\$1,884,470 in 2002 versus \$1,231,070 in 2003). Total expenditures increased by \$3,847,229 due to an increase in capital outlay (\$3,025,867), transfers-out for debt service and local roads (\$547,040) and increased maintenance and repairs (\$274,323).

Local Roads - This fund provides for the construction, maintenance, and snow and ice control for streets classified as “local” within the City. Total revenue and other sources decreased by \$232,986. The decrease was due primarily to the reduction of federal grant receipts for construction of a bike/hike trail that was completed in the prior fiscal year and an offsetting increase in transfers-in from the Major Road Fund. Total expenditures and other financing uses increased by \$376,621 due to an increase in local street maintenance and repairs, which was offset by a decrease in capital outlay of \$106,193.

Budget Stabilization Fund - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. Due to the reduction in anticipated General Fund revenues in the current fiscal year, additional money was not transferred to this Fund. The balance available in the Fund remains at \$750,000.

Community Development Block Grant - The City of Sterling Heights is an entitlement community under the federally administered Community Development Block Grant Program. As such, the City receives a proportionate share of monies appropriated by Congress. The funds can only be used for activities that are directed to fulfilling specific objectives as reflected in the current Housing and Community Development Act. The major activities in this fund include the Senior Minor Home Chore and various Repair Program ventures.

Land and Water Conservation - This fund is used to reflect all activities related to the acquisition and development of parks. Projects accounted for in this fund include park improvements, purchase of park playground equipment, and the proceeds from the sale of City-owned property, which are dedicated to park-land acquisition and improvements.

Capital Projects Funds

There are two Capital Projects Funds within the City's financial statements. The General Improvements Fund includes all major capital improvement projects of the City other than special assessment, road, and Enterprise Fund projects. A transfer from the General Fund of over \$2.7 million, along with operating revenues, funded over \$5.2 million of capital expenditures. Included in these costs were renovations to various City buildings, sidewalk repairs and replacement, improvements and construction related to various storm drains, and technology improvements within various City buildings. Also accounted for in this fund is the purchase of capital equipment and vehicles for various City departments.

The Road Bond Construction Fund was established to account for road-related construction activity financed with bond proceeds. Total expenditures of \$762,887 included projects such as the improvements to the roads in the Wanda Park subdivision, engineering for the 18 ½ Mile Road connector to the Van Dyke freeway, improvements to the M-59 corridor, as well as reconstruction of various other local roads.

Enterprise Fund

For the fiscal year ended June 30, 2003, water and sewer operating revenue increased by approximately 17 percent, due to increases in consumption and rates. Operating expenses increased 1.5 percent primarily due to a water rate increase by the City of Detroit. These increases were offset by a decrease in the payments to the Macomb County sewage treatment plant (due to improved metering of wastewater processed) and a reduction in depreciation expense. Non-operating revenue increased 49 percent due to an increase in interest income, tap fees and frontage charges, and contribution from developers.

	Year Ended June 30		Increase
	2003	2002	
Operating revenues	\$ 20,563,318	\$ 17,625,565	\$2,937,753
Operating expenses	<u>23,267,170</u>	<u>23,004,156</u>	<u>263,014</u>
Operating loss	(2,703,852)	(5,378,591)	2,674,739
Nonoperating revenues - Net	<u>8,108,066</u>	<u>5,422,547</u>	<u>2,685,519</u>
Change in net assets	<u>\$ 5,404,214</u>	<u>\$ 43,956</u>	<u>\$5,360,258</u>
Number of customers:			
Residential	34,302	34,049	253
Commercial/Industrial	3,582	3,534	48
Approximate number of cubic feet sold (000s)	881,780	845,667	36,113

Total net assets at June 30, 2003 were \$164,530,253.

Internal Service Fund

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

Self-insurance Fund - The Self-insurance Fund was established in 1986 and is used to record the self-insurance activities of liability and property claims, health care, workers' compensation, and short-term disability. Revenues in the Self-insurance Fund are the result of charges to the General and Water and Sewer Funds based on underwriters' estimates or the City's estimates using historical data. Expenses in this fund include reinsurance charges, administrative fees, claims expense, and provisions for both reported and unreported claims. The provision for incurred but not reported claims (IBNR) is \$2,042,223 and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in net assets for the year of \$313,960, bringing total net assets to \$5.9 million at June 30, 2003, enabling a reserve for future self-insurance needs.

Fiduciary Funds

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

Pension Trust - General Employees' Retirement System - The actuarially determined value of assets available for benefits in the General Employees' Retirement System on December 31, 2002 (the date of the most recent actuarial valuation) was \$97,272,398. A five-member Board of Trustees manages this fund under the provisions of the City of Sterling Heights defined benefit pension ordinance as amended by various labor agreements. This pension fund was 132.7 percent funded as of December 31, 2002.

Pension Trust - Police and Fire Retirement System - The actuarially determined value of assets available for benefits as of December 31, 2002 (the date of the most recent actuarial valuation) was \$184,609,657. A five-member Board of Trustees manages this system under the provisions of P.A. 345 as amended by various labor agreements. This pension fund was 130.8 percent funded as of December 31, 2002. A separate tax was levied to provide for the City's \$2,747,983 police and fire pension contribution for the fiscal year ended June 30, 2003.

Retiree Medical Benefits Fund - The Retiree Medical Benefits Fund was established in fiscal 1989 to account for medical benefits provided to employees during retirement. In fiscal 2002, the City Council adopted the provisions of Michigan Public Act 149 of 2001, establishing the Retirees Medical Benefits Fund as a trust, and the fund was reclassified from an Internal Service Fund to a Fiduciary Fund. Revenues reported this year were based on actuarial estimated contribution rates of 5.25 percent and 7.75 percent of budgeted payroll for general employees and police and fire employees, respectively. The deductions of \$2,515,733 reflected in this fund relate to medical benefit payments for all retirees eligible to receive health benefits. Net assets at June 30, 2003 were \$7,156,608.

Agency Funds - There are two Agency Funds of the City with total assets of \$5,157,118. These include funds for tax collections and a General Agency Fund used primarily for deposit of developer fees.

Component Units

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

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

Brownfield Redevelopment Authority - This fund was established in fiscal 2001 to account for projects that will improve environmentally distressed areas within the City. Recent legislation broadens available incentives for these types of projects, and the activity within this fund during the past year was to promote the opportunities in the hopes that projects will be approved in future years.

Fund Balances

A comparison of fund balances for fiscal 2003 and fiscal 2002 is as follows:

	June 30		Net Change
	2003	2002	
General	\$ 18,222,086	\$ 17,835,962	\$ 386,124
Special Revenue	11,876,365	15,319,516	(3,443,151)
Debt Service	277,483	545,540	(268,057)
Capital Projects	4,772,384	5,628,956	(856,572)
Fiduciary	259,854,586	263,420,279	(3,565,693)
Component units	25,789	21,177	4,612

The increase in the fund balance of the General Fund is the result of expenditure controls implemented by the City during fiscal 2003. The Special Revenue Funds' decrease in fund balance is due to timing differences between project expenditures and revenues. The Debt Service Funds are showing a decline in fund balances, in accordance with the adopted budget, as some funds on hand were used to make debt payments. Capital Projects Funds experienced a decrease in fund balance due to timing of project expenditures versus the receipt of revenues in the prior year. The Fiduciary Funds decreased predominantly due to benefit payments exceeding current contributions and investment income in all three funds.

Cash Management

The City complies with Public Act 20 of 1943 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds, exclusive of the pension systems and the Retiree Medical Benefits Fund, is invested in certificates of deposit, governmental obligations, bank-pooled accounts, and commercial paper. Interest income for the governmental and proprietary funds for the current fiscal year is \$3,288,730, an increase of \$338,368 from the fiscal year ended June 30, 2002.

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

The City has an investment committee and an investment policy. The investment committee, which consists of the City Treasurer, Finance and Budget Director, Financial Services Manager, and Controller, meets periodically to evaluate the City's investment activity.

Tax Rate Limitations

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

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

* The maximum permitted general operating rate per the Headlee amendment of the Michigan Constitution for fiscal 2003 was \$10.8395.

In addition, Article IX, Section 6 of the Michigan Constitution permits the City to levy a millage in excess of the above for (a) all debt service on tax-supported bonds issued prior to December 23, 1978, or tax-supported issues that have been approved by the voters for which the City has pledged its full faith and credit, and (b) operating purposes for a specified period of time provided that said increase is approved by a majority of the qualified electors of the local unit.

Debt Administration

The City's general obligation bonds maintained ratings of "Aa2" from Moody's, and received an upgrade from "AA" to "AA+" from Fitch Ratings. Shortly after June 30, 2003 an upgrade from "AA-" to "AA" was received from Standard and Poors for the City's outstanding general obligation bonds.

During the year, the City issued \$4,840,000 of Michigan Transportation Refunding Bonds. The proceeds from the bond sale were used to refund portions of the 1991, 1994, and 1995 Michigan Transportation Bonds, which resulted in savings of approximately \$260,000 over the life of the bonds. The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2003	2002
Net direct bonded debt	\$ 20,983,220	\$ 23,499,602
Ratio of debt to assessed value	0.38	0.46
Debt per capita	\$ 165.91	\$ 186.40

Risk Management

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

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to \$11,000,000 of limits. Property coverage insures \$86,900,000 of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are \$100,000/\$200,000 and \$50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a \$150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to \$100,000 per employee/contract per year. Blue Cross/Blue Shield health care expenditures account for 67 percent of all self-insurance expenditures during fiscal 2003. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Prospects for the Future

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

Legislation - Legislation has and will continue to impact the City of Sterling Heights well into the future. Through its involvement on the committees of the state chapter of GFOA (Governmental Finance Officers Association), the City is actively involved in legislative proposals affecting the financial activities of municipalities.

Personal Property Tax Appeals - During the year ended June 30, 2000, the State Tax Commission made its final decision regarding the depreciation tables and residual multipliers for transmission and distribution properties of utilities. This decision was disputed by the Michigan Assessors organization and litigated in Circuit Court. The Court has sent this issue to the Tax Tribunal for resolution. A final decision has still not been made. If the State Tax Commission's decision is supported, a retroactive application will be necessary. At this time, the City estimates that the financial impact of this court decision has been and will be immaterial. The City has reached this decision because the utility companies in Sterling Heights have paid their personal property taxes in compliance with the original court ruling. Therefore, the City will not be liable for any refunds to the utility companies should the Tax Tribunal uphold the original Circuit Court decision. There is one additional personal property tax appeal involving the City that may result in the refund of tax collections.

The appeal involves a claimed double payment of personal property taxes on the 18-Mile Road manufacturing facility in 1999, 2000, and 2001 by the Ford Motor Company. The 1999 year could not be appealed to the State Tax Commission because of the time elapsed since the alleged mistake and an appeal to the Michigan Tax Tribunal (MTT) was dismissed on August 28, 2002. An appeal of the MTT decision was made to the Michigan Court of Appeals on January 30, 2003 and is awaiting a decision at this time. The other two years are on appeal at the State Tax Commission and the City faces potential refunds of approximately \$177,000 for 2001 and \$155,600 for 2002.

Technology Plan - The City has now completed the fourth full year of implementing a comprehensive Information Technology Strategic Plan, which was prepared to address the future technology needs of the municipality. This multi-year plan addresses every aspect of technology across the organization. Several major projects identified in the strategic plan were completed in prior years. Additional initiatives were undertaken this past year and include the implementation of the following:

- Improvements to the City Web site, which includes access to many City services
- On-line Parks and Recreation registration with credit card payment option
- On-line utility billing account look-up and credit card payment option
- Hand-held computers in City Development
- Personal computers in 41-A District Court

Future plans include ongoing implementation of the police CLEMIS system, a new 800-megahertz Public Safety radio system, a citizen's complaint tracking software system, a document imaging/management system, and the ongoing city-wide replacement of personal computers. Due to the high level of dependence on technology, the City is taking the necessary actions to maximize the available resources to provide all municipal employees with the ability to work more efficiently.

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

- Various neighborhood road resurfacing projects
- Widening of Metropolitan Parkway
- Resurfacing of Clinton River and 15 Mile Roads
- Development of Avis Neighborhood Park
- Replacement of ball diamond lighting at L.W. Baumgartner Park

Financial Strength - On the budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past nine years. As a whole, the City of Sterling Heights is in a better financial position to withstand any future constraints than most Michigan municipalities. While operating with a total millage of 10.63 (the lowest in 29 years or since 1974, and the 32nd lowest of a total of 34 communities in the area), the resulting undesignated, unreserved fund balance equates to approximately 15 percent of the 2003-2004 fiscal year General Fund budget. The 8.2923 operating levy is well below the 12-mill limitation in the City Charter, providing the City Council with taxing capacity. The creation and prior year funding of a Budget Stabilization Fund places an emphasis on future planning and maintaining a visionary perspective on the City's financial strength and soundness.

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

Independent Audit

The City Charter and State laws require an annual audit of the financial records and transactions of the City by independent certified public accountants selected by the City Council. This requirement has been complied with and the City's financial statements have received an "unqualified opinion" from Plante & Moran, PLLC, Certified Public Accountants. An unqualified opinion is the best opinion that an organization can receive on its financial statements. It indicates that the auditor's examination has disclosed no conditions that cause them to believe that the financial statements are not fairly stated in all material respects.

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

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, 2002. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of State and local government financial reports.

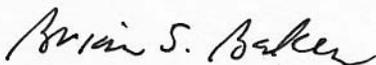
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable 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 15 consecutive years (fiscal years 1988-2002). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,



Finance and Budget Director



Leslie D. Reinhart
Controller



Rick J. Sanborn
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

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

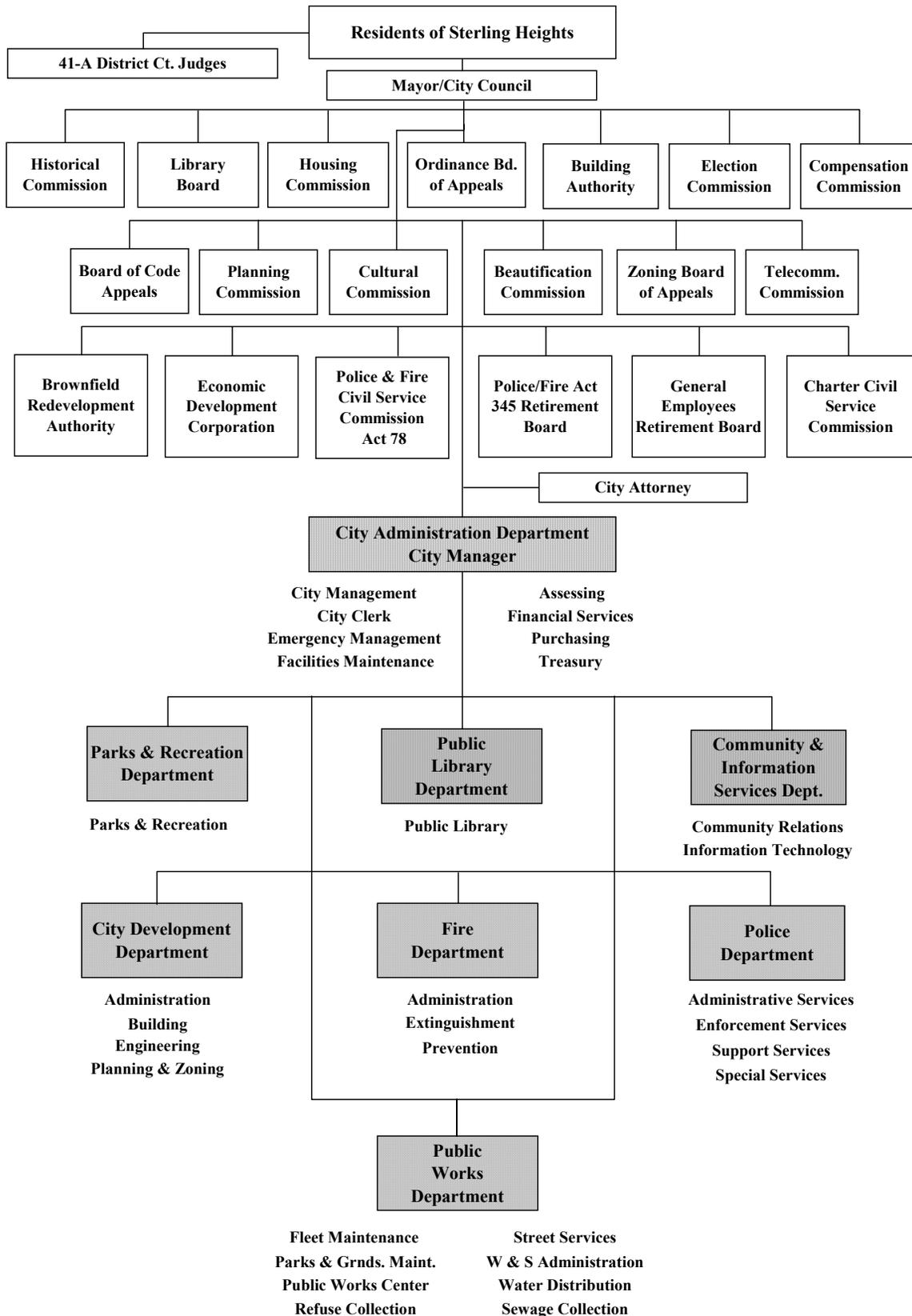


President

Executive Director

City of Sterling Heights, Michigan

City Organization Chart



City of Sterling Heights, Michigan

List of Principal Officials

Title	Name
City Manager	Steve M. Duchane
City Clerk/Assistant City Manager	Walter C. Blessed
City Development Director/Asst. City Manager	Daniel F. Bishop
Broadcast Services Manager	Michael Crimmins
Building Official	Michael G. Bartholomew
Interim City Attorney	Jeffery A. Bahorski
City Assessor	Matthew J. Schmidt
City Engineer	Thomas R. DeHondt
City Planner	Norman J. Birr
City Treasurer	James P. Buhlinger
Communications Manager	Steve Guitar
Community Relations Director	Pat M. Lehman
Construction Manager	Gerald L. Bebernick
Controller	Leslie D. Reinhart
Emergency Management Coordinator	J. Robert Johnson
Engineering Services Manager	Salvatore Conigliaro
Environmental Services Manager	Daniel J. Sears
Facilities Maintenance Manager	Gary Schamehorn
Finance and Budget Director	Brian S. Baker
Financial Services Manager	Rick J. Sanborn
Fire Chief	John H. Childs
Human Resources Director	Dawn L. Demick
Information Technology Manager	Lois J. Gates
Network Administrator	Steve Deon
Parks and Recreation Director	Susan C. Kebbe
Planning and Zoning Manager	Donald A. Mende
Police Chief	W. Barnett Jones
Public Library Director	Carol L. Lingeman
Public Services Manager	Denice A. Gerstenberg
Public Works Director	Guy A. Kebbe
Purchasing Manager	Janice L. Sierzenga
Risk Manager	Mark Carufel

City of Sterling Heights, Michigan

Fund Organization Chart

Governmental Funds

General *	Special Revenue
	Major Roads *
	Local Roads
	Budget Stabilization
	Community Development Block Grant (CDBG)
	Land and Water Conservation
Debt Service	Capital Projects
Building Authority	General Improvements *
General Drain	Road Bond Construction *
Road Bond Debt Retirement	
RS&T Debt Service	

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

* Major funds under GASB 34



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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component unit information, each major fund, and the aggregate remaining fund information of the City of Sterling Heights, Michigan as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and pension system information on pages 3 through 7 and 53 through 59 are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.



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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sterling Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory, statistical, and continuing disclosure sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Plante & Moran, PLLC

September 19, 2003

City of Sterling Heights, Michigan

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Sterling Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the City's operations in more detail than the government-wide financial statements.

The City of Sterling Heights as a Whole

The City's combined net assets increased 3.1 percent from a year ago, increasing from \$354.0 million to \$365 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$5.6 million in net assets or 2.8 percent during fiscal 2003. This increase was the result of diligence in the area of expenditure control, continued growth/additions in property values, and increases in accrued receivables/revenue related to State-shared revenues. The business-type activities experienced a \$5.4 million increase in net assets or 3.4 percent. This was primarily due to contributions of water and sewer lines by developers and the continued growth in the customer base. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of June 30, 2003 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current assets	\$ 53.7	\$ 55.2	\$ 30.1	\$ 28.1	\$ 83.8	\$ 83.3
Noncurrent assets:						
Restricted and other assets	3.6	4.7	7.0	6.8	10.6	11.5
Capital assets	<u>196.4</u>	<u>192.6</u>	<u>131.1</u>	<u>127.9</u>	<u>327.5</u>	<u>320.5</u>
Total assets	253.7	252.5	168.2	162.8	421.9	415.3
Liabilities						
Current liabilities	7.0	7.2	3.5	3.5	10.5	10.7
Noncurrent liabilities	<u>46.2</u>	<u>50.4</u>	<u>0.2</u>	<u>0.2</u>	<u>46.4</u>	<u>50.6</u>
Total liabilities	<u>53.2</u>	<u>57.6</u>	<u>3.7</u>	<u>3.7</u>	<u>56.9</u>	<u>61.3</u>
Net Assets						
Invested in capital assets - Net of related debt	157.3	149.1	131.1	127.9	288.4	277.0
Restricted	13.9	18.0	9.3	6.5	23.2	24.5
Unrestricted	<u>29.3</u>	<u>27.8</u>	<u>24.1</u>	<u>24.7</u>	<u>53.4</u>	<u>52.5</u>
Total net assets	<u>\$ 200.5</u>	<u>\$ 194.9</u>	<u>\$ 164.5</u>	<u>\$ 159.1</u>	<u>\$ 365.0</u>	<u>\$ 354.0</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets for the governmental activities, which is the part of net assets that is available to finance day-to-day operations and future growth, was \$29.3 million at June 30, 2003.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2003 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue						
Program revenue:						
Charges for services	\$ 7.3	\$ 9.3	\$ 20.6	\$ 17.6	\$ 27.9	\$ 26.9
Operating grants and contributions	8.8	8.8	-	-	8.8	8.8
Capital grants and contributions	1.8	0.2	6.9	4.4	8.7	4.6
General revenues:						
Property taxes	46.8	44.8	-	-	46.8	44.8
State-shared revenues	14.4	13.3	-	-	14.4	13.3
Interest	2.1	1.9	1.2	1.0	3.3	2.9
Gain on sale of capital assets	-	0.9	-	-	-	0.9
Cable fees and other	3.0	1.9	-	-	3.0	1.9
Total revenue	84.2	81.1	28.7	23.0	112.9	104.1
Program Expenses						
General government	8.7	8.0	-	-	8.7	8.0
41A District Court	2.4	2.4	-	-	2.4	2.4
Public safety	37.1	34.0	-	-	37.1	34.0
Public works	22.6	22.9	-	-	22.6	22.9
Recreation and culture	5.5	5.2	-	-	5.5	5.2
Interest on long-term debt	2.3	2.2	-	-	2.3	2.2
Water and sewer	-	-	23.3	23.0	23.3	23.0
Total expenses	78.6	74.7	23.3	23.0	101.9	97.7
Increase in Net Assets	5.6	6.4	5.4	-	11.0	6.4
Net Assets - Beginning of year	194.9	188.5	159.1	159.1	354.0	347.6
Net Assets - End of year	<u>\$ 200.5</u>	<u>\$ 194.9</u>	<u>\$ 164.5</u>	<u>\$ 159.1</u>	<u>\$ 365.0</u>	<u>\$ 354.0</u>

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues increased by approximately \$3.1 million. This was primarily attributed to property tax revenues, which increased due to new growth started in the prior fiscal year, the donation of local roads by developers to the City, the receipt of grants for various capital improvements, and an increase in accrued State-shared revenues. These increases were offset by decreases in charges for services because of the timing of local construction projects under full accrual accounting.

Expenses increased by about \$3.9 million or 5.2 percent over last fiscal year. Major factors for this limited increase were the continued growth of Sterling Heights, increase in the actuarially determined pension contribution (\$1.1 million), health care costs (\$0.5 million), refuse collection and disposal (\$0.3 million), and the various needs of the community.

During the year, the City continued meeting the actuarial required contributions for both of the defined benefit pension systems and set aside funding for retiree health care benefits. This is important for the City because future taxpayers should not be required to fund benefit payments that were earned in the present.

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to nearly all its residents. Rate increases for fiscal 2003 and 2004 were held to less than the increase received from the City of Detroit by budgeting the use of unrestricted net assets accumulated over prior years. The City provides sewage treatment to approximately 99 percent of our residents through the Macomb County Sewage Treatment Plant. Rate increases for sewage treatment were also below the increase in the rates charged by Macomb County. During fiscal 2003, the water and sewer systems saw approximately a 4.3 percent increase in the volume of water sold and sewage treated due to dry weather and a 0.8 percent increase in the number of users.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and the voted debt retirement property tax millages. The City's major funds for 2003 were unchanged from the prior year and include the General Fund, the Major Roads Fund, the General Improvements Fund, and the Road Bond Construction Fund.

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

The General Fund accounts for most of the City's governmental services. The most significant of these are the police and fire services, which incurred expenditures of approximately \$37.1 million in 2003. The general operating millage levied by the City supports these two services. The General Improvements and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds, federal or State grants, and debt issuance proceeds support these funds.

General Fund Budgetary Highlights

Over the course of the year, the City administration and City Council monitor and amend the budget to take into account unanticipated events that occur during the year. At year end, actual General Fund revenues came in only \$8,600 under the original budget. Expenditures were \$365,000 under budget due primarily to savings from personnel vacancies and lower pension money manager fees. Mid-year, the City amended the budget for the receipt of two grants for the purchase of supplies and equipment to fight terrorism. Due primarily to continued reductions in State revenue-sharing, the City took action mid-year to control expenditures that would directly impact the following year's budget. Ten vacant full-time and five part-time positions were not filled and were subsequently eliminated from the 2003/2004 fiscal year budget. Departments were required to find expenditure savings equal to 5 percent of their discretionary costs. As a result, over one-half million dollars in non-personnel savings were realized.

Capital Assets and Debt Administration

At the end of fiscal 2003, the City had \$327.5 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. In addition, the City is reporting infrastructure assets, which include roads, bridges, sidewalks, and storm drains in which it has invested since 1980. The value of the infrastructure assets, net of depreciation contained in this report, is \$105.6 and \$108.7 million for fiscal 2003 and 2002, respectively (see Note 4 of the notes to the basic financial statements for additional information).

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and is reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information).

City of Sterling Heights, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

For the past seven years, the City has reduced its property tax millage rate. We have reduced our tax rate by 20.6 percent since 1988, saving the average resident \$1,833 over this 16-year period. Strong expenditure controls and past growth in the City's tax base have helped to accomplish this planned millage rate reduction. Property taxes make up nearly 60 percent of our General Fund budget. Because of Proposal A, which limits the growth on existing property to the rate of inflation, and due to a lessening of new growth and development in the City, future tax reductions will become more difficult. The inflation rate for this current year was only 1.5 percent - the lowest in 10 years. Annual new growth and development in the City has fallen from a 4 percent level during the late 1990s to around 2 percent in the current year. State revenue-sharing payments decreased by \$1.1 million this past year and are unlikely to increase due to State cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in our other revenues, including charges for services and interest on investments, have lessened the City's ability to reduce property taxes.

Despite the concerns, the City continues to operate with relatively low personnel costs and an efficient labor force. We have received two bond ratings upgrades in the past two years. While our pension systems are fully funded, we have experienced increases in pension fund contributions due to a declining stock market. We expect continued annual increases in medical costs of nearly 15-20 percent per year. In addition, the amounts needed to fund retiree health care will need to be increased. Despite these increased costs, our expenditure increases are anticipated to average between 3.5 percent and 4 percent per year. The City will continue to monitor and adjust these expenditure increases to the revenue base to ensure that we continue the trend established eight years ago of excess revenues over expenditures.

The City purchases its water and sewer services from the City of Detroit. Historically, we have not passed on the full Detroit water and sewer rate increase to our customers. It is becoming more and more difficult to continue not to do so, especially when Detroit forecasts that increases will average 10 percent annually for the next three to five years. This current year, we changed our water and sewer rate structure from a three-tier to a single-tier rate. This change will give many of our residential customers a price break, and will increase our revenues from some of our larger business users. The City prides itself on having the lowest combined residential water and sewer rate of any city in the state with 25,000 or more residents. We expect that statement to be as true in five years as it is today.

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 money it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Sterling Heights, Michigan

Statement of Net Assets June 30, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 27,141,494	\$ 6,451,824	\$ 33,593,318	\$ 30,349
Investments (Note 3)	21,341,918	23,545,584	44,887,502	-
Receivables:				
Customers	26,889	176	27,065	-
Special assessments - Current	51,558	25,919	77,477	-
Accrued interest	295,746	39,030	334,776	-
Other	645,138	-	645,138	-
Due from other governmental units	3,874,465	-	3,874,465	-
Internal balances	(65,269)	65,269	-	-
Deposits	65,075	-	65,075	-
Inventories	348,708	244,883	593,591	-
Noncurrent assets:				
Special assessments - Deferred	80,031	31,543	111,574	-
Prepaid costs and other assets	372,500	-	372,500	-
Restricted assets (Note 7)	3,127,678	6,746,673	9,874,351	-
Capital assets - Net (Note 4)	196,417,286	131,088,312	327,505,598	-
Total assets	253,723,217	168,239,213	421,962,430	30,349
Liabilities				
Accounts payable	2,060,727	2,853,865	4,914,592	4,560
Accrued and other liabilities	3,977,485	387,883	4,365,368	-
Provision for uninsured losses and liabilities (Note 8)	465,890	-	465,890	-
Due to other governmental units	121,809	-	121,809	-
Deferred revenue	407,515	294,471	701,986	-
Noncurrent liabilities (Note 6):				
Due within one year	4,339,110	-	4,339,110	-
Due in more than one year	41,828,388	172,741	42,001,129	-
Total liabilities	53,200,924	3,708,960	56,909,884	4,560
Net Assets				
Invested in capital assets - Net of related debt	157,319,066	131,088,312	288,407,378	-
Restricted:				
Roads	9,764,281	-	9,764,281	-
Debt service	334,148	-	334,148	-
County drains	3,819,927	-	3,819,927	-
Water and sewer mains	-	1,173,948	1,173,948	-
Ordinance requirements	-	5,572,725	5,572,725	-
Council resolution for capital improvements	-	2,540,000	2,540,000	-
Unrestricted	29,284,871	24,155,268	53,440,139	25,789
Total net assets	\$ 200,522,293	\$ 164,530,253	\$ 365,052,546	\$ 25,789

City of Sterling Heights, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 8,710,448	\$ 709,161	\$ 86,613	\$ 3,285
41A District Court	2,480,824	1,831,676	265,961	-
Public safety	37,066,435	728,790	447,341	450,526
Public works	22,555,042	3,566,606	7,519,721	1,138,710
Recreation and culture	5,476,196	425,400	491,449	185,445
Interest on long-term debt	2,266,350	-	-	-
Total governmental activities	78,555,295	7,261,633	8,811,085	1,777,966
Business-type activities - Water and Sewer	23,267,170	20,563,318	30,806	6,847,385
Total primary government	\$ 101,822,465	\$ 27,824,951	\$ 8,841,891	\$ 8,625,351
Component units:				
Economic Development Corporation	\$ 2,712	\$ -	\$ 5,000	\$ -
Brownfield Redevelopment Authority	13,055	-	15,000	-
Total component units	\$ 15,767	\$ -	\$ 20,000	\$ -
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Cable fees and other				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2003

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (7,911,389)	\$ -	\$ (7,911,389)	\$ -
(383,187)	-	(383,187)	-
(35,439,778)	-	(35,439,778)	-
(10,330,005)	-	(10,330,005)	-
(4,373,902)	-	(4,373,902)	-
(2,266,350)	-	(2,266,350)	-
(60,704,611)	-	(60,704,611)	-
-	4,174,339	4,174,339	-
(60,704,611)	4,174,339	(56,530,272)	-
-	-	-	2,288
-	-	-	1,945
-	-	-	4,233
46,791,310	-	46,791,310	-
14,431,298	-	14,431,298	-
2,058,855	1,229,875	3,288,730	379
3,039,809	-	3,039,809	-
66,321,272	1,229,875	67,551,147	379
5,616,661	5,404,214	11,020,875	4,612
194,905,632	159,126,039	354,031,671	21,177
\$ 200,522,293	\$ 164,530,253	\$ 365,052,546	\$ 25,789

City of Sterling Heights, Michigan

	General	Major Roads	General Improvements
Assets			
Cash and cash equivalents (Note 3)	\$ 13,775,098	\$ 2,786,802	\$ 2,928,809
Investments (Note 3)	7,271,400	5,035,580	2,784,938
Receivables:			
Customers	-	-	2,258
Special assessments:			
Current	4,551	-	9,714
Deferred	13,652	-	9,714
Accrued interest	272,603	4,325	4,348
Other	715,562	-	-
Prepaid costs and other assets	2,234	-	-
Due from other funds (Note 5)	1,155,088	-	-
Due from other governmental units	324,178	891,890	-
Inventories	348,708	-	-
Restricted assets (Note 7)	-	-	3,127,678
	<u>\$ 23,883,074</u>	<u>\$ 8,718,597</u>	<u>\$ 8,867,459</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,053,758	\$ 522,607	\$ 165,915
Accrued and other liabilities	3,571,852	121,959	158,572
Due to other funds (Note 5)	375,428	653,363	333,703
Due to other governmental units	121,809	-	-
Deferred revenue	538,141	-	3,831,899
	<u>5,660,988</u>	<u>1,297,929</u>	<u>4,490,089</u>
Fund Balances			
Reserved for:			
Encumbrances	229,988	87,475	905,483
Inventory	348,708	-	-
Prepaid costs	2,234	-	-
Unreserved:			
General Fund	10,641,156	-	-
Special Revenue Funds	-	-	-
Designated (Note 12)	7,000,000	7,333,193	3,471,887
	<u>18,222,086</u>	<u>7,420,668</u>	<u>4,377,370</u>
Total liabilities and fund balances	<u>\$ 23,883,074</u>	<u>\$ 8,718,597</u>	<u>\$ 8,867,459</u>

**Governmental Funds
Balance Sheet
June 30, 2003**

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 293,001	\$ 4,601,877	\$ 24,385,587
-	-	15,091,918
-	24,631	26,889
-	37,293	51,558
-	56,665	80,031
-	7,433	288,709
-	-	715,562
-	-	2,234
308,703	1,456	1,465,247
-	480,292	1,696,360
-	-	348,708
-	-	3,127,678
<u>\$ 601,704</u>	<u>\$ 5,209,647</u>	<u>\$ 47,280,481</u>

\$ 184,598	\$ 117,477	\$ 2,044,355
22,092	103,010	3,977,485
-	110,385	1,472,879
-	-	121,809
-	145,595	4,515,635
206,690	476,467	12,132,163
-	67,665	1,290,611
-	-	348,708
-	-	2,234
-	-	10,641,156
-	2,050,842	2,050,842
395,014	2,614,673	20,814,767
<u>395,014</u>	<u>4,733,180</u>	<u>35,148,318</u>
<u>\$ 601,704</u>	<u>\$ 5,209,647</u>	<u>\$ 47,280,481</u>

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2003

Total Fund Balances for Governmental Funds \$ 35,148,318

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds 196,417,286

Certain receivables are expected to be collected over several years in both the Debt Service Funds and the Special Revenue Funds and are not available to pay for current year expenditures 217,770

Receivables related to State-shared revenues are reported in the statement of net assets at the time they are earned, without regard to timeliness of remittance by the State 2,178,105

Assets held by Macomb County, to be used over several years and which are not available to pay for current year expenditures 3,819,927

Long-term liabilities not due and payable in the current period are not reported in the funds (43,177,735)

Internal Service Fund is included as part of governmental activities 5,918,622

Net Assets of Governmental Activities **\$ 200,522,293**

City of Sterling Heights, Michigan

	General	Major Roads	General Improvements
Revenues			
Property taxes	\$ 43,906,903	\$ -	\$ -
Fees and permits	2,036,864	-	-
Federal sources	251,257	-	14,835
State sources	13,114,050	4,989,540	-
Fines and forfeitures	2,295,661	-	292,095
Charges for services	5,874,787	482	-
Interest income	1,247,649	226,177	142,500
Special assessments	4,551	-	9,802
Rental income	1,253,148	-	-
Cable revenue	1,120,768	-	-
Other	315,020	158,571	1,143,567
	<u>71,420,658</u>	<u>5,374,770</u>	<u>1,602,799</u>
Total revenues	71,420,658	5,374,770	1,602,799
Expenditures			
Current:			
General government	8,733,703	-	-
41A District Court	2,173,817	-	-
Public safety	33,857,315	-	-
Public works	13,796,660	1,724,770	-
Recreation and culture	4,447,809	-	-
General expenditures	2,665,340	-	-
Capital outlay	-	4,983,906	5,276,953
Debt service	-	-	-
	<u>65,674,644</u>	<u>6,708,676</u>	<u>5,276,953</u>
Total expenditures	65,674,644	6,708,676	5,276,953
Excess of Revenues Over (Under) Expenditures	5,746,014	(1,333,906)	(3,674,154)
Other Financing Sources (Uses)			
Net proceeds from refunding bonds	-	-	-
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-
Transfers in	35,000	1,231,070	2,709,650
Transfers out	(5,394,890)	(3,297,040)	-
	<u>(5,359,890)</u>	<u>(2,065,970)</u>	<u>2,709,650</u>
Total other financing sources (uses)	(5,359,890)	(2,065,970)	2,709,650
Net Change in Fund Balances	386,124	(3,399,876)	(964,504)
Fund Balances - Beginning of year	<u>17,835,962</u>	<u>10,820,544</u>	<u>5,341,874</u>
Fund Balances - End of year	<u>\$ 18,222,086</u>	<u>\$ 7,420,668</u>	<u>\$ 4,377,370</u>

**Governmental Funds
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2003**

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 2,884,407	\$ 46,791,310
-	-	2,036,864
-	486,885	752,977
-	2,058,297	20,161,887
-	-	2,587,756
-	-	5,875,269
10,530	133,498	1,760,354
-	54,144	68,497
-	-	1,253,148
-	-	1,120,768
<u>33,249</u>	<u>276,648</u>	<u>1,927,055</u>
43,779	5,893,879	84,335,885
-	-	8,733,703
-	-	2,173,817
-	-	33,857,315
-	2,813,321	18,334,751
-	-	4,447,809
-	105,909	2,771,249
762,887	740,100	11,763,846
<u>-</u>	<u>6,435,051</u>	<u>6,435,051</u>
<u>762,887</u>	<u>10,094,381</u>	<u>88,517,541</u>
(719,108)	(4,200,502)	(4,181,656)
-	4,916,822	4,916,822
-	(4,916,822)	(4,916,822)
827,040	4,004,520	8,807,280
<u>-</u>	<u>(115,350)</u>	<u>(8,807,280)</u>
<u>827,040</u>	<u>3,889,170</u>	<u>-</u>
107,932	(311,332)	(4,181,656)
<u>287,082</u>	<u>5,044,512</u>	<u>39,329,974</u>
<u>\$ 395,014</u>	<u>\$ 4,733,180</u>	<u>\$ 35,148,318</u>

City of Sterling Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$ (4,181,656)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	3,851,754
Special assessment revenues are recorded in the statement of activities when the assessment is earned (i.e., work is substantially complete); they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(202,965)
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	2,043,022
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	9,191,383
Bond issuance is not reported as financing sources on the statement of activities	(4,840,000)
Accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned	69,083
Internal Service Funds are also included as governmental activities	<u>(313,960)</u>
Change in Net Assets of Governmental Activities	<u>\$ 5,616,661</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Net Assets June 30, 2003

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 6,451,824	\$ 2,755,907
Investments (Note 3)	23,545,584	6,250,000
Receivables:		
Customers	176	-
Special assessments - Current	25,919	-
Accrued interest	39,030	7,037
Prepaid costs and other assets	-	370,266
Due from other funds (Note 5)	65,269	-
Deposits	-	65,075
Inventories	244,883	-
Total current assets	30,372,685	9,448,285
Noncurrent assets:		
Special assessments - Deferred	31,543	-
Restricted assets (Note 7)	6,746,673	-
Capital assets - Net (Note 4)	131,088,312	-
Total noncurrent assets	137,866,528	-
Total assets	168,239,213	9,448,285
Liabilities		
Current liabilities:		
Accounts payable	2,853,865	16,373
Provision for uninsured losses and liabilities (Note 8)	-	465,890
Accrued and other liabilities	387,883	-
Due to other funds (Note 5)	-	57,637
Deferred revenue	294,471	-
Total current liabilities	3,536,219	539,900
Noncurrent liabilities:		
Provision for uninsured losses and liabilities (Note 8)	-	2,989,763
Long-term debt - Net of current portion (Note 6)	172,741	-
Total noncurrent liabilities	172,741	2,989,763
Total liabilities	3,708,960	3,529,663
Net Assets		
Investment in capital assets	131,088,312	-
Restricted for:		
Water and sewer mains	1,173,948	-
Ordinance requirements	5,572,725	-
Council resolution for capital improvements	2,540,000	-
Unrestricted	24,155,268	5,918,622
Total net assets	<u>\$ 164,530,253</u>	<u>\$ 5,918,622</u>

City of Sterling Heights, Michigan

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2003

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Operating Revenues		
Water sales	\$ 8,293,920	\$ -
Sewage treatment	10,159,027	-
Service charges	1,118,607	-
City contributions	-	5,986,680
Other	991,764	195,177
Total operating revenues	20,563,318	6,181,857
Operating Expenses		
Wages and fringe benefits	2,385,195	-
Contractual services	197,815	-
Water purchases	6,807,546	-
Sewage disposal charges	8,142,122	-
Materials and supplies	349,680	-
Repairs and maintenance	422,004	-
Building and equipment rental	125,746	-
Insurance	216,440	-
Depreciation	3,553,620	-
Administration expenses	985,242	295,099
Reinsurance charges and claims	-	5,800,268
Other	81,760	622,176
Total operating expenses	23,267,170	6,717,543
Operating Loss	(2,703,852)	(535,686)
Nonoperating Revenues		
Federal sources	30,806	-
Interest income	1,229,875	221,726
Tap fees and frontage charges	1,593,349	-
Total nonoperating revenues	2,854,030	221,726
Income (Loss) - Before contributions	150,178	(313,960)
Contributions from Developers	5,254,036	-
Change in Net Assets	5,404,214	(313,960)
Net Assets - Beginning of year	159,126,039	6,232,582
Net Assets - End of year	\$ 164,530,253	\$ 5,918,622

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2003

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Cash Flows from Operating Activities		
Receipts from customers	\$ 19,172,561	\$ 6,694,675
Payments to suppliers for goods and services	(16,188,847)	-
Payments to employees for services	(2,396,987)	-
Payments connected with interfund services	(1,201,682)	-
Receipts connected with interfund services	793,469	-
Claims paid	-	(6,889,198)
Other receipts	991,764	-
	1,170,278	(194,523)
Net cash provided by (used in) operating activities		
	1,170,278	(194,523)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,620,425	-
Purchase of capital assets	(1,495,585)	-
	124,840	-
Net cash provided by capital and related financing activities		
	124,840	-
Cash Flows from Investing and Grant Activities		
Interest received on investments	1,229,875	221,726
Purchase of investment securities	(68,066,777)	(23,372,951)
Proceeds from sales and maturities of investment securities	67,395,221	23,178,880
Grant proceeds from federal sources	30,806	-
	589,125	27,655
Net cash provided by investing and grant activities		
	589,125	27,655
Net Increase (Decrease) in Cash and Cash Equivalents		
	1,884,243	(166,868)
Cash and Cash Equivalents - Beginning of year		
	6,512,360	2,922,775
Cash and Cash Equivalents - End of year		
	\$ 8,396,603	\$ 2,755,907
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 6,451,824	\$ 2,755,907
Restricted cash and cash equivalents (Note 7)	1,944,779	-
	\$ 8,396,603	\$ 2,755,907
Total	\$ 8,396,603	\$ 2,755,907

City of Sterling Heights, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2003

	Business- type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self- insurance
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (2,703,852)	\$ (535,686)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	3,553,620	-
Changes in assets and liabilities:		
Receivables	35,592	200
Prepaid costs and other assets	-	(200,002)
Due from other funds	810,116	458,505
Deposits	-	(3,523)
Inventory	(13,053)	-
Restricted assets - Receivables	(507,335)	-
Accounts payable	(171,495)	(189,768)
Accrued and other liabilities	110,582	-
Provision for uninsured losses and liabilities	-	218,114
Deferred revenue	72,750	-
Due to other funds	(16,647)	57,637
	\$ 1,170,278	\$ (194,523)
Net cash provided by (used in) operating activities	\$ 1,170,278	\$ (194,523)

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2003, developers constructed water and sewer lines with an estimated value of \$5,254,036 and donated them to the City's Water and Sewer Enterprise Fund.

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2003

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 17,013,560	\$ 781,679
Investments (Note 3)	251,627,315	4,319,787
Cash and investments held as collateral for securities lending	31,318,270	-
Receivables - Accrued interest	924,952	9,124
Other assets	1,364	798
Due from other governmental units	38,605	45,730
Total assets	300,924,066	\$ 5,157,118
Liabilities		
Accounts payable	1,168,280	\$ 57,069
Accrued and other liabilities	8,582,930	207,556
Due to other governmental units	-	30,455
Cash bonds and deposits	-	4,862,038
Amounts due to broker under securities lending agreements	31,318,270	-
Total liabilities	41,069,480	\$ 5,157,118
Net Assets - Held in trust for pensions and other retirement benefits	\$ 259,854,586	

City of Sterling Heights, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2003

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income (loss):	
Interest and dividends	\$ 7,000,266
Net adjustment to fair value of investments	(665,033)
Less investment expenses	<u>(813,284)</u>
Net investment income	5,521,949
Securities lending income:	
Interest and fees	426,229
Less borrower rebates and bank fees	<u>(367,988)</u>
Net securities lending income	58,241
Contributions:	
Employer	5,282,823
Employee	<u>2,120,862</u>
Total additions	12,983,875
Deductions	
Benefit payments	13,572,153
Refunds of contributions	2,918,821
Administrative expenses	<u>58,594</u>
Total deductions	<u>16,549,568</u>
Change in Net Assets	(3,565,693)
Net Assets - Beginning of year	<u>263,420,279</u>
Net Assets - End of year	<u><u>\$ 259,854,586</u></u>

City of Sterling Heights, Michigan

Component Units Statement of Net Assets June 30, 2003

	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets - Cash and cash equivalents (Note 3)	\$ 15,667	\$ 14,682	\$ 30,349
Liabilities - Accounts payable	<u>-</u>	<u>4,560</u>	<u>4,560</u>
Net Assets - Unrestricted	<u>\$ 15,667</u>	<u>\$ 10,122</u>	<u>\$ 25,789</u>

City of Sterling Heights, Michigan

Component Units Statement of Activities Year Ended June 30, 2003

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Economic Development Corporation - Public Works	\$ 2,712	\$ 5,000	\$ 2,288	\$ -	\$ 2,288
Brownfield Redevelopment Authority - Public Works	<u>13,055</u>	<u>15,000</u>	<u>-</u>	<u>1,945</u>	<u>1,945</u>
Total component units	<u>\$ 15,767</u>	<u>\$ 20,000</u>	2,288	1,945	4,233
General Revenues - Interest			<u>192</u>	<u>187</u>	<u>379</u>
Change in Net Assets			2,480	2,132	4,612
Net Assets - Beginning of year			<u>13,187</u>	<u>7,990</u>	<u>21,177</u>
Net Assets - End of year			<u>\$ 15,667</u>	<u>\$ 10,122</u>	<u>\$ 25,789</u>

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

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

Discretely Presented Component Units - The following nonmajor component units are reported within the component units column in the government-wide financial statements to emphasize that they are legally separate from the City. Financial statements for each of the individual component units are available at the City's office.

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

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.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

The City reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Roads Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.
- The 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 government reports the following major proprietary fund:

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

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the government reports the following fund types:

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

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

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

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

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

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

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

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

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

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

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

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note I - Summary of Significant Accounting Policies (Continued)

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

Buildings	50 years
Building improvements	25 years
Other improvements	10-30 years
Equipment	2-20 years
Furnishings and fixtures	10-15 years
Infrastructure	20-40 years
Water and sewer mains	50 years

Compensated Absences - The City allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since July 1, 2001 is as follows:

Shortfall at July 1, 2002		\$ (693,803)
Current year building permit revenue	\$ 2,173,299	
Related expenses:		
Direct costs	1,427,337	
Estimated indirect costs	<u>1,156,907</u>	
Total construction code expenses	<u>2,584,244</u>	
Net shortfall for the year ended June 30, 2003		<u>(410,945)</u>
Cumulative shortfall at June 30, 2003		<u>\$ (1,104,748)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 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 that 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, which are legal for direct investment by local units of government in Michigan.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The investment policy adopted by the City Council in accordance with Public Act 20 of 1948, as amended, authorizes investments in U.S. Treasuries, U.S. agencies and instrumentalities (date specific maturities only), non-negotiable certificates of deposits, commercial paper (rated A2 or equivalent), 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, I MCL 129.111 to MCL129.118 or investment pools organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to 124.512. For mutual funds, the Treasurer may invest in no-load fixed income mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan, either taxable or tax-exempt. This authorization is limited to mutual funds whose intent is to maintain a net asset value of \$1.00 per share.

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

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Investments	Cash and Investments Held as Collateral for Securities Lending	Restricted Assets (Note 7)
Governmental activities	\$ 27,141,494	\$ 21,341,918	\$ -	\$ 3,127,678
Business-type activities	6,451,824	23,545,584	-	1,944,779
Fiduciary and Trust and Agency Funds	<u>17,795,239</u>	<u>255,947,102</u>	<u>31,318,270</u>	<u>-</u>
Total primary government	51,388,557	300,834,604	31,318,270	5,072,457
Component units	<u>30,349</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 51,418,906</u>	<u>\$ 300,834,604</u>	<u>\$ 31,318,270</u>	<u>\$ 5,072,457</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 46,890,281	\$ -
Investments in securities, mutual funds, and similar vehicles	341,706,957	30,349
Petty cash or cash on hand	16,650	-
Total	<u>\$ 388,613,888</u>	<u>\$ 30,349</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$47,428,211. Of that amount, \$711,014 was covered by federal depository insurance and the remainder was 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 bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent in the City's name

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category				Reported Amount (Fair Value)
	1	2	3	Not Categorized	
Primary government:					
Corporate bonds	\$ 45,438,130	\$ -	\$ -	\$ -	\$ 45,438,130
U.S. government securities	43,926,198	-	-	-	43,926,198
Common and preferred stock	105,094,436	-	-	-	105,094,436
Commercial paper	1,998,288	-	-	-	1,998,288
Bank investment pool funds	-	-	-	21,183,848	21,183,848
Interlocal agreement investment pool funds	-	-	-	217,995	217,995
Short-term investment funds	-	-	-	16,402,241	16,402,241
Mutual funds	-	-	-	45,829,318	45,829,318
Investments held by broker dealer and banks under securities loans:					
U.S. government	-	-	-	7,598,301	7,598,301
Corporate bonds and notes	-	-	-	578,526	578,526
Common and preferred stock	-	-	-	22,121,406	22,121,406
Securities lending short-term collateral bank investment pool	-	-	-	31,318,270	31,318,270
Total primary government	<u>\$ 196,457,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 145,249,905</u>	<u>\$ 341,706,957</u>
Component units - Bank investment pool funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,349</u>	<u>\$ 30,349</u>

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The investments held by broker-dealers and banks under securities loans are not categorized because the corresponding collateral is recorded in the financial statements. The investment in the funds complies with the investment authority noted above.

Note 3 - Deposits and Investments (Continued)

The mutual funds and short-term investment funds are registered with the SEC. The bank investment pools are held by the trust department of the bank, and regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Retirement Investments

Investments included in the Police and Fire Retirement System at June 30, 2003 are the following:

- Approximately \$13,486,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLMC). The FHLMC investments are backed by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$4,199,000 of obligations of the Federal National Mortgage Association (FNMA). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 3 - Deposits and Investments (Continued)

- Asset-backed securities of approximately \$14,138,000. These securities are backed primarily by credit card receivables, automobile receivables, and investment trusts. These obligations typically include credit enhancements in the form of overcollateralization, third-party letters of credit, seller recourse, insurance company guarantees, and/or senior subordinated structures. These securities are generally considered to offer modest credit risk, but such risk varies depending on the type of asset being securitized and the extent and nature of the credit enhancement. Prepayments for these “pay through” securities could result in difficulty reinvesting the prepaid amounts in investments with comparable yields.

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the “Systems”) have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to formal loan agreement. At June 30, 2003, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 102 percent to 105 percent of the market value of the loaned securities. The Systems did not impose any restrictions during the past year on the amount of loans that the lending agents could make on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon. In addition, there were no losses during the past year resulting from default of the borrowers. Contracts with the lending agents require them to indemnify the Systems if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Systems for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Systems or the borrower. The cash collateral received on each loan was invested, together with the cash collateral of the other lenders, in a pool. The average duration of such investment pools as of June 30, 2003 was 163 days. Their duration did not generally match the duration of the loans because the loans could be terminated on demand. The total amount of collateral held and the fair values of the underlying securities for the Systems as of June 30, 2003 were \$31,318,270 and \$30,298,234, respectively.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 3 - Deposits and Investments (Continued)

Component Units

The investments of the City's component units during the year consisted solely of bank investment pools of \$30,349 at June 30, 2003. Investments are normally categorized to give an indication of the level of risk assumed; however, bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City's component units believe that the investments in these funds comply with the investment authority noted above. Bank investment pools are regulated by the Michigan Banking Act. The fair value of the position of the pool is the same as the value of pool shares.

Note 4 - Capital Assets

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

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 40,491,887	\$ 1,799,424	\$ -	\$ 42,291,311
Construction in progress	6,339,270	5,730,737	(3,209,318)	8,860,689
Works of art	189,600	100,500	-	290,100
Net capital assets - Non-depreciable	47,020,757	7,630,661	(3,209,318)	51,442,100
Capital assets being depreciated:				
Building and building improvements	28,436,551	2,982,373	(341,417)	31,077,507
Improvements other than buildings	2,521,176	945,060	-	3,466,236
Equipment	24,892,199	2,108,175	(797,510)	26,202,864
Furnishings and fixtures	1,410,648	53,139	(59,471)	1,404,316
Infrastructure	177,588,067	3,365,482	-	180,953,549
Subtotal	234,848,641	9,454,229	(1,198,398)	243,104,472
Accumulated depreciation:				
Building and building improvements	6,869,510	652,183	(164,711)	7,356,982
Improvements other than buildings	618,500	94,756	-	713,256
Equipment	12,040,435	2,358,713	(644,689)	13,754,459
Furnishings and fixtures	875,431	75,642	(49,868)	901,205
Infrastructure	68,899,990	6,503,394	-	75,403,384
Subtotal	89,303,866	9,684,688	(859,268)	98,129,286
Net capital assets being depreciated	145,544,775	(230,459)	(339,130)	144,975,186
Net governmental capital assets	\$ 192,565,532	\$ 7,400,202	\$ (3,548,448)	\$ 196,417,286

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets (Continued)

	Balance July 1, 2002	Additions	Disposals and Adjustments	Balance June 30, 2003
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 64,871	\$ -	\$ -	\$ 64,871
Construction in progress	4,850,662	1,326,994	(875,091)	5,302,565
Net capital assets - Non-depreciable	4,915,533	1,326,994	(875,091)	5,367,436
Capital assets being depreciated:				
Building and building improvements	225,427	37,105	-	262,532
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,691,854	189,224	(49,910)	1,831,168
Furnishings and fixtures	19,875	-	7,155	27,030
Water and sewer mains	187,120,146	6,071,391	-	193,191,537
Subtotal	189,068,693	6,297,720	(42,755)	195,323,658
Accumulated depreciation:				
Building and building improvements	149,138	8,163	6,776	164,077
Improvements other than buildings	11,676	-	(285)	11,391
Equipment	1,135,132	139,408	(452,244)	822,296
Furnishings and fixtures	6,764	1,896	1,682	10,342
Water and sewer mains	64,789,205	3,805,471	-	68,594,676
Subtotal	66,091,915	3,954,938	(444,071)	69,602,782
Net capital assets being depreciated	122,976,778	2,342,782	401,316	125,720,876
Net business-type capital assets	\$ 127,892,311	\$ 3,669,776	\$ (473,775)	\$ 131,088,312

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 4 - Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 408,161
Public safety		1,272,144
Public works		6,950,513
Recreation and culture		961,777
41A District Court		<u>92,093</u>
	Total governmental activities	<u>\$ 9,684,688</u>
	Business-type activities - Water and Sewer	<u>\$ 3,954,938</u>

Note 5 - Interfund Receivables, Payables, and Transfers

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

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Major Roads Fund	\$ 653,363
	Nonmajor governmental funds	110,385
	General Improvements Fund	333,703
	Self-insurance Fund	<u>57,637</u>
	Total General Fund	1,155,088
Nonmajor Debt Service Funds	General Fund	1,456
Road Bond Construction Fund	General Fund	308,703
Water and Sewer Fund	General Fund	<u>65,269</u>
	Total	<u>\$ 1,530,516</u>

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

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

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	Major Roads Fund	\$ 1,231,070
	General Improvements Fund	2,709,650
	Road Bond Construction Fund	480,000
	Nonmajor governmental funds	<u>974,170</u>
		5,394,890
Major Roads Fund	Nonmajor governmental funds	2,950,000
	Road Bond Construction Fund	<u>347,040</u>
		3,297,040
Nonmajor governmental funds	General Fund	35,000
	Nonmajor governmental funds	<u>80,350</u>
		<u>115,350</u>
Total		<u>\$ 8,807,280</u>

Transfers provided funding for capital projects, capital acquisitions, and debt services.

Note 6 - Long-term Debt

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

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions and Refundings)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds:						
1989 Michigan Transportation Fund Bonds						
Amount of Issue - \$2,900,000	5.00% -					
Maturing through 2003	6.00%	\$275,000	\$ 550,000	\$ (275,000)	\$ 275,000	\$ 275,000
1990 Building Authority Bonds						
Amount of Issue - \$4,100,000	4.50%	\$375,000 -				
Maturing through 2009		\$400,000	775,000	-	775,000	-
1991 Michigan Transportation Fund Bonds						
Amount of Issue - \$3,300,000	2.75% -					
Maturing through 2005	6.20%	\$350,000	1,250,000	(900,000)	350,000	-
1993 Unlimited Tax Road Bonds						
Amount of Issue - \$2,750,000	4.70%	\$350,000 -				
Maturing through 2002		\$375,000	375,000	(375,000)	-	-
1993 Building Authority Refunding Bonds						
Amount of Issue - \$2,845,000	4.25% -	\$225,000 -				
Maturing through 2007	4.95%	\$320,000	1,730,000	(275,000)	1,455,000	270,000
1994 Unlimited Tax Road Bonds						
Amount of Issue - \$1,575,000	5.15% -	\$150,000 -				
Maturing through 2004	5.40%	\$200,000	550,000	(175,000)	375,000	175,000
1994 Michigan Transportation Fund Bonds						
Amount of Issue - \$3,975,000	5.20% -	\$275,000 -				
Maturing through 2008	5.50%	\$425,000	2,525,000	(2,525,000)	-	-
1995 Michigan Transportation Fund Bonds						
Amount of Issue - \$2,790,000	5.10% -	\$100,000 -				
Maturing through 2009	5.63%	\$350,000	2,250,000	(2,050,000)	200,000	200,000
1996 Michigan Transportation Fund Bonds						
Amount of Issue - \$2,650,000	4.75% -	\$175,000 -				
Maturing through 2010	5.00%	\$275,000	1,975,000	(175,000)	1,800,000	175,000
1997 Unlimited Tax Road Bonds						
Amount of Issue - \$1,850,000	4.70% -	\$175,000 -				
Maturing through 2007	5.10%	\$225,000	1,225,000	(175,000)	1,050,000	200,000
1998 Unlimited Tax Road Bonds						
Amount of Issue - \$2,775,000	3.75% -	\$250,000 -				
Maturing through 2007	5.75%	\$375,000	1,900,000	(250,000)	1,650,000	300,000
1998 Michigan Transportation Fund Bonds						
Amount of Issue - \$2,110,000	4.30% -	\$85,000 -				
Maturing through 2012	5.00%	\$250,000	1,875,000	(100,000)	1,775,000	100,000
1999 Unlimited Tax Road Bonds						
Amount of Issue - \$2,700,000	3.56% -	\$250,000 -				
Maturing through 2008	4.10%	\$350,000	2,075,000	(250,000)	1,825,000	250,000
1999 Michigan Transportation Fund Bonds						
Amount of Issue - \$5,250,000	4.10% -	\$200,000 -				
Maturing through 2013	4.65%	\$600,000	4,650,000	(250,000)	4,400,000	250,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions and Refundings)	Ending Balance	Due Within One Year
Governmental Activities (Continued)						
General Obligation Bonds (Continued):						
2000 Building Authority Bonds (City Center Commons)						
Amount of Issue - \$3,700,000	5.00% -	\$75,000 -				
Maturing through 2019	7.00%	\$300,000	\$ 3,550,000	\$ (100,000)	\$ 3,450,000	\$ 100,000
2000 Michigan Transportation Fund Bonds						
Amount of Issue - \$4,225,000	5.00%	\$100,000 -				
Maturing through 2014		\$500,000	4,100,000	(100,000)	4,000,000	100,000
2002 Michigan Transportation Refunding Bonds						
Amount of Issue - \$4,840,000	2.70% -	\$100,000 -		4,840,000		
Maturing through 2009	4.00%	\$890,000	-	(100,000)	4,740,000	680,000
County Drain Contract Obligations:						
Burr Relief No. 2 Drain						
Amount of Issue - \$1,725,000	5.00% -	\$175,000 -				
Maturing through 2005	6.80%	\$200,000	550,000	(175,000)	375,000	175,000
Diener Drain Enclosure No. 2						
Amount of Issue - \$1,838,767	4.00% -	\$167,596 -				
Maturing through 2005	6.40%	\$191,539	550,674	(167,596)	383,078	191,539
Phiel Drain Improvement						
Amount of Issue - \$380,564	4.00% -	\$23,786 -				
Maturing through 2005	6.40%	\$47,571	118,928	(23,786)	95,142	47,571
Green Drain Enclosure						
Amount of Issue - \$1,065,000	5.40% -	\$75,000 -				
Maturing through 2007	5.70%	\$100,000	450,000	(75,000)	375,000	75,000
Seventeen Mile Road Drain and Branches						
Amount of Issue - \$3,550,000	4.00% -	\$150,000 -				
Maturing through 2013	5.70%	\$300,000	2,550,000	(150,000)	2,400,000	175,000
Busch Drain Drainage District						
Amount of Issue - \$1,250,000	4.00% -	\$50,000 -				
Maturing through 2014	4.55%	\$125,000	1,100,000	(50,000)	1,050,000	75,000
Hawken Drain Drainage District						
Amount of Issue - \$795,000	4.45% -	\$50,000 -				
Maturing through 2015	5.25%	\$75,000	700,000	(50,000)	650,000	50,000
Hayes Drain Drainage District						
Amount of Issue - \$1,095,000	4.50% -	\$25,000 -				
Maturing through 2015	5.50%	\$125,000	1,050,000	(25,000)	1,025,000	50,000
Plumbrook Bridge Replacement Drain Drainage District						
Amount of Issue - \$2,800,000	4.00% -	\$100,000 -				
Maturing through 2015	5.00%	\$275,000	2,600,000	(125,000)	2,475,000	125,000
17 Mile Extension Drain Drainage District						
Amount of Issue - \$1,725,000	3.00% -	\$75,000 -				
Maturing through 2016	4.50%	\$150,000	1,650,000	(75,000)	1,575,000	75,000

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions and Refundings)	Ending Balance	Due Within One Year
Governmental Activities (Continued)						
Special Assessment Bonds:						
1996 Special Assessment Bonds						
Amount of Issue - \$590,000	4.85% -	\$75,000 -				
Maturing through 2004	5.00%	\$100,000	\$ 275,000	\$ (75,000)	\$ 200,000	\$ 100,000
1997 Special Assessment Bonds with Governmental Commitment						
Amount of Issue - \$1,040,000	4.60% -					
Maturing through 2005	5.00%	\$125,000	<u>500,000</u>	<u>(125,000)</u>	<u>375,000</u>	<u>125,000</u>
Total bond obligations			<u>43,449,602</u>	<u>(4,351,382)</u>	<u>39,098,220</u>	<u>4,339,110</u>
Other long-term obligations:						
Provision for uninsured losses and other liabilities			2,801,455	654,198	3,455,653	465,890
Compensated absences			<u>4,148,598</u>	<u>(69,083)</u>	<u>4,079,515</u>	<u>-</u>
Total other long-term obligations			<u>6,950,053</u>	<u>585,115</u>	<u>7,535,168</u>	<u>465,890</u>
Total governmental activities			50,399,655	(3,766,267)	46,633,388	4,805,000
Business-type Activities - Water and Sewer						
Fund obligations - Compensated absences			<u>160,949</u>	<u>11,792</u>	<u>172,741</u>	<u>-</u>
Total			<u>\$ 50,560,604</u>	<u>\$ (3,754,475)</u>	<u>\$ 46,806,129</u>	<u>\$ 4,805,000</u>

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

	Governmental Activities		
	Principal	Interest	Total
2004	\$ 4,339,110	\$ 1,725,043	\$ 6,064,153
2005	4,339,110	1,526,655	5,865,765
2006	3,975,000	1,333,638	5,308,638
2007	3,705,000	1,170,159	4,875,159
2008	3,760,000	1,008,234	4,768,234
2009-2013	13,955,000	2,984,898	16,939,898
2014-2018	4,425,000	553,078	4,978,078
2019-2020	<u>600,000</u>	<u>35,064</u>	<u>635,064</u>
Total	<u>\$ 39,098,220</u>	<u>\$ 10,336,769</u>	<u>\$ 49,434,989</u>

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 6 - Long-term Debt (Continued)

During the year, the City issued \$4,840,000 in Michigan Transportation Fund bonds with an average coupon (interest) rate of 3.32 percent. The proceeds were used to advance refund \$4,725,000 of outstanding 1991, 1994, and 1995 Michigan Transportation Fund Bonds with an average coupon (interest) rate of 6.37 percent, 5.45 percent, and 5.52 percent, respectively. The net proceeds of \$4,916,772 (after payment of \$97,668 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1991, 1994, and 1995 Michigan Transportation Fund Bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from long-term debt obligations of the governmental activities. The advanced refunding bond reduced total debt service payments over the next eight years by approximately \$260,355, which represents an economic gain of approximately \$244,089.

Note 7 - Restricted Assets

Specific assets of the Water and Sewer Fund and the General Improvements Fund have been restricted for operations and maintenance, replacement, and debt service. Following is the detail of restricted assets at June 30, 2003:

Water and Sewer Fund:

Cash and cash equivalents* (Note 3)	\$ 1,944,779
Accounts receivable - Customers	<u>4,801,894</u>
Total Water and Sewer Fund	6,746,673

General Improvements Fund - Cash and cash equivalents**
(Note 3)

3,127,678

Total restricted assets	<u><u>\$ 9,874,351</u></u>
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* \$1,173,948 of this amount is held by Macomb County in the Construction and Debt Retirement Funds maintained on behalf of the City by the Macomb County Department of Public Works for construction projects of the City.

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

There are no current liabilities payable from restricted assets, and net assets have been reserved for restricted assets.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Risk Management

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

Property Liability

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

It is estimated, based on past experience, that \$1,222,652 will be paid for all claims reported to date and \$463,408 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>2003</u>	<u>2002</u>
Estimated liability - Beginning of year	\$ 1,580,888	\$ 1,583,200
Estimated claims incurred, including changes in estimates	480,956	346,688
Claim payments	<u>(375,784)</u>	<u>(349,000)</u>
Estimated liability - End of year	<u>\$ 1,686,060</u>	<u>\$ 1,580,888</u>

Medical Claims and Short-term Disability

As of April 1, 1989, the City became self-insured for Blue Cross/Blue Shield equivalent health care coverage. Under the program, the City is liable for claims up to a retention amount of \$100,000 per employee (including dependents) for the contract year ended June 30, 2003. At January 1, 1990, the City became self-insured for short-term disability.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 8 - Risk Management (Continued)

It is estimated, based on past experience, that \$65,968 will be paid for all claims reported to date and \$1,578,814 will be paid for claims incurred but not reported. This amount and all other transactions with respect to employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2003</u>	<u>2002</u>
Estimated liability - Beginning of year	\$ 1,557,759	\$ 1,256,546
Estimated claims incurred, including changes in estimates	4,276,127	6,363,297
Claim payments	<u>(4,189,104)</u>	<u>(6,062,084)</u>
Estimated liability - End of year	<u>\$ 1,644,782</u>	<u>\$ 1,557,759</u>

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City is liable for the first \$150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than \$150,000. At June 30, 2003, it was estimated, based on past experience, that \$124,811 will be paid in total for both claims reported to date and claims incurred but not reported. This estimated liability for claims reported to date has been recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2003</u>	<u>2002</u>
Estimated liability - Beginning of year	\$ 98,892	\$ 173,548
Estimated claims incurred, including changes in estimates	190,256	105,232
Claim payments	<u>(164,337)</u>	<u>(179,888)</u>
Estimated liability - End of year	<u>\$ 124,811</u>	<u>\$ 98,892</u>

Note 8 - Risk Management (Continued)

The City has been named as a defendant in a lawsuit as the result of alleged actions by the City in relationship to the operations of the Freedom Hill Amphitheater for which the plaintiffs are seeking damages of up to \$179 million. The City strongly denies any liability and has asserted vigorous defenses against the alleged claims. It is the City's position that any potential losses related to this claim are covered under their policies of insurance. Insurance carriers for the City are funding legal fees associated with the City's defense subject to a reservation of rights and coverage dispute with the City. The City has numerous policies of liability insurance; however, the exact amount of insurance coverage related to this claim cannot be determined at this time. The proceedings have not yet progressed to the point where a legal opinion as to the City's ultimate liability can be reached. Accordingly, at June 30, 2003, the City has not recorded a liability with respect to these claims.

Note 9 - Defined Benefit Pension Plans and Postretirement Benefits

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

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, membership consisted of 170 retirees, beneficiaries, alternative payees currently receiving benefits, 18 terminated employees entitled to benefits but not yet receiving them, and 308 current active employees.

Police and Fire Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, membership consisted of 203 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 254 current active employees.

Funding Policy

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

Note 9 - Defined Benefit Pension Plans and Postemployment Benefits (Continued)

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

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

Annual Pension Costs

General Employees' Retirement System - For the fiscal year ended June 30, 2003, the City had no required pension contributions (exclusive of administrative costs of approximately \$400,000). The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return and (b) projected salary increases of 4.5 percent to 8.5 percent per year. Both (a) and (b) include an inflation component of 4.5 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 16 years.

Police and Fire Retirement System - For the fiscal year ended June 30, 2003, the City's annual pension cost of \$2,747,983 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include: (a) a 7.5 percent investment rate of return and (b) projected salary increases of 4.2 percent to 8.0 percent per year. Both (a) and (b) include an inflation component of 4 percent and were determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period is 20 years.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Benefit Pension Plans and Postemployment Benefits (Continued)

Actuarial	Year Ended		
	1999	2000	2001
General Employees' Retirement System:			
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Police and Fire Retirement System:			
Annual pension costs (APC)	\$ 2,197,860	\$ 1,634,437	\$ 2,747,983
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Statement of Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
Assets		
Cash and cash equivalents	\$ 1,982,614	\$ 14,705,399
Investments	87,667,872	157,159,932
Cash and investments held as collateral for securities lending	9,895,655	21,422,615
Receivables - Accrued interest	62,829	862,123
Other assets	-	1,364
Total assets	99,608,970	194,151,433
Liabilities		
Accounts payable	245,036	923,244
Accrued and other liabilities	521,022	8,054,853
Amounts due to broker under securities lending agreements	9,895,655	21,422,615
Total liabilities	10,661,713	30,400,712
Net Assets - Held in trust for pensions	\$ 88,947,257	\$ 163,750,721

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 9 - Defined Benefit Pension Plans and Postemployment Benefits (Continued)

Statement of Changes in Fund Net Assets

	General Employees' Retirement System	Police and Fire Retirement System
	<u> </u>	<u> </u>
Additions		
Investment income (loss):		
Interest and dividends	\$ 733,978	\$ 6,141,241
Net adjustment to fair value of investments	1,509,772	(1,996,386)
Less investment expenses	<u> -</u>	<u> (813,284)</u>
Net investment income	2,243,750	3,331,571
Securities lending income:		
Interest and fees	123,840	302,389
Less borrower rebates and bank fees	<u> (102,674)</u>	<u> (265,314)</u>
Net securities lending income	21,166	37,075
Contributions:		
Employer	-	2,747,983
Employee	<u> 750,051</u>	<u> 1,370,811</u>
Total additions	3,014,967	7,487,440
Deductions		
Benefit payments	2,851,784	8,228,069
Refunds of contributions	1,418,489	1,500,332
Administrative expenses	<u> -</u>	<u> 35,163</u>
Total deductions	<u> 4,270,273</u>	<u> 9,763,564</u>
Change in Net Assets	(1,255,306)	(2,276,124)
Net Assets - Beginning of year	<u> 90,202,563</u>	<u> 166,026,845</u>
Net Assets - End of year	<u><u> \$ 88,947,257</u></u>	<u><u> \$ 163,750,721</u></u>

Note 10 - Defined Contribution Pension Plan

The City provides pension benefits to new employees who are members of the MAPE Executive Union, new non-union 41A District Court employees, UAW TOPS members, UAW supervisors, and new MAPE clerical members through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by City Council Resolution, the City contributes 7 percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service. In accordance with these requirements, the City contributed \$189,962 during the current year and employees contributed \$159,811.

All new employees of the above-mentioned groups participate from the date of employment. Current members of the above unions can elect to withdraw from the defined benefit plan and enter the defined contribution plan. Assets were transferred into the defined contribution plan during the current year, in the amount of \$1,179,549, for the nine members who elected to withdraw from the defined benefit plan.

Note 11 - Postemployment Benefits

In addition to providing pension benefits, the City provides certain health care benefits, in accordance with labor contracts, for retired general, police, and fire employees. Substantially all of the City's employees mentioned above may become eligible for those benefits if they reach normal retirement age while working for the City. Currently, 134 and 184 general and police and fire retirees, respectively, are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare.

The cost of retiree health care benefits is reflected in the Retiree Medical Benefits Fund, which was established during the 1989 fiscal year when the City began to prefund these benefits. During the current year, the contribution amounted to approximately \$2,535,000, which was funded by the General and Water and Sewer Funds, and health care benefits paid totaled approximately \$2,492,000.

City of Sterling Heights, Michigan

Notes to Financial Statements June 30, 2003

Note 11 - Postemployment Benefits (Continued)

Effective for current retirees under the police officer, emergency dispatcher, and firefighter contracts, the City provides dental benefits. Currently, there are 58 police and fire retirees eligible. The cost of retiree benefits is recognized as an expenditure of the General Fund. The total expenditure for these benefits approximated \$45,000 for the current year.

Note 12 - Designated Fund Balance

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

	Funds				
	General	Major Roads	General Improvements	Road Bond Construction	Nonmajor
Designated for:					
Technology	\$ 1,250,000	\$ -	\$ -	\$ -	\$ -
Subsequent years' expenditures	-	2,880,050	235,500	395,014	1,579,790
Debt service	-	-	-	-	277,483
Capital improvement	-	4,453,143	3,236,387	-	757,400
Retiree medical funding	2,750,000	-	-	-	-
Public safety radio system	3,000,000	-	-	-	-
Total designated	<u>\$ 7,000,000</u>	<u>\$ 7,333,193</u>	<u>\$ 3,471,887</u>	<u>\$ 395,014</u>	<u>\$ 2,614,673</u>
Unreserved	<u>\$ 10,641,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,050,842</u>

Required Supplemental Information

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 17,835,962	\$ 17,835,962	\$ 17,835,962	\$ -
Resources (Inflows)				
Property taxes	44,062,260	44,062,260	43,906,903	(155,357)
Federal sources	-	199,890	251,257	51,367
State sources	13,465,920	12,977,480	13,114,050	136,570
Fees and permits	1,833,520	2,048,520	2,036,864	(11,656)
Fines and forfeitures	2,466,050	2,307,630	2,295,661	(11,969)
Charges for services	5,561,510	5,738,710	5,874,787	136,077
Interest income	1,400,000	1,400,000	1,247,649	(152,351)
Special assessments	29,220	29,220	4,551	(24,669)
Rental income	1,135,560	1,249,560	1,253,148	3,588
Cable revenue	1,207,600	1,167,600	1,120,768	(46,832)
Other	267,600	358,100	315,020	(43,080)
Transfer from other funds	35,000	35,000	35,000	-
Amounts available for appropriation	71,464,240	71,573,970	71,455,658	(118,312)
Charges to Appropriations (Outflows)				
City administration	6,877,250	6,874,530	6,707,785	166,745
41A District Court	2,278,360	2,208,260	2,173,817	34,443
Parks and recreation department	2,120,820	2,178,800	2,161,918	16,882
Community and information services	2,147,610	2,075,310	2,025,918	49,392
Police department	21,469,400	21,728,330	21,839,774	(111,444)
Fire department	11,826,150	11,973,130	12,017,541	(44,411)
City development	4,289,780	4,228,800	4,197,217	31,583
Public works department	5,084,850	4,957,780	4,940,642	17,138
Refuse collection	4,662,150	4,649,950	4,658,801	(8,851)
Public library department	2,323,320	2,315,930	2,285,891	30,039
General expenditures	2,806,100	2,682,950	2,665,340	17,610
Transfers to other funds	5,548,340	5,414,890	5,394,890	20,000
Total charges to appropriations	71,434,130	71,288,660	71,069,534	219,126
Fund Balance - End of year	\$ 17,866,072	\$ 18,121,272	\$ 18,222,086	\$ 100,814

City of Sterling Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Roads Fund Year Ended June 30, 2003

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 10,820,544	\$ 10,820,544	\$ 10,820,544	\$ -
Resources (Inflows)				
State sources	4,750,000	5,002,280	4,989,540	(12,740)
Interest income	350,000	250,000	226,177	(23,823)
Charges for services	-	-	482	482
Other	294,000	194,000	158,571	(35,429)
Transfer from other funds	1,231,070	1,231,070	1,231,070	-
Amounts available for appropriation	6,625,070	6,677,350	6,605,840	(71,510)
Charges to Appropriations (Outflows)				
Public works:				
Administration	86,700	91,700	88,489	3,211
Routine maintenance	1,759,850	1,767,550	1,636,281	131,269
Improvements	3,601,170	6,645,950	4,983,906	1,662,044
Transfers to other funds	2,950,000	3,297,040	3,297,040	-
Total charges to appropriations	8,397,720	11,802,240	10,005,716	1,796,524
Fund Balance - End of year	\$ 9,047,894	\$ 5,695,654	\$ 7,420,668	\$ 1,725,014

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2003

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
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General Employees' Retirement System

12/31/97	\$ 65,370,092	\$ 53,853,619	\$ (11,516,473)	121.4	\$ 13,709,569	-
12/31/98	73,261,206	54,568,257	(18,692,949)	134.3	13,084,609	-
12/31/99	83,265,200	59,029,315	(24,235,885)	141.1	13,369,712	-
12/31/00	92,171,384	62,698,360	(29,473,024)	147.0	14,134,860	-
12/31/01	97,369,495	67,431,670	(29,937,825)	144.4	14,383,348	-
12/31/02	97,272,398	73,294,274	(23,978,124)	132.7	14,304,432	-

Police and Fire Retirement System

12/31/97	\$ 142,931,956	\$ 131,793,861	\$ (11,138,095)	108.5	\$ 15,251,674	-
12/31/98	161,133,122	143,031,180	(18,101,942)	112.7	15,490,580	-
12/31/99	174,770,699	153,505,121	(21,265,578)	113.9	16,930,450	-
12/31/00	185,771,342	124,915,986	(60,855,356)	148.7	16,796,531	-
12/31/01	187,772,035	133,938,061	(53,833,974)	140.2	18,504,190	-
12/31/02	184,609,657	141,187,613	(43,422,044)	130.8	19,059,246	-

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2003

General Employees' Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/98	12/31/96	\$ 937,631	100.0
06/30/99	12/31/97	379,652	100.0
06/30/00	12/31/98	-	100.0
06/30/01	12/31/99	-	100.0
06/30/02	12/31/00	-	100.0
06/30/03	12/31/01	-	100.0

Police and Fire Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution*</u>	<u>Percentage Contributed</u>
06/30/98	12/31/96	\$ 3,271,567	100.0
06/30/99	12/31/97	2,506,261	100.0
06/30/00	12/31/98	2,107,873	100.0
06/30/01	12/31/99	2,197,860	100.0
06/30/02	12/31/00	1,634,437	100.0
06/30/03	12/31/01	2,747,983	100.0

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

City of Sterling Heights, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress (Continued) June 30, 2003

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry-age
Amortization method	Level percent of payroll
Amortization period (perpetual)	16 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

Police and Fire Retirement System

Actuarial cost method	Entry-age
Amortization method	Level percent of payroll
Amortization period (perpetual)	20 years (perpetual)
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	0.2% - 4.0%
*Includes inflation at	4.0%
Cost of living adjustments	None

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

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2003

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The City adopts its budget by budgetary center for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds, which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

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

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

Budgeted amounts of the revenues and expenditures presented for the General, Special Revenue, Debt Service, and Capital Projects Funds are a summarization of the budgeted amounts as originally adopted or as amended by the City Council. Individual amendments were not material in relation to the original appropriations that were adopted. Budget appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Major Special Revenue Funds is presented as required supplemental information. The budget presented as required supplemental information reflects greater detail than the amended budget adopted.

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

City of Sterling Heights, Michigan

Note to Required Supplemental Information June 30, 2003

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:		
Police department	\$ 21,728,330	\$ 21,839,774
Fire department	11,973,130	12,017,541
Refuse collection	4,649,950	4,658,801

The unfavorable variances were caused by unanticipated expenditures that became necessary during the year.

Other Financial and Supplemental Information

Nonmajor Governmental Funds

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Budget Stabilization	Community Development Block Grant	Land and Water Conservation
Assets				
Cash and cash equivalents	\$ 2,176,481	\$ 750,000	\$ 830	\$ 1,441,469
Receivables:				
Customers	-	-	24,631	-
Special assessments:				
Current	-	-	-	-
Deferred	-	-	-	-
Accrued interest	927	-	-	869
Due from other funds	-	-	-	-
Due from other governmental units	408,583	-	71,709	-
Total assets	\$ 2,585,991	\$ 750,000	\$ 97,170	\$ 1,442,338
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 21,886	\$ -	\$ 75,738	\$ 19,853
Accrued and other liabilities	69,441	-	-	33,569
Due to other funds	62,121	-	4,864	43,400
Deferred revenue	88,930	-	-	-
Total liabilities	242,378	-	80,602	96,822
Fund Balances				
Reserved for encumbrances	43,938	-	12,000	11,727
Unreserved:				
Special Revenue Funds	-	750,000	4,568	1,296,274
Designated	2,299,675	-	-	37,515
Total fund balance	2,343,613	750,000	16,568	1,345,516
Total liabilities and fund balances	\$ 2,585,991	\$ 750,000	\$ 97,170	\$ 1,442,338

Other Financial and Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2003

Nonmajor Debt Service Funds				
Building Authority	General Drain	Road Bond Debt Retirement	RS&T Debt Service	Total Nonmajor Governmental Funds
\$ 775	\$ 8,035	\$ 217,797	\$ 6,490	\$ 4,601,877
-	-	-	-	24,631
-	-	37,293	-	37,293
-	-	56,665	-	56,665
-	-	5,637	-	7,433
-	-	1,456	-	1,456
-	-	-	-	480,292
\$ 775	\$ 8,035	\$ 318,848	\$ 6,490	\$ 5,209,647
\$ -	\$ -	\$ -	\$ -	\$ 117,477
-	-	-	-	103,010
-	-	-	-	110,385
-	-	56,665	-	145,595
-	-	56,665	-	476,467
-	-	-	-	67,665
-	-	-	-	2,050,842
775	8,035	262,183	6,490	2,614,673
775	8,035	262,183	6,490	4,733,180
\$ 775	\$ 8,035	\$ 318,848	\$ 6,490	\$ 5,209,647

City of Sterling Heights, Michigan

	Nonmajor Special Revenue Funds			
	Local Roads	Budget Stabilization	Community Development Block Grant	Land and Water Conservation
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	486,885	-
State sources	1,876,682	-	-	181,615
Interest income	32,399	-	-	22,267
Special assessments	-	-	-	-
Other	58,866	-	8,043	209,739
Total revenues	1,967,947	-	494,928	413,621
Expenditures				
Current:				
Public works	2,369,961	-	443,360	-
Other	-	-	-	-
Capital outlay	12,713	-	-	727,387
Debt service	-	-	-	-
Total expenditures	2,382,674	-	443,360	727,387
Excess of Revenues Over (Under) Expenditures	(414,727)	-	51,568	(313,766)
Other Financing Sources (Uses)				
Net proceeds from refunding bonds	-	-	-	-
Net payments to refunded bond escrow agent and bond issue costs	-	-	-	-
Transfers in	450,000	-	-	299,000
Transfers out	(80,350)	-	(35,000)	-
Total other financing sources (uses)	369,650	-	(35,000)	299,000
Change in Fund Balances	(45,077)	-	16,568	(14,766)
Fund Balances - Beginning of year	2,388,690	750,000	-	1,360,282
Fund Balances - End of year	<u>\$ 2,343,613</u>	<u>\$ 750,000</u>	<u>\$ 16,568</u>	<u>\$ 1,345,516</u>

**Other Financial and Supplemental Information
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2003**

Nonmajor Debt Service Funds				
Building Authority	General Drain	Road Bond Debt Retirement	RS&T Debt Service	Total Nonmajor Governmental Funds
\$ -	\$ 1,435,644	\$ -	\$ 1,448,763	\$ 2,884,407
-	-	-	-	486,885
-	-	-	-	2,058,297
527	8,530	66,709	3,066	133,498
-	-	54,144	-	54,144
-	-	-	-	276,648
527	1,444,174	120,853	1,451,829	5,893,879
-	-	-	-	2,813,321
1,450	-	102,659	1,800	105,909
-	-	-	-	740,100
681,723	1,473,704	2,819,055	1,460,569	6,435,051
683,173	1,473,704	2,921,714	1,462,369	10,094,381
(682,646)	(29,530)	(2,800,861)	(10,540)	(4,200,502)
-	-	4,916,772	-	4,916,772
-	-	(4,916,772)	-	(4,916,772)
675,170	-	2,580,350	-	4,004,520
-	-	-	-	(115,350)
675,170	-	2,580,350	-	3,889,170
(7,476)	(29,530)	(220,511)	(10,540)	(311,332)
8,251	37,565	482,694	17,030	5,044,512
\$ 775	\$ 8,035	\$ 262,183	\$ 6,490	\$ 4,733,180

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds Year Ended June 30, 2003

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 2,388,690	\$ 2,388,690	\$ 2,388,690	\$ -
Resources (Inflows)				
Federal sources	142,000	127,000	-	(127,000)
State sources	1,775,000	1,894,610	1,876,682	(17,928)
Interest income	75,000	35,000	32,399	(2,601)
Other	46,100	65,000	58,866	(6,134)
Transfer from other funds	450,000	450,000	450,000	-
Amounts available for appropriation	2,488,100	2,571,610	2,417,947	(153,663)
Charges to Appropriations (Outflows)				
Capital outlay	443,000	78,490	12,713	65,777
Public works	2,167,300	2,439,300	2,369,961	69,339
Transfers to other funds	80,350	80,350	80,350	-
Total charges to appropriations	2,690,650	2,598,140	2,463,024	135,116
Fund Balance - End of year	\$ 2,186,140	\$ 2,362,160	\$ 2,343,613	\$ (18,547)

Special Revenue Fund - Budget Stabilization

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year, End of year	\$ 750,000	\$ 750,000	\$ 750,000	\$ -

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2003

Special Revenue Fund - Community Development Block Grant

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Federal sources	711,000	711,000	486,885	(224,115)
Other	-	-	8,043	8,043
	<u>711,000</u>	<u>711,000</u>	<u>494,928</u>	<u>(216,072)</u>
Amounts available for appropriation	711,000	711,000	494,928	(216,072)
Charges to Appropriations (Outflows)				
Public works	676,000	676,000	443,360	232,640
Transfers to other funds	35,000	35,000	35,000	-
	<u>711,000</u>	<u>711,000</u>	<u>478,360</u>	<u>232,640</u>
Total charges to appropriations	711,000	711,000	478,360	232,640
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,568</u>	<u>\$ 16,568</u>

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 1,360,282	\$ 1,360,282	\$ 1,360,282	\$ -
Resources (Inflows)				
State sources	4,000	184,000	181,615	(2,385)
Interest income	30,000	26,000	22,267	(3,733)
Other	-	209,800	209,739	(61)
Transfer from other funds	299,000	299,000	299,000	-
	<u>333,000</u>	<u>718,800</u>	<u>712,621</u>	<u>(6,179)</u>
Amounts available for appropriation	333,000	718,800	712,621	(6,179)
Charges to Appropriations (Outflows) - Capital outlay	<u>1,041,000</u>	<u>837,530</u>	<u>727,387</u>	<u>110,143</u>
Fund Balance - End of year	<u>\$ 652,282</u>	<u>\$ 1,241,552</u>	<u>\$ 1,345,516</u>	<u>\$ 103,964</u>

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2003

Debt Service Fund - Building Authority

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 8,251	\$ 8,251	\$ 8,251	\$ -
Resources (Inflows)				
Interest income	5,000	1,000	527	(473)
Transfer from other funds	671,170	675,170	675,170	-
Amounts available for appropriation	676,170	676,170	675,697	(473)
Charges to Appropriations (Outflows)				
Other	1,450	1,450	1,450	-
Debt service	681,720	681,720	681,723	(3)
Total charges to appropriations	683,170	683,170	683,173	(3)
Fund Balance - End of year	\$ 1,251	\$ 1,251	\$ 775	\$ (476)

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 37,565	\$ 37,565	\$ 37,565	\$ -
Resources (Inflows)				
Property taxes	1,441,050	1,441,050	1,435,644	(5,406)
Interest income	20,000	10,000	8,530	(1,470)
Transfer from other funds	126,450	-	-	-
Amounts available for appropriation	1,587,500	1,451,050	1,444,174	(6,876)
Charges to Appropriations (Outflows)				
Other	1,500	1,500	-	1,500
Debt service	1,601,000	1,473,950	1,473,704	246
Total charges to appropriations	1,602,500	1,475,450	1,473,704	1,746
Fund Balance - End of year	\$ 22,565	\$ 13,165	\$ 8,035	\$ (5,130)

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2003

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 482,694	\$ 482,694	\$ 482,694	\$ -
Resources (Inflows)				
Interest income	44,620	96,420	66,709	(29,711)
Special assessments	45,200	45,200	54,144	8,944
Transfer from other funds	2,580,350	2,580,350	2,580,350	-
Net proceeds from refunding bonds	-	4,916,770	4,916,772	2
Amounts available for appropriation	2,670,170	7,638,740	7,617,975	(20,765)
Charges to Appropriations (Outflows)				
Other	4,560	102,880	102,659	221
Debt service	2,788,240	2,819,060	2,819,055	5
Net payment to refund bond escrow agent and bond issue costs	-	4,916,770	4,916,772	(2)
Total charges to appropriations	2,792,800	7,838,710	7,838,486	224
Fund Balance - End of year	\$ 360,064	\$ 282,724	\$ 262,183	\$ (20,541)

Debt Service Fund - RS&T Debt Service

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 17,030	\$ 17,030	\$ 17,030	\$ -
Resources (Inflows)				
Property taxes	1,453,970	1,453,970	1,448,763	(5,207)
Interest income	12,000	12,000	3,066	(8,934)
Amounts available for appropriation	1,465,970	1,465,970	1,451,829	(14,141)
Charges to Appropriations (Outflows)				
Other	4,800	4,800	1,800	3,000
Debt service	1,460,570	1,460,570	1,460,569	1
Total charges to appropriations	1,465,370	1,465,370	1,462,369	3,001
Fund Balance - End of year	\$ 17,630	\$ 17,630	\$ 6,490	\$ (11,140)

Major Funds

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Budgetary Comparison Schedule - Major Capital Projects Funds Year Ended June 30, 2003

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 5,341,874	\$ 5,341,874	\$ 5,341,874	\$ -
Resources (Inflows)				
Federal sources	20,900	160,410	14,835	(145,575)
State sources	-	89,610	-	(89,610)
Fines and forfeitures	11,000	254,280	292,095	37,815
Interest income	251,000	121,000	142,500	21,500
Special assessments	15,000	89,000	9,802	(79,198)
Other	1,376,000	1,226,420	1,143,567	(82,853)
Issuance of debt	1,537,810	1,820,000	-	(1,820,000)
Transfer from other funds	<u>2,709,650</u>	<u>2,709,650</u>	<u>2,709,650</u>	<u>-</u>
Amounts available for appropriation	5,921,360	6,470,370	4,312,449	(2,157,921)
Charges to Appropriations (Outflows) - Capital outlay	<u>4,504,320</u>	<u>8,031,130</u>	<u>5,276,953</u>	<u>2,754,177</u>
Fund Balance - End of year	<u>\$ 6,758,914</u>	<u>\$ 3,781,114</u>	<u>\$ 4,377,370</u>	<u>\$ 596,256</u>

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	\$ 287,082	\$ 287,082	\$ 287,082	\$ -
Resources (Inflows)				
Interest income	50,000	13,000	10,530	(2,470)
Miscellaneous revenue	-	32,250	33,249	999
Transfer from other funds	<u>480,000</u>	<u>827,040</u>	<u>827,040</u>	<u>-</u>
Amounts available for appropriation	530,000	872,290	870,819	(1,471)
Charges to Appropriations (Outflows) - Capital outlay	<u>2,680,000</u>	<u>1,159,370</u>	<u>762,887</u>	<u>396,483</u>
Fund Balance - End of year	<u>\$ (1,862,918)</u>	<u>\$ 2</u>	<u>\$ 395,014</u>	<u>\$ 395,012</u>

Fiduciary and Agency Funds

City of Sterling Heights, Michigan

	Trust Funds			
	Pensions and Other Retirement Benefits Funds			
	General			
	Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Totals
Assets				
Cash and cash equivalents	\$ 1,982,614	\$ 14,705,399	\$ 325,547	\$ 17,013,560
Investments	87,667,872	157,159,932	6,799,511	251,627,315
Cash and investments held as collateral for securities lending	9,895,655	21,422,615	-	31,318,270
Receivables - Accrued interest	62,829	862,123	-	924,952
Other assets	-	1,364	-	1,364
Due from other governmental units	-	-	38,605	38,605
Total assets	<u>99,608,970</u>	<u>194,151,433</u>	<u>7,163,663</u>	<u>300,924,066</u>
Liabilities				
Accounts payable	245,036	923,244	-	1,168,280
Accrued and other liabilities	521,022	8,054,853	7,055	8,582,930
Due to other governmental units	-	-	-	-
Cash bonds and deposits	-	-	-	-
Amounts due to broker under securities lending agreements	<u>9,895,655</u>	<u>21,422,615</u>	<u>-</u>	<u>31,318,270</u>
Total liabilities	<u>10,661,713</u>	<u>30,400,712</u>	<u>7,055</u>	<u>41,069,480</u>
Net Assets - Held in trust for pension and other retirement benefits	<u>\$ 88,947,257</u>	<u>\$ 163,750,721</u>	<u>\$ 7,156,608</u>	<u>\$ 259,854,586</u>

**Other Financial and Supplemental Information
Combining Statement of Net Assets
Fiduciary and Agency Funds
June 30, 2003**

Agency Funds

Tax Collections	General Agency	Totals
\$ 5,928	\$ 775,751	\$ 781,679
-	4,319,787	4,319,787
-	-	-
-	9,124	9,124
-	798	798
-	45,730	45,730
\$ 5,928	\$ 5,151,190	\$ 5,157,118
2,646	54,423	57,069
3,282	204,274	207,556
-	30,455	30,455
-	4,862,038	4,862,038
-	-	-
\$ 5,928	\$ 5,151,190	\$ 5,157,118

City of Sterling Heights, Michigan

Other Financial and Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2003

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Totals
Additions				
Investment income (loss):				
Interest and dividends	\$ 733,978	\$ 6,141,241	\$ 125,047	\$ 7,000,266
Net adjustment to fair value of investments	1,509,772	(1,996,386)	(178,419)	(665,033)
Less investment expenses	<u>-</u>	<u>(813,284)</u>	<u>-</u>	<u>(813,284)</u>
Net investment income (loss)	2,243,750	3,331,571	(53,372)	5,521,949
Securities lending income:				
Interest and fees	123,840	302,389	-	426,229
Less borrower rebates and bank fees	<u>(102,674)</u>	<u>(265,314)</u>	<u>-</u>	<u>(367,988)</u>
Net securities lending income	21,166	37,075	-	58,241
Contributions:				
Employer	-	2,747,983	2,534,840	5,282,823
Employee	<u>750,051</u>	<u>1,370,811</u>	<u>-</u>	<u>2,120,862</u>
Total additions	3,014,967	7,487,440	2,481,468	12,983,875
Deductions				
Benefit payments	2,851,784	8,228,069	2,492,300	13,572,153
Refunds of contributions	1,418,489	1,500,332	-	2,918,821
Administrative expenses	<u>-</u>	<u>35,163</u>	<u>23,431</u>	<u>58,594</u>
Total deductions	<u>4,270,273</u>	<u>9,763,564</u>	<u>2,515,731</u>	<u>16,549,568</u>
Change in Net Assets	(1,255,306)	(2,276,124)	(34,263)	(3,565,693)
Net Assets - Beginning of year	<u>90,202,563</u>	<u>166,026,845</u>	<u>7,190,871</u>	<u>263,420,279</u>
Net Assets - End of year	<u>\$ 88,947,257</u>	<u>\$ 163,750,721</u>	<u>\$ 7,156,608</u>	<u>\$ 259,854,586</u>

Statistical Section

City of Sterling Heights, Michigan

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City of Sterling Heights, Michigan

Fiscal Year Ended June 30	Property Taxes	Fees and Permits	Federal Sources	State Sources	Fines and Forfeitures	Charges for Services
1994	\$ 31,757,169	\$ 1,109,339	\$ 1,050,621	\$ 14,513,174	\$ 2,121,356	\$ 5,049,592
1995	32,614,114	1,498,481	1,165,506	15,354,992	1,901,462	4,672,455
1996	34,308,096	1,947,437	1,267,483	16,286,704	1,980,313	5,096,603
1997	36,103,132	1,806,845	1,122,579	16,502,823	2,573,676	5,460,371
1998	38,377,602	1,927,254	1,674,740	18,040,933	2,608,848	5,097,114
1999	39,847,195	1,950,414	1,002,599	18,653,817	2,776,653	5,371,619
2000	41,266,995	1,855,159	1,178,322	19,281,979	2,798,853	5,451,881
2001	42,155,402	2,253,273	1,311,949	20,406,046	2,781,114	5,791,473
2002	44,773,685	1,916,542	1,082,736	20,548,011	2,299,389	5,514,851
2003	46,791,310	2,036,864	738,142	20,161,887	2,295,661	5,875,269

Fiscal Year Ended June 30	City Administration	Recreation and Culture	Public Safety	Public Works	41A District Court	General Expenditures
1994	\$ 6,543,410	\$ 3,325,708	\$ 24,980,863	\$ 14,476,404	\$ 1,957,868	\$ 2,430,277
1995	6,428,695	3,253,128	25,430,823	13,685,067	1,847,417	2,878,947
1996	6,589,589	3,234,981	26,404,280	14,167,945	1,888,926	2,947,338
1997	6,851,373	3,400,334	27,747,751	15,346,854	2,026,851	2,241,657
1998	6,938,739	3,633,902	27,118,090	14,503,055	2,072,201	2,301,900
1999	7,030,523	3,619,970	26,932,023	14,885,110	2,044,259	2,423,147
2000	7,668,049	3,795,871	28,084,680	15,456,764	1,999,838	2,487,675
2001	8,368,507	4,035,209	30,386,650	16,492,407	2,131,093	2,443,371
2002	8,550,972	4,323,476	30,913,608	16,910,029	2,178,525	2,527,586
2003	8,733,703	4,447,809	33,857,315	18,334,751	2,173,817	2,665,340

**General Government Revenues by Source
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Interest Income	Special Assessments	Rental Income	Cable Revenue	Other	Total
\$ 886,916	\$ 609,262	\$ 938,178	\$ 606,176	\$ 489,602	\$ 59,131,385
1,585,663	333,642	875,815	582,304	392,272	60,976,706
1,903,436	373,703	808,867	667,533	2,614,547	67,254,722
2,016,876	598,307	965,417	790,999	607,990	68,549,015
2,226,996	437,830	944,852	673,080	609,014	72,618,263
2,396,228	443,641	1,075,936	868,817	873,853	75,260,772
2,894,378	319,727	1,035,063	972,802	738,693	77,793,852
2,962,589	164,086	1,240,272	1,264,214	515,770	80,846,188
1,735,285	179,973	1,047,761	1,302,183	1,910,625	82,311,041
1,607,324	58,695	1,253,148	1,120,768	750,239	82,689,307

**General Government Expenditures by Function
General, Special Revenue, and Debt Service Funds
Last Ten Fiscal Years**

Capital Outlay	Debt Service	Other	Total
\$ 1,059,021	\$ 5,061,326	\$ 10,521	\$ 59,845,398
1,968,645	5,448,155	12,062	60,952,939
2,824,310	5,629,461	10,992	63,697,822
3,803,124	5,899,994	25,804	67,343,742
2,115,625	6,086,376	11,542	64,781,430
976,373	6,832,960	14,940	64,759,305
1,124,491	7,294,382	17,356	67,929,106
1,830,621	8,047,612	10,930	73,746,400
2,371,360	7,295,172	11,610	75,082,338
5,724,006	6,435,051	105,909	82,477,701

City of Sterling Heights, Michigan

Assessed and Estimated Actual Valuation of Taxable Property Last Ten Fiscal Years and Next Projected Year

Fiscal Year Ended June 30	Real Assessed Valuation	Personal Assessed Valuation	IFT Real Assessed Valuation	IFT Personal Assessed Valuation	Total Valuation	Percent of True Value (1)	Abated Values as a Percent of Total Valuation
1994	\$ 2,252,534,300	\$ 387,517,700	\$ 56,602,300	\$ 95,578,900	\$ 2,792,233,200	50.0	2.73
1995	2,287,224,250	388,555,000	59,532,000	166,558,300	2,901,869,550	50.0	3.90
1996	2,381,907,700	409,682,700	54,410,000	258,216,100	3,104,216,500	50.0	5.04
1997	2,528,726,060	467,940,900	54,432,100	257,356,200	3,308,455,260	50.0	4.71
1998	2,758,541,500	519,723,400	40,596,700 (2)	270,313,600	3,589,175,200	50.0	4.33
1999	3,018,853,155	587,584,200	40,873,200	286,762,600	3,934,073,155	50.0	4.16
2000	3,303,444,980	607,982,900	27,458,800	341,343,400	4,280,230,080	50.0	4.31
2001	3,585,127,600	594,310,700	25,147,500	385,260,600	4,589,846,400	50.0	4.47
2002	3,931,605,800	593,683,800	28,975,000	493,243,600	5,047,508,200	50.0	5.17
2003	4,429,871,460	583,195,500	31,572,700	488,162,500	5,532,802,160	50.0	4.70
2004 (3)	4,719,791,800	607,793,500	34,920,400	417,431,100	5,779,936,800	50.0	3.91

(1) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of appraised or estimated value.

(2) A 14-year \$9,066,900 rehabilitation IFEC expired, causing a decrease in the IFT Real Assessed Valuation.

(3) The 2004 figures reflect estimated final assessed values. The values will only change for MTT, STC, and/or Board of Review adjustments. These estimates have been included to facilitate continuing disclosure reporting.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Government Expenditures Last Ten Fiscal Years

Fiscal Year Ended June 30	Debt Service Requirements			Total General Governmental Expenditures (1)	Percent of Debt Service to General Governmental Expenditures
	Principal	Interest	Total		
1994	\$ 2,252,054	\$1,601,434	\$ 3,853,488	\$ 59,845,398	6.44
1995	2,352,054	1,465,192	3,817,246	60,952,939	6.26
1996	2,495,996	1,388,587	3,884,583	63,697,822	6.10
1997	2,670,996	1,231,168	3,902,164	67,343,742	5.79
1998	2,735,996	1,242,220	3,978,216	64,781,430	6.14
1999	3,545,996	1,176,225	4,722,221	64,759,305	7.29
2000	4,149,439	1,547,286	5,696,725	67,929,106	8.39
2001	4,177,439	1,179,784	5,357,223	73,746,400	7.26
2002	3,516,382	1,218,060	4,734,442	75,082,338	6.31
2003	2,716,382	1,129,974	3,846,356	82,477,701	4.66

(1) Includes General, Debt Service, and Special Revenue Funds, excluding component units

City of Sterling Heights, Michigan

Special Assessment Billings and Collections Last Ten Fiscal Years

Year Ended June 30	Beginning Outstanding Assessments	New Special Assessment Billings	Total Assessments	Assessments Collected	Percent of Collections to Total	Ending Outstanding Assessments
1994	\$ 2,627,936	\$ 891,102	\$ 3,519,038	\$ 1,084,440	30.82	\$ 2,434,598
1995	2,434,598	- (1)	2,434,598	791,272	32.50	1,643,326
1996	1,643,326	999,180	2,642,506	913,055	34.55	1,729,451
1997	1,729,451	1,660,192	3,389,643	977,019	28.82	2,412,624
1998	2,412,624	540,694	2,953,318	888,591	30.09	2,064,727
1999	2,064,727	- (1)	2,064,727	685,118	33.18	1,379,609
2000	1,379,609	51,748	1,431,357	467,940	32.69	963,417
2001	963,417	- (1)	963,417	288,129	29.91	675,288
2002	675,288	- (1)	675,288	363,274	53.80	312,014
2003	312,014	- (1)	312,014	122,962	39.41	189,052

(1) No new special assessment districts were established during the 1994-1995, 1998-1999, 2000-2001, 2001-2002, or 2002-2003 fiscal years.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Property Tax Levies Last Ten Fiscal Years

Fiscal Year Ended June 30	City Taxes (1)	City IFT and CFT (1)	Police and Fire Pension (1)	City General Drain (1)	School Tax	County Tax	Total
1994	\$ 26,048,298	\$ 794,649	\$ 3,695,111	\$ 1,096,269	\$ 52,455,506	\$ 12,093,680	\$ 96,183,513
1995	26,521,758	1,162,539	3,787,819	1,051,393	15,033,486 (2)	12,419,782	59,976,777
1996	27,833,656	1,609,096	3,743,541	999,806	16,346,202	14,022,905	64,555,206
1997	29,405,284	1,599,627	4,173,215	861,534	17,125,056	14,809,227	67,973,943
1998	32,666,213	1,600,243	3,212,234	704,354	18,188,810	15,850,326	72,222,180
1999	34,600,402	1,674,175	2,513,402	1,037,476	19,579,647	16,876,862	76,281,964
2000	36,128,260	1,865,917	2,117,340	1,094,620	20,570,907	17,842,990	79,620,034
2001	37,180,763	2,043,605	2,212,463	831,413	21,462,391	18,717,123	82,447,758
2002	39,314,588	2,782,394	1,483,332	1,210,766	21,892,045	18,728,518	85,411,643
2003	40,192,097	2,762,391	2,590,822	1,355,091	20,770,576	20,855,698	88,526,675

(1) Does not include penalty or interest on late payment of taxes

(2) Proposal A reduced the reliance on property taxes in the funding mechanism for school districts across the state.

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	
1994	361	\$ 36,942,810	1,133	\$ 3,506,608	\$ 40,449,418
1995	411	53,121,467	1,114	4,296,829	57,418,296
1996	680	67,433,435	1,034	3,911,022	71,344,457
1997	519	52,033,967	1,341	4,680,091	56,714,058
1998	613	70,925,657	1,229	5,018,127	75,943,784
1999	450	55,025,833	1,499	5,170,833	60,196,666
2000	304	38,156,806	1,864	6,261,197	44,418,003
2001	414	63,789,140	2,266	9,055,033	72,844,173
2002	513	51,306,550	1,766	2,737,615	54,044,165
2003	763	76,609,958	1,078	3,017,213	79,627,171

Fiscal Year Ended June 30	Commercial				Total Commercial
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	
1994	10	\$ 5,402,135	172	\$ 22,883,451	\$ 28,285,586
1995	24	23,608,190	140	19,623,263	43,231,453
1996	50	41,871,378	171	26,378,603	68,249,981
1997	53	42,132,080	255	16,897,874	59,029,954
1998	43	28,833,159	255	21,239,729	50,072,888
1999	36	39,098,478	277	22,097,699	61,196,177
2000	68	31,976,338	237	28,031,281	60,007,619
2001	96	40,493,780	156	20,199,408	60,693,188
2002	42	25,736,795	295	16,143,812	41,880,607
2003	19	17,228,169	265	18,095,804	35,323,973

Source: City Office of Building Services

City of Sterling Heights, Michigan

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Estimated Population	General Bonded Debt Outstanding	Percent of General Obligation Debt to Assessed Value	General Obligation Debt per Capita
1994	\$ 2,792,233,200	120,500	\$ 29,727,990	1.06	\$ 246.71
1995	2,901,869,550	121,200	27,137,946	0.94	223.91
1996	3,104,216,500	121,880	24,380,500	0.79	200.04
1997	3,308,455,260	122,380	24,459,854	0.74	199.87
1998	3,589,175,200	122,900	24,498,858	0.68	199.34
1999	3,934,073,160	123,530	24,902,862	0.63	201.59
2000	4,280,230,080	123,700	24,618,423	0.58	199.02
2001	4,589,846,400	125,140	25,165,984	0.55	201.10
2002	5,047,508,200	125,800	23,449,602	0.46	186.40
2003	5,532,802,160	126,470	20,983,220	0.38	165.91

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Demand and Savings Deposits Last Ten Fiscal Years

Fiscal Year Ended June 30	Deposits - In Thousands (1)		Total
	Banks	Savings and Loans	
1994	\$ 922,573	\$ 428,483	\$ 1,351,056
1995	984,664	490,314	1,474,978
1996	1,051,951	533,731	1,585,682
1997	1,091,325	567,692	1,659,017
1998	1,149,307	579,818	1,729,125
1999	1,150,737	621,633	1,772,370
2000	1,277,970	645,717	1,923,687
2001	1,263,520	721,334	1,984,854
2002	1,855,270	133,702	1,988,972
2003 (2)	-	-	-

(1) Deposit information is from FDIC/OTS Summary of Deposits.

(2) Information for 2003 was not available at time of printing.

City of Sterling Heights, Michigan

Personnel Summary June 30, 2003

Approved Positions by Budgetary Activity	Full-time	Part-time
City Management Administration:		
City Management	6	-
Facilities Maintenance	19	-
City Clerk	10	-
Emergency Management	1	-
Financial Services	12	1
Assessing	8	1
Purchasing	3	-
Treasury	10	-
Police:		
Administrative Services	19	-
Special Services	40	-
Enforcement Services	151	33
Support Services	19	1
Fire:		
Administration	10	1
Extinguishment	93	-
Prevention	7	-
City Development:		
Administration	3	-
Building	17	1
Engineering	17	2
Planning and Zoning	11	-
Public Works:		
Fleet Maintenance	15	1
Parks and Grounds	14	8
P/W Center and Refuse	4	3
Street Services	21	2
Parks and Recreation	16	-
Public Library	23	19
Community and Information Services:		
Community Relations	14	6
Information Technology	8	-
41A District Court	37	-
Water and Sewer	35	6
	<u>643</u>	<u>85</u>
Total approved positions		

Source: City of Sterling Heights

Continuing Disclosure Section

City of Sterling Heights, Michigan

Continuing Disclosure Section Contents

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City of Sterling Heights, Michigan

Principal Taxpayers Year Ended June 30, 2003

Company Name	Product / Service	Real Taxable Valuation	Personal Assessed Valuation	IFT Equalized Valuation	Total Valuation	Percent of Total City Valuation
DaimlerChrysler	Automotive assembly and stamping	\$ 61,401,900	\$ 84,891,600	\$ 117,706,850	\$ 264,000,350	5.67
Visteon Corporation	Automotive axles and drive shafts	23,927,500	86,727,000	56,810,350	167,464,850	3.59
Ford Motor Company	Automotive chassis	21,061,500	77,709,900	19,867,550	118,638,950	2.55
Detroit Edison	Public utility for electricity	303,100	45,772,100	-	46,075,200	0.99
Lakeside Associates	Retail shopping center	31,578,500	187,300	-	31,765,800	0.68
General Dynamics	Defense-related manufacturing	15,970,000	11,730,800	-	27,700,800	0.59
Consumers Energy	Public utility for gas	526,300	18,547,700	-	19,074,000	0.41
Detroit News	Printing plant - Newspapers	12,284,700	4,577,000	-	16,861,700	0.36
Ledds Development	Office and business complex	15,550,700	-	340,350	15,891,050	0.34
T.R.W.	Auto sub-component assembly	3,883,600	9,350,100	1,056,550	14,290,250	0.31
Laurel/Shoal Creek	Office and apartment complex	15,449,500	-	-	15,449,500	0.33
Mayco Plastics	Plastic automotive parts manufacturer	7,120,900	5,393,200	103,900	12,618,000	0.27
	Total	\$ 209,058,200	\$ 344,886,700	\$ 195,885,550	\$ 749,830,450	16.09

Source: City's Assessing Office

City of Sterling Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years and Next Projected Year

Fiscal Year Ended June 30	Total Tax Levy (1)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1994	\$31,634,327	\$30,981,261	97.94	\$ 629,292	\$31,610,553	99.92
1995	32,506,128	31,922,255	98.20	550,983	32,473,238	99.90
1996	34,152,903	33,620,727	98.44	511,536	34,132,263	99.94
1997	36,028,869	35,529,859	98.61	436,122	35,965,981	99.83
1998	38,183,037	37,679,804	98.68	428,812	38,108,616	99.81
1999	39,769,794	39,186,402	98.53	533,033	39,719,435	99.87
2000	41,262,657	40,512,689	98.18	594,083	41,106,772	99.62
2001	42,334,773	41,427,546	97.86	581,589	42,009,135	99.23
2002	44,791,080	43,840,834	97.88	602,398	44,443,232	99.22
2003	46,900,401	45,827,067	97.71	710,729	46,537,796	99.23
2004	48,507,829 (2)	-	-	-	-	-

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

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

Source: City of Sterling Heights

City of Sterling Heights, Michigan

General Fund - Fund Balance Compared to Annual Expenditures and Other Financing Uses Last Ten Fiscal Years

Fiscal Year Ended June 30	Reserved Fund Balance	Unreserved Fund Balance	Annual Expenditures and Other Financing Uses	Unreserved Fund Balance as a Percent of Expenditures and Other Financing Uses
1994	\$ 528,660	\$ 7,164,559	\$ 51,531,661	13.90
1995	562,909	7,431,965	51,063,684	14.55
1996	601,482	10,660,411	52,461,057	20.32
1997	1,154,870	11,983,898	55,874,556	21.45
1998	613,308	14,482,786	59,074,524	24.52
1999	581,251	16,687,536	60,994,024	27.36
2000	617,242	14,915,455	62,928,897	23.70
2001	528,424	15,923,759	67,374,288	23.63
2002	489,404	17,346,558	70,500,575	24.60
2003	580,930	17,641,156	71,069,534	24.82

City of Sterling Heights, Michigan

Computation of Legal Debt Margin June 30, 2003

Debt limit:		
2002 State Equalized Valuation		\$ 5,013,066,960
Plus Assessed Value Equivalent - 2002 SEV of Act 198 exemptions		<u>519,735,200</u>
Total valuation		5,532,802,160
Debt limit (10 percent of State Equalized Valuation and equivalent) (1)	x	<u>10%</u>
		553,280,216
Debt applicable to debt limit:		
Amount of outstanding debt		\$ 39,098,220
Less: Special Assessment Bonds	\$ 575,000	
Michigan Transportation Fund Bonds	<u>17,540,000</u>	<u>18,115,000</u>
Total amount of debt applicable to limit		<u>20,983,220</u>
Legal Debt Margin		<u>\$ 532,296,996</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.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

State of Michigan - Revenue-sharing Payments Last Nine Fiscal Years *

<u>Fiscal Year Ended June 30</u>	<u>Revenue- sharing Payments</u>
1995	\$ 10,951,017
1996	10,445,148
1997	10,969,545
1998	11,274,771
1999	12,040,644
2000	12,489,726
2001	13,329,919
2002	13,315,069
2003	12,253,193

* Information required for five-year disclosure effective with bonds issued fiscal year ending 1999.

City of Sterling Heights, Michigan

		Total			
		1996	1997	1998	
		\$ 2,791,590,400	\$ 2,996,666,960	\$ 3,278,264,900	
SEV	Taxable Value (1) (2) (4)				
By Class	1994	1995	1996	1997	1998
Real property	\$ 2,252,534,300	\$ 2,287,224,250	\$ 2,362,143,250	\$ 2,470,645,251	\$ 2,630,990,602
Personal property	<u>387,517,700</u>	<u>388,555,000</u>	<u>409,682,700</u>	<u>467,940,900</u>	<u>519,723,400</u>
Total	<u>\$ 2,640,052,000</u>	<u>\$ 2,675,779,250</u>	<u>\$ 2,771,825,950</u>	<u>\$ 2,938,586,151</u>	<u>\$ 3,150,714,002</u>
By Use					
Residential	\$ 1,654,311,250	\$ 1,686,367,050	\$ 1,746,206,050	\$ 1,834,527,551	\$ 1,946,983,602
Commercial	359,248,250	359,275,400	363,373,000	366,506,200	387,318,800
Industrial	238,974,800	241,581,800	252,564,200	269,611,500	296,688,200
Personal property	<u>387,517,700</u>	<u>388,555,000</u>	<u>409,682,700</u>	<u>467,940,900</u>	<u>519,723,400</u>
Total	<u>\$ 2,640,052,000</u>	<u>\$ 2,675,779,250</u>	<u>\$ 2,771,825,950</u>	<u>\$ 2,938,586,151</u>	<u>\$ 3,150,714,002</u>

- (1) Figures do not include industrial facilities tax (IFT) values.
- (2) Due to the 1994 passing of Proposal A, 1995 and subsequent ad valorem millage is based on the Taxable Value rather than the State Equalized Valuation.
- (3) The 2004 figures represent estimated final taxable values. The values will only change for MTT, STC, and/or Board of Review adjustments. These estimates have been included to facilitate continuing disclosure reporting.
- (4) All State Equalized and Taxable Values reflect the year in which tax revenue streams were generated. For example: the 1993 SEVs (stated above in the 1994 column) were used to generate tax revenue for the year ended June 30, 1994. Therefore, the values above are actually the prior year's State Equalized or Taxable Values.

Source: City of Sterling Heights

**Taxable and State Equalized Value Analysis by Class
Last Ten Fiscal Years and Next Projected Year**

State Equalized Value (1) (4)					
1999	2000	2001	2002	2003	2004
\$ 3,606,437,355	\$ 3,911,427,880	\$ 4,179,438,300	\$ 4,525,289,600	\$ 5,013,066,960	\$ 5,327,585,300

1999	2000	2001	2002	2003	2004 (3)
\$ 2,785,478,300	\$ 2,947,355,900	\$ 3,120,101,554	\$ 3,327,981,900	\$ 3,555,676,000	\$ 3,733,285,000
587,584,200	607,982,900	594,310,700	593,683,800	583,195,500	607,793,500
\$ 3,373,062,500	\$ 3,555,338,800	\$ 3,714,412,254	\$ 3,921,665,700	\$ 4,138,871,500	\$ 4,341,078,500

\$ 2,068,663,200	\$ 2,192,313,900	\$ 2,329,156,554	\$ 2,502,544,100	\$ 2,685,708,600	\$ 2,820,357,100
404,666,300	420,041,700	446,957,000	465,723,900	496,719,500	529,584,800
312,148,800	335,000,300	343,988,000	359,713,900	373,247,900	383,343,100
587,584,200	607,982,900	594,310,700	593,683,800	583,195,500	607,793,500
\$ 3,373,062,500	\$ 3,555,338,800	\$ 3,714,412,254	\$ 3,921,665,700	\$ 4,138,871,500	\$ 4,341,078,500

City of Sterling Heights, Michigan

	1994	1995		1996		1997		1998	
		Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead
City of Sterling Heights									
Operating (1)	7.58373	7.90123	7.90123	8.07170	8.07170	8.20702	8.20702	8.60204	8.60204
Refuse	1.61361	1.22248	1.22248	1.16988	1.16988	1.13469	1.13469	1.03121	1.03121
Police and Fire Retirement System	1.35687	1.35279	1.35279	1.27194	1.27194	1.34207	1.34207	0.96462	0.96462
Drain debt service	0.40257	0.37548	0.37548	0.33970	0.33970	0.27702	0.27702	0.21146	0.21146
Public improvement debt Service	0.65867	0.76347	0.76347	0.76223	0.76223	0.62920	0.62920	0.66067	0.66067
Total	11.61545	11.61545	11.61545	11.61545	11.61545	11.59000	11.59000	11.47000	11.47000
County of Macomb	4.21500	4.21200	4.21200	4.21100	4.21100	4.20900	4.20900	4.20800	4.20800
Utica Community School District (2)									
State education tax	-	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000
Operating/Local	41.50000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000
Supplemental	-	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Debt	-	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000
Warren Consolidated School District (2)									
State education tax	-	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000
Operating/Local	34.26840	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000
Supplemental	-	9.48800	0.00000	9.41760	0.00000	9.01060	0.00000	8.82660	0.00000
Sinking	-	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
Debt	-	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Macomb Intermediate School District	2.03670								
Macomb Community College	1.68570	1.72570	1.72570	1.67570	1.67570	1.64570	1.64570	1.65390	1.65390
Huron/Clinton Metro Authority	0.22360								
S.M.A.R.T.	-	-	-	0.33000	0.33000	0.33000	0.33000	0.33000	0.33000
Total all jurisdictions (Utica)	<u>61.27645</u>	<u>29.31345</u>	<u>47.31345</u>	<u>29.59245</u>	<u>47.59245</u>	<u>29.53500</u>	<u>47.53500</u>	<u>29.42220</u>	<u>47.42220</u>
Total all jurisdictions (Warren)	<u>54.04485</u>	<u>36.30145</u>	<u>44.81345</u>	<u>36.51005</u>	<u>45.09245</u>	<u>36.04560</u>	<u>45.03500</u>	<u>35.74880</u>	<u>44.92220</u>

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

(2) A portion of Sterling Heights taxable valuation equals 62 percent for Utica Schools and 38 percent for Warren Consolidated Schools for the year ended June 30, 2003.

Source: City of Sterling Heights

**Property Tax Rates
Direct and Overlapping Governments
(Per \$1,000 of Taxable Valuation)
Last Ten Fiscal Years**

1999		2000		2001		2002		2003	
Homestead	Non-homestead								
8.47965	8.47965	8.26879	8.26879	8.08550	8.08550	8.43430	8.43430	8.29230	8.29230
1.00665	1.00665	1.04657	1.04657	1.07470	1.07470	1.04670	1.04670	1.05870	1.05870
0.70797	0.70797	0.56364	0.56364	0.56070	0.56070	0.37610	0.37610	0.62400	0.62400
0.29230	0.29230	0.29142	0.29142	0.21070	0.21070	0.30700	0.30700	0.32640	0.32640
<u>0.73343</u>	<u>0.73343</u>	<u>0.79958</u>	<u>0.79958</u>	<u>0.78840</u>	<u>0.78840</u>	<u>0.48590</u>	<u>0.48590</u>	<u>0.32860</u>	<u>0.32860</u>
11.22000	11.22000	10.97000	10.97000	10.72000	10.72000	10.65000	10.65000	10.63000	10.63000
4.20800	4.20800	4.20800	4.20800	4.20700	4.20700	4.20700	4.20700	4.20580	4.20580
6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000
0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000
3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000	3.50000
6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000
0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000	0.00000	18.00000
8.77760	0.00000	8.34560	0.00000	7.81630	0.00000	7.89710	0.00000	7.46620	0.00000
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.99640	0.99640
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	2.50000	2.50000
2.03630	2.03630	2.02100	2.02100	2.02100	2.02100	2.00330	2.00330	2.98630	2.98630
1.61340	1.61340	1.58400	1.58400	1.51400	1.51400	1.67070	1.67070	1.69250	1.69250
0.22350	0.22350	0.22180	0.22180	0.22020	0.22020	0.22020	0.22020	0.21700	0.21700
<u>0.32990</u>	<u>0.32990</u>	<u>0.32730</u>	<u>0.32730</u>	<u>0.32730</u>	<u>0.32730</u>	<u>0.32730</u>	<u>0.32730</u>	<u>0.60000</u>	<u>0.60000</u>
<u>29.13110</u>	<u>47.13110</u>	<u>28.83210</u>	<u>46.83210</u>	<u>28.50950</u>	<u>46.50950</u>	<u>28.57850</u>	<u>46.57850</u>	<u>29.83160</u>	<u>47.83160</u>
<u>35.40870</u>	<u>44.63110</u>	<u>34.67770</u>	<u>44.33210</u>	<u>33.82580</u>	<u>44.00950</u>	<u>33.97560</u>	<u>44.07850</u>	<u>37.29420</u>	<u>47.82800</u>

City of Sterling Heights, Michigan

Computation of Direct and Overlapping Debt June 30, 2003

Direct Debt

General Obligation Bonds:

04/01/94	Roads	\$ 375,000	
05/01/97	Roads	1,050,000	
04/21/98	Roads	1,650,000	
05/01/99	Roads	<u>1,825,000</u>	\$ 4,900,000

Authority Bonds:

06/19/90	Judicial Center	775,000	
10/15/93	Refunding	1,455,000	
02/02/00	City Center Commons	<u>3,450,000</u>	5,680,000

Special Assessment Bonds:

06/01/96	Improvements	200,000	
05/01/97	Improvements	<u>375,000</u>	575,000

Michigan Transportation Fund Bonds:

04/01/89	Bonds	275,000	
05/21/91	Bonds	350,000	
05/01/95	Bonds	200,000	
06/01/96	Bonds	1,800,000	
04/21/98	Bonds	1,775,000	
05/01/99	Bonds	4,400,000	
04/18/00	Bonds	4,000,000	
07/30/02	Refunding	<u>4,740,000</u>	17,540,000

Share of County-issued Bonds

10,403,220

Total Direct Debt

\$ 39,098,220

Less:

Special Assessment Bonds
MTF Bonds

575,000

17,540,000

18,115,000

Net Direct Debt

\$ 20,983,220

Overlapping Debt

43.18%	Utica School District	149,915,000	64,733,297
42.19%	Warren School District	109,034,000	46,001,445
17.10%	Macomb County at large	52,776,340	9,024,754
17.10%	Macomb Community College	6,855,000	1,172,205
16.73%	Intermediate School District	4,000,000	<u>669,200</u>

Total Overlapping Debt

121,600,901

Net Direct and Overlapping Debt

\$ 142,584,121

Source: Municipal Advisory Council of Michigan, Detroit, Michigan

City of Sterling Heights, Michigan

Demographic Statistics Last Ten Fiscal Years

Fiscal Year Ended June 30	Estimated Population	Number of Households	Effective Buying Income per Household (1)	Unemployment Rate (Percent)
1994	120,500	41,907	\$ 50,879	5.3
1995	121,200	42,606	55,759	4.1
1996	121,880	42,278	49,170 (2)	3.6
1997	122,380	43,700	52,312	3.2
1998	122,900	44,237	52,501	2.8
1999	123,530	44,943	53,940	2.7
2000	123,700	45,594	53,977	2.4
2001	125,140	46,072	56,200	3.2
2002	125,800	48,775	49,913	4.6
2003	126,470	49,450	51,035	4.8

- (1) Effective buying income for years through 1995 is personal income less personal income taxes and Social Security taxes. Developed by Sales & Marketing Management, New York, NY and published annually.
- (2) Effective with the 1996 figures, EBI is defined as money income less personal tax and nontax payments - a number often referred to as "disposable" or "after-tax" income.

City of Sterling Heights, Michigan

Major Employers - Top Twenty-five June 30, 2003

Firm Name	Product/Service	Approximate Number of Employees
DaimlerChrysler	Automotive assembly and stamping	6,875
Utica Community Schools	Education	4,150
Visteon Corporation	Automotive axles and drive shafts	2,800
Lakeside Associates	Retail shopping center	2,500 *
Warren Consolidated Schools	Education	2,200
General Dynamics	Administrative engineering and design	1,425
Ford Motor Company	Automotive manufacturing	1,250
Detroit News	Printing plant - Newspapers	1,200
MNP Corporation	Nut, bolt, and wire manufacturer	1,200
Cadillac Products, Inc.	Plastic bags, sheets, paper	750
T.R.W. Sterling Plant	Steering arms	720
City of Sterling Heights	Local government	643
Collins & Aikman	Automotive interior	580
U.S. Farathane Corp.	Paints and finishes	550
Lamar Modular & Plastics Div.	Plastic injections	389
Breed Technologies	Automotive air bags and seat belts	372
Sport Rack Automotive	Automotive accessories	350
Modular Plastics	Plastic mold	330
Advanced Friction Materials	Gears and brakes	310
Shuert/Oakland, Inc.	Plastic pipe, plumbing	300
Chivas Products, Ltd.	Moldings	300
Mayco Plastics, Inc.	Plastic mold prototypes	240
Kuka Welding	Boilers, radiators	198
Tauras Product	Metal - Finishing	180
Milliken	Millworks	150

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

Source: City of Sterling Heights, Chamber of Commerce

City of Sterling Heights, Michigan

Labor Agreements June 30, 2003

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	06/30/07	116
Police Clerical Employees Michigan Association of Police (MAP)	06/30/06	28
Emergency Dispatchers Police Officers Association of Michigan (POAM)	06/30/07	22
Department of Public Works Field Employees Teamsters, Local 214	06/30/02*	67
Department of Public Works Supervisors AFSCME, Local 1917, Council 25	06/30/07	9
Firefighters International Association of Firefighters, Local 1557	06/30/07	101
Police Officers Michigan Association of Police (MAP)	06/30/06	129
Police Command Officers Sterling Heights Police Command Officers Association	06/30/07	38
Court Clerical AFSCME, Local 1884, Council 25	06/30/06	23
Professional and Technical Employees United Auto Workers, Unit 40, Local 412	06/30/08	59
Supervisory Employees United Auto Workers, Unit 41, Local 412	06/30/06	24
41A District Court Probation Officer United Auto Workers, Unit 50, Local 412	06/30/01*	1
Executive Employees Michigan Association of Public Employees (MAPE)	06/30/08	5
Nonunion Employees		
City Manager	N/A	1
41A District Court Judges	N/A	2
41A District Court Administration	N/A	7

* Under negotiations

Source: City of Sterling Heights