Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type:	Local Government Name:	County
☒ City ☐ Township ☐ Village ☐ Other	City of Sterling Heights	Macomb

Audit Date	Opinion Date	Date Accountant Report Submitted To State:
June 30, 2004	September 24, 2004	October 7, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])
☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	**Enclosed**	**To Be Forwarded**	**Not Required**
The letter of comments and recommendations.	☒	☐	☐
Reports on individual federal assistance programs (program audits).	☐	☐	☒
Single Audit Reports (ASLGU).	☒	☐	☐

Certified Public Accountant (Firm Name): **Plante & Moran, PLLC**			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043

Accountant Signature

Plante & Moran, PLLC

city of
STERLING
HEIGHTS

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

Mark D. Vanderpool
City Manager

Brian S. Baker
Finance and Budget Director

Rick J. Sanborn, CPA
Financial Services Manager

Leslie D. Reinhart, CPA
Controller

For the Fiscal Year Ended June 30, 2004

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

City of Sterling Heights, Michigan

Contents

Introductory Section

City Manager's Comprehensive Summary of Fiscal Year 2003/2004 with a Prospective Look at the Future of the City of Sterling Heights i-viii

Letter of Transmittal ix-xxii

GFOA Certificate of Achievement xxiii

City Organization Chart xxiv

List of Principal Officials xxv

Fund Organization Chart xxvi

Financial Section

Report Letter 1-2

Management's Discussion and Analysis 3-10

Basic Financial Statements

Government-wide Financial Statements:
- Statement of Net Assets 11
- Statement of Activities 12-13

Fund Financial Statements:
- Governmental Funds:
  - Balance Sheet 14-15
  - Reconciliation of Fund Balances to the Statement of Net Assets 16
  - Statement of Revenues, Expenditures, and Changes in Fund Balances 17-18
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 19
- Proprietary Funds:
  - Statement of Net Assets 20
  - Statement of Revenues, Expenses, and Changes in Net Assets 21
  - Statement of Cash Flows 22-23
- Fiduciary Funds:
  - Statement of Fiduciary Net Assets 24
  - Statement of Changes in Fiduciary Net Assets 25

Contents (Continued)

Financial Section (Continued)

Component Units:
Statement of Net Assets 26
Statement of Activities 27

Notes to Financial Statements 28-55

Required Supplemental Information

Budgetary Comparison Schedule - General Fund 56

Budgetary Comparison Schedule - Major Roads Fund 57

Pension Systems Schedule of Funding Progress 58-60

Note to Required Supplemental Information 61-62

Other Financial and Supplemental Information

Nonmajor Governmental Funds:
Combining Balance Sheet 63-64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 65-66
Budgetary Comparison Schedule 67-73

Budgetary Comparison Schedule - Major Capital Projects Funds 74

Combining Statement of Fiduciary Net Assets - Trust and Agency Funds 75-76

Combining Statement of Changes in Fiduciary Net Assets - Trust Funds 77

Combining Statement of Changes in Assets and Liabilities - Agency Funds 78-79

Statistical Section

General Government Revenues by Source - General, Special Revenue, and Debt Service Funds 80-81

General Government Expenditures by Function - General, Special Revenue, and Debt Service Funds 80-81

Assessed and Estimated Actual Valuation of Taxable Property 82

Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Government Expenditures 83

Contents (Continued)

Statistical Section (Continued)

Special Assessment Billings and Collections	84
Property Tax Levies	85
Building Permits at Market Value	86
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	87
Demand and Savings Deposits	88
Personnel Summary	89
Miscellaneous Statistical Data	90

Continuing Disclosure Section

Labor Agreements	91
Principal Taxpayers	92
Property Tax Levies and Collections	93
General Fund - Fund Balance Compared to Annual Expenditures and Other Financing Uses	94
Computation of Legal Debt Margin	95
State of Michigan - Revenue-sharing Payments	96
Taxable and State Equalized Value Analysis by Class	97-98
Property Tax Rates - Direct and Overlapping Governments	99-100
Computation of Direct and Overlapping Debt	101
Demographic Statistics	102
Major Employers - Top Twenty-five	103

City Manager's Comprehensive Summary of Fiscal Year 2003/2004 and a Prospective Look at the Future of the City of Sterling Heights

Honorable Mayor, City Council, and Community Residents:

This executive summary is an analysis of the results of operations of the City of Sterling Heights and serves as the introduction to the City's Comprehensive Annual Financial Report for fiscal year 2003/2004. Contained within this report is pertinent information about the City's community, economy, and major initiatives completed during the past year, as well as a prospective look at the future.

Sterling Heights - An Established and Respected Community

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

Sterling Heights has developed into one of Macomb County's leading cities, offering a rich combination of commercial and residential life. This successful development results largely from the Master Land Use Plan created by the City in the early 1970s, which provides direction for the community's growth and development. 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 2004 estimated population for the City stands at 127,270, 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 33,574 houses, 9,074 apartments, 6,000 condominiums, 1,693 mobile homes, and 2,596 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 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 2004/2005 approved budget includes funding for 630 full-time (a reduction of three vacant full-time positions from last year) and 80 part-time positions. 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 which explains why the City's costs are less than 81 percent of other cities nationally. This illustrates the high productivity level of the employees in order to achieve high performance results. 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. These goals and objectives will serve to heighten and embellish the community's existing foundation of quality programs and services for residents. With support from residents, the City of Sterling Heights continues to strive for excellence.

Most Informed City

Sterling Heights continues to implement technologies that will enhance customer service and improve efficiency: (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.

Safest Big City

The City enjoys an outstanding reputation for public safety. Continuous training for sworn personnel and police academy students contribute to the emphasis on security within Sterling Heights. Along with such programs as D.A.R.E., Neighborhood Watch, Child I.D., and Crime Prevention, the Police Department annually sponsors the Citizens' Police Academy, a nationally recognized program that trains residents to take an active role in community protection. 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. In addition, the Sterling Heights Police Department has recently acquired a new in-car computer system that will assist the officers in obtaining more information on potentially dangerous suspects. The CLEMIS (Courts and Law Enforcement Management Information Services) system links with area police departments and allows the sharing of vital information. 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.

Sterling Heights Fire Department became the first fire department in the world to achieve ISO 9001:2000 registration. This achievement expresses a commitment to quality that is internationally understood and accepted, thus attaining quality customer service and continual improvement. Additionally, the department has been the first in providing programs such as the administering of free flu shots to senior residents and introducing and adopting the first Private Water System Ordinance that requires private water systems to provide an annual maintenance program. The City of Sterling Heights is below average in the number of fires and fire loss nationwide. As part of the City's fire prevention and training efforts, the Fire Department successfully completed its sixth 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.

Healthiest and Active City

A variety of athletic and instructional programs are provided to City residents through the Parks and Recreation Department. The City's health and recreation center promotes active lifestyles and enhances the coordinated youth/career age/senior exercise and health center programs. Overall attendance rose nearly 5 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 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. Named *Tree City USA* annually since 1985, Sterling Heights supports policies to protect the woodlands, wetlands, and floor 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 Sterling Heights Public Library maintains the highest per hour circulation rate in metropolitan Detroit, circulating over 662,000 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 210,000. 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. This past year alone, on-line computer uses totaled more than 357,000, which is over a 20 percent increase as compared to last 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.

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. A *Job Posting E-Mail Subscription Service* has been included on the City's Web site. This free service provides the opportunity for those searching for employment to register for automatic electronic notifications of available job positions with the City of Sterling Heights. In addition, the Web site now offers state-of-the-art Web video streaming technology featuring several distinct attributes including local businesses in the City. 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, and sustained performance rating for City services will continue to support Sterling Heights as the most information-friendly community in southeastern Michigan.

The Sterling Heights Civic Center, with its inviting and functional campus-style layout, has become the community focal point for municipal activities and cultural events. 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 enhancements, including the placement of several sculptures throughout the complex. The Public Library houses a cultural center with expansive user space. Considered the last phase of the City Center Commons project, construction of the boulevard-style roadway on Utica Road in front of City Hall has been completed with the creation of the four-lane boulevard between the Senior Activity Center and 18 Mile Road 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 which allows Sterling Heights to enjoy the extraordinary combination of business opportunities. Employment in the City has also become more diversified in terms of new industry and trained workers. Principal employers within the City include DaimlerChrysler Corporation, Visteon Corporation, Ford Motor Company, DTE Energy, and General Dynamics.

Property values in Sterling Heights remain high. Due to the passage of Proposal A, homeowners have seen only a 2.3 percent adjustment in taxable property assessments despite an average 4.7 percent increase in market values. In fact, the typical homeowner in Sterling Heights has not received a City millage increase for the 13th consecutive year. The millage rate of 10.625 mills continues to be at its lowest level in 31 years. At $376, Sterling Heights residents continue to pay less per capita in property taxes than those in its five most comparable communities. An important component of government, the Board of Ordinance Appeals has been effective in promoting and enforcing quality community appearance standards which directly affect property values. With the televising of the Board of Ordinance Appeals meetings and the efforts of the recently created administrative Code Committee, the City continues to aggressively pursue property maintenance enforcement.

Sterling Heights is a pre-retirement community attracting middle class homeowners with job security and seniority. Many Sterling Heights' homeowners are choosing to reinvest and renovate existing homes as evidenced by the 1,078 permits issued this past year for residential home additions and/or improvements as compared to the 631 new housing permits issued this past year. The total number of residential permits in 2003/2004 has culminated in representing an investment of $61.9 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 Woodland Estates, Elmhurst Site Condominiums, Sherwood Estates, Hampton North, Hampton South, Brentwood Farms, Anterrajon Estates, Stratford Village North II, North Pointe Condominiums Phase III, and Mystic Forest at the Park. 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 with values over $500,000. The typical home in Sterling Heights for 2003/2004 had a taxable value of $72,000. The total tax for that home in the Utica Community School District was $2,071, while the total tax for that same home in the Warren Consolidated School District was $2,587. Of the total tax dollars collected, the City received only $765 from the average resident for a full line of City services. It is estimated that the total average tax for 2004/2005 will be $2,233 and $2,770, respectively.

Sterling Heights continues to attract and retain business and industry. More than 2,500 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 City's other major principal taxpayers include DTE Energy, 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. A number of industrial, commercial, and retail developments approved during the past year include: Detroit Newspaper Agency - North Plant, a $170 million investment of a 190,000 square foot addition to the existing facility and the acquisition of new machinery and equipment creating 125 new jobs; Lowe's Home Improvement, a new 135,000 square foot retail/commercial building located on Metropolitan Parkway and Dequindre Road; Fisher Corporation Stamping Facility, a 75,400 square foot building located on Progress Drive between Metropolitan Parkway and Wall Street; Ledds Enterprises Industrial Park located on 18½ Mile Road and Van Dyke Avenue; Waltonwood at Lakeside, a proposed 192-unit senior and assisted-living development located on Lakeside Circle; and Maximum Self-Storage, a 108,000 square foot facility on Van Dyke between 14 Mile Road and Denwood Drive.

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 17th consecutive year, Sterling Heights has achieved national recognition for the *Distinguished Annual Budget Presentation Award*; (2) The Comprehensive Annual Financial Report (CAFR) has attained national recognition for the past 16 years; and (3) The 2003/2004 Popular Annual Financial Report/City Calendar (PAFR) has earned seven years of recognition for providing residents with an easy-to-read report on the City's economic condition for the past year.

The City of Sterling Heights enjoys outstanding bond ratings which are the highest in the state: "Aa2" from ratings agency, Moody's, "AA" from Standard & Poor's, and AA+ from Fitch.

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 2004". 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.

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 is the safest large city in Michigan and the sixth safest city in the nation with populations greater than 100,000 by Morgan Quinto Press.
- 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.
- *Crain's Detroit Business* recently listed Sterling Heights among the "hot spots" for residential development in southeast Michigan.
- The Sterling Heights Television (SHTV, Comcast Channel 5 and W.O.W. Channel 10) was twice named "Best in the Nation" for government programming.
- For the past 11 years, Sterling Heights has maintained the lowest combined water and sewer rates in Michigan

I would like to thank the mayor and City Council, department directors, and employees responsible for contributing to the success and sound financial position of the City. Finance and Budget Director Brian Baker and his staff are especially recognized for their teamwork, cooperation, and commitment to the principles of fiscal management and propriety. Special recognition is also extended to Mary Jo Dombrowski, Management Services Specialist, for her assistance with this report.

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

Respectfully submitted,

Mark D. Vanderpool
City Manager

September 24, 2004

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

In compliance with State law, this report was prepared in accordance with generally accepted accounting principles and regulations set forth by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, the City Charter, and the Government Finance Officers Association. Pursuant to these requirements, the Office of Financial Services is pleased to submit this Comprehensive Annual Financial Report of the City of Sterling Heights for the fiscal year ended June 30, 2004.

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

In 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 third issued by the City of Sterling Heights in compliance with the new format requirements of GASB 34.

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

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

Independent Audit

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

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

Reporting Entity and Services

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

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

Report Organization

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

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

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

Financial Section/Required Supplemental Information - This section contains a more detailed comparative analysis of actual revenues and expenditures versus the 2003/2004 budgets 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 nonmajor, fiduciary, and Agency Funds as well as budget to actual comparative statements for all nonmajor 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 nonaccounting data, cover more than the current year, and are designed to reflect social and economic data, financial trends, and the fiscal capabilities of the City.

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

Accounting System and Budgetary Controls

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, the City's accounting system is organized and operated on a "fund basis." Each fund is a distinct, self-balancing accounting entity. A list of funds used by Sterling Heights is found later in this section and a discussion of the nature of each fund type is found in Note 1 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 balance periodically. In addition, the Office of City Management monitors department budgets on a monthly basis. Department directors and office managers must justify variances.

General Fund

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

Revenues and Other Financing Sources	Amount	Percent of Total	Increase (Decrease) from June 30, 2003
Property taxes	$ 45,855,131	62.8	$ 1,948,228
Federal sources	180,264	0.2	(70,993)
State sources	12,330,295	16.9	(783,755)
Fees and permits	2,318,120	3.2	281,257
Fines and forfeitures	2,703,156	3.7	407,495
Charges for services	6,334,722	7.8	459,935
Interest income	325,584	0.4	(922,065)
Special assessments	9,371	-	4,820
Rental income	1,298,796	1.8	45,648
Cable revenue	1,224,778	1.7	104,010
Other	365,656	0.4	50,636
Subtotal	72,945,873	99.9	1,525,216
Transfers from other funds	87,110	0.1	52,110
Total	$ 73,032,983	100.0	$ 1,577,326

Overall, General Fund revenues and other financing sources increased 2.2 percent from the prior year. Property taxes in the General Fund increased by 4.4 percent due to new construction, a slight valuation adjustment for existing property, and a .0718 mills (0.7 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 .005 mills in fiscal 2004 due to an offsetting reduction in debt service-related mills levied. Federal and state sources decreased by 4.2 percent due to a decrease in operating grant dollars received from the federal government and a reduced distribution from the State as a result of the continued downturn in the State's economy. Fees and permits were up 13.8 percent due to an increase in building permits related revenues. Fines and forfeitures were up 17.7 percent due to an increase in ordinance violation enforcement. Charges for services revenue increased by 7.8 percent due to increased activity related to plan document reviews by the engineering department and increased participation in the City's recreation programs. Interest income was down 105.9 percent due to continued low short-term interest rates paid by the fixed income market.

Expenditures and Other Financing Uses	Amount	Percent of Total	Increase (Decrease) from June 30, 2003
General government:			
City administration	$ 6,956,794	9.6	$ 249,009
Community and information services	2,134,232	3.0	108,314
41A District Court	2,342,220	3.2	168,403
Public safety:			
Police department	23,076,024	32.1	1,236,250
Fire department	12,703,532	17.7	685,991
Public works:			
City development	4,368,397	6.1	151,180
Public works	5,235,487	7.3	314,845
Refuse collection	4,659,238	6.5	437
Recreation and culture:			
Parks and recreation	2,165,257	3.0	3,339
Public library	2,387,778	3.3	101,887
General expenditures	3,193,281	4.4	527,941
Subtotal	69,222,240	96.2	3,547,596
Transfers to other funds	2,752,040	3.8	(2,642,850)
Total	$ 71,974,280	100.0	$ 904,746

Total General Fund expenditures and other financing uses increased by approximately 1.3 percent over the prior year. Major factors in the increase over the prior year were a $731,580, or a 2.4 percent increase in wages in compliance with existing labor agreements, a $797,610, or 29.0 percent increase in the required contribution to the Police and Fire Retirement System, a $836,660, or a 19.1 percent, increase in health care costs, and the inclusion of $368,270 of bond issuance costs. The primary offset to these increases was a $2,642,850 decrease in transfers out.

Additionally, the General Fund accounted for the extraordinary item(s) related to the settlement of the lawsuit brought by Hillside Productions, Inc. The City issued $24,395,000 in limited tax general obligation bonds and received $975,734 in premiums. These resources were used to pay $25,000,000 of the settlement (see Note 7 and Note 9 for additional information) and the $368,270 in issuance cost noted above.

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 $673,574, due to the elimination of transfers in from the General Fund ($1,231,070 in 2003 versus $0 in 2004). This decrease was offset by an increase in gas and weight tax revenues from the State ($545,960). Total expenditures decreased by $682,839 due to a decrease in capital outlay ($493,340) and major roads maintenance ($192,459).

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 increased by $284,229. The increase was due primarily to an increase in gas and weight tax revenues from the State ($210,758) and grant receipts ($62,802) from the closeout of the previously completed bike/hike trail project. Total capital expenditures increased by $760,705 for local roads infrastructure, which was offset by a decrease in local roads maintenance and repairs of $441,902.

Budget Stabilization Fund - In 1999, the City Council created a Budget Stabilization Fund to serve as a rainy day fund for the purpose of preventing future deficits, revenue shortfalls, reductions in services, or to cover expenditures arising from natural disasters. During fiscal 2004, no additional money was added to this fund due to conservative estimates of General Fund revenues. The balance available in the fund remains at $750,000.

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 $1.3 million, bond proceeds of $885,000, and operating revenues funded over $5.7 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 just over $1.3 million included projects such as the 18 ½ Mile Road connector to the Van Dyke Freeway, improvements to Ryan Road, and the 17 Mile Road Bridge over the Conrail lines, as well as reconstruction of various other local roads.

Enterprise Fund

For the fiscal year ended June 30, 2004, water and sewer operating revenue decreased by less than 1.0 percent, due to decreased consumption. Operating expenses increased 11.0 percent due to water and sewer rate increases by the City of Detroit. Nonoperating revenue increased 14 percent due to an increase in tap fees and frontage charges, and contributions from developers that were offset by a decrease in interest income.

	Year Ended June 30		Increase
	2004	2003	(Decrease)
Operating revenues	$ 20,385,299	$ 20,594,124	$ (208,825)
Operating expenses	25,829,284	23,267,170	2,562,114
Operating loss	(5,443,985)	(2,673,046)	(2,770,939)
Nonoperating revenues - Net	8,962,952	8,077,260	885,692
Change in net assets	$ 3,518,967	$ 5,404,214	$ (1,885,247)
Number of customers:			
Residential	34,529	34,302	227
Commercial/Industrial	3,741	3,582	159
Approximate number of cubic feet sold (000s)	815,645	881,780	(66,135)

Total net assets at June 30, 2004 were $168,049,220.

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 $2,265,006 and is reported as part of the provisions for uninsured losses and liabilities. There was a decrease in net assets for the year of $382,270, bringing total net assets to $5.5 million at June 30, 2004, 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, 2003 (the date of the most recent actuarial valuation) was $99,270,906. 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 128.9 percent funded as of December 31, 2003.

Pension Trust - Police and Fire Retirement System - The actuarially determined value of assets available for benefits as of December 31, 2003 (the date of the most recent actuarial valuation) was $183,664,050. 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 122.5 percent funded as of December 31, 2003. A separate tax was levied to provide for the City's $3,545,592 police and fire pension contribution for the fiscal year ended June 30, 2004.

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 $4,037,959 reflected in this fund relate to medical benefit payments for all eligible retirees and provisions for incurred but not reported claims of $705,239. Net assets at June 30, 2004 were $7,362,650.

Agency Funds - There are two Agency Funds of the City with total assets of $5,012,915. 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.

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 $1,241,701, a decrease of $2,047,029 from the fiscal year ended June 30, 2003.

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 rate per the Headlee amendment of the Michigan Constitution for fiscal 2004 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.

Risk Management

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

Although the City self-insures many risks, excess insurance is purchased to protect against the financial effects of a catastrophic loss. Liability excess coverage provides up to $15,000,000 of limits. Property coverage insures $76,500,000 of property values. All buildings and contents are insured at replacement cost value. Liability and property self-insured retentions are $500,000 and $50,000, respectively. Excess insurance of workers' compensation is purchased at statutory levels, with a $150,000 per occurrence self-insured retention. Reinsurance for the self-insured health care risk is purchased to limit City liability to $100,000 per employee/contract per year. Blue Cross/Blue Shield health care expenditures account for 52 percent of all self-insurance expenditures during fiscal 2004. The short-term disability risk is fully self-insured and self-administered. Through a combination of self-insurance and insurance, the City has been able to provide the financial resources required to manage the various risks associated with a large city.

Prospects for the Future

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

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 Issues - In 1999, the State Tax Commission adopted multiplier tables for all personal property assets. These tables are to be used by assessors as a guide in determining the true cash value and assessed/taxable value of these assets. Multiplier tables H and I, which were developed to value electric transmission/distribution and gas distribution assets, became the subject of extensive litigation regarding the principles used to develop the tables. On April 5, 2002, the Michigan Tax Tribunal decided that, except for revisions to Table I, the State Tax Commission did not use incorrect principles in the adoption of their new tables. On January 20, 2004, the Michigan Court of Appeals upheld this decision. Detroit Edison and Consumers Energy both appealed their assessments from 1997 through 2003. Because both companies had made partial payments on their 2000 through 2003 taxes based on the revised tables, there will be no significant refund owed for these years. The issue of the assessments used for 1997 through 1999 is before the Michigan Tax Tribunal. It is the position of the Sterling Heights Assessor that no refunds should be awarded based on the revised tables for years prior to the State Tax Commission recommendation to use them.

On December 13, 2002, representatives from the Ford Motor Company filed with the State Tax Commission claiming that they paid personal property taxes twice on the same assets in the 2000 and 2001 tax years based on a sale and leaseback of assets that were not removed from their books. City tax revenues at issue for the two years are approximately $332,800. The City has contracted with a firm specializing in personal property audits to examine the personal property returns filed by Ford Motor Company for the 2000 through 2004 tax years, including the issue of sold and leasedback assets. If the examination confirms that the assets were taxed twice, the City would be liable to refund the amount of the overpayment. However, the examination process often discovers under-reported personal property assets, which could mitigate the amount required to be refunded.

In January 2004, at the request of the City Assessor, the City Council approved participation in a Michigan Department of Treasury program that provides funding assistance to local communities to conduct personal property tax audits of local businesses. The City entered into a one-year contract with a firm specializing in personal property tax audits to conduct examination of the records of the 776 businesses with more than $100,000 in personal property assets. A second year was added to the program in September 2004. Preliminary results confirm that the combination of the State grant funding and new City tax revenue will cover all of the City's costs for the auditing program.

Technology Plan - The City has now completed the fifth 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:

- Continued 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 and Fire Prevention
- Replaced and updated network file servers
- Mobile data computers for Fire Department vehicles
- Upgraded the Police 911 telephone system

Future plans include a new 800-megahertz public safety radio system, a citizen's complaint tracking software system, a document imaging and management system, and the ongoing citywide 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:

- Construction of Utica Road Boulevard
- Acquisition of property near City Hall for future growth
- Installation of Plumbrook Drain and cleanout of the Gibson Drain Retention Lake
- Resurfacing of Schoenherr and Plumbrook Roads
- Widening of Dequindre and Maple Lane Roads
- Paving of Oleander Drive
- Construction of a salt storage dome
- Resurfacing of the Dodge and Clinton River Park trails
- Reconstruction of the baseball fields at L.W. Baumgartner Park

Financial Strength - On the budgetary basis, the General Fund revenues have slightly exceeded expenditures for the past 10 years. As a whole, the City of Sterling Heights is in a better financial position to withstand any future constraints than most Michigan municipalities. While operating with a total millage of 10.625 (the lowest in 30 years or since 1974, and the 38th lowest of a total of 43 communities in the area), the resulting undesignated, unreserved fund balance equates to approximately 15 percent of the 2004-2005 fiscal year General Fund budget. The 8.1963 operating levy is well below the 10.8395 mills legally allowed under the Headlee Amendment of the State Constitution, 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 a controlled spending approach that the residents of Sterling Heights have come to expect from their City government. We believe our continued financial integrity and stability, as well as the vision and forthright perspective of our elected leaders and administration, will enable Sterling Heights to weather any uncertainties of the future.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sterling Heights, Michigan for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. 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 16 consecutive years (fiscal years 1988-2003). We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

Brian S. Baker
Finance & Budget Director

Leslie D. Reinhart, CPA
Controller

Rick J. Sanborn, CPA
Financial Services Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sterling Heights, Michigan

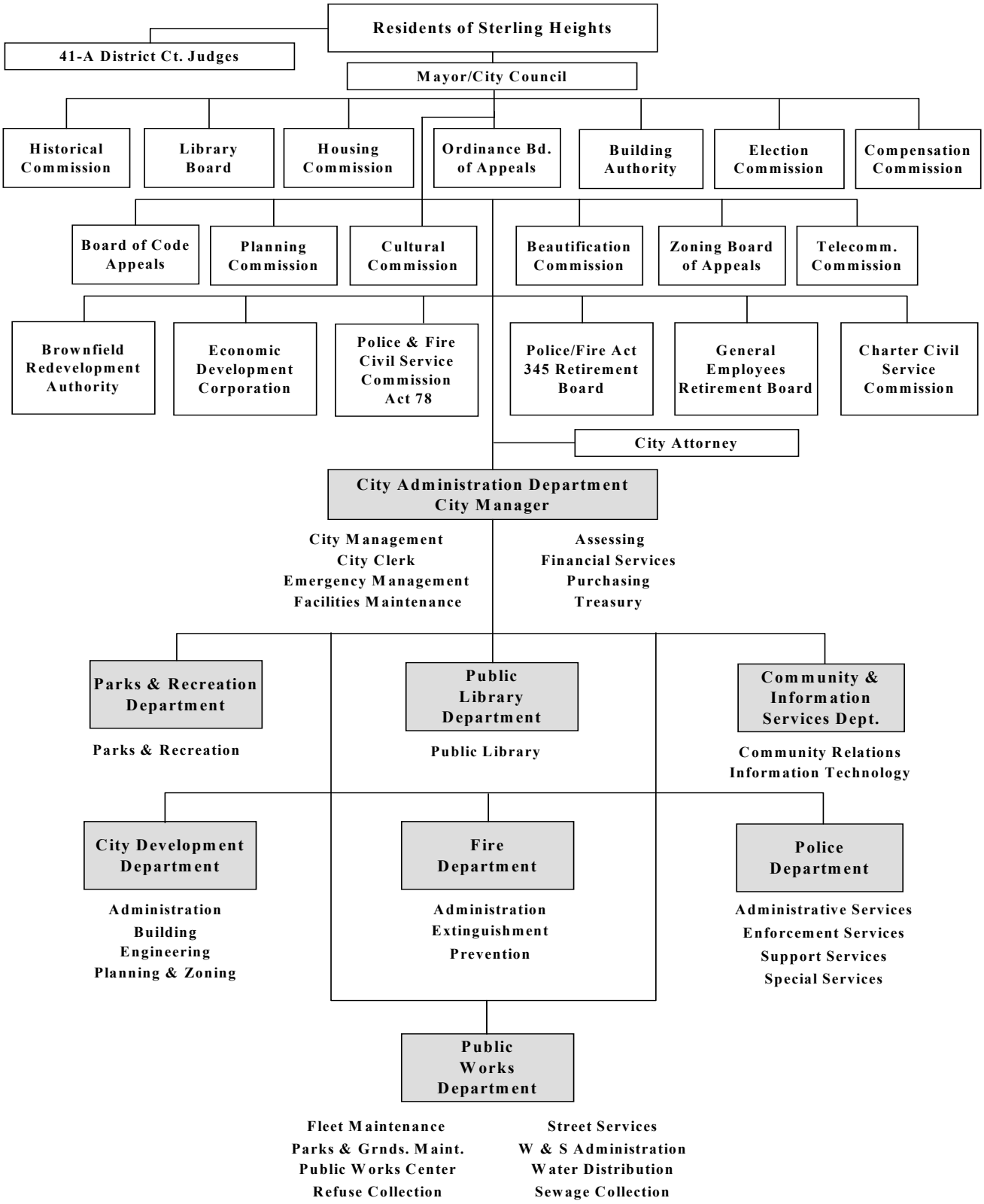
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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 Organization Chart



List of Principal Officials

Title	Name
City Manager	Mark D. Vanderpool
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
City Assessor	Matthew J. Schmidt
City Attorney	Jeffery A. Bahorski
City Engineer	Thomas R. DeHondt
City Planner	Donald A. Mende
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
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

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

Building Authority
General Drain
Road Bond Debt Retirement
RS&T Debt Service

Capital Projects

General Improvements *
Road Bond Construction *

Proprietary Funds

Enterprise

Water and Sewer *

Internal Service

Self-insurance

Fiduciary Funds

Trust

General Employees' Retirement System
Police and Fire Retirement System
Retiree Medical Benefits

Agency

Tax Collections
General Agency

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, 2004, 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, 2004 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 10 and 56 through 62 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.

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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.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 24, 2004 on our consideration of the City of Sterling Height's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

September 24, 2004

Using this Annual Report

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

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

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

Fund Financial Statements (which report the City's operation in more detail than the government-wide financial statements) follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities and to demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower, it is useful to compare this information with similar information presented for governmental activities in the government-wide financial statements. This comparison may allow the readers to better understand the long-term impact of the City's short-term financing decisions. Both the balance sheet and the statement of revenues, expenditures, and changes in fund balances for the governmental funds provide a reconciliation to facilitate this comparison between governmental funds and government activities.

The City of Sterling Heights maintains 12 individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Roads Fund, General Improvement Fund, and Road Bond Debt Fund, all of which are considered to be major funds. Data for the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

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

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

The City of Sterling Heights as a Whole

The City's combined net assets decreased 7.3 percent from a year ago, decreasing from $365.0 million to $338.2 million. A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately $30.3 million in net assets, or 15.1 percent, during fiscal 2004. This decrease was totally attributable to the settlement of a lawsuit by the City, which resulted in payment of $25 million and the accrual of an additional $6 million liability during fiscal 2004. If the effect of the settlement and related bond issuance costs were removed from the financial statements, the City would have realized approximately a $1.0 million increase in net assets due to the budgeted expenditure controls and higher than anticipated state-shared revenue. The business-type activities experienced a $3.5 million increase in net assets. 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, 2004 to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	$ 52.2	$ 53.7	$ 30.3	$ 30.1	$ 82.5	$ 83.8
Noncurrent assets:						
Restricted and other assets	2.3	3.6	6.1	7.0	8.4	10.6
Capital assets	199.6	196.4	135.5	131.1	335.1	327.5
Total assets	254.1	253.7	171.9	168.2	426.0	421.9
Liabilities						
Current liabilities	21.7	7.0	3.7	3.5	25.4	10.5
Noncurrent liabilities	62.2	46.2	0.2	0.2	62.4	46.4
Total liabilities	83.9	53.2	3.9	3.7	87.8	56.9
Net Assets						
Invested in capital assets - Net of related debt	164.1	157.3	135.5	131.1	299.6	288.4
Restricted	8.8	13.9	8.5	9.3	17.3	23.2
Unrestricted	(2.7)	29.3	24.0	24.1	21.3	53.4
Total net assets	**$ 170.2**	**$ 200.5**	**$ 168.0**	**$ 164.5**	**$ 338.2**	**$ 365.0**

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 $(2.7) million at June 30, 2004. This represents a decrease of $32.0 million, or approximately 109.2 percent. The major factor contributing to this decrease was the lawsuit settlement mentioned above.

The following table shows the changes in net assets (in millions of dollars) as of June 30, 2004 and the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	$ 8.3	$ 7.3	$ 20.4	$ 20.6	$ 28.7	$ 27.9
Operating grants and contributions	10.3	8.8		-	10.3	8.8
Capital grants and contributions	3.1	1.8	8.4	6.9	11.5	8.7
General revenues:						
Property taxes	48.5	46.8	-	-	48.5	46.8
State-shared revenues	11.3	14.4	-	-	11.3	14.4
Interest	0.7	2.1	0.5	1.2	1.2	3.3
Gain on sale of capital assets		-		-	-	-
Cable fees and other	1.4	3.0	-	-	1.4	3.0
Total revenue	83.6	84.2	29.3	28.7	112.9	112.9
Program Expenses						
General government	9.5	8.7		-	9.5	8.7
41A District Court	2.7	2.4		-	2.7	2.4
Public safety	39.8	37.1		-	39.8	37.1
Public works	22.8	22.6		-	22.8	22.6
Recreation and culture	6.1	5.5		-	6.1	5.5
Interest on long-term debt	2.0	2.3		-	2.0	2.3
Water and sewer	-	-	25.8	23.3	25.8	23.3
Total expenses	82.9	78.6	25.8	23.3	108.7	101.9
Increase in Net Assets - Before extraordinary item	0.7	5.6	3.5	5.4	4.2	11.0
Extraordinary Item	(31.0)	-	-	-	(31.0)	-
Net Assets - Beginning of year	200.5	194.9	164.5	159.1	365.0	354.0
Net Assets - End of year	**$ 170.2**	**$ 200.5**	**$ 168.0**	**$ 164.5**	**$ 338.2**	**$ 365.0**

Governmental Activities

The City's total governmental revenues decreased by approximately $0.6 million due to a drop of $3.0 million in state-shared revenues, on a full accrual basis, caused by Michigan's slower recovery from the recent recession and the corresponding drop in sales tax collections by the State. The reduction in state-shared revenues was offset by increases in charges for services caused by increased fees, operating and capital contributions, and property taxes due to increased property values.

Expenses increased by approximately $4.3 million, or 5.4 percent, over the last fiscal year. This limited increase resulted from the annual 3 percent wage increases contained in the City's labor agreements and approximately 19 percent increase in employee health insurance costs, as well as the continued growth of Sterling Heights and related demand for various services by the community.

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

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water and sewage treatment, which is purchased from the City of Detroit Water and Sewerage System, to nearly all residents. Rate increases for fiscal 2004 and 2003 were held to less than the increases received from the City of Detroit by budgeting the use of unrestricted net assets accumulated over prior years. During fiscal 2004, the water and sewer systems saw an approximate 7.4 percent decrease in the volume of water sold and sewage treated due to cool wet weather and a 0.7 percent increase in the number of users. As in prior years, a major source of growth in the system was the water and sewer lines contributed by developers. During fiscal 2004, developers contributed $6.7 million of water and sewer lines to the City. This contribution offset the $3.2 million operating loss and resulted in a $3.5 million increase in net assets.

The City's Funds

Our analysis of the City's major funds begins on page 14, 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 voted debt retirement property tax millages. The City's major funds for 2004 include the General Fund, the Major Roads Fund, the General Improvements Fund, and the Road Bond Construction Fund.

The General Fund pays for most of the City's governmental services. The most significant of these are police and fire services, which incurred expenditures of approximately $35.8 million in 2004. The general operating millage levied by the City supports these two services. Net assets in the General Fund increased by $1.1 million (before extraordinary items) primarily due to budgeted expenditure reductions across all programs and higher than anticipated state-shared revenues.

Net assets in the Major Roads Fund decreased by $3.4 million as the result of planned expenditures in excess of revenues for capital improvements to the major road system within the City.

The General Improvements Fund and Road Bond Construction Fund are the two funds used by the City to account for most capital outlay expenditures. Transfers from other funds or debt issuance proceeds support the activities within these funds. Both the General Improvements Fund ($0.6 million) and the Road Bond Construction Fund ($0.3 million) had decreases in net assets during fiscal 2004 due to infrastructure capital projects that were funded from existing reserves in compliance with the adopted budget.

General Fund Budgetary Highlights

Over the course of the year, 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 were $233,253 under budget primarily due to lower interest earnings on investments. Expenditures were $97,200 under budget. Mid-year, the City amended the budget to reappropriate funding for prior year encumbrances. At year end, the budget was amended to reflect additional revenues. The City had very conservatively budgeted for revenue sharing and had prepared for a much larger reduction than actually occurred. In addition, the final amendment included the cost of the Hillside Productions, Inc. settlement and the proceeds from the bonds sold to finance the settlement.

Capital Assets and Debt Administration

At the end of fiscal 2004, the City had $335.1 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, infrastructure assets (roads, bridges, sidewalks, and storm drains in which it has invested since 1980), and water and sewer lines. The value of the infrastructure assets, net of depreciation, contained in this report is $111.0 million and $105.6 million for fiscal 2004 and 2003, respectively (see Note 4 of the notes to the basic financial statements for additional information).

The City's general obligation bonds maintained ratings of "Aa2" from Moody's and "AA+" from Fitch. In July 2003, an upgrade from "AA-" to "AA" was received from Standard and Poors. These ratings were maintained throughout the year on the refunding and judgment bonds issued by the City. During the year, the City issued $3.05 million par amount of Michigan Transportation Fund Refunding bonds. The proceeds from the bond sale were used to refund the 1996 and1998 Michigan Transportation Fund Bonds. The City also issued $2.025 million of Building Authority Refunding bonds. The proceeds from this issue were used to refund the 1990 Judicial Center Building Authority bonds and the 1993 Building Authority Refunding bonds. Debt service reductions from these refundings totaled approximately $139,880 over the life of the bonds. The City also issued two new bonds during fiscal 2004. The first was $885,000 of county drain bonds to fund improvements to the Sterling Relief Lateral 12B Extension Drain. The second was $24.395 million of judgment funding bonds to cover the settlement claims under the Hillside Productions, Inc. lawsuit. The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita are as follows:

	2004	2003
Net direct bonded debt	$43,681,539	$20,983,220
Ratio of debt to assessed valuation	.76	.38
Debt per capita	$343.22	$165.91

Economic Factors and Next Year's Budgets and Rates

Prior to this year, the City had decreased its tax rate for eight straight years. We have reduced our tax rate by 20.6 percent since 1988, saving the average resident $2,040 over this 17-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 65 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 allowed for fiscal 2004 under Proposal A was only 2.3 percent. Annual new growth and development in the City has fallen from a 4 percent level during the late 1990s to only 1.1 percent in 2004. State-shared revenue payments decreased by nearly $850,000 this past year and are likely to decrease again due to the State's structural deficit problems. These factors, coupled with recent decreases in other revenues, have lessened the City's ability to further reduce property taxes. Other major issues include the cost of dealing with the emerald ash borer problem that is "eating" away our dwindling funds needed for road maintenance and construction. We also need to fund the replacement of our public safety radio system.

Despite these concerns, the City continues to operate with relatively low personnel costs and an efficient labor force. We have received two bond-rating upgrades in the past three years and have recently maintained our outstanding ratings despite the Hillside Productions, Inc. settlement. While our pension systems are fully funded, we have experienced dramatic increases in pension fund contribution requirements within the Police and Fire Retirement System. We have, however, recently conducted actuarial experience studies for both pension systems that may result in lower required future City contributions. We expect further continued medical cost increases of 15 percent per year. In addition, despite increasing retiree medical funding this next year by $1.1 million or 43 percent, we remain severely under-funded and are working to correct the under-funding. We are fully investigating potential new revenue opportunities. We will continue to monitor and adjust our expenditures to the revenue base to ensure that the City maintains adequate fund balance reserves.

The City purchases its water and sewer services from the City of Detroit. Historically, we have not passed 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. In addition, we are now being charged by Detroit for "true up" costs due to new computerized meter reading data that now tracks maximum day and peak hour usage. We may need to investigate an increasing rate tier structure to recoup our costs from larger users who are contributing significantly to the increased costs. 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 are striving to ensure that Sterling Heights continues to have the lowest rates in the state.

Contacting the City's Management

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

City of Sterling Heights, Michigan

Statement of Net Assets
June 30, 2004

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 34,349,908	$ 7,157,467	$ 41,507,375	$ 28,060
Investments, at fair value (Note 3)	9,065,120	22,678,259	31,743,379	-
Receivables:				
Customers	35,926	6,953	42,879	-
Special assessments - Current	57,612	24,636	82,248	-
Accrued interest	55,864	185,458	241,322	-
Other	524,309	-	524,309	-
Internal balances	42,067	(42,067)	-	-
Due from other governmental units	6,327,855	-	6,327,855	-
Prepaid costs and other assets	1,205,541	-	1,205,541	-
Inventories	427,382	236,840	664,222	-
Deposits	68,777	-	68,777	-
Noncurrent assets:				
Special assessments	91,185	127,942	219,127	-
Restricted assets (Note 8)	2,243,958	5,985,469	8,229,427	-
Capital assets:				
Non-depreciable (Note 4)	48,290,610	1,939,410	50,230,020	-
Depreciable - Net (Note 4)	151,327,020	133,607,393	284,934,413	-
Total assets	254,113,134	171,907,760	426,020,894	28,060
Liabilities				
Accounts payable	4,059,002	3,247,088	7,306,090	37
Accrued and other liabilities	10,803,386	290,606	11,093,992	-
Provision for uninsured losses and liabilities (Note 9)	1,212,885	-	1,212,885	-
Due to other governmental units	36,503	-	36,503	-
Unearned revenue (Note 6)	559,689	121,250	680,939	-
Noncurrent liabilities (Note 7):				
Due within one year	5,056,539	-	5,056,539	-
Due in more than one year	62,183,069	199,596	62,382,665	-
Total liabilities	83,911,073	3,858,540	87,769,613	37
Net Assets				
Invested in capital assets - Net of related debt	164,071,091	135,546,803	299,617,894	-
Restricted:				
Roads	6,296,352	-	6,296,352	-
Debt service	305,132	-	305,132	-
County drains (Note 8)	2,243,958	-	2,243,958	-
Ordinance requirements (Note 8)	-	5,985,469	5,985,469	-
Council resolution for capital improvements	-	2,540,000	2,540,000	-
Unrestricted	(2,714,472)	23,976,948	21,262,476	28,023
Total net assets	**$ 170,202,061**	**$ 168,049,220**	**$ 338,251,281**	**$ 28,023**

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

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 9,499,251	$ 714,601	$ 1,187,975	$ 474,035
41A District Court	2,690,360	2,136,354	287,585	-
Public safety	39,815,539	1,114,300	257,698	1,086,088
Public works	22,838,480	3,855,774	7,899,620	1,255,573
Recreation and culture	6,047,819	465,391	651,554	326,530
Interest on long-term debt	2,022,258	-	-	-
Total governmental activities	82,913,707	8,286,420	10,284,432	3,142,226
Business-type activities - Water and Sewer	25,829,284	20,385,299	-	8,430,400
Total primary government	**$ 108,742,991**	**$ 28,671,719**	**$ 10,284,432**	**$ 11,572,626**
Component unit - Brownfield Redevelopment Authority	**$ 463**	**$ -**	**$ 2,450**	**$ -**
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Cable fees and other				
Total general revenues				
Change in Net Assets - Before extraordinary item				
Extraordinary Item (Note 9)				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

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

Statement of Activities
Year Ended June 30, 2004

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (7,122,640)	$ -	$ (7,122,640)	$ -
(266,421)	-	(266,421)	-
(37,357,453)	-	(37,357,453)	-
(9,827,513)	-	(9,827,513)	-
(4,604,344)	-	(4,604,344)	-
(2,022,258)	-	(2,022,258)	-
(61,200,629)	-	(61,200,629)	-
-	2,986,415	2,986,415	-
(61,200,629)	2,986,415	(58,214,214)	-
-	-	-	1,987
48,495,510	-	48,495,510	-
11,249,778	-	11,249,778	-
709,149	532,552	1,241,701	243
1,425,963	-	1,425,963	-
61,880,400	532,552	62,412,952	243
679,771	3,518,967	4,198,738	2,230
(31,000,000)	-	(31,000,000)	-
(30,320,229)	3,518,967	(26,801,262)	2,230
200,522,290	164,530,253	365,052,543	25,793
$ 170,202,061	**$ 168,049,220**	**$ 338,251,281**	**$ 28,023**

	General	Major Roads	General Improvements
Assets			
Cash and cash equivalents (Note 3)	$ 19,847,825	$ 3,241,632	$ 4,216,083
Investments - At fair value (Note 3)	3,068,570	-	-
Receivables:			
Customers	-	-	35,926
Special assessments:			
Current	2,141	-	22,586
Deferred	4,281	-	70,155
Accrued interest	39,505	801	5,347
Other	431,252	-	-
Prepaid costs and other assets	97,152	-	-
Due from other funds (Note 5)	848,771	-	-
Due from other governmental units	525,390	3,296,319	43,968
Inventories	427,382	-	-
Restricted assets (Note 8)	-	-	2,243,958
Total assets	**$ 25,292,269**	**$ 6,538,752**	**$ 6,638,023**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 1,096,526	$ 1,730,262	$ 447,332
Accrued and other liabilities	3,560,823	187,308	61,573
Due to other funds (Note 5)	394,320	591,125	12,828
Due to other governmental units	36,503	-	-
Deferred revenue (Note 6)	552,577	-	2,314,114
Total liabilities	5,640,749	2,508,695	2,835,847
Fund Balances			
Reserved for:			
Encumbrances	69,059	17,694	598,755
Inventory	427,382	-	-
Prepaid costs	97,152	-	-
Unreserved - Reported in (Note 13):			
General Fund	19,057,927	-	-
Special Revenue Funds	-	4,012,363	-
Capital Projects Funds	-	-	3,203,421
Debt Service Funds	-	-	-
Total fund balances	19,651,520	4,030,057	3,802,176
Total liabilities and fund balances	**$ 25,292,269**	**$ 6,538,752**	**$ 6,638,023**

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

Governmental Funds
Balance Sheet
June 30, 2004

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
$ 938	$ 4,255,412	$ 31,561,890
-	-	3,068,570
-	-	35,926
-	32,885	57,612
-	16,749	91,185
-	3,359	49,012
106,816	-	538,068
398,700	625	496,477
143,291	46	992,108
-	439,576	4,305,253
-	-	427,382
-	-	2,243,958
$ 649,745	**$ 4,748,652**	**$ 43,867,441**
$ 584,332	$ 98,525	$ 3,956,977
8,980	8,968	3,827,652
-	202,751	1,201,024
-	-	36,503
-	68,760	2,935,451
593,312	379,004	11,957,607
-	12,757	698,265
-	-	427,382
398,700	-	495,852
-	-	19,057,927
-	4,108,424	8,120,787
(342,267)	-	2,861,154
-	248,467	248,467
56,433	4,369,648	31,909,834
$ 649,745	**$ 4,748,652**	**$ 43,867,441**

Governmental Funds
Reconciliation of Fund Balances to the Statement of Net Assets
Year Ended June 30, 2004

Total Fund Balances for Governmental Funds	$ 31,909,834
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Certain receivables are expected to be collected over several years in the General Fund, Special Revenue Funds, and Debt Service Funds	118,045
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	2,022,602
Assets held by Macomb County to be used over several years and which are not available to pay for current year expenditures	2,243,958
Capital assets used in governmental activities are not financial resources and are not reported in the funds	199,617,630
Governmental Accounting Standards Board Interpretation 6 provides lawsuit claims that are not due or paid at year end are not subject to accrual under the modified accrual basis of accounting followed by Governmental Funds. However, full accrual accounting requires the recognition of the liability	(6,000,000)
Long-term liabilities not due and payable in the current period are not reported in the funds, including bond premium of $975,734	(65,246,360)
Internal Service Fund is included as part of governmental activities	5,536,352
Net Assets of Governmental Activities	**$ 170,202,061**

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

	General	Major Roads	General Improvements
Revenues			
Property taxes	$ 45,855,131	$ -	$ -
Fees and permits	2,318,120	-	-
Federal sources	180,264	-	321,034
State and local sources	12,330,295	5,535,500	222,773
Fines and forfeitures	2,703,156	-	366,668
Charges for services	6,334,722	-	-
Interest income	325,584	60,402	64,149
Special assessments	9,371	-	323,630
Rental income	1,298,796	-	-
Cable revenue	1,224,778	-	-
Other	365,656	336,364	1,875,868
Total revenues	72,945,873	5,932,266	3,174,122
Expenditures			
Current:			
General government	9,091,026	-	-
41A District Court	2,342,220	-	-
Public safety	35,779,556	-	-
Public works	14,263,122	1,532,311	-
Recreation and culture	4,553,035	-	-
General expenditures	3,193,281	-	-
Capital outlay	-	4,490,566	5,764,513
Debt service	-	-	-
Total expenditures	69,222,240	6,022,877	5,764,513
Excess of Revenues Over (Under) Expenditures	3,723,633	(90,611)	(2,590,391)
Other Financing Sources (Uses)			
Long-term financing (Note 7)	-	-	885,000
Net payments to refunded bond escrow agent and bond issuance costs	-	-	-
Transfers in	87,110	-	1,375,200
Transfers out	(2,752,040)	(3,300,000)	(245,000)
Total other financing sources (uses)	(2,664,930)	(3,300,000)	2,015,200
Net Change in Fund Balances before Extraordinary Items	1,058,703	(3,390,611)	(575,191)
Extraordinary Items (Note 9)			
Lawsuit settlement payments	(25,000,000)	-	-
Debt funds received for lawsuit settlement	24,395,000	-	-
Bond premium	975,734	-	-
Net Change in Fund Balances	1,429,437	(3,390,611)	(575,191)
Fund Balances - Beginning of year	18,222,083	7,420,668	4,377,367
Fund Balances - End of year	**$ 19,651,520**	**$ 4,030,057**	**$ 3,802,176**

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

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2004

Road Bond Construction	Other Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ 2,640,379	$ 48,495,510
-	-	2,318,120
-	1,128,638	1,629,936
-	2,087,440	20,176,008
-	-	3,069,824
-	-	6,334,722
1,758	115,156	567,049
-	39,916	372,917
-	-	1,298,796
-	-	1,224,778
100,000	80,703	2,758,591
101,758	6,092,232	88,246,251
-	-	9,091,026
-	-	2,342,220
-	-	35,779,556
-	2,485,342	18,280,775
-	-	4,553,035
-	195,055	3,388,336
1,321,709	1,464,846	13,041,634
-	6,263,884	6,263,884
1,321,709	10,409,127	92,740,466
(1,219,951)	(4,316,895)	(4,494,215)
-	5,075,000	5,960,000
-	(5,075,000)	(5,075,000)
881,370	4,118,490	6,462,170
-	(165,130)	(6,462,170)
881,370	3,953,360	885,000
(338,581)	(363,535)	(3,609,215)
-	-	(25,000,000)
-	-	24,395,000
-	-	975,734
(338,581)	(363,535)	(3,238,481)
395,014	4,733,183	35,148,315
$ 56,433	**$ 4,369,648**	**$ 31,909,834**

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, 2004

Net Change in Fund Balances - Total Governmental Funds	$ (3,238,481)
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	3,200,344
Revenue is reported in the Statement of Activities at the time it is earned, without regard to timeliness of collection	(1,842,351)
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	11,154
Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces long-term debt)	4,436,681
Bond issuance is not reported as financing sources on the Statement of Activities	(31,330,734)
Payments to an escrow agent on refunding bonds are not reported as an other financing source on the Statement of Activities	5,075,000
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 earned than was paid out	(249,572)
Governmental Accounting Standards Board Interpretation 6 requires that lawsuit claims to be recorded in the Statement of Activities when they are payable	(6,000,000)
Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service Funds is reported with governmental activities	(382,270)
Change in Net Assets of Governmental Activities	**$ (30,320,229)**

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

Proprietary Funds
Statement of Net Assets
June 30, 2004

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 7,157,467	$ 2,788,018
Investments, at fair value (Note 3)	22,678,259	5,996,550
Receivables:		
Customers	6,953	-
Special assessments	24,636	-
Accrued interest	185,458	6,852
Prepaid costs and other assets	-	709,064
Due from other funds (Note 5)	-	250,983
Deposits	-	68,777
Inventories	236,840	-
Total current assets	30,289,613	9,820,244
Noncurrent assets:		
Special assessments	127,942	-
Restricted assets (Note 8)	5,985,469	-
Capital assets - Net (Note 4)	135,546,803	-
Total noncurrent assets	141,660,214	-
Total assets	171,949,827	9,820,244
Liabilities		
Current liabilities:		
Accounts payable	3,247,088	102,025
Accrued and other liabilities	290,606	-
Due to other funds (Note 5)	42,067	-
Provision for uninsured losses and liabilities (Note 9)	-	1,212,885
Unearned revenue	121,250	-
Total current liabilities	3,701,011	1,314,910
Noncurrent liabilities:		
Provision for uninsured losses and liabilities (Note 9)	-	2,968,982
Long-term debt - Net of current portion (Note 7)	199,596	-
Total noncurrent liabilities	199,596	2,968,982
Total liabilities	3,900,607	4,283,892
Net Assets		
Investment in capital assets	135,546,803	-
Restricted for:		
Ordinance requirements	5,985,469	-
Council resolution for capital improvements	2,540,000	-
Unrestricted	23,976,948	5,536,352
Total net assets	**$ 168,049,220**	**$ 5,536,352**

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

City of Sterling Heights, Michigan

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2004

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Operating Revenues		
Water sales	$ 8,106,894	$ -
Sewage treatment	9,859,187	-
Service charges	1,548,979	-
City contributions	-	7,050,905
Other	870,239	146,645
Total operating revenues	20,385,299	7,197,550
Operating Expenses		
Wages and fringe benefits	2,675,360	-
Contractual services	158,539	-
Water purchases	6,908,843	-
Sewage disposal charges	9,625,194	-
Materials and supplies	321,094	-
Repairs and maintenance	524,309	-
Building and equipment rental	131,714	-
Insurance	220,770	-
Depreciation	4,087,521	-
Administration expenses	1,091,830	367,723
Reinsurance charges and claims	-	6,485,123
Other	84,110	869,074
Total operating expenses	25,829,284	7,721,920
Operating Loss	(5,443,985)	(524,370)
Nonoperating Revenues		
Federal sources	4,938	-
Interest income	532,552	142,100
Tap fees and frontage charges	1,714,034	-
Total nonoperating revenues	2,251,524	142,100
Loss - Before contributions	(3,192,461)	(382,270)
Contributions from Developers	6,711,428	-
Change in Net Assets	3,518,967	(382,270)
Net Assets - Beginning of year	164,530,253	5,918,622
Net Assets - End of year	**$ 168,049,220**	**$ 5,536,352**

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2004

	Business-type Activities	Governmental Activity
	Enterprise Fund - Water and Sewer	Internal Service Fund - Self-insurance
Cash Flows from Operating Activities		
Receipts from customers	$ 19,136,144	$ 6,885,413
Payments to suppliers for goods and services	(16,845,510)	-
Payments to employees for services	(2,675,360)	-
Payments connected with interfund services	(1,312,600)	-
Receipts connected with interfund services	270,018	-
Claims paid	-	(7,248,852)
Other receipts	130,106	-
Net cash used in operating activities	(1,297,202)	(363,439)
Cash Flows from Noncapital Financing Activities - Grant proceeds from federal sources	4,938	-
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	1,714,034	-
Purchase of capital assets	(1,834,584)	-
Net cash used in capital and related financing activities	(120,550)	-
Cash Flows from Investing Activities		
Interest received on investments	532,552	142,100
Purchase of investment securities	(75,886,372)	(22,717,997)
Proceeds from sales and maturities of investment securities	76,753,697	22,971,447
Net cash provided by investing activities	1,399,877	395,550
Net (Decrease) Increase in Cash and Cash Equivalents	(12,937)	32,111
Cash and Cash Equivalents - Beginning of year	8,396,603	2,755,907
Cash and Cash Equivalents - End of year	**$ 8,383,666**	**$ 2,788,018**
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	$ 7,157,467	$ 2,788,018
Restricted cash and cash equivalents (Note 8)	1,226,199	-
Total	**$ 8,383,666**	**$ 2,788,018**

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

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2004

	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	$ (5,443,985)	$ (524,370)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	4,087,520	-
Changes in assets and liabilities:		
Receivables	(247,967)	185
Prepaid costs and other assets	-	(589,781)
Due from other funds	65,269	-
Deposits	-	(3,702)
Inventory	8,043	-
Restricted assets - Receivables	42,624	-
Accounts payable	393,221	85,652
Accrued and other liabilities	(233,105)	-
Provision for uninsured losses and liabilities	-	726,214
Deferred revenue	(173,571)	-
Due to other funds	204,749	(57,637)
Net cash used in operating activities	**$ (1,297,202)**	**$ (363,439)**

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, developers constructed water and sewer lines with an estimated value of $6,711,428 and donated them to the City's Water and Sewer Enterprise Fund.

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

Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2004

	Trust Funds - Pensions and Other Retirement Benefits	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	$ 10,818,159	$ 2,487,368
Investments, at fair value (Note 3):		
U.S. government securities	31,392,252	1,020,630
Commercial paper	-	497,570
Short-term investment fund	-	1,000,000
Corporate bonds	38,122,487	-
Mutual funds	35,838,947	-
Common and preferred stocks	174,885,747	-
Cash and investments held as collateral for securities lending	29,994,262	-
Receivables - Accrued interest	758,986	7,330
Other assets	869	17
Total assets	321,811,709	**$ 5,012,915**
Liabilities		
Accounts payable	1,324,840	$ 200,483
Accrued and other liabilities	4,890,084	1,494,731
Amounts due to broker under securities lending agreements	29,994,262	-
Due to other governmental units	290,005	56,427
Provision for uninsured losses and liabilities	705,239	-
Cash bonds and deposits	-	3,261,274
Total liabilities	37,204,430	**$ 5,012,915**
Net Assets - Held in trust for pensions and other retirement benefits	**$ 284,607,279**	

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
Year Ended June 30, 2004

	Trust Funds - Pensions and Other Retirement Benefits
Additions	
Investment income:	
Interest and dividends	$ 6,667,618
Net adjustment to fair value of investments	28,061,525
Less investment expenses	(909,621)
Net investment income	33,819,522
Securities lending income:	
Interest and fees	408,194
Less borrower rebates and bank fees	(335,757)
Net securities lending income	72,437
Contributions:	
Employer	6,155,752
Employee	1,902,892
Total additions	41,950,603
Deductions	
Benefit payments	16,073,206
Refunds of contributions	1,043,250
Administrative expenses	81,454
Total deductions	17,197,910
Change in Net Assets	24,752,693
Net Assets - Beginning of year	259,854,586
Net Assets - End of year	**$ 284,607,279**

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

Component Units
Statement of Net Assets
June 30, 2004

	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets - Cash and cash equivalents (Note 3)	$ 15,803	$ 12,257	$ 28,060
Liabilities - Accounts payable	-	37	37
Net Assets - Unrestricted	**$ 15,803**	**$ 12,220**	**$ 28,023**

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

Component Units
Statement of Activities
Year Ended June 30, 2004

		Program Revenues	Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Operating Grants and Contributions	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Brownfield Redevelopment Authority - Public Works	$ 463	$ 2,450	$ -	$ 1,987	$ 1,987
Total component units	**$ 463**	**$ 2,450**	-	1,987	1,987
General Revenues - Interest			136	107	243
Change in Net Assets			136	2,094	2,230
Net Assets - Beginning of year			15,667	10,126	25,793
Net Assets - End of year			**$ 15,803**	**$ 12,220**	**$ 28,023**

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

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note 1 - 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 City reports the following major proprietary fund:

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Fund accounts for risk management services provided to other departments of the government on a cost reimbursement basis.
- The Pension Trust Funds and the Retiree Medical Benefit Fund account for the activities of the general employee and police and fire employees retirement systems, which accumulate resources for pension benefit payments to qualified general and police and fire employees and for medical benefits provided to employees during retirement, respectively.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, and other governments.

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

Note 1 - 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, when applicable. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for construction, maintenance, or debt service.

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

Note 1 - 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 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.

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, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at July 1, 2003		$ (1,104,748)
Current year building permit revenue	$ 2,540,497	
Related expenses:		
Direct costs	1,555,341	
Estimated indirect costs	1,183,362	
Total construction code expenses	2,738,703	
Net shortfall for the year ended June 30, 2004		(198,206)
Cumulative shortfall at June 30, 2004		$ (1,302,954)

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1948) 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.

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/P2 or above), bankers' acceptances, repurchase agreements, overnight deposits, or mutual funds. For overnight deposits, the treasurer may invest overnight or short-term liquid assets to cover cash flow requirements in the following types of pools: investment pools organized under the Surplus Funds Investment Pool Act of 1982 PA 367, 1 MCL 129.111 to 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 (limited to 5 percent of the trust fund's assets if total assets are less than $250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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 8)
Governmental activities	$ 34,349,908	$ 9,065,120	$ -	$ 2,243,958
Business-type activities	7,157,467	22,678,259	-	1,226,199
Fiduciary funds	13,305,527	282,757,633	29,994,262	-
Total primary government	54,812,902	314,501,012	29,994,262	3,470,157
Component units	28,060	-	-	-
Total	$ 54,840,962	$ 314,501,012	$ 29,994,262	$ 3,470,157

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)	$ 28,603,718	$ -
Investments in securities, mutual funds, and similar vehicles	374,154,767	28,060
Petty cash or cash on hand	19,848	-
Total	$ 402,778,333	$ 28,060

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 $28,022,163. Of that amount, $779,780 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, 2004. 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

Note 3 - Deposits and Investments (Continued)

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

	Category				
	1	2	3	Not Categorized	Reported Amount (Fair Value)
Primary government:					
U.S. government securities	$ 34,880,920	$ -	$ -	$ -	$ 34,880,920
Corporate bonds	37,478,995	-	-	-	37,478,995
Common and preferred stock	150,183,899	-	-	-	150,183,899
Commercial paper	10,979,129	-	-	-	10,979,129
Bank investment pool funds	-	-	-	34,868,188	34,868,188
Interlocal agreement investment pool funds	-	-	-	213,788	213,788
Short-term investment funds	-	-	-	10,578,057	10,578,057
Mutual funds	-	-	-	35,838,947	35,838,947
Investments held by broker-dealer and banks under securities loans:					
U.S. government securities	-	-	-	3,793,242	3,793,242
Corporate bonds and notes	-	-	-	643,492	643,492
Common and preferred stock	-	-	-	24,701,848	24,701,848
Securities lending short-term collateral bank investment pool	-	-	-	29,994,262	29,994,262
Total primary government	$ 233,522,943	$ -	$ -	$ 140,631,824	$ 374,154,767
Component units - Bank investment pool funds				$ 28,060	$ 28,060

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

Securities Lending Transactions - The General Employees' Retirement System and the Police and Fire Retirement System (collectively referred to as the "Systems") have entered into securities lending transactions whereby loans of securities are made to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. State statutes permit participation in securities lending transactions and the Systems have authorized the custodians of their securities to lend securities to broker-dealers and banks pursuant to a formal loan agreement. At June 30, 2004, the Systems have no credit risk exposure to the borrowers because the amounts the Systems owe the borrowers exceed the amount the borrowers owe the Systems.

During the year, security loans were made at the discretion of the Systems' Custodial Bank and United States currency was received as collateral. Borrowers were required to deliver collateral for each loan equal to but not less than 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, 2004 was 146 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, 2004 were $29,994,262 and $29,138,581, respectively.

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 $28,060 at June 30, 2004. 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, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 42,291,311	$ 842,037	$ -	$ 43,133,348
Construction in progress	8,860,690	4,864,622	(8,860,690)	4,864,622
Works of art	290,100	2,540	-	292,640
Net capital assets - Nondepreciable	51,442,101	5,709,199	(8,860,690)	48,290,610
Capital assets being depreciated:				
Building and building improvements	31,077,508	469,643	(122,062)	31,425,089
Improvements other than buildings	3,466,237	816,423	-	4,282,660
Equipment	26,202,862	3,793,173	(1,000,756)	28,995,279
Furnishings and fixtures	1,404,317	2,064	(59,456)	1,346,925
Infrastructure	180,953,549	12,298,278	-	193,251,827
Subtotal	243,104,473	17,379,581	(1,182,274)	259,301,780
Accumulated depreciation:				
Building and building improvements	7,356,981	668,881	(53,911)	7,971,951
Improvements other than buildings	713,256	127,669	-	840,925
Equipment	13,754,459	2,736,906	(495,603)	15,995,762
Furnishings and fixtures	901,205	74,143	(55,838)	919,510
Infrastructure	75,403,386	6,843,226	-	82,246,612
Subtotal	98,129,287	10,450,825	(605,352)	107,974,760
Net capital assets being depreciated	144,975,186	6,928,756	(576,922)	151,327,020
Net governmental capital assets	$ 196,417,287	$ 12,637,955	$ (9,437,612)	$ 199,617,630

Note 4 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	$ 64,871	$ -	$ -	$ 64,871
Construction in progress	5,302,565	1,195,359	(4,623,385)	1,874,539
Net capital assets - Nondepreciable	5,367,436	1,195,359	(4,623,385)	1,939,410
Capital assets being depreciated:				
Building and building improvements	262,532	12,070	-	274,602
Improvements other than buildings	11,391	-	-	11,391
Equipment	1,831,168	259,214	(125,513)	1,964,869
Furnishings and fixtures	27,030	-	-	27,030
Water and sewer mains	193,191,537	11,702,752	-	204,894,289
Subtotal	195,323,658	11,974,036	(125,513)	207,172,181
Accumulated depreciation:				
Building and building improvements	164,077	2,458	-	166,535
Improvements other than buildings	11,391	-	-	11,391
Equipment	822,296	176,927	(125,513)	873,710
Furnishings and fixtures	10,342	1,802	-	12,144
Water and sewer mains	68,594,675	3,906,333	-	72,501,008
Subtotal	69,602,781	4,087,520	(125,513)	73,564,788
Net capital assets being depreciated	125,720,877	7,886,516	-	133,607,393
Net business-type capital assets	$ 131,088,313	$ 9,081,875	$ (4,623,385)	$ 135,546,803

Note 4 - Capital Assets (Continued)

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

Governmental activities:	
General government	$ 337,006
Public safety	1,538,879
Public works	7,436,695
Recreation and culture	1,044,636
41A District Court	93,609
Total governmental activities	$ 10,450,825
Business-type activities - Water and Sewer	$ 4,087,520

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	$ 591,125
	Nonmajor governmental funds	202,751
	General Improvements Fund	12,828
	Water and Sewer Fund	42,067
	Total General Fund	848,771
Nonmajor Debt Service Funds	General Fund	46
Road Bond Construction Fund	General Fund	143,291
Self-insurance Fund	General Fund	250,983
Total		$ 1,243,091

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

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

Interfund Transfers Reported in the Fund Statements

Fund Transferred From	Fund Transferred To	Amount
General Fund	General Improvements Fund	$ 1,375,200
	Road Bond Construction Fund	381,370
	Nonmajor governmental funds	995,470
		2,752,040
Major Roads Fund	Nonmajor governmental funds	2,800,000
	Road Bond Construction Fund	500,000
		3,300,000
General Improvements Fund	Nonmajor governmental funds	245,000
Nonmajor governmental funds	General Fund	87,110
	Nonmajor governmental funds	78,020
		165,130
Total		$ 6,462,170

The transfers from the General Fund to the General Improvements Fund represents the transfer of unrestricted resources for future capital improvements; the transfer from the General Fund and Major Roads Fund to the Road Bond Construction Fund represents the funding of new roads; the transfer from the General Fund to the nonmajor governmental funds primarily represents the funding of debt service payments; the transfer from the Major Road Fund to the nonmajor governmental funds primarily represents the funding of road-related debt service.

Note 6 - Deferred Revenue

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

	Unavailable	Unearned
Cash on hand at Macomb County (Note 8)	$ 2,243,958	$ -
Special assessments	91,185	-
Other deposits	40,619	559,689
Total	$ 2,375,762	$ 559,689

Note 7 - Long-term Debt

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

Note 7 - 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	$ 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	350,000	-	-	350,000	-
1993 Building Authority Refunding Bonds:							
Amount of Issue - $2,845,000	4.25% -	$225,000 -					
Maturing through 2007	4.95%	$320,000	1,455,000	-	(1,455,000)	-	-
1994 Unlimited Tax Road Bonds:							
Amount of Issue - $1,575,000	5.15% -	$150,000 -					
Maturing through 2004	5.40%	$200,000	375,000	-	(175,000)	200,000	200,000
1995 Michigan Transportation Fund Bonds:							
Amount of Issue - $2,790,000	5.10% -	$100,000 -					
Maturing through 2009	5.63%	$350,000	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	1,800,000	-	(1,400,000)	400,000	200,000
1997 Unlimited Tax Road Bonds:							
Amount of Issue - $1,850,000	4.70% -	$175,000 -					
Maturing through 2007	5.10%	$225,000	1,050,000	-	(200,000)	850,000	200,000
1998 Unlimited Tax Road Bonds:							
Amount of Issue - $2,775,000	3.75% -	$250,000 -					
Maturing through 2007	5.75%	$375,000	1,650,000	-	(300,000)	1,350,000	300,000
1998 Michigan Transportation Fund Bonds:							
Amount of Issue - $2,110,000	4.30% -	$85,000 -					
Maturing through 2012	5.00%	$250,000	1,775,000	-	(1,775,000)	-	-
1999 Unlimited Tax Road Bonds:							
Amount of Issue - $2,700,000	3.56% -	$250,000 -					
Maturing through 2008	4.10%	$350,000	1,825,000	-	(250,000)	1,575,000	250,000
1999 Michigan Transportation Fund Bonds:							
Amount of Issue - $5,250,000	4.10% -	$200,000 -					
Maturing through 2013	4.65%	$600,000	4,400,000	-	(250,000)	4,150,000	250,000

Note 7 - 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 Maturing through 2019	5.00% - 7.00%	$75,000 - $300,000	$ 3,450,000	$ -	$ (100,000)	$ 3,350,000	$ 100,000
2000 Michigan Transportation Fund Bonds:							
Amount of Issue - $4,225,000 Maturing through 2014	5.00%	$100,000 - $500,000	4,000,000	-	(100,000)	3,900,000	200,000
2002 Michigan Transportation Refunding Bonds:							
Amount of Issue - $4,840,000 Maturing through 2009	2.70% - 4.00%	$100,000 - $890,000	4,740,000	-	(680,000)	4,060,000	890,000
2003 Michigan Transportation Refunding Bonds:							
Amount of Issue - $3,050,000 Maturing through 2013	2.375%- 3.60%	$120,000- $500,000	-	3,050,000	-	3,050,000	120,000
2003 Building Authority Refunding Bonds:							
Amount of Issue - $2,025,000 Maturing through 2010	2.00%- 2.75%	$300,000- $395,000	-	2,025,000	-	2,025,000	315,000
2004 Judgment Bonds:							
Amount of Issue - $24,395,000 Maturing through 2019	2.00%- 5.375%	$840,000- $3,030,000	-	24,395,000	-	24,395,000	840,000
County Drain Contract Obligations:							
Burr Relief No. 2 Drain:							
Amount of Issue - $1,725,000 Maturing through 2005	5.00% - 6.80%	$175,000 - $200,000	375,000	-	(375,000)	-	-
Diener Drain Enclosure No. 2:							
Amount of Issue - $1,838,767 Maturing through 2005	4.00% - 6.40%	$167,596 - $191,539	383,078	-	(191,539)	191,539	191,539
Phiel Drain Improvement:							
Amount of Issue - $380,564 Maturing through 2005	4.00% - 6.40%	$23,786 - $47,571	95,142	-	(95,142)	-	-
Green Drain Enclosure:							
Amount of Issue - $1,065,000 Maturing through 2007	5.40% - 5.70%	$75,000 - $100,000	375,000	-	(75,000)	300,000	100,000
Seventeen Mile Road Drain and Branches:							
Amount of Issue - $3,550,000 Maturing through 2013	4.00% - 5.70%	$150,000 - $300,000	2,400,000	-	(175,000)	2,225,000	200,000
Busch Drain Drainage District:							
Amount of Issue - $1,250,000 Maturing through 2014	4.00% - 4.55%	$50,000 - $125,000	1,050,000	-	(75,000)	975,000	75,000
Hawken Drain Drainage District:							
Amount of Issue - $795,000 Maturing through 2015	4.45% - 5.25%	$50,000 - $75,000	650,000	-	(50,000)	600,000	50,000
Hayes Drain Drainage District:							
Amount of Issue - $1,095,000 Maturing through 2015	4.50% - 5.50%	$25,000 - $125,000	1,025,000	-	(50,000)	975,000	50,000
Plumbrook Bridge Replacement Drain Drainage District:							
Amount of Issue - $2,800,000 Maturing through 2015	4.00% - 5.00%	$100,000 - $275,000	2,475,000	-	(125,000)	2,350,000	150,000
17 Mile Extension Drain Drainage District:							
Amount of Issue - $1,725,000 Maturing through 2016	3.00% - 4.50%	$75,000 - $150,000	1,575,000	-	(75,000)	1,500,000	75,000

Note 7 - 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)							
County Drain Contract Obligations (Continued)							
Sterling Relief Lateral 12B Drainage District:							
Amount of Issue - $885,000 Maturing through 2013	2.00%-4.00%	$75,000-$105,000	$ -	$ 885,000	$ (65,000)	$ 820,000	$ 75,000
Special Assessment Bonds:							
1996 Special Assessment Bonds:							
Amount of Issue - $590,000 Maturing through 2004	4.85% - 5.00%	$75,000 - $100,000	200,000	-	(100,000)	100,000	100,000
1997 Special Assessment Bonds with Governmental Commitment:							
Amount of Issue - $1,040,000 Maturing through 2005	4.60% - 5.00%	$125,000	375,000	-	(125,000)	250,000	125,000
Total bond obligations			39,098,220	30,355,000	(9,511,681)	59,941,539	5,056,539
Other long-term obligations:							
Provision for uninsured losses and other liabilities			3,455,653	5,570,569	(4,844,355)	4,181,867	1,212,885
Compensated absences			4,079,515	2,345,879	(2,096,307)	4,329,087	-
Total other long-term obligations			7,535,168	7,916,448	(6,940,662)	8,510,954	1,212,885
Total governmental activities			46,633,388	38,271,448	(16,452,343)	68,452,493	6,269,424
Business-type Activities - Water and Sewer							
Fund obligations - Compensated absences			172,741	26,855	-	199,596	-
Total			$ 46,806,129	$ 38,298,303	$ (16,452,343)	$ 68,652,089	$ 6,269,424

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

	Governmental Activities		
	Principal	Interest	Total
2005	$ 5,056,539	$ 2,342,376	$ 7,398,915
2006	4,840,000	2,407,392	7,247,392
2007	4,665,000	2,232,138	6,897,138
2008	4,805,000	2,058,569	6,863,569
2009	4,760,000	1,883,516	6,643,516
2010-2014	20,260,000	6,716,436	26,976,436
2015-2019	15,255,000	2,174,486	17,429,486
2020	300,000	8,813	308,813
Total	$ 59,941,539	$ 19,823,726	$ 79,765,265

Note 7 - Long-term Debt (Continued)

During the year, the City issued $2,025,000 Building Authority Limited Tax General Obligation Refunding Bonds with an average coupon (interest) rate of 2.36 percent. The proceeds were used to advance refund $1,960,000 of outstanding 1990 and 1993 Building Authority Bonds with an average coupon (interest) rate of 4.5 percent and 4.84 percent, respectively. The City also issued $3,050,000 of Michigan Department of Transportation Refunding Bonds with an average coupon (interest) rate of 5.00 percent and 4.47 percent, respectively.

The net proceeds of $1,991,543 from the Building Authority Refunding Bonds and $3,041,450 from the Michigan Transportation Fund Refunding Bonds (after payment of $66,758 and $86,963, respectively, in underwriter fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in separate irrevocable trusts with an escrow agent to provide for future debt service payments on the 1990 and 1993 Building Authority Bonds and the 1996 and 1998 Michigan Transportation Fund Bonds, respectively.

As a result, all four of the bond issues listed above are considered defeased and the liability for the bonds have been removed from the long-term debt obligations of the governmental activities. The advanced refunding of the Building Authority Bonds and the Michigan Transportation Fund Bonds reduced the total debt service over the next seven and 10 years, respectively, by approximately $75,490 and $64,390, respectively, which represents an economic gain of approximately $69,620 and $54,500, respectively.

The City issued new debt in the form of $885,000 County Drain Bonds through Macomb County to fund additions to the Sterling Relief Lateral 12B Extension Drain within the community and $24,395,000 of Limited Tax General Obligation Bonds to fund the first installment on the settlement of a lawsuit brought by Hillside Productions, Inc.

Note 8 - Restricted Assets

Specific assets of the Water and Sewer Fund have been restricted by ordinance which requires the City to set aside a sum sufficient to provide for the subsequent quarters expenses for operations, maintenance, and replacement. Specific assets of the General Improvements Fund are restricted as the result of an external government issuing bonds for which state law requires the proceeds of the issue to be used exclusively for the purpose the bonds were issued or the repayment of the bonds. Following is the detail of restricted assets at June 30, 2004:

Water and Sewer Fund:	
Cash and cash equivalents (Note 3)	$ 1,226,199
Accounts receivable - Customers	4,759,270
Total Water and Sewer Fund	5,985,469
General Improvements Fund - Cash and cash equivalents* (Note 3 and Note 6)	2,243,958
Total restricted assets	$ 8,229,427

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

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

Note 9 - 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 $2,309,890 will be paid for all claims reported to date and $523,087 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:

Note 9 - Risk Management (Continued)

	2004	2003
Estimated liability - Beginning of year	$ 1,686,060	$ 1,580,888
Estimated claims incurred, including changes in estimates	1,388,253	480,956
Claim payments	(241,336)	(375,784)
Estimated liability - End of year	$ 2,832,977	$ 1,686,060

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 active and retired employee (including dependents) for the contract year ended June 30, 2004. At January 1, 1990, the City became self-insured for short-term disability.

It is estimated, based on past experience, that $70,988 will be paid for all claims reported to date and $1,741,919 will be paid for claims incurred but not reported. This amount and all other transactions with respect to active employee medical and short-term disability claims are reflected in the Self-insurance Internal Service Fund. Effective July 1, 2003, retired employee medical claims are reflected in the Retiree Medical Benefits Fiduciary Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	Self-insurance Internal Service Fund		Medical Benefits Fund
	2004	2003	2004
Estimated liability - Beginning of year	$ 1,644,782	$ 1,557,759	$ -
Estimated claims incurred, including changes in estimates	3,649,851	4,276,127	995,536
Claim payments	(4,186,965)	(4,189,104)	(290,297)
Estimated liability - End of year	$ 1,107,668	$ 1,644,782	$ 705,239

Note 9 - Risk Management (Continued)

Workers' Compensation

On July 1, 1992, the City became self-insured for workers' compensation claims. Under the program, the City is liable for the first $150,000 of any occurrence. The City has purchased excess insurance to cover claims greater than $150,000. At June 30, 2004, it was estimated, based on past experience, that $241,222 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:

	2004	2003
Estimated liability - Beginning of year	$ 124,811	$ 98,892
Estimated claims incurred, including changes in estimates	532,465	190,256
Claim payments	(416,054)	(164,337)
Estimated liability - End of year	$ 241,222	$ 124,811

Extraordinary Item

By the terms of a Settlement and Release Agreement dated March 22, 2004, the United States District Court case entitled *Hillside Productions, Inc*, *et al* vs. *Steve Duchane*, *et al* was resolved. The City of Sterling Heights agreed to pay the plaintiffs the sum of $31,000,000 in exchange for a dismissal of all pending litigation between the parties and the meaningful reduction in sound through the construction of a roof and sound containment wall at the amphitheater by June 1, 2005 and a reduction in the allowable decibel limit from 100 to 95 decibels.

The schedule of payments for the settlement amount obligated the City to disburse $25,000,000 through the fiscal year ended June 30, 2004. To fund this obligation, the City issued General Obligation Judgment Funding Bonds in the face amount of $24,395,000. The bonds were sold at a premium of $975,734. The $6,000,000 balance of the settlement amount must be deposited into an interest-bearing escrow account for the benefit of the plaintiffs by January 2, 2005.

Note 9 - Risk Management (Continued)

It is the City's position that the settlement and related legal fees are covered under policies of liability insurance. The City has initiated a United States District Court case entitled *City of Sterling Heights*, *et al* vs. *United National Ins. Co*, *et al* seeking a determination of insurance coverage available and recovery under those policies. Any monies recovered through this case will be recognized upon receipt.

Note 10 - Defined Benefit Pension Plans

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

General Employees' Retirement System - This system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, membership consisted of 185 retirees, beneficiaries, alternative payees currently receiving benefits, 18 terminated employees entitled to benefits but not yet receiving them, and 296 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, 2004, membership consisted of 216 retirees, beneficiaries, alternate payees currently receiving benefits, no terminated employees entitled to benefits but not yet receiving them, and 252 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.

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.

Note 10 - Defined Benefit Pension Plans (Continued)

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, 2004, the City had no required pension contributions (exclusive of administrative costs of approximately $515,000). The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, 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, 2004, the City's annual pension cost of $3,545,592 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, 2002, 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.

Note 10 - Defined Benefit Pension Plans (Continued)

	Year Ended		
	2000	2001	2002
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)	$ 1,634,437	$ 2,747,983	$ 3,545,592
Percentage of APC contributed	100%	100%	100%
Net pension obligation	$ -	$ -	$ -

Note 11 - 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 $378,434 during the current year and employees contributed $317,438.

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

Note 12 - 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, 148 general and 197 police and fire retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant, except for the M.A.P.E. Executives Union and the U.A.W. Professional and Technical Employees Union, which, effective July 1, 2003, requires new members to pay 25 percent of the monthly retiree health care coverage premium upon retirement. The 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 $2,610,160, which was funded by the General and Water and Sewer Funds, and health care benefits paid totaled $3,238,015.

Effective for current retirees under the police officer, emergency dispatcher, and firefighter contracts, the City provides dental benefits. Currently, there are 72 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 $59,000 for the current year.

Note 13 - Designated Fund Balance

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

	Funds				
	General	Major Roads	General Improvements	Road Bond Construction	Nonmajor
Designated for:					
Subsequent years' expenditures	$ 2,346,300	$ -	$ 74,000	$ -	$ 940,840
Debt service	-	-	-	-	189,137
Capital improvement	-	4,012,363	3,129,421	(342,267)	2,459,293
Emerald Ash Borer tree removal	2,000,000	-	-	-	-
Public safety radio system	3,354,000	-	-	-	-
Total designated	$ 7,700,300	$ 4,012,363	$ 3,203,421	$ (342,267)	$ 3,589,270
Unreserved	$ 11,357,627	$ -	$ -	$ -	$ 767,621

Note 14 - Subsequent Event

Subsequent to year end, the City issued debt in the form of $2,315,000 County Drain Bonds through Macomb County to refund all of the outstanding Seventeen Mile Road Drain and Branches Drain Bonds. The payments begin in 2005 and mature in 2013 with interest ranging from 2.0 percent to 3.75 percent.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 18,222,083	$ 18,222,083	$ 18,222,083	$ -
Resources (Inflows)				
Property taxes	37,548,410	37,448,760	37,447,879	(881)
Refuse taxes	4,883,640	4,861,660	4,861,660	-
Police and Fire pension taxes	3,565,590	3,545,590	3,545,592	2
Federal, state, and local sources	11,174,350	12,290,560	12,510,559	219,999
Fees and permits	1,926,470	2,504,470	2,318,120	(186,350)
Fines and forfeitures	2,249,670	2,706,530	2,703,156	(3,374)
Charges for services	5,780,550	6,305,550	6,334,722	29,172
Cable revenue	1,180,000	1,180,000	1,224,778	44,778
Other	2,755,440	2,306,740	1,999,407	(307,333)
Transfer from other funds	87,110	87,110	87,110	-
Proceeds from LTD	-	25,400,000	25,370,734	(29,266)
Amounts available for appropriation	71,151,230	98,636,970	98,403,717	(233,253)
Charges to Appropriations (Outflows)				
City administration	7,224,640	7,010,010	6,956,794	53,216
41A District Court	2,354,490	2,326,060	2,342,220	(16,160)
Parks and recreation department	2,162,250	2,184,090	2,165,257	18,833
Community and information services	2,160,830	2,148,710	2,134,232	14,478
Police department	22,641,630	22,921,770	23,076,024	(154,254)
Fire department	12,524,050	12,602,450	12,703,532	(101,082)
City development	4,412,680	4,369,970	4,368,397	1,573
Public works department	5,157,020	5,163,850	5,235,487	(71,637)
Refuse collection	4,883,640	4,926,510	4,659,238	267,272
Public library department	2,342,090	2,381,830	2,387,778	(5,948)
General expenditures	2,797,610	28,284,190	28,193,281	90,909
Transfers to other funds	2,446,250	2,752,040	2,752,040	-
Total charges to appropriations	71,107,180	97,071,480	96,974,280	97,200
Fund Balance - End of year	**$ 18,266,133**	**$ 19,787,573**	**$ 19,651,520**	**$ (136,053)**

Required Supplemental Information
Budgetary Comparison Schedule - Major Roads Fund
Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 7,420,668	$ 7,420,668	$ 7,420,668	$ -
Resources (Inflows)				
State sources	5,200,000	5,300,000	5,535,500	235,500
Other	790,000	331,000	396,766	65,766
Amounts available for appropriation	5,990,000	5,631,000	5,932,266	301,266
Charges to Appropriations (Outflows)				
Public works:				
Administration	102,200	102,200	94,912	7,288
Routine maintenance	1,990,850	1,787,350	1,437,399	349,951
Improvements	7,039,160	5,845,680	4,490,566	1,355,114
Transfers to other funds	2,800,000	2,800,000	3,300,000	(500,000)
Total charges to appropriations	11,932,210	10,535,230	9,322,877	1,212,353
Fund Balance - End of year	**$ 1,478,458**	**$ 2,516,438**	**$ 4,030,057**	**$ 1,513,619**

Required Supplemental Information
Pension Systems Schedule of Funding Progress
June 30, 2004

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
General Employees' Retirement System						
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	-
12/31/03	99,270,906	77,021,654	(22,249,252)	128.9	14,544,030	-
Police and Fire Retirement System						
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	18,595,100	-
12/31/03	183,664,050	149,968,630	(33,695,420)	122.5	18,271,862	-

Required Supplemental Information
Pension Systems Schedule of Funding Progress (Continued)
June 30, 2004

General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
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
06/30/04	12/31/02	-	100.0

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
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
06/30/04	12/31/02	3,545,592	100.0

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003, 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
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 will be paid to pre-07/01/94 COA and fire retirees and $500 for pre-07/01/93 MAP retirees each January 1 following the year of service retirement, or converted service retirement, terminating upon the member's death.

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.

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:

	Budget	Actual
General Fund:		
41A District Court	$ 2,326,060	$ 2,342,220
Police department	22,921,770	23,076,024
Fire department	12,602,450	12,703,532
Public works	5,163,850	5,235,487
Public library	2,381,830	2,387,778
Major Roads Fund - Transfer to other funds	2,800,000	3,300,000

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

Other Financial and Supplemental Information

Nonmajor Governmental Funds

	Nonmajor Special Revenue Funds				
	Local Roads	Budget Stabilization	Community Development Block Grant	Land and Water Conservation	Total Nonmajor Special Revenue Funds
Assets					
Cash and cash equivalents	$ 2,140,395	$ 750,000	$ 290	$ 1,145,068	$ 4,035,753
Receivables:					
Special assessments:					
Current	-	-	-	-	-
Deferred	-	-	-	-	-
Accrued interest	381	-	-	-	381
Prepaid costs and other assets	-	-	-	625	625
Due from other funds	-	-	-	-	-
Due from other governmental units	340,223	-	95,353	4,000	439,576
Total assets	**$ 2,480,999**	**$ 750,000**	**$ 95,643**	**$ 1,149,693**	**$ 4,476,335**
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 42,982	$ -	$ 54,212	$ 1,331	$ 98,525
Accrued and other liabilities	-	-	-	8,968	8,968
Due to other funds	171,722	-	23,810	118	195,650
Deferred revenue	-	-	-	52,011	52,011
Total liabilities	214,704	-	78,022	62,428	355,154
Fund Balances					
Reserved for encumbrances	4,084	-	-	8,673	12,757
Unreserved:					
Designated for road improvements	2,262,211	-	-	-	2,262,211
Designated for debt service	-	-	-	-	-
Undesignated	-	750,000	17,621	1,078,592	1,846,213
Total fund balance	2,266,295	750,000	17,621	1,087,265	4,121,181
Total liabilities and fund balances	**$ 2,480,999**	**$ 750,000**	**$ 95,643**	**$ 1,149,693**	**$ 4,476,335**

Nonmajor Debt Service Funds					
Building Authority	General Drain	Road Bond Debt Retirement	RS&T Debt Service	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
$ 2,781	$ 9,592	$ 204,551	$ 2,735	$ 219,659	$ 4,255,412
-	-	32,885	-	32,885	32,885
-	-	16,749	-	16,749	16,749
-	-	2,978	-	2,978	3,359
-	-	-	-	-	625
-	-	46	-	46	46
-	-	-	-	-	439,576
$ 2,781	**$ 9,592**	**$ 257,209**	**$ 2,735**	**$ 272,317**	**$ 4,748,652**
$ -	$ -	$ -	$ -	$ -	$ 98,525
-	-	-	-	-	8,968
-	7,101	-	-	7,101	202,751
-	-	16,749	-	16,749	68,760
-	7,101	16,749	-	23,850	379,004
-	-	-	-	-	12,757
-	-	-	-	-	2,262,211
2,781	2,491	240,460	2,735	248,467	248,467
-	-	-	-	-	1,846,213
2,781	2,491	240,460	2,735	248,467	4,369,648
$ 2,781	**$ 9,592**	**$ 257,209**	**$ 2,735**	**$ 272,317**	**$ 4,748,652**

	Nonmajor Special Revenue Funds				
	Local Roads	Budget Stabilization	Community Development Block Grant	Land and Water Conservation	Total Nonmajor Special Revenue Funds
Revenues					
Property taxes	$ -	$ -	$ -	$ -	$ -
Federal sources	62,802	-	1,061,836	4,000	1,128,638
State sources	2,087,440	-	-	-	2,087,440
Interest income	21,231	-	-	12,787	34,018
Special assessments	-	-	-	-	-
Other	80,703	-	-	-	80,703
Total revenues	2,252,176	-	1,061,836	16,787	3,330,799
Expenditures					
Current:					
Public works	1,928,059	-	557,283	-	2,485,342
Other	-	-	-	-	-
Capital outlay	773,418	-	416,390	275,038	1,464,846
Debt service	-	-	-	-	-
Total expenditures	2,701,477	-	973,673	275,038	3,950,188
Excess of Revenues Over (Under) Expenditures	(449,301)	-	88,163	(258,251)	(619,389)
Other Financing Sources (Uses)					
Proceeds from refunding bonds	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-
Transfers in	450,000	-	-	-	450,000
Transfers out	(78,020)	-	(87,110)	-	(165,130)
Total other financing sources (uses)	371,980	-	(87,110)	-	284,870
Change in Fund Balances	(77,321)	-	1,053	(258,251)	(334,519)
Fund Balances - Beginning of year	2,343,616	750,000	16,568	1,345,516	4,455,700
Fund Balances - End of year	**$ 2,266,295**	**$ 750,000**	**$ 17,621**	**$ 1,087,265**	**$ 4,121,181**

Other Financial and Supplemental Information
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Debt Service Funds					
Building Authority	General Drain	Road Bond Debt Retirement	RS&T Debt Service	Total Nonmajor Debt Service Funds	Total Nonmajor Governmental Funds
$ -	$ 1,536,014	$ -	$ 1,104,365	$ 2,640,379	$ 2,640,379
-	-	-	-	-	1,128,638
-	-	-	-	-	2,087,440
10,086	4,246	65,475	1,331	81,138	115,156
-	-	39,916	-	39,916	39,916
-	-	-	-	-	80,703
10,086	1,540,260	105,391	1,105,696	2,761,433	6,092,232
-	-	-	-	-	2,485,342
73,368	6,074	112,781	2,832	195,055	195,055
-	-	-	-	-	1,464,846
593,102	1,866,809	2,692,354	1,111,619	6,263,884	6,263,884
666,470	1,872,883	2,805,135	1,114,451	6,458,939	10,409,127
(656,384)	(332,623)	(2,699,744)	(8,755)	(3,697,506)	(4,316,895)
2,025,000	-	3,050,000	-	5,075,000	5,075,000
(2,025,000)	-	(3,050,000)	-	(5,075,000)	(5,075,000)
658,390	327,080	2,678,020	5,000	3,668,490	4,118,490
-	-	-	-	-	(165,130)
658,390	327,080	2,678,020	5,000	3,668,490	3,953,360
2,006	(5,543)	(21,724)	(3,755)	(29,016)	(363,535)
775	8,034	262,184	6,490	277,483	4,733,183
$ 2,781	**$ 2,491**	**$ 240,460**	**$ 2,735**	**$ 248,467**	**$ 4,369,648**

Special Revenue Fund - Local Roads

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 2,343,616	$ 2,343,616	$ 2,343,616	$ -
Resources (Inflows)				
Federal sources	127,000	84,870	62,802	(22,068)
State sources	1,900,000	2,000,000	2,087,440	87,440
Charges for services	30,000	55,000	55,457	457
Other	110,250	50,250	46,477	(3,773)
Transfer from other funds	450,000	450,000	450,000	-
Amounts available for appropriation	2,617,250	2,640,120	2,702,176	62,056
Charges to Appropriations (Outflows)				
Capital outlay	1,715,000	833,090	773,418	59,672
Public works	1,905,200	1,865,450	1,928,059	(62,609)
Transfers to other funds	78,020	78,020	78,020	-
Total charges to appropriations	3,698,220	2,776,560	2,779,497	(2,937)
Fund Balance - End of year	**$ 1,262,646**	**$ 2,207,176**	**$ 2,266,295**	**$ 59,119**

Special Revenue Fund - Budget Stabilization

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

Special Revenue Fund - Community Development Block Grant

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 16,568	$ 16,568	$ 16,568	$ -
Resources (Inflows) - Federal sources	851,000	1,241,500	1,061,836	(179,664)
Charges to Appropriations (Outflows)				
Administrative expenses	11,890	11,890	26,157	(14,267)
Books	10,000	10,000	10,017	(17)
Senior Citizens Home Chore and Minor Home Repair Program	101,000	101,000	44,709	56,291
Single Parent Education Program	24,000	24,000	24,000	-
Housing Rehabilitation Program	500,000	500,000	432,867	67,133
Contributions to Non-Profit Organizations	30,000	30,000	29,550	450
Capital improvements	87,000	477,500	406,373	71,127
Transfers to other funds	87,110	87,110	87,110	-
Total charges to appropriations	851,000	1,241,500	1,060,783	180,717
Fund Balance - End of year	**$ 16,568**	**$ 16,568**	**$ 17,621**	**$ 1,053**

Special Revenue Fund - Land and Water Conservation

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 1,345,516	$ 1,345,516	$ 1,345,516	$ -
Resources (Inflows)				
Federal and State sources	8,000	24,000	4,000	(20,000)
Other	20,000	15,000	12,787	(2,213)
Amounts available for appropriation	28,000	39,000	16,787	(22,213)
Charges to Appropriations (Outflows) - Capital outlay	691,000	366,020	275,038	90,982
Fund Balance - End of year	**$ 682,516**	**$ 1,018,496**	**$ 1,087,265**	**$ 68,769**

Debt Service Fund - Building Authority

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 775	$ 775	$ 775	$ -
Resources (Inflows)				
Other revenue	1,000	10,500	10,086	(414)
Transfer from other funds	658,390	658,390	658,390	-
Proceeds from refunding bonds	-	2,025,000	2,025,000	-
Amounts available for appropriation	668,890	2,693,890	2,693,476	(414)
Charges to Appropriations (Outflows)				
Other	1,450	73,680	73,368	312
Debt service principal	370,000	2,330,000	2,330,000	-
Interest	287,940	288,110	288,102	8
Total charges to appropriations	659,390	2,691,790	2,691,470	320
Fund Balance - End of year	**$ 10,275**	**$ 2,875**	**$ 2,781**	**$ (94)**

Debt Service Fund - General Drain

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 8,034	$ 8,034	$ 8,034	$ -
Resources (Inflows)				
Property taxes	1,536,990	1,529,660	1,529,660	-
Other revenue	8,000	5,000	4,246	(754)
Delinquents and penalties	3,500	6,390	6,354	(36)
Transfer from other funds	162,660	327,080	327,080	-
Amounts available for appropriation	1,711,150	1,868,130	1,867,340	(790)
Charges to Appropriations (Outflows)				
Other charges	710	1,510	1,215	295
Principal	1,099,110	1,356,540	1,356,540	-
Interest	611,330	515,280	515,128	152
Total charges to appropriations	1,711,150	1,873,330	1,872,883	447
Fund Balance - End of year	**$ 8,034**	**$ 2,834**	**$ 2,491**	**$ (343)**

Debt Service Fund - Road Bond Debt Retirement

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 262,184	$ 262,184	$ 262,184	$ -
Resources (Inflows)				
Other revenue	10,000	67,840	62,252	(5,588)
Special assessments	35,000	35,000	39,916	4,916
Penalties and interest	5,000	5,000	3,223	(1,777)
Transfer from other funds	2,678,020	2,678,020	2,678,020	-
Proceeds from refunding bonds	-	3,050,000	3,050,000	-
Amounts available for appropriation	2,728,020	5,835,860	5,833,411	(2,449)
Charges to Appropriations (Outflows)				
Other	2,910	113,810	112,781	1,029
Principal	2,005,000	4,905,000	4,905,000	-
Interest	745,480	837,360	837,354	6
Total charges to appropriations	2,753,390	5,856,170	5,855,135	1,035
Fund Balance - End of year	**$ 236,814**	**$ 241,874**	**$ 240,460**	**$ (1,414)**

Debt Service Fund - RS&T Debt Service

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 6,490	$ 6,490	$ 6,490	$ -
Resources (Inflows)				
Property taxes	1,102,900	1,098,390	1,098,388	(2)
Delinquents and penalties	7,000	6,040	5,977	(63)
Other revenue	5,000	1,800	1,331	(469)
Transfer from other funds	-	5,000	5,000	-
Amounts available for appropriation	1,114,900	1,111,230	1,110,696	(534)
Charges to Appropriations (Outflows)				
Proposal R	1,114,620	1,114,620	1,114,451	169
Proposal S	280	280	-	280
Total charges to appropriations	1,114,900	1,114,900	1,114,451	449
Fund Balance - End of year	**$ 6,490**	**$ 2,820**	**$ 2,735**	**$ (85)**

Major Funds

Capital Projects Fund - General Improvements

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 4,377,367	$ 4,377,367	$ 4,377,367	$ -
Resources (Inflows)				
Federal, State, and local sources	79,800	655,890	543,807	(112,083)
Fines and forfeitures	-	384,420	366,668	(17,752)
Penalties and interest	2,000	2,000	5,057	3,057
Proceeds from long-term debt	1,020,000	885,000	885,000	-
Other revenue	1,120,000	2,290,880	2,258,590	(32,290)
Transfer from other funds	1,375,200	1,375,200	1,375,200	-
Amounts available for appropriation	3,597,000	5,593,390	5,434,322	(159,068)
Charges to Appropriations (Outflows)				
Capital equipment	458,700	1,656,970	1,231,076	(425,894)
Capital vehicles	796,800	1,730,750	1,318,198	(412,552)
Capital projects	2,577,000	3,431,460	3,215,239	(216,221)
Transfer to other funds	-	245,000	245,000	-
Total charges to appropriations (outflows)	3,832,500	7,064,180	6,009,513	(1,054,667)
Fund Balance - End of year	**$ 4,141,867**	**$ 2,906,577**	**$ 3,802,176**	**$ 895,599**

Capital Projects Fund - Road Bond Construction

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Fund Balance - Beginning of year	$ 395,014	$ 395,014	$ 395,014	$ -
Resources (Inflows)				
Other revenue	-	1,700	101,758	100,058
Proceeds from LTD	6,942,000	-	-	-
Transfer from other funds	-	381,370	881,370	500,000
Amounts available for appropriation	6,942,000	383,070	983,128	600,058
Charges to Appropriations (Outflows) - Capital outlay	6,942,000	778,080	1,321,709	(543,629)
Fund Balance - End of year	**$ 395,014**	**$ 4**	**$ 56,433**	**$ 56,429**

Fiduciary and Agency Funds

	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	$ 1,996,320	$ 8,588,275	$ 233,564	$ 10,818,159
Investments, at fair value:				
U.S. government securities	-	31,392,252	-	31,392,252
Commercial paper	-	-	-	-
Short-term investment fund	-	-	-	-
Corporate bonds	-	38,122,487	-	38,122,487
Mutual funds	27,708,054	-	8,130,893	35,838,947
Common and preferred stocks	70,373,252	104,512,495	-	174,885,747
Cash and investments held as collateral for securities lending	11,136,537	18,857,725	-	29,994,262
Receivables - Accrued interest	68,923	690,063	-	758,986
Other assets	-	869	-	869
Total assets	111,283,086	202,164,166	8,364,457	321,811,709
Liabilities				
Accounts payable	263,563	1,061,277	-	1,324,840
Accrued and other liabilities	259,838	4,623,683	6,563	4,890,084
Amounts due to broker under securities lending agreements	11,136,537	18,857,725	-	29,994,262
Due to other governmental units	-	-	290,005	290,005
Provision for uninsured losses and liabilities	-	-	705,239	705,239
Cash bonds and deposits	-	-	-	-
Total liabilities	11,659,938	24,542,685	1,001,807	37,204,430
Net Assets - Held in trust for pension and other retirement benefits	**$ 99,623,148**	**$ 177,621,481**	**$ 7,362,650**	**$ 284,607,279**

Agency Funds		
Tax Collections	General Agency	Totals
$ 693	$ 2,486,675	$ 2,487,368
-	1,020,630	1,020,630
-	497,570	497,570
-	1,000,000	1,000,000
-	-	-
-	-	-
-	-	-
-	-	-
-	7,330	7,330
-	17	17
$ 693	**$ 5,012,222**	**$ 5,012,915**
$ -	$ 200,483	$ 200,483
-	1,494,731	1,494,731
-	-	-
693	55,734	56,427
-	-	-
-	3,261,274	3,261,274
$ 693	**$ 5,012,222**	**$ 5,012,915**

Other Financial and Supplemental Information
Combining Statement of Changes in Fiduciary Net Assets
Trust Funds
Year Ended June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	Retiree Medical Benefits	Totals
Additions				
Investment income (loss):				
Interest and dividends	$ 812,717	$ 5,478,192	$ 376,709	$ 6,667,618
Net adjustment to fair value of investments	12,256,379	14,548,014	1,257,132	28,061,525
Less investment expenses	-	(909,621)	-	(909,621)
Net investment income (loss)	13,069,096	19,116,585	1,633,841	33,819,522
Securities lending income:				
Interest and fees	140,432	267,762	-	408,194
Less borrower rebates and bank fees	(112,592)	(223,165)	-	(335,757)
Net securities lending income	27,840	44,597	-	72,437
Contributions:				
Employer	-	3,545,592	2,610,160	6,155,752
Employee	831,743	1,071,149	-	1,902,892
Total additions	13,928,679	23,777,923	4,244,001	41,950,603
Deductions				
Benefit payments	3,119,457	8,997,244	3,956,505	16,073,206
Refunds of contributions	133,331	909,919	-	1,043,250
Administrative expenses	-	-	81,454	81,454
Total deductions	3,252,788	9,907,163	4,037,959	17,197,910
Net Change in Net Assets	10,675,891	13,870,760	206,042	24,752,693
Net Assets - Beginning of year	88,947,257	163,750,721	7,156,608	259,854,586
Net Assets - End of year	**$ 99,623,148**	**$ 177,621,481**	**$ 7,362,650**	**$ 284,607,279**

Other Financial and Supplemental Information
Combining Statement of Changes in Assets and Liabilities
Agency Funds
Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Tax Collection				
Assets - Cash and cash equivalents	**$ 5,928**	**$ 39,622,719**	**$ 39,627,954**	**$ 693**
Liabilities				
Accounts payable	$ 2,646	$ 23,727,307	$ 23,729,953	$ -
Accrued and other liabilities	3,282	225,252	228,534	-
Due to other governmental units	-	97,000,337	96,999,644	693
Total liabilities	**$ 5,928**	**$ 120,952,896**	**$ 120,958,131**	**$ 693**
General Agency				
Assets				
Cash and cash equivalents	$ 775,751	$ 10,543,250	$ 8,832,326	$ 2,486,675
Investments - At fair value	4,319,787	7,348,605	9,150,192	2,518,200
Receivables - Accrued interest	9,124	202,805	204,599	7,330
Other assets	798	17	798	17
Due from other governmental units	45,730	-	45,730	-
Total assets	**$ 5,151,190**	**$ 18,094,677**	**$ 18,233,645**	**$ 5,012,222**
Liabilities				
Accounts payable	$ 54,423	$ 1,474,581	$ 1,328,521	$ 200,483
Accrued and other liabilities	204,274	1,494,731	204,274	1,494,731
Due to other governmental units	30,455	55,734	30,455	55,734
Cash and bond deposits	4,862,038	2,271,081	3,871,845	3,261,274
Total liabilities	**$ 5,151,190**	**$ 5,296,127**	**$ 5,435,095**	**$ 5,012,222**

Other Financial and Supplemental Information
Combining Statement of Changes in Assets and Liabilities (Continued)
Agency Funds
Year Ended June 30, 2004

	Balance June 30, 2003	Additions	Deductions	Balance June 30, 2004
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	$ 781,679	$ 50,165,969	$ 48,460,280	$ 2,487,368
Investments - At fair value	4,319,787	7,348,605	9,150,192	2,518,200
Receivables - Accrued interest	9,124	202,805	204,599	7,330
Other assets	798	17	798	17
Due from other governmental units	45,730	-	45,730	-
Total assets	**$ 5,157,118**	**$ 57,717,396**	**$ 57,861,599**	**$ 5,012,915**
Liabilities				
Accounts payable	$ 57,069	$ 25,201,888	$ 25,058,474	$ 200,483
Accrued and other liabilities	207,556	1,719,983	432,808	1,494,731
Due to other governmental units	30,455	97,056,071	97,030,099	56,427
Cash and bond deposits	4,862,038	2,271,081	3,871,845	3,261,274
Total liabilities	**$ 5,157,118**	**$ 126,249,023**	**$ 126,393,226**	**$ 5,012,915**

Statistical Section

Statistical Section Contents

General Government Revenues by Source - General, Special Revenue, and Debt Service Funds	80-81
General Government Expenditures by Function - General, Special Revenue, and Debt Service Funds	80-81
Assessed and Estimated Actual Valuation of Taxable Property	82
Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Government Expenditures	83
Special Assessment Billings and Collections	84
Property Tax Levies	85
Building Permits at Market Value	86
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	87
Demand and Savings Deposits	88
Personnel Summary	89
Miscellaneous Statistical Data	90

Fiscal Year Ended June 30	Property Taxes	Fees and Permits	Federal Sources	State Sources	Fines and Forfeitures	Charges for Services
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
2004	48,495,510	2,318,120	1,308,902	19,953,235	2,703,156	6,334,722

Fiscal Year Ended June 30	City Administration	Recreation and Culture	Public Safety	Public Works	41A District Court	General Expenditures
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
2004	9,091,026	4,553,035	35,779,556	18,280,775	2,342,220	3,193,281

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
$ 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
501,142	49,287	1,298,796	1,224,778	782,723	84,970,371

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

Capital Outlay	Debt Service	Other	Total
$ 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
5,955,412	6,263,884	195,055	85,654,244

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
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	4,719,791,800	607,793,500	34,920,400	417,431,100	5,779,936,800	50.0	3.91
2005 (3)	4,965,550,300	567,204,500	41,778,200	400,915,200	5,975,448,200	50.0	3.70

(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

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		
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
2004	3,274,450	1,125,456	4,399,906	85,654,244	5.17

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

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
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
2004	189,052	512,007	701,059	399,684	57.01	301,375

(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
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
2004	41,321,493	2,383,562	3,393,764	1,462,723	13,697,830 (3)	21,814,009	84,073,381

(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.

(3) School Tax was not collected by the City during the 2003 tax program. The State Education Tax was reduced one time from six mills to five mills and was collected entirely during the summer season by the Macomb Intermediate School District.

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Building Permits at Market Value
Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential				
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	Total Residential
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
2004	631	59,756,113	787	2,218,100	61,974,213

Fiscal Year Ended June 30	Commercial				
	New Construction		Additions/Improvements		
	Number	Value	Number	Value	Total Commercial
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
2004	29	28,123,162	272	59,264,545	87,387,707

Source: City Office of Building Services

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
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
2004	5,779,936,800	127,270	43,681,539	0.76	343.22

Source: City of Sterling Heights

Demand and Savings Deposits
Last Ten Fiscal Years

Fiscal Year Ended June 30		Deposits - In Thousands (1) Banks	Savings and Loans	Total
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		2,003,844	165,509	2,169,353
2004	(2)	-	-	-

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

(2) Information for 2004 was not available at time of printing.

Personnel Summary
June 30, 2004

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	-
Assessing	8	1
Purchasing	3	-
Treasury	10	-
Police:		
Administrative Services	19	-
Special Services	14	-
Enforcement Services	150	33
Support Services	43	-
Fire:		
Administration	10	-
Extinguishment	90	-
Prevention	7	-
City Development:		
Administration	3	-
Building	17	1
Engineering	17	2
Planning and Zoning	10	-
Public Works:		
Fleet Maintenance	14	1
Parks and Grounds	13	8
Public Works Center and Refuse	4	3
Street Services	21	2
Parks and Recreation	16	-
Public Library	23	18
Community and Information Services:		
Community Relations	14	5
Information Technology	8	-
41A District Court	36	-
Water and Sewer	35	6
Total approved positions	**633**	**80**

Source: City of Sterling Heights

City of Sterling Heights, Michigan

Miscellaneous Statistical Data
June 30, 2004

Streets and Sidewalks

Miles of City streets:	
Primary	60
Secondary	285
Estimated sidewalks in miles	565
Bridges	11
Street lights	2,475

Police Protection

Group A offenses (1)	6,260
Group B offenses (2)	3,623
Injury accidents	884
Property damage	3,637
Private property damage	1,426
Total traffic violations	24,208
Civil infractions	18,605
Parking violations	1,696
Adult arrests	2,707
Juvenile arrests	246
OUIL arrests	412

Fire Protection

Stations	5
Emergency alarms answered	9,215
Medical emergencies	6,551
Fire inspections conducted	4,427
Inspection violations issued	4,451
Training hours completed	34,583

41A District Court

Cases handled:	
Civil	2,508
Criminal	4,782
Traffic	27,282
Landlord and tenant	2,285
Small claims	610

Election Data

Registered voters	79,221
Voters at polls	10,445
Absentee ballots	7,113
Percent voting	22.16%

Parks and Recreation

Acres	820
Developed parks	28
Adult athletics attendance	13,980
Youth athletics attendance	56,080
Instructional swim attendance	9,640
Instructional rec. attendance	24,285
Nature program attendance	28,350
Senior program attendance	126,280
Special event attendance	68,500
Summer playground attendance	15,600
Special recreation program attendance	15,870

Library

Registered borrowers	53,476
Book collections	186,992
Other collections (3)	24,622
Items circulated	662,579
Reference transactions	132,104
Program attendance	22,034
Library visits	371,398
Interlibrary loan requests	88,657
Interlibrary loans - Lent	75,931
In-house materials usage	159,897
Book Van deliveries	12,623
Online computer uses	357,869
Community Meeting Room Reservations	295

Water and Sewer Services

Customers:	
Residential	34,529
Commercial/Industrial	3,741
Miles of water mains	558
Miles of sanitary sewers	422
Fire hydrants	6,796
Water (in thousand cubic feet):	
Purchased from Detroit	828,398
Sold to residents	815,645
Rates:	
1,000 CU. FT. Water and sewer	$22.72
Sewer only - Per billing	$15.00

(1) Aggravated assault, burglary, larceny, arson, motor vehicle theft, robbery, criminal sexual conduct and murder, etc.
(2) Disorderly conduct, assault, family trouble, negligent homicide, obstructing justice, etc.
(3) Includes art prints, audio/video cassettes, compact discs, software discs, puppets, and posters

Source: City of Sterling Heights

Continuing Disclosure Section

Continuing Disclosure Section Contents

Labor Agreements	91
Principal Taxpayers	92
Property Tax Levies and Collections	93
General Fund - Fund Balance Compared to Annual Expenditures and Other Financing Uses	94
Computation of Legal Debt Margin	95
State of Michigan - Revenue-sharing Payments	96
Taxable and State Equalized Value Analysis by Class	97-98
Property Tax Rates - Direct and Overlapping Governments	99-100
Computation of Direct and Overlapping Debt	101
Demographic Statistics	102
Major Employers - Top Twenty-five	103

Labor Agreements
June 30, 2004

Name	Contract Expiration Date	Actual Number of Employees Covered
Union Employees		
Technical/Office Employees Michigan Association of Public Employees (MAPE)	06/30/07	117
Police Clerical Employees Michigan Association of Police (MAP)	06/30/06	29
Emergency Dispatchers Police Officers Association of Michigan (POAM)	06/30/07	23
Department of Public Works Field Employees Teamsters, Local 214	06/30/07	70
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	131
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
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	3
41A District Court Administration	N/A	10

Source: City of Sterling Heights

Principal Taxpayers
Year Ended June 30, 2004

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	$ 62,809,400	$ 85,363,000	$ 106,847,750	$ 255,020,150	5.40
Visteon Corporation	Automotive axles and drive shafts	24,477,800	77,463,700	52,624,950	154,566,450	3.27
Ford Motor Company	Automotive chassis	21,556,500	61,786,500	23,977,650	107,320,650	2.27
Detroit Edison	Public utility for electricity	700,600	35,094,800	-	35,795,400	0.76
Lakeside Associates	Retail shopping center	30,947,200	326,300	-	31,273,500	0.66
General Dynamics	Defense-related manufacturing	16,351,800	10,995,400	-	27,347,200	0.58
Detroit News	Printing plant - Newspapers	12,010,600	5,347,100	1,793,450	19,151,150	0.41
T.R.W.	Auto sub-component assembly	3,972,900	11,747,600	948,550	16,669,050	0.35
Laurel/Shoal Creek	Office and apartment complex	15,835,100	-	-	15,835,100	0.34
MNP	Nut, bolt and wire manufacturer	3,953,900	8,811,200	1,739,750	14,504,850	0.31
Ledds Development	Office and business complex	14,112,000	-	-	14,112,000	0.30
Mayco Plastics	Plastic automotive parts manufacturer	7,284,600	5,022,900	745,300	13,052,800	0.28
	Total	**$ 214,012,400**	**$ 301,958,500**	**$ 188,677,400**	**$ 704,648,300**	**14.93**

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
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	48,561,542	47,590,646	98.00	680,399	48,271,045	99.40
2005	50,166,920 (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

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
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
2004	593,593	19,057,927	71,974,280	26.48

City of Sterling Heights, Michigan

Computation of Legal Debt Margin
June 30, 2004

Debt limit:			
2003 State Equalized Valuation			$ 5,327,585,300
Plus Assessed Value Equivalent - 2003 SEV of Act 198 exemptions			452,351,500
Total valuation			5,779,936,800
Debt limit (10 percent of State Equalized Valuation and equivalent) (1)			x 10%
			577,993,680
Debt applicable to debt limit:			
Amount of outstanding debt		$ 59,941,539	
Less: Special Assessment Bonds	$ 350,000		
Michigan Transportation Fund Bonds	15,910,000	16,260,000	
Total amount of debt applicable to limit			43,681,539
Legal Debt Margin			**$ 534,312,141**

(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

State of Michigan - Revenue-sharing Payments
Last Ten Fiscal Years

Fiscal Year Ended June 30	Revenue-sharing Payments
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
2004	11,405,282

Source: City of Sterling Heights

City of Sterling Heights, Michigan

	1995	1996	1997	1998	1999
State Equalized Value (1) (4)	**$ 2,675,779,250**	**$ 2,791,590,400**	**$ 2,996,666,960**	**$ 3,278,264,900**	**$ 3,606,437,355**
Taxable Value (1) (2) (4)					
SEV By Class:	1995	1996	1997	1998	1999
Real property	$ 2,287,224,250	$ 2,362,143,250	$ 2,470,645,251	$ 2,630,990,602	$ 2,785,478,300
Personal property	388,555,000	409,682,700	467,940,900	519,723,400	587,584,200
Total	**$ 2,675,779,250**	**$ 2,771,825,950**	**$ 2,938,586,151**	**$ 3,150,714,002**	**$ 3,373,062,500**
SEV By Use:					
Residential	$ 1,686,367,050	$ 1,746,206,050	$ 1,834,527,551	$ 1,946,983,602	$ 2,068,663,200
Commercial	359,275,400	363,373,000	366,506,200	387,318,800	404,666,300
Industrial	241,581,800	252,564,200	269,611,500	296,688,200	312,148,800
Personal property	388,555,000	409,682,700	467,940,900	519,723,400	587,584,200
Total	**$ 2,675,779,250**	**$ 2,771,825,950**	**$ 2,938,586,151**	**$ 3,150,714,002**	**$ 3,373,062,500**

(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 2005 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 1994 SEV (stated above in the 1995 column) were used to generate tax revenue for the year ended June 30 1995. Subsequently, 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

2000	2001	2002	2003	2004	2005
$ 3,911,427,880	**$ 4,179,438,300**	**$ 4,525,289,600**	**$ 5,013,066,960**	**$ 5,327,585,300**	**$ 5,532,754,800**

2000	2001	2002	2003	2004	2005 (3)
$ 2,947,355,900	$ 3,120,101,554	$ 3,327,981,900	$ 3,555,676,000	$ 3,733,285,000	$ 3,937,229,800
607,982,900	594,310,700	593,683,800	583,195,500	607,793,500	567,204,500
$ 3,555,338,800	**$ 3,714,412,254**	**$ 3,921,665,700**	**$ 4,138,871,500**	**$ 4,341,078,500**	**$ 4,504,434,300**

$ 2,192,313,900	$ 2,329,156,554	$ 2,502,544,100	$ 2,685,708,600	$ 2,820,357,100	$ 2,990,452,700
420,041,700	446,957,000	465,723,900	496,719,500	529,584,800	548,866,900
335,000,300	343,988,000	359,713,900	373,247,900	383,343,100	397,910,200
607,982,900	594,310,700	593,683,800	583,195,500	607,793,500	567,204,500
$ 3,555,338,800	**$ 3,714,412,254**	**$ 3,921,665,700**	**$ 4,138,871,500**	**$ 4,341,078,500**	**$ 4,504,434,300**

	1995		1996		1997		1998	
	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead
City of Sterling Heights								
Operating (1)	7.90123	7.90123	8.07170	8.07170	8.20702	8.20702	8.60204	8.60204
Refuse	1.22248	1.22248	1.16988	1.16988	1.13469	1.13469	1.03121	1.03121
Police and Fire Retirement System	1.35279	1.35279	1.27194	1.27194	1.34207	1.34207	0.96462	0.96462
Drain debt service	0.37548	0.37548	0.33970	0.33970	0.27702	0.27702	0.21146	0.21146
Public improvement debt service	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	11.59000	11.59000	11.47000	11.47000
County of Macomb	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	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	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	2.03670	2.03670	2.03670	2.03670	2.03670	2.03670	2.03670
Macomb Community College	1.72570	1.72570	1.67570	1.67570	1.64570	1.64570	1.65390	1.65390
Huron/Clinton Metro Authority	0.22360	0.22360	0.22360	0.22360	0.22360	0.22360	0.22360	0.22360
S.M.A.R.T.	-	-	0.33000	0.33000	0.33000	0.33000	0.33000	0.33000
Total all jurisdictions (Utica)	**29.31345**	**47.31345**	**29.59245**	**47.59245**	**29.53500**	**47.53500**	**29.42220**	**47.42220**
Total all jurisdictions (Warren)	**36.30145**	**44.81345**	**36.51005**	**45.09245**	**36.04560**	**45.03500**	**35.74880**	**44.92220**

(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, 2004.

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		2004	
Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead
8.47965	8.47965	8.26879	8.26879	8.08550	8.08550	8.43430	8.43430	8.29230	8.29230	8.19630	8.19630
1.00665	1.00665	1.04657	1.04657	1.07470	1.07470	1.04670	1.04670	1.05870	1.05870	1.06960	1.06960
0.70797	0.70797	0.56364	0.56364	0.56070	0.56070	0.37610	0.37610	0.62400	0.62400	0.78090	0.78090
0.29230	0.29230	0.29142	0.29142	0.21070	0.21070	0.30700	0.30700	0.32640	0.32640	0.33660	0.33660
0.73343	0.73343	0.79958	0.79958	0.78840	0.78840	0.48590	0.48590	0.32860	0.32860	0.24160	0.24160
11.22000	11.22000	10.97000	10.97000	10.72000	10.72000	10.65000	10.65000	10.63000	10.63000	10.62500	10.62500
4.20800	4.20800	4.20800	4.20800	4.20700	4.20700	4.20700	4.20700	4.20580	4.20580	4.20580	4.20580
6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	6.00000	5.00000	5.00000
0.00000	18.00000	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	0.00000	0.00000
3.50000	3.50000	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	5.00000	5.00000
0.00000	18.00000	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	7.33420	0.00000
0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.99640	0.99640	0.99640	0.99640
1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	2.50000	2.50000	2.35000	2.35000
2.03630	2.03630	2.02100	2.02100	2.02100	2.02100	2.00330	2.00330	2.98630	2.98630	2.97290	2.97290
1.61340	1.61340	1.58400	1.58400	1.51400	1.51400	1.67070	1.67070	1.69250	1.69250	1.58590	1.58590
0.22350	0.22350	0.22180	0.22180	0.22020	0.22020	0.22020	0.22020	0.21700	0.21700	0.21610	0.21610
0.32990	0.32990	0.32730	0.32730	0.32730	0.32730	0.32730	0.32730	0.60000	0.60000	0.59730	0.59730
29.13110	**47.13110**	**28.83210**	**46.83210**	**28.50950**	**46.50950**	**28.57850**	**46.57850**	**29.83160**	**47.83160**	**28.70300**	**46.70300**
35.40870	**44.63110**	**34.67770**	**44.33210**	**33.82580**	**44.00950**	**33.97560**	**44.07850**	**37.29420**	**47.82800**	**35.88360**	**46.54940**

City of Sterling Heights, Michigan

Computation of Direct and Overlapping Debt
June 30, 2004

Direct Debt					
General Obligation Bonds:					
04/01/94	Roads	$ 200,000			
05/01/97	Roads	850,000			
04/21/98	Roads	1,350,000			
05/01/99	Roads	1,575,000			
06/10/04	Judgment	24,395,000	$ 28,370,000		
Authority Bonds:					
02/02/00	City Center Commons	3,350,000			
11/5/03	Judicial Center Refunding	2,025,000	5,375,000		
Special Assessment Bonds:					
06/01/96	Improvements	100,000			
05/01/97	Improvements	250,000	350,000		
Michigan Transportation Fund Bonds:					
05/21/91	Bonds	350,000			
06/01/96	Bonds	400,000			
05/01/99	Bonds	4,150,000			
04/18/00	Bonds	3,900,000			
07/30/02	Refunding	4,060,000			
12/09/03	Refunding	3,050,000	15,910,000		
Share of County-issued Bonds			9,936,539		
Total Direct Debt				$84,336,539	
Less:	Special Assessment Bonds		350,000		
	MTF Bonds		15,910,000	16,260,000	
Net Direct Debt					$ 68,076,539
Overlapping Debt					
42.76%	Utica School District	204,640,000		87,504,064	
41.90%	Warren School District	167,997,000		70,390,743	
16.98%	Macomb County at large	55,166,345		9,367,245	
16.98%	Macomb Community College	1,700,000		288,660	
16.62%	Intermediate School District	3,500,000		581,700	
Total Overlapping Debt					168,132,412
Net Direct and Overlapping Debt					**$ 236,208,951**

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)	Median Family Income	Unemployment Rate (Percent)
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
2004 (3)	127,270	49,988	-	51,739	5.5

(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.

(3) Effective with the 2004 figures, we are no longer able to obtain information for EBI as developed by Sales and Marketing Management, New York, NY. The information for "Number of Households" and "Median Family Income" were obtained from the 2004 SEMCOG Community Profile and the U.S. Bureau of the Census, respectively.

City of Sterling Heights, Michigan

Major Employers - Top Twenty-five
June 30, 2004

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

Federal Awards
Supplemental Information
June 30, 2004

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City of Sterling Heights, Michigan

Contents

Independent Auditor's Report	1
Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements	2-3
Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards	4-5
Schedule of Expenditures of Federal Awards	6-8
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	9
Note to Schedule of Expenditures of Federal Awards	10
Schedule of Findings and Questioned Costs	11-12

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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 basic financial statements of the City of Sterling Heights, Michigan for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. Those basic financial statements are the responsibility of the management of the City of Sterling Heights, Michigan. Our responsibility was to express an opinion on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Sterling Heights, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules 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.

Plante & Moran, PLLC

September 24, 2004

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

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

We have audited the financial statements of the City of Sterling Heights, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Sterling Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 24, 2004

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

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

Compliance

We have audited the compliance of the City of Sterling Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The major federal program of the City of Sterling Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Sterling Heights, Michigan's management. Our responsibility is to express an opinion on the City of Sterling Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sterling Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Sterling Heights, Michigan's compliance with those requirements.

In our opinion, the City of Sterling Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

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

Internal Control Over Compliance

The management of the City of Sterling Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sterling Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 24, 2004

City of Sterling Heights, Michigan

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	2004 Federal Expenditures
U.S. Department of Housing and Urban Development -				
Community Development Block Grant - Program year:	14.218 *			
2002-2003 B-02-MC-260014		N/A	$ 711,000	$ 576,117
2003-2004 B-03-MC-260014		N/A	851,000	484,666
Total U.S. Department of Housing and Urban Development			1,562,000	1,060,783
Department of Homeland Security f/k/a Federal Emergency Management Agency:				
Assistance to Firefighters Grant:	97.044			
2002-12/15/02-12/14/03		EMW-2002-FG-15824	79,800	78,146
2003-12/15/03-12/14/04		EMW-2003-FG-17144	15,096	14,301
Total Assistance to Firefighters Grant			94,896	92,447
Passed through the Michigan Department of State Police - Emergency Management Division:				
Emergency Management Performance Grant - Program year:	97.042			
10/01/02-9/30/03		N/A	36,069	9,017
10/01/02-9/30/03 Supplemental		N/A	51	51
10/01/03-9/30/04		N/A	35,230	26,422
Total Emergency Management Performance Grant			71,350	35,490
State and Local All Hazards Emergency Operations Planning - 2002 Supplemental Funds Grant Agreement - Program year - 12/16/02-12/15/03	97.051	N/A	22,240	5,045
State Domestic Preparedness Equipment - Support Program - Program year:	97.004			
2002-10/01/02-12/31/03		N/A	30,000	29,587
2003-5/01/03-12/31/03 (Fire equip extended 06/04/03)		N/A	50,000	1,710
2003-5/01/03-12/31/03 (OEM equip extended 06/04/03)		N/A	89,766	31,338
Total State Domestic Preparedness Equipment Support Program			169,766	62,635

* Major program

See Note to Schedule of Expenditures of Federal Awards.

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	2004 Federal Expenditures
Department of Homeland Security f/k/a Federal Emergency Management Agency (Continued):				
Passed through the Michigan State Police (Continued):				
2003 State Homeland Security Grant Program - Part II Training Grant - 3/01/04 - 2/28/05	97.004	N/A	$ 78,375	$ 13,062
State and Local Domestic Preparedness Training Program - 2003 State Homeland Security Assessment & Strategy Part I	97.005	N/A	20,000	370
State and Local Domestic Preparedness Exercise Support - State Domestic Preparedness Program - Program year - 2002-Exercise Police	97.006	N/A	4,500	3,566
Public Assistance - 2003 - SIN# 099-76460	97.036	FEMA-3189-EM	105,538	105,538
Total Passed through the Michigan Department of State Police			471,769	225,706
Total Department of Homeland Security f/k/a Federal Emergency Management Agency			566,665	318,153
U.S. Department of Justice - Local Law Enforcement Block Grants - Program year:	16.592			
2001		2001-LB-BX-2209	64,574	65,594
2002		2002-LB-BX-1662	56,284	56,675
2003		2003-LB-BX-0468	45,840	45,931
Total U.S. Department of Justice			166,698	168,200
U.S. Department of Transportation - National Highway Traffic Safety Administration - Passed through the Michigan State Police - Emergency Management Division State Domestic Preparedness Equipment Grant (SDPEG):				
Police - Macomb County Alcohol Enforcement:	20.601	38-6004868		
2002/2003			16,476	4,034
2003/2004			8,447	2,422
Total Alcohol Enforcement			24,923	6,456
Belt Enforcement - Program year - 2003/2004	20.600	N/A	11,946	11,946
Total U.S. Department of Transportation			36,869	18,402

See Note to Schedule of Expenditures of Federal Awards.

Schedule of Expenditures and Federal Awards (Continued)
Year Ended June 30, 2004

Federal Agency/Pass-through Agency/ Program Titles	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	2004 Federal Expenditures
U.S. Environmental Protection Agency Security Planning Grants for Large Drinking Water Facilities - Program year - 6/03/02-12/02/03	66.476	HS-829991-01	$ 115,000	$ 4,938
U.S.D.A. Forest Service - Passed through the Michigan Department of Natural Resources, Forest, Mineral and Fire Management Division Urban & Community Forestry - Program year - 10/15/03-9/15/04	10.664	N/A	4,000	4,000
Office of Library Services, Institute of Museum and Library Services, National Foundation of the Arts and Humanities - Passed through the Library of Michigan, Department of History, Arts, & Libraries State Library Program	45.310	N/A	1,500	1,500
Total Federal Awards			$ 2,452,732	$ 1,575,976

* Major program

See Note to Schedule of Expenditures of Federal Awards.

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Revenue from federal sources - As reported on financial statements (includes all funds)	$ 1,634,875
Expenditures from prior year received in current year	(58,899)
Federal expenditures per the schedule of expenditures of federal awards	**$ 1,575,976**

Note to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Sterling Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal expenditures under the U.S. Department of Housing and Urban Development - Community Development Block Grants and the U.S. Department of Justice - Local Law Enforcement Block Grants include expenditures of program income. Therefore, the amount expended may be greater than the award amount for the applicable program year.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ____ Yes __X__ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes __X__ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? __X__ Yes ____ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

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September 24, 2004

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

Dear Mayor and Council Members:

We have recently completed our audit 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 for the year ended June 30, 2004. In addition to our audit report, we offer the following comments and recommendations for your consideration:

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended June 30, 2004, the cumulative fund balance of the General Fund (the City's primary operating fund) increased by approximately $1.4 million. This improvement in fund balance was achieved despite a loss of approximately $800,000 of State Shared Revenue payments during this fiscal year from the State of Michigan. To achieve positive financial results in today's economic environment requires a combination of short-term discipline and long-term planning. We wish to compliment the City Council, as well as department heads and staff, for their continued success with budgeting and financial management during these times of material reductions in funding from the State of Michigan. The fund balance in the General Fund totaled $19,651,520 with $593,593 being reserved for encumbrances, inventory, and prepaid costs, $2,346,300 being designated for next years' expenditures, $2,000,000 designated for Emerald Ash Borer tree removal, and $3,354,000 being designated for the public safety radio system. As a result, the undesignated General Fund fund balance was approximately $11.4 million. The City's undesignated portion of fund balance represents approximately 15% of budgeted expenditures, which continues to be within the range typically expected by bond rating services.

In July 2003, the City received an upgrade in its bond rating from Standard and Poors from "AA-" to "AA." During the year, the City issued two new bonds. One bond was to fund drain improvements and the second was to fund the settlement claims under the Hillside Productions lawsuit. At June 30, 2004, the City's cumulative bonded debt amounted to only 8% of its total legal debt capacity.

CONDITION OF ACCOUNTING RECORDS

As in previous years, we have issued an "unqualified" audit opinion letter on the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2004. An

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unqualified opinion is the highest level of assurance permitted by our profession and the wording contained in our opinion letter is prescribed by the American Institute of Certified Public Accountants (AICPA). Thus, our independent auditor's opinion included in the CAFR does not permit us to provide general comment on the quality of the City's accounting records and controls. We feel that it is important to note that we found the overall quality of the City's financial records to be excellent. The additional advance preparation performed by the Financial Services staff enabled us to perform the additional audit procedures required under SAS 99 without a corresponding increase in our audit fee. The City continues to prepare and issue its audited financial statements in a time frame which is considered a "best practice" in the governmental arena. Auditing standards require us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed - no such adjustments were detected. We would like to compliment the City Council and the staff of Financial Services on their efforts to maintain the City's records and accountability.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the City's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the City Council, administration and other employees throughout the City; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

Annually, the City issues a memorandum to personnel regarding the City's policy on vendor relations. We suggest that the City consider enhancing this procedure by circulating its ethics policy on an annual basis and require all personnel to respond affirmatively that they have reviewed the policy.

REMOTE RECEIPT LOCATIONS

In the prior year, we reinforced the need for the Treasurer's Department to continue to conduct periodic spot checks of cash receipt procedures in cash receipt locations outside of City Hall. Although no material internal control weaknesses had been identified, it is common for the internal control procedures governing cash receipt procedures to not be fully implemented at remote locations outside of the main municipal offices. During the past year, the Treasurer's Department performed unannounced audit procedures at each remote receipt location. Again, no material non-compliance matters were noted. However, the internal audit procedures performed by the Treasurer's Department provide added assurance of compliance with controls in these areas and should continue to be performed at random on an annual basis.

STATE REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. Although sales tax collections would support an increase to total state shared revenue payments, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to hold revenue sharing payments to cities at prior year levels. State shared revenue totaled approximately 17 percent of the City's total General Fund revenue during fiscal 2004.

It is uncertain at this point in time whether sales tax distributions will rebound in 2004-2005 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at http://treas-secure.state.mi.us/apps/findrevshareinfo.asp or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government-wide financial statements*, rather than the individual fund level. As a result, the City will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan. For many communities, the funding of postemployment benefits is the most significant financial challenge they will face in coming years. We recommend that the City continue its proactive efforts to monitor and fund this future expenditure. The statement will not be effective until the City's 2008-09 fiscal year.

We would like to thank Mr. Baker, Ms. Reinhart, Mr. Sanborn and the Financial Services department staff for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

Mark R. Hurst

Mark R. Hurst

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