

CITY OF KETTERING, OHIO

**Reports on Compliance and Internal Controls
and Pursuant to OMB Circular A-133**

For the Year Ended December 31, 2003



**Auditor of State
Betty Montgomery**

Honorable Mayor, City Council and City Manager
City of Kettering
Kettering, Ohio

We have reviewed the Independent Auditor's Report of the City of Kettering, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Kettering is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

May 3, 2004

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City of Kettering, Ohio

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

Honorable Mayor, City Council
and City Manager
City of Kettering, Ohio

We have audited the basic financial statements of the City of Kettering, Ohio as of and for the year ended December 31, 2003, and have issued our report thereon dated March 31, 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 Kettering'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*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City of Kettering in a separate letter dated March 31, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kettering'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. However, we noted other matters involving internal control over financial reporting that we have reported to management of the City of Kettering in a separate letter dated March 31, 2004.

This report is intended solely for the information and use of the City's management, the Auditor of the State of Ohio, and 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
March 31, 2004

Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Schedule of Expenditures of Federal Awards

Honorable Mayor, City Council
and City Manager
City of Kettering, Ohio

Compliance

We have audited the compliance of the City of Kettering (the City) 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 each of its major federal programs for the year ended December 31, 2003. The City's major federal program 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's management. Our responsibility is to express an opinion on City'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'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's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City 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'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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City of Kettering, Ohio as of and for the year ended December 31, 2003, and have issued our report thereon dated March 31, 2004. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's management, the Auditor of the State of Ohio, and 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.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
March 31, 2004

CITY OF KETTERING, OHIO
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Grant Award Date</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
Community Development Block Grant	B-00-MC-39-0011	14.218	3/15/2000	\$ 36,188
Community Development Block Grant	B-01-MC-39-0011	14.218	3/9/2001	194,008
Community Development Block Grant	B-02-MC-39-0011	14.218	1/18/2002	321,177
Community Development Block Grant	B-03-MC-39-0011	14.218	1/16/2003	461,133
				<u>1,012,506</u>
Passed through the Board of County Commissioners of Montgomery County:				
HOME Investment Partnerships Program	M-98-DC-39-0210	14.239	5/25/1999	24,485
HOME Investment Partnerships Program	M-99-DC-39-0208	14.239	7/23/2002	38,970
Lead-Based Paint Hazard Control in Privately-Owned Housing	OHLHB01223-02	14.900	1/30/2003	16,704
				<u>80,159</u>
Total U.S. Department of Housing and Urban Development				<u>1,092,665</u>
<u>U.S. Department of Health and Human Services</u>				
Block Grants for Prevention and Treatment of Substance Abuse	COMEDAWP02YX	93.958	7/18/2002	30,238
Block Grants for Prevention and Treatment of Substance Abuse	COMEDAWP02YX	93.959	7/22/2003	22,437
				<u>52,675</u>
<u>U.S. Department of Defense</u>				
Air Force Base Conversion Agency Caregiver Agreement	Cooperative Agreement	12.unknown	5/24/1996	<u>8,169</u>
<u>U.S. Department of Justice</u>				
Public Safety Partnership & Community Policing Grants	2000SHWX0698	16.710	9/1/2000	60,623
Local Law Enforcement Block Grant Program	2001-LB-BX-1907	16.592	7/20/2001	662
Local Law Enforcement Block Grant Program	2002-LB-BX-1706	16.592	7/18/2002	17,002
Total U.S. Department of Justice				<u>78,287</u>
<u>U.S. Department of Transportation</u>				
State & Community Highway Safety	01-GR1-1778	20.600	10/1/2001	15,407
State & Community Highway Safety	03-GR1-3175	20.600	10/1/2002	15,900
State & Community Highway Safety	3070.0	20.600	10/1/2002	1,632
Highway Planning and Construction	Number Not Available	20.205	5/2/2003	130,603
Total U.S. Department of Transportation				<u>163,542</u>
<u>U.S. Agency for International Development</u>				
Foreign Assistance for Programs Overseas	Q-BG-446	98.001	(1)	<u>4,805</u>
<u>U.S. Department of Homeland Security</u>				
Assistance to Firefighters Grant	EMW2002FG-19373	97.044	10/7/2002	<u>40,271</u>
<u>Federal Emergency Management Agency</u>				
Public Assistance Grants	DR-1453-OH	83.544	3/14/2003	<u>77,389</u>
Total Expenditures of Federal Awards				<u>\$ 1,517,803</u>

(1) - Grant award date not available.

See accompanying notes to the schedule of expenditures of federal awards.

City of Kettering, Ohio
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2003

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the City of Kettering, Ohio (the City). The City's reporting entity is defined in Note 1(a) to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies are included on the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting.

NOTE 3 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Grant expenditures are reported in the City's major and non-major special revenue funds.

NOTE 4 – SUBRECIPIENTS

The City was a pass-through entity of CDBG funds to one subrecipient, Miami Valley Fair Housing Board for \$20,000.

City of Kettering, Ohio

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2003

1. SUMMARY OF AUDITORS' RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Major Programs (list):	U.S. Department of Housing and Urban Development, CDBG, CFDA #14.218
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Findings: None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Findings: None

City of Kettering, Ohio

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

December 31, 2003

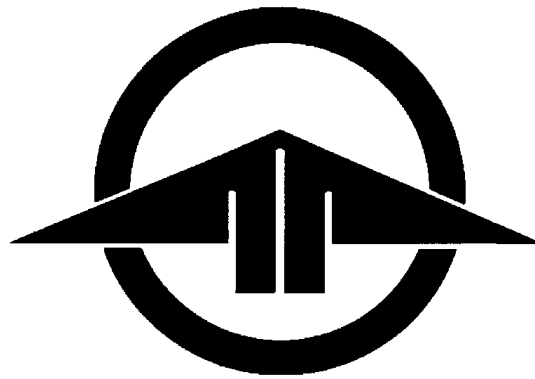
Prior Audit Findings:

None

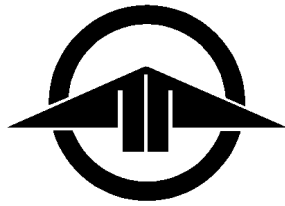
CITY OF KETTERING, OHIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 2003



Prepared by:
Department of Finance
Nancy H. Gregory, CPA, Director



CITY OF KETTERING

CITY OF KETTERING, OHIO

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COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2003

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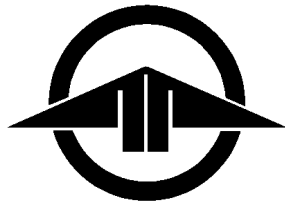
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**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003**

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INTRODUCTORY SECTION



CITY OF KETTERING



March 31, 2004

Honorable Mayor, Members of City Council
and Citizens of Kettering, Ohio:

The Comprehensive Annual Financial Report for the City of Kettering for the year ended December 31, 2003, is hereby submitted. Responsibility for the accuracy of the data and the completeness and fairness of the presentation including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

This Comprehensive Annual Financial Report continues to incorporate Government Accounting Standards Board Statement No. 34 — Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments. Statement No. 34 was developed to make annual financial reports of state and local governments easier to understand and more useful to those who make decisions using governmental financial information. We first implemented Statement No. 34 in 1999, four years earlier than the required date of implementation. We were proud to be the first city in the State of Ohio to do so. This year's report reflects our continuing efforts to disseminate clear and useful financial information to our users. In this spirit, the City has chosen to completely revise the statistical section of this year's report. The revisions are based upon the recently issued Governmental Accounting Standards Board exposure draft "Economic Condition Reporting: The Statistical Section". We believe these revisions provide the reader with much more beneficial and relevant information than in previous years.

The City provides various services including police and fire protection, parks, recreation and cultural arts, street maintenance, planning, zoning and other general governmental services. The City does not maintain utility operations. In addition to general governmental activities, the City oversees the Kettering Volunteer Firefighters Pension Plan, and the activities of the Plan are included in the reporting entity. However, Montgomery County, Greene

County, Beavercreek, Centerville, Kettering, Sugarcreek and West Carrollton School Districts, Miami Conservancy District, Miami Valley Regional Transit Authority, Ohio Police and Fire Pension Fund and the Ohio Public Employees Retirement System have not met the established criteria for inclusion in the reporting entity and are excluded from this report. In addition, the City is one of seventeen local cities involved in a public entity risk pool, Miami Valley Risk Management Association, Inc. This separate entity does not meet the established criteria for inclusion in the reporting entity and, accordingly is not included in the City's financial report.

HISTORY AND BACKGROUND

Kettering was established as a village in 1952. Three years later, it achieved City status, adopted a Home Rule Charter and approved the Council/Manager form of government. The City of Kettering was named for its most outstanding citizen, Charles F. Kettering, a well-known philanthropist and inventor. Kettering invented the automotive self-starter, and the "Bug," the world's first robot plane.

The City operates under a Council/Manager form of government with a Mayor and six City Council members elected on a non-partisan basis for a term of four years. Kettering is known as a leader in many areas of municipal government, including financial reporting, traffic system management, police services, parks, recreation and cultural arts programs, intergovernmental cooperation and successfully structured volunteer programs. Kettering citizens are known for their community spirit and involvement. In fact, Kettering is commonly known as the "City of Volunteers."

The quality of living in any city can be measured best by the quality of services people receive. In Kettering, people like what they find: a recent survey showed that 93% of all residents were satisfied with City services and 98% were satisfied with Kettering as a place to live.

ECONOMIC CONDITION AND OUTLOOK

The economic environment for Kettering's business community continued to be one of relative stability

during 2003. Kettering's unemployment rate has consistently run well below the averages for the local area, the State of Ohio and the United States. This trend continued in 2003. Kettering's unemployment rate for 2003 was 3.2% compared to rates of 6.3% for Montgomery County, 6.1% for the State of Ohio and 6.0% for the United States.

The diversity of the employment base in Kettering has contributed favorably to the relative stability of the economic environment. Kettering's broad range of businesses includes several major employers with headquarters or divisions located within the city's boundaries. These employers include Kettering Medical Center employing 2,900, Delphi Automotive Systems a manufacturer of automobile brake and suspension systems employing over 1,700, Intimate Brands Inc. a catalogue order center for Victoria's Secret with 1,500 employees and Monogram Services Co. a credit card processing center with 1,200 employees. Reynolds and Reynolds, a fortune 1000 company based in Dayton since 1866 has completed its Phase II at the Miami Valley Research Park located in Kettering. The company moved more than 700 new employees into the site in 2002 and now employs 1,500 people at the Research Park campus. The company is starting Phase III to be completed in 2005. Phase III will add 130,000 square feet to the facility and an additional 300 employees. Other major employers in the city include Kettering City Schools, Scitex Digital Printing Co. a manufacturer of digital printers, Defense Finance and Accounting Services a federal government accounting services center, a number of engineering firms and computer hardware and software related businesses.

Despite being practically landlocked, Kettering continued to thrive in terms of new economic development. A strong emphasis through a variety of efforts is placed on economic development both within Kettering and regionally.

The redevelopment of the former Hills and Dales Shopping Center, now called Governor's Place, was completed in 2003. The City sold the remaining lots and the build out of the site was completed one and a half years ahead of schedule. Several businesses opened in 2003 completing the business park and adjacent retail center. These businesses included Dayton Oncology and Hematology, Manpower, National City Mortgage, and several smaller retail and eating establishments.

Across from Governor's Place at Southern Hills Crossing (formerly the Stenger's Ford site), RG Properties completed construction of a Super Wal-

Mart, with the grocery store located in Kettering. The store opened in early fall. RG Properties also built a retail center on the site that opened in early 2003.

Kettering participates in ED/GE, a revenue sharing program that occurs among a number of communities in Montgomery County. Money from the program is distributed to the communities for economic development projects after an application for funds is filed and a board of local officials for the communities reviews and approves the projects. In 2003, the City received a total of \$600,000 for improvements to be made in the Research Park Area. \$200,000 was received for infrastructure improvements related to the move of the Defense Acquisition University from Wright Patterson A.F.B. to Research Park. The other \$400,000 will be used to make improvements to utilities, infrastructure and the roadway on Founder's Drive, a main roadway at Research Park.

The City's emphasis on economic development combined with the existing variety of businesses located within Kettering are significant factors affecting the future economic strength of this community. Promoting Kettering as a good place to do business for new businesses, as well as existing businesses, will continue to be one of our highest priorities.

For a more in-depth analysis of the City's current economic condition, please see the Management Discussion and Analysis (MD&A) portion of the report starting on page 3 of the Financial Section.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of controls should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Controls. The City maintains budgetary controls to ensure compliance with legal provisions

embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund are included in the annual appropriated budget. For more detailed budget information, please see the Notes to the Required Supplementary Information on page 39 of this report.

Cash Management. Cash, temporarily idle during the year was invested in various instruments detailed below. As of December 31, 2003, the City's cash resources were divided between cash and investments as follows:

Cash and certificates of deposit	\$17,324,249
Overnight repurchase agreement	1,359,723
Corporate bonds	14,038,570
Pension plan pooled investment fund	<u>1,743,021</u>
TOTAL	<u><u>\$34,465,563</u></u>

Interest earned on investments for the year was \$892,687.

The City's investment policy is to minimize credit and market risks while obtaining a competitive yield on its portfolio.

OTHER INFORMATION

Independent Audit. The basic financial statements of the City of Kettering were audited by Clark, Schaefer, Hackett & Co., Certified Public Accountants. See page 2 of the Financial Section of this report for their unqualified opinion.

Awards. 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 Kettering, Ohio for its comprehensive annual financial report for the fiscal year ended December 31, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports 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 Kettering has received a Certificate of Achievement for the last 21 consecutive years (fiscal years ended 1982-2002).

We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA. In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning January 1, 2003. In order to receive this award, the City must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communications device.

Acknowledgements. A note of sincere appreciation is extended to the many conscientious people who have contributed so much of their time and effort to the preparation of this report. The Finance Department staff, in particular, are to be commended for their commitment to professional excellence as exemplified by the contents of this report. Finally, contributions to the financial condition of the City of Kettering by the Mayor, members of City Council, Assistant City Managers and Department Directors cannot be overemphasized. Their guidance and support represent invaluable factors necessary for the City to continue to manage the financial affairs and reporting requirements of municipal government within the Kettering Community.

Respectfully submitted,



Steven C. Husemann
City Manager



Nancy H. Gregory, CPA
Director of Finance

CITY OF KETTERING, OHIO

CITY OFFICIALS

Marilou W. Smith, Mayor
Peggy B. Lehner, Vice Mayor
Bruce E. Duke
Donald E. Patterson
Keith Thompson
Joseph D. Wanamaker
Raymond P. Wasky

CITY MANAGER

Steven C. Husemann

INDEPENDENT AUDITORS

Clark, Schaefer, Hackett & Co.
Certified Public Accountants

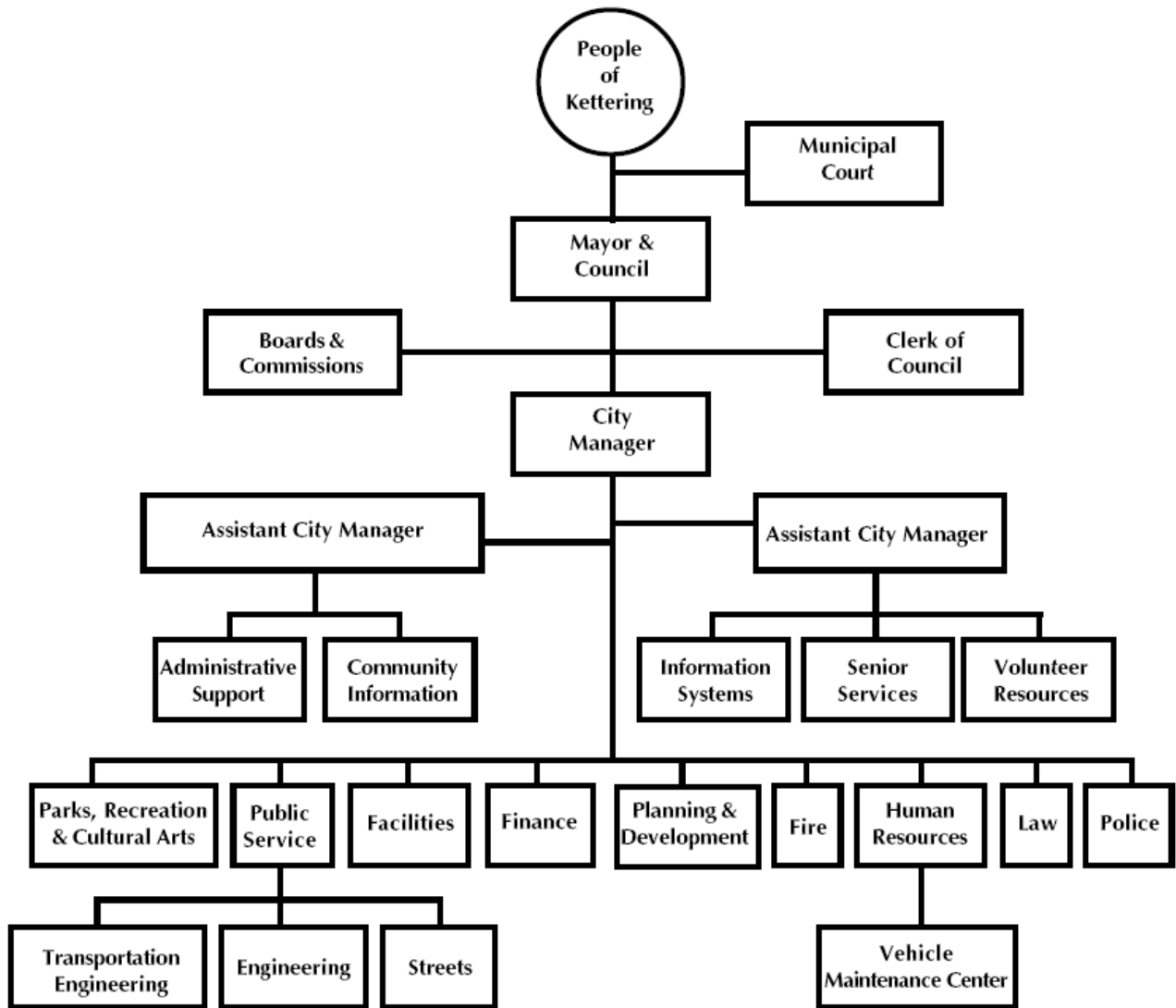
CITY OF KETTERING, OHIO

DEPARTMENT OF FINANCE

STAFF

Nancy H. Gregory, CPA	Finance Director
Scott J. Schwarberg, CPA	Assistant Finance Director
Kelly M. O'Connell, CPA	Budget Manager
Marcy K. Bare, CPA	Tax Manager
Estelle O. Gibson, CPA	Purchasing Manager
Joy J. Kuhn	Secretary
Kimberly L. Kreitzer, CPA	Financial Analyst
Martin J. Van Oss, CPA	Financial Analyst
Rhonda L. South	Finance Technician II
Mary Anne Marshall	Finance Technician II
Sharin L. Day	Finance Technician II
Lynn A. Blumenschein	Finance Technician II
Thomas M. Zamzow	Finance Technician II
Kimberly M. Koogler	Finance Technician II
Lou Ann Gubser	Finance Technician I
Patricia A. Siefert	Finance Technician I
Cheryl M. Ritchard	Finance Technician I
Julie M. Byerly	Finance Technician I
Candace M. Grooms	Finance Clerk - Part-Time
Joyce A. Foley	Finance Clerk - Part-Time

City of Kettering Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Kettering,
Ohio

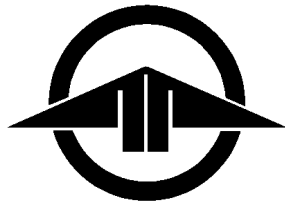
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

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President

Executive Director



CITY OF KETTERING

FINANCIAL SECTION



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Independent Auditors' Report

Honorable Mayor, City Council
and City Manager
City of Kettering, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Kettering, Ohio, as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kettering'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Kettering, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2004 on our consideration of the City of Kettering's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 32 through 39 are not a required part of the basic financial statements but are supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clark, Schaefer, Hackett + Co.

Springfield, Ohio
March 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Kettering's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2003.

FINANCIAL HIGHLIGHTS

1. The City's net assets increased by over \$6.7 million or 4.9%, however, unrestricted net assets decreased \$3.1 million.
2. The General Fund reported a deficit of over \$2.3 million.
3. The City began charging for Emergency Medical Services resulting in revenues of over \$880,000.
4. Federal grants for road projects totaled more than \$3.5 million.
5. Total costs of services increased by more than \$1.6 million, however, net costs of services decreased by nearly \$2 million.
6. The City had record infrastructure additions of over \$11 million, \$10.7 million of which were for roadway improvements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City as a Whole*The Statement of Net Assets and the Statement of Activities*

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets — the difference between assets and liabilities — as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base, the condition of the City's roads, the condition of the City's neighborhoods, and the reputation of the public schools to assess the overall health of the City.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on page 7. The fund financial statements begin on page 10 and provide detailed information about the most significant funds — not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the Finance Director establishes many other funds to help control and manage money for particular purposes or to show that the City is meeting legal responsibilities for using certain taxes, grants, and other money (like grants received from the U.S. Department of Housing and Urban Development). The City's two kinds of funds — governmental and proprietary — use different accounting approaches.

- **Governmental funds** — Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- **Proprietary funds** — The City uses internal service funds (a component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities. An example of an internal service fund would be the City's Administrative Operations Fund, which accounts for activities of the Vehicle Maintenance Center, the Print Shop, and others. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for its volunteer firefighters pension plan. It is also responsible for other assets that — because of a trust arrangement — can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on page 17. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

For both 2003 and 2002, the City has shown a 4.9% and 2.4 % respective increase in Total net assets. Revenues generated were \$60.6 million and expenses from all programs were \$53.9 million resulting in a surplus for the year of over \$6.7 million. The unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements — decreased \$3.1 million.

Explanations for the larger fluctuations between years are as follows:

- Charges for services increased because the City began charging for Emergency Medical Services.
- Federal grant revenue was higher in 2003 primarily because of increased federal funding for roadway projects.
- State grant revenue was lower this year because a 2002 state roadway grant project ended in 2003.
- The Sponsorships and contributions decrease, was primarily due to a land contribution in 2002, which did not occur in 2003.
- The increase in Other taxes is due to an abnormally high amount of estate taxes in 2003. This years total was nearly \$4.2 million while last years level was more normal at \$2.4 million.
- Income taxes continued to increase this year due to the health of Kettering's economic climate.
- Investment earnings were significantly lower in 2003 because of lower interest rates.
- Other general revenues were lower in 2003 primarily because of some land sales, which took place last year.
- A portion of the expense increase in General government can be attributed to a large study in Planning and development, higher court expenses, and higher legal expenses.

The following two tables present condensed information on Net Assets and Changes in Net Assets for the year.

NET ASSETS

	<u>2003</u>	<u>2002</u>
Current and other assets	\$53,626,327	\$55,134,017
Capital assets	<u>117,848,195</u>	<u>110,588,870</u>
Total assets	<u>171,474,522</u>	<u>165,722,887</u>
Long-term debt outstanding	(11,721,133)	(13,452,771)
Other liabilities	<u>(16,317,898)</u>	<u>(15,564,709)</u>
Total liabilities	<u>(28,039,031)</u>	<u>(29,017,480)</u>
Net assets:		
Invested in capital assets, net of debt	109,267,077	100,065,903
Restricted	4,263,067	3,602,467
Unrestricted	<u>29,905,347</u>	<u>33,037,037</u>
Total net assets	<u><u>\$143,435,491</u></u>	<u><u>\$136,705,407</u></u>

CHANGES IN NET ASSETS

	2003	2002
Revenues		
Program revenues:		
Charges for services	\$7,954,670	\$6,862,381
Federal grants	5,176,127	1,037,864
State and local grants	1,354,869	2,407,595
Special assessments	1,024,871	1,308,754
Sponsorships and contributions	452,428	768,987
General revenues:		
Income taxes	25,607,227	25,341,919
Property taxes	8,208,754	7,898,720
Other taxes	8,302,792	6,432,237
Investment earnings	780,231	1,381,779
Other general revenue	1,720,950	2,030,648
Total revenues	60,582,919	55,470,884
Program expenses		
General government	12,142,127	11,179,273
Police	10,840,287	10,626,973
Fire	7,768,263	7,569,675
Public works	11,236,775	10,803,744
Leisure services	11,479,183	11,665,610
Interest on long-term debt	386,200	458,517
Total expenses	53,852,835	52,303,792
Increase (decrease) in net assets	\$6,730,084	\$3,167,092

The following table presents the cost of each of the City's four largest programs – police, fire, public works and leisure services – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

GOVERNMENTAL ACTIVITIES

	Total Cost of Services		Net Cost of Services	
	2003	2002	2003	2002
Police	\$10,840,287	\$10,626,973	\$10,692,821	\$10,534,263
Fire	7,768,263	7,569,675	6,568,248	7,569,335
Public works	11,236,775	10,803,744	4,519,146	6,971,161
Leisure services	11,479,183	11,665,610	6,802,874	6,769,165
All others	12,142,127	11,179,273	8,920,581	7,615,770

Total costs of services for 2003 increased by over \$1.6 million while net costs of services decreased by almost \$2 million. Fire and Public works net costs decreased substantially because of billings for emergency medical services and large grant revenues respectively. Police, Leisure services and General government all increased their net cost of services.

The capital asset activity for the year was increased compared to prior years. The City had an aggressive capital improvement program in 2003 and added more than \$11 million in infrastructure assets. 2003 ended with total net capital assets of \$117,848,195. Of this total, \$11,046,802 was not being depreciated and the capital assets being depreciated totaled \$175,131,476 with accumulated depreciation of \$68,330,083.

The City issued new debt in the current year in the form of Ohio Public Works Commission (OPWC) promissory notes. These notes were for roadway improvements. \$11,140 was issued for 20 years at 1% interest. At December 31, 2003, the City had various debt issues outstanding, which included \$4,349,119 of general obligation bonds, \$990,233 of special assessment debt with City commitment and \$3,241,766 of promissory notes. As of December 31, 2003, the City's net general obligation bonded debt of \$4,314,570 was well below the legal limit of \$124,670,352 and debt per capita equaled \$75.03.

For more detail on capital asset and long-term debt activity, refer to note 6 and note 12 respectively in the Notes to the Basic Financial Statements.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on pages 10 and 11) reported a combined fund balance of \$32.9 million, which is 7.2% lower than last year's total of \$35.4 million.

The City's General Fund experienced a nearly \$1 million, or 2.5% overall increase in revenues for 2003. However, expenditures increased by just over \$1 million, or 3.5%, offsetting the increase in revenues. Investment earnings were a major disappointment this year due to lower interest rates. Total revenues were \$39 million while total expenditures were \$30 million. Transfers to other funds totaled \$11.3 million resulting in the \$2.3 million, or 8.6% reduction to the General Fund balance.

The City added a new major special revenue fund in 2003 to account for revenues received for emergency medical services. The revenues can be expended for fire fighting related equipment or structures. The Capital Projects Fund saw an increase in both revenues and expenditures of nearly \$3.4 million over 2002. The revenue increase came in the form of federal grants for roadway projects. There were no other material changes to the major funds in 2003.

There were no significant variations in the City's original General Fund budget and the final General Fund budget. In contrast to this, there was a significant variance between actual expenditures and final budgeted expenditures for "Transfers to other funds". Even as aggressive as the capital projects plan was in 2003, the City planned several more. In hindsight, the number of projects anticipated to be completed during the year was overly optimistic.

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STATEMENT OF NET ASSETS DECEMBER 31, 2003

ASSETS	
Pooled cash and investments (note 2)	\$31,896,143
Receivables:	
Income taxes (net of allowance for \$300,689)	4,582,900
Property taxes	9,269,524
Interest	244,898
Accounts	579,302
Special assessments	1,868,233
Loans (net of allowance for \$90,248)	1,697,447
Notes	606,140
Due from other governments	2,518,154
Prepaid expenses	11,314
Inventory	352,272
Capital assets not being depreciated (note 6)	11,046,802
Capital assets being depreciated, net (note 6)	<u>106,801,393</u>
Total assets	<u>171,474,522</u>
LIABILITIES	
Accounts payable	2,617,740
Salary and benefits payable	2,155,554
Accrued interest payable	31,501
Deferred revenue	11,513,103
Long-term liabilities (note 12)	
Due within one year	3,941,127
Due in more than one year	<u>7,780,006</u>
Total liabilities	<u>28,039,031</u>
NET ASSETS	
Invested in capital assets, net of related debt	109,267,077
Restricted for:	
Debt service	34,549
Community development block grant	1,863,768
Emergency medical	912,249
Other purposes	1,452,501
Unrestricted	<u>29,905,347</u>
Total net assets	<u>\$143,435,491</u>

See accompanying notes to the basic financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Functions/Programs	Expenses	Program Revenues			Total Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General government	\$12,142,127	\$2,344,241	\$877,305		(\$8,920,581)
Police	10,840,287	56,622	90,844		(10,692,821)
Fire	7,768,263	1,144,791	27,112	28,112	(6,568,248)
Public works	11,236,775	10,980	145,767	6,560,882	(4,519,146)
Leisure services	11,479,183	4,398,036	247,732	30,541	(6,802,874)
Interest on long-term debt	386,200				(386,200)
Total	<u>\$53,852,835</u>	<u>\$7,954,670</u>	<u>\$1,388,760</u>	<u>\$6,619,535</u>	<u>(37,889,870)</u>
General revenues:					
Taxes:					
Income taxes					25,607,227
Property taxes, levied for general purposes					7,025,307
Property taxes, levied for debt service					1,183,447
Other taxes (note 5)					8,302,792
Investment earnings					780,231
Refunds and reimbursements					1,284,483
Miscellaneous					436,467
Total general revenues					<u>44,619,954</u>
Change in net assets					6,730,084
Net assets--beginning					136,705,407
Net assets--ending					<u>\$143,435,491</u>

See accompanying notes to the basic financial statements.

FUND BALANCE SHEETS - GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	General Fund	Major Special		
		Street Maintenance	Parks, Recreation & Cultural Arts	Fraze Pavilion
ASSETS				
Pooled cash and investments	\$24,202,026	\$684,985	\$518,823	\$82,331
Receivables:				
Income taxes (net of allowance for \$300,689)	4,582,900			
Property taxes	7,627,024			
Interest	244,898			
Accounts	47,765	293	3,456	800
Special assessments	300,000			
Loans (net of allowance for \$90,248)				
Notes	606,140			
Due from other governments	527,351	795,643		
Prepaid expenditures	5,357		1,172	4,785
Inventory		73,861		
Total assets	<u>\$38,143,461</u>	<u>\$1,554,782</u>	<u>\$523,451</u>	<u>\$87,916</u>
LIABILITIES				
Accounts payable	\$1,469,677	\$10,850	\$127,548	\$7,841
Accrued payroll	1,244,721	184,582	259,828	8,822
Deferred revenue	10,758,084	640,790	15,342	6,165
Total liabilities	<u>13,472,482</u>	<u>836,222</u>	<u>402,718</u>	<u>22,828</u>
FUND BALANCES				
Reserved for:				
Loans receivable				
Notes receivable	606,140			
Encumbrances	1,307,634	634,120	109,415	34,586
Prepaid expenditures	5,357		1,172	4,785
Inventory		73,861		
Unreserved:				
Designated for subsequent years' expenditures	2,000,000			
Undesignated	20,751,848	10,579	10,146	25,717
Total fund balances	<u>24,670,979</u>	<u>718,560</u>	<u>120,733</u>	<u>65,088</u>
Total liabilities and fund balances	<u>\$38,143,461</u>	<u>\$1,554,782</u>	<u>\$523,451</u>	<u>\$87,916</u>

See accompanying notes to the basic financial statements.

Revenue Funds					
Community Development	Emergency Medical	Debt Service	Capital Projects	Other Special Revenue Governmental Funds	Total Governmental Funds
\$103,568	\$552,126	\$36,007	\$3,008,323	\$2,074,552	\$31,262,741
		1,262,800		379,700	4,582,900
	400,000		124,733	820	9,269,524
		1,168,233	400,000		244,898
1,697,447					577,867
					1,868,233
77,837			884,311	227,161	1,697,447
					606,140
					2,512,303
					11,314
					73,861
<u>\$1,878,852</u>	<u>\$952,126</u>	<u>\$2,467,040</u>	<u>\$4,417,367</u>	<u>\$2,682,233</u>	<u>\$52,707,228</u>
\$15,084	\$39,877	\$1,458	\$736,884	\$82,975	\$2,492,194
				306,418	2,004,371
77,837	263,927	2,431,033	605,303	530,302	15,328,783
92,921	303,804	2,432,491	1,342,187	919,695	19,825,348
1,697,447					1,697,447
					606,140
136,559			3,056,277	48,450	5,327,041
					11,314
					73,861
					2,000,000
(48,075)	648,322	34,549	18,903	1,714,088	23,166,077
1,785,931	648,322	34,549	3,075,180	1,762,538	32,881,880
<u>\$1,878,852</u>	<u>\$952,126</u>	<u>\$2,467,040</u>	<u>\$4,417,367</u>	<u>\$2,682,233</u>	

Amounts reported for governmental activities in the Statement of Net Assets (page 8) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	116,992,116
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Income taxes receivable	1,796,601
Grants and other taxes receivable	2,019,079
Internal service funds are used by management to charge the costs of certain activities. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	1,282,716
The following long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds and notes payable	(8,581,118)
Vacation and sick leave benefits	(2,924,282)
Accrued interest on bonds payable	(31,501)
Net Assets of Governmental Activities	<u>\$143,435,491</u>

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - FOR THE YEAR ENDED DECEMBER 31, 2003

	General Fund	Major		Special
		Street Maintenance	Parks, Recreation & Cultural Arts	Fraze Pavilion
REVENUES				
Income taxes	\$26,033,273			
Property taxes	6,642,309			
Licenses and permits	556,674	\$10,980		
Intergovernmental revenue	2,001,218	1,903,675	\$15,592	
Charges for services	135,513		2,595,307	\$1,784,399
Fines and forfeits	1,296,181			
Investment earnings	698,446			
Special assessments	333,563			
Refunds and reimbursements	1,269,955	364,056	124,234	4,991
Miscellaneous	13,191	9,061	135,606	228,384
Total revenues	<u>38,980,323</u>	<u>2,287,772</u>	<u>2,870,739</u>	<u>2,017,774</u>
EXPENDITURES				
Current:				
General government	10,082,346			
Police	9,609,984			
Fire	7,569,099			
Public works	2,709,322	5,142,941		
Leisure services			7,972,124	2,394,276
Capital improvements				
Debt service:				
Principal				
Interest				
Total expenditures	<u>29,970,751</u>	<u>5,142,941</u>	<u>7,972,124</u>	<u>2,394,276</u>
Excess (deficiency) of revenues over expenditures	9,009,572	(2,855,169)	(5,101,385)	(376,502)
OTHER FINANCING SOURCES (USES)				
Transfers in		3,058,000	5,163,000	376,000
Transfers out	(11,332,160)			
General obligation note issuance				
Sale of city assets	14,988			
Net change in fund balance	<u>(2,307,600)</u>	<u>202,831</u>	<u>61,615</u>	<u>(502)</u>
Fund balances--beginning	26,978,579	515,729	59,118	65,590
Fund balances--ending	<u>\$24,670,979</u>	<u>\$718,560</u>	<u>\$120,733</u>	<u>\$65,088</u>

See accompanying notes to the basic financial statements.

Revenue Funds					
Community Development	Emergency Medical	Debt Service	Capital Projects	Other Special Revenue Governmental Funds	Total Governmental Funds
		\$1,183,447		\$350,097	\$26,033,273
\$618,481			\$8,537,213	1,593,029	8,175,853
	\$880,863			52,543	567,654
		59,629		378,461	14,669,208
		176,257	515,051	22,156	5,448,625
1,264			56,336	40,552	1,674,642
41,502			150,000	91,319	780,231
661,247	880,863	1,419,333	9,258,600	2,528,157	1,024,871
					1,861,388
					669,063
					60,904,808
591,950		2,106		643,967	11,320,369
	202,498			1,176,728	10,786,712
				60,283	7,831,880
				321,428	8,173,691
397,731	30,043		11,056,930	71,631	10,438,031
				1,297,208	12,781,912
		1,952,988			1,952,988
		386,244			386,244
989,681	232,541	2,341,338	11,056,930	3,571,245	63,671,827
(328,434)	648,322	(922,005)	(1,798,330)	(1,043,088)	(2,767,019)
		910,000	809,000	1,016,160	11,332,160
					(11,332,160)
			11,140		11,140
67,151			134,484		216,623
(261,283)	648,322	(12,005)	(843,706)	(26,928)	(2,539,256)
2,047,214	0	46,554	3,918,886	1,789,466	35,421,136
\$1,785,931	\$648,322	\$34,549	\$3,075,180	\$1,762,538	\$32,881,880

Net change in Fund Balance - Governmental Funds (\$2,539,256)

Amounts reported for governmental activities in the Statement of Activities (page 9) are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.	}	Capital outlays	13,519,993
		Depreciation expense	(6,320,235)

In the Statement of Activities, only the gain on the sale of city assets is reported, while in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differ from the change in fund balance by the cost of the asset sold. (85,393)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Income taxes receivable	(426,046)
Grants receivable	544,737
Property taxes receivable	32,900
Contribution of capital asset	69,464

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (11,140)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,952,989

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Vacation and sick leave benefits	(184,700)
Interest payable	43

Internal service funds are used by management to charge the costs of certain activities, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (See page 15.) 176,728

Change in Net Assets on the Statement of Activities \$6,730,084

BALANCE SHEET
 PROPRIETARY FUNDS
 DECEMBER 31, 2003

	Governmental Activities- Internal Service Funds
ASSETS	
Current assets:	
Pooled cash and investments	\$633,402
Accounts receivable	1,434
Due from other governments	5,851
Inventory	278,411
Total current assets	<u>919,098</u>
Noncurrent assets:	
Buildings and improvements	809,359
Machinery and equipment	2,050,237
Less: Accumulated depreciation	<u>(2,003,517)</u>
Total noncurrent assets	856,079
Total assets	<u><u>\$1,775,177</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$125,546
Accrued payroll	151,183
Total current liabilities	<u>276,729</u>
Noncurrent liabilities:	
Accrued vacation and sick leave benefits	215,732
Total liabilities	<u>492,461</u>
NET ASSETS	
Invested in capital assets	856,079
Unrestricted	426,637
Total net assets	<u>1,282,716</u>
Total liabilities and net assets	<u><u>\$1,775,177</u></u>

See accompanying notes to the basic financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Governmental Activities- Internal Service Funds
OPERATING REVENUES	
Charges for services	\$8,113,673
Total operating revenues	<u>8,113,673</u>
OPERATING EXPENSES	
Personal services	2,571,030
Repairs and maintenance	996,154
Contractual services	3,674,068
Other materials and expenses	556,037
Depreciation	166,818
Total operating expenses	<u>7,964,107</u>
Operating income (loss)	<u>149,566</u>
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	27,162
Change in net assets	176,728
Total net assets--beginning	1,105,988
Total net assets--ending	<u><u>\$1,282,716</u></u>

See accompanying notes to the basic financial statements.

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 Increase (Decrease) in cash

	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for services	\$8,110,913
Cash paid to suppliers for goods or services	(5,165,639)
Cash paid to employees for services	(2,533,512)
Net cash provided (used) by operating activities	<u>411,762</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(255,585)
Sale of capital assets	8,845
Net cash used by capital and related financing activities	<u>(246,740)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	27,162
Net cash provided by investing activities	<u>27,162</u>
Net increase (decrease) in cash	192,184
Cash at beginning of year	441,218
Cash at end of year	<u><u>\$633,402</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$149,566
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	166,818
(Increase) decrease in receivables	(1,367)
(Increase) decrease in inventories	4,498
Increase (decrease) in accounts payable	46,817
Net (increase) decrease in other operating net assets	45,430
Net cash provided (used) by operating activities	<u><u>\$411,762</u></u>

See accompanying notes to the basic financial statements.

FIDUCIARY FUNDS

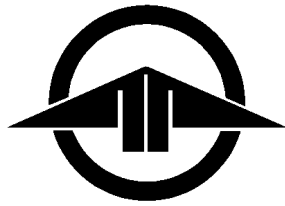
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2003

	Volunteer Firefighter Pension	Deceased Police Dependents Private Purpose Trust	Agency Funds
ASSETS			
Pooled cash and investments		\$66,033	\$481,709
Investments with fiscal agent, at fair value:			
Unallocated insurance contracts	\$1,743,021		
Other investments			278,657
Total assets	<u>1,743,021</u>	<u>66,033</u>	<u>\$760,366</u>
LIABILITIES			
Accounts payable			\$5,633
Withholdings payable			471,345
Undistributed moneys			278,657
Unclaimed moneys			4,731
Total liabilities			<u>\$760,366</u>
NET ASSETS			
Held in trust for pension benefits and other purposes	<u>\$1,743,021</u>	<u>\$66,033</u>	

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003

ADDITIONS			
Employer contributions	\$17,333		
Investment earnings (loss)	83,444	\$1,850	
Total additions	<u>100,777</u>	<u>1,850</u>	
DEDUCTIONS			
Pension payments	91,731		
Total deductions	<u>91,731</u>		
Net increase (decrease)	9,046	1,850	
Net assets--beginning of year	1,733,975	64,183	
Net assets--end of year	<u>\$1,743,021</u>	<u>\$66,033</u>	

See accompanying notes to the basic financial statements.



CITY OF KETTERING

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Kettering, Ohio, (the “City”) is a home rule municipal corporation under the laws of the State of Ohio and operates under its own Charter. The current Charter, which provides for a Council/Manager form of government, was adopted in 1955 and has subsequently been amended.

The City provides various services including police and fire protection, parks, recreation, street maintenance, planning, zoning and other general government services. The City does not maintain any utility or other operations that would require the establishment of enterprise funds.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. No separate government units meet the criteria for inclusion as a component unit.

B. Basis of Presentation

Government-Wide Statements: The Statement of net assets and the statement of activities display information about the primary government, except for its fiduciary activities. Eliminations have been made to maximize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. The City has no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or a function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City’s funds, including fiduciary. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General Fund – This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Street Maintenance Fund – This fund accounts for the portion of gasoline tax and motor vehicle license fees restricted for maintenance of streets.

Parks, Recreation & Cultural Arts Fund – This fund accounts for money received and expended for the Parks, Recreation & Cultural Arts department programs and activities.

Fraze Pavilion Fund – This fund accounts for moneys received and expended for the Fraze Pavilion amphitheater operations.

Community Development Fund - This fund accounts for grants received from the Department of Housing and Urban Development (HUD). Grants are restricted for various purposes designated by HUD.

Emergency Medical Fund – This fund accounts for revenues received for emergency medical services. The revenues can be expended for fire equipment or structures.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general, special assessment and promissory note long-term debt principal and interest.

Capital Projects Fund – This fund is used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Additionally, the City reports the following fund types:

Internal Service Funds – The internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments on a cost-reimbursement basis. These goods and services include computer services, vehicle maintenance, office supplies, postage, printing services, photographic service, building maintenance and health insurance. The City has no unbilled service receivables at year end.

Pension Trust Fund – The fund reports a trust arrangement under which assets are accumulated in order to pay retirement benefits to the City’s volunteer firefighters.

Private Purpose Trust Fund – This fund reports a trust arrangement under which principal and income are used for the education of dependents of deceased police officers.

Agency Funds – These funds account for assets held by the City as an agent for: 1) various local governments collected by the municipal court, 2) payroll withholdings and 3) unclaimed moneys and other miscellaneous activities.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide, proprietary and fiduciary fund financial statements measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and accrual basis of accounting. Revenues are 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 revenues 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. Agency funds do not involve the measurement of results of operations.

All governmental funds are accounted for using a current financial resources measurement focus and are reported on a modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which, for the City’s purposes, is considered to be 30 days after year end. Revenues considered susceptible to accrual are community development block grants, delinquent property taxes, income taxes, and interest on investments. Property taxes levied before year-end are not recognized as

revenue until the next calendar year. The fiscal period for which property taxes are levied at year-end in the State of Ohio is the succeeding calendar year.

Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for interest on unmatured general long-term debt, and on special assessment indebtedness collateralized by special assessment levies, which are recognized when due. Inventory and prepaid expenditures are recorded in the governmental fund types and charged as expenditures when used. A portion of the fund balance is reserved in governmental funds for the amount of inventory and prepaid expenditures.

D. Pooled Cash and Investments and Investment with Fiscal Agent

All investments are stated at fair value, which are based on quoted market prices.

E. Inventory

Inventory is valued at cost (specific identification method in the internal service funds and FIFO (first-in, first-out) method in the special revenue funds.) Inventories are recorded as expenses/expenditures when used.

F. Capital Assets

Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment, infrastructure and all other assets that are used in operations and that have initial useful lives expending beyond a single reporting period. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges and drainage systems.

All capital assets are valued at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value at the time received. Interest on constructed capital assets is capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. The City capitalizes all assets with a cost of \$5,000 or greater and a useful life of at least two years. The City has capitalized all infrastructure acquired after January 1, 1980. Capital assets are recorded as expenditures of the current period in the government fund financial statements.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Machinery and Equipment	3-20 years
Buildings and Improvements	15-30 years
Infrastructure	20-40 years

G. Interfund Transactions and Transfers

During the course of normal operations, the City has numerous transactions among funds, most of which are in the form of transfers used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The accompanying financial statements generally reflect such transactions as transfers, with the exception of the internal service funds which are used to account for various supplies and services which are then charged back to the appropriate fund on an "as used" basis. The internal service funds record such charges as operating revenues; all other City funds record payments to the internal service funds as operating expenditures.

H. Reserves and Designations

Reserves indicate portions of fund equity not appropriable for expenditures and/or legally segregated for a specific future use.

Designations indicate tentative plans for financial resource utilization in a future period. Such plans are subject to change; they may never be legally authorized or result in expenditures/expenses.

I. Grants and Other Intergovernmental Revenues

All reimbursement-type grants are recorded as intergovernmental receivables and revenues or deferred revenue when the related expenditures are incurred.

J. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. POOLED CASH AND INVESTMENTS

The City maintains a cash and investments pool that is available for use by all funds, except the pension trust fund. Each fund type's portion of this pool is displayed on the Fund Balance Sheets as "Pooled cash and investments." The deposits and investments of the pension trust fund are held separately from those of other City funds and displayed as "Unallocated insurance contracts."

Cash and cash equivalents in the internal service funds consist of cash and money market funds, which can be withdrawn without prior notice or penalty.

Deposits: At year-end, the carrying amount of the City's deposits was \$17,324,249. Of this amount, \$13,172,914 was insured, the remaining \$4,151,335 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments: All investments are reported at fair value, which is based on quoted market prices. The City's investment policy authorizes investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poors Corporation or P-1 by Moody's Commercial Paper Record, corporate bonds rated A or better by Standard & Poors Corporation or Moody's Bond Rating, bankers acceptances issued by banks ranked nationally as being in the top 50 in asset and deposit size, repurchase and reverse repurchase agreements, money market mutual funds whose portfolio consists of authorized investments, and the state treasurer's investment pool. The policy states that no more than 20% of the City's investment portfolio will be placed with any particular issuer, and unless matched to a specific cash flow requirement, the City will not invest in securities maturing more than five years from the date of purchase. It has been the City's practice to invest in securities maturing no more than two years from the date of purchase, and to hold all investments until maturity.

The City's overnight repurchase agreement and corporate bonds, both amounts listed below, are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. On December 31, the City had 17% of its pooled cash and investments with Fifth Third Bank of Western Ohio. This 17% consisted of the \$1,359,723 overnight repurchase agreement and the \$4,151,334 of deposits listed above. At year-end, all of the securities in the corporate bond category below are rated "A" or better and all other investment types listed are unrated.

As of December 31, 2003 the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-2</u>	<u>3-8</u>	<u>8-9</u>
Overnight Repurchase Agreement	\$ 1,359,723	\$ 1,359,723			
Corporate Bonds	14,038,570	9,042,739	\$4,995,831		
Pension Plan Pooled Invest Fund	1,743,021				\$1,743,021
Total	<u>\$17,141,314</u>	<u>\$10,402,462</u>	<u>\$4,995,831</u>		<u>\$1,743,021</u>

3. INCOME TAXES

The City levies a 1.75% income tax on substantially all income earned within the City. Additional increases in the income tax rate require voter approval. City residents pay City income tax on income earned outside the City, however; a credit is allowed for income taxes paid to other municipalities.

Employers within the City withhold income tax on employee compensation and remit at least quarterly. Corporations and other individual taxpayers pay estimated taxes quarterly and file an annual declaration.

4. PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible (used in business) property located in the City. Property taxes are levied each December 31 on the assessed value listed as of the prior December 31. Assessed values are established for real property at 35% of true value, for public utility property at 100% of true value, and for tangible property at 25% of true value (excluding the first \$10,000 of value). Property market values are required to be updated every three years and revalued every six years. A revaluation was completed in 2002.

The property tax calendar is as follows:

Levy date	December 31, 2002
Lien date	December 31, 2002
Tax bill mailed	January 20, 2003
First installment payment due	February 15, 2003
Second installment payment due	July 15, 2003

The assessed values for the City at December 31, 2002 were as follows:

	<u>Assessed Value</u>
	<u>Category</u>
Real Estate	\$1,068,880,780
Public Utility Real Property	11,340
Tangible Personal Property	86,950,034
Public Utility Personal Property	31,494,530
Total	<u>\$1,187,336,684</u>

The County Treasurer collects property taxes on behalf of all taxing districts including the City of Kettering. The County periodically remits to the City its portion of taxes collected. Property taxes may be paid on either an annual or semiannual basis.

5. OTHER TAXES

The caption "Other taxes" on the Statement of Activities is comprised of taxes levied by the State or the County and distributed to the City. The components of the number are as follows:

Estate taxes	\$4,196,224
Sales taxes	1,777,680
Gasoline taxes	1,250,767
Vehicle license taxes	784,782
Miscellaneous other taxes	293,339
	<u>\$8,302,792</u>

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$10,342,570	\$760,232	(\$56,000)	\$11,046,802
Construction in progress				
Subtotal	<u>10,342,570</u>	<u>760,232</u>	<u>(56,000)</u>	<u>11,046,802</u>
Capital assets being depreciated:				
Buildings and improvements	35,778,330	332,489	(32,332)	36,078,487
Machinery and equipment	15,388,803	1,781,597	(678,437)	16,491,963
Infrastructure	111,425,753	11,146,722	(11,449)	122,561,026
Subtotal	<u>162,592,886</u>	<u>13,260,808</u>	<u>(722,218)</u>	<u>175,131,476</u>
Accumulated depreciation:				
Buildings and improvements	(19,196,962)	(1,565,719)	32,332	(20,730,349)
Machinery and equipment	(10,294,661)	(1,168,396)	459,775	(11,003,282)
Infrastructure	(32,854,963)	(3,752,938)	11,449	(36,596,452)
Subtotal	<u>(62,346,586)</u>	<u>(6,487,053) *</u>	<u>503,556</u>	<u>(68,330,083)</u>
Net capital assets being depreciated	<u>100,246,300</u>	<u>6,773,755</u>	<u>(218,662)</u>	<u>106,801,393</u>
Net capital assets	<u>\$110,588,870</u>	<u>\$7,533,987</u>	<u>(\$274,662)</u>	<u>\$117,848,195</u>

*Depreciation expense was charged to governmental functions as follows:

General government	\$315,379
Police	241,642
Fire	422,883
Public works	3,839,568
Leisure services	1,500,763
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets.	<u>166,818</u>
Total depreciation expense	<u>\$6,487,053</u>

7. LOANS RECEIVABLE AND NOTES RECEIVABLE

The City used a portion of the Federal Community Development Block Grant (CDBG) to provide low interest loans for housing rehabilitation, as well as for economic and job development. The loans are payable in installments to 2029. Fund balance has been reserved for the loans receivable at December 31, 2003, as it

does not represent currently available spendable resources. CDBG regulations require the City to reinvest loan repayments in permissible CDBG loans or expenditures.

The City has sold property to several companies and taken a note receivable in exchange. These note receivables are payable in installments to 2006. Fund balance has been reserved for the notes receivable at December 31, 2003, as it does not represent currently available spendable resources.

8. RISK MANAGEMENT

The City is a member of a public entity risk pool, Miami Valley Risk Management Association, Inc. (MVRMA) with sixteen other local cities. This pool covers all property, crime, liability, boiler and machinery and public official liability up to the limits stated below.

Insurance coverage is as follows:

Property – \$100,000,000 per occurrence
Crime - \$1,000,000 per occurrence
Liability - \$11,000,000 per occurrence
Boiler & Machinery - \$100,000,000 per occurrence
Public Official Liability - \$1,000,000 per occurrence

The deductible per occurrence for all types is \$2,500. Pool coverage is \$2,500 - \$5,000 for boiler and machinery, \$2,501 - \$15,000 for crime, \$2,501 - \$250,000 for property, and \$2,501 - \$1,000,000 for liability. Excess insurance coverage, provided by commercial companies, is the amount in excess of pool coverage to the limits stated above. The City pays an annual premium to MVRMA that is intended to cover administrative expenses and any claims covered by the pool. MVRMA has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. An actuarial opinion issued as of December 31, 2002, indicates reserves in excess of anticipated claims.

Employee health insurance is provided through a fully insured plan and is accounted for and financed through an internal service fund. The City pays premiums to a private insurance company and retains no risk.

Workers' compensation is administered by the State of Ohio. The City pays a premium per employee to the State for this coverage.

There were no significant reductions in insurance coverage from the prior year in any category of risk. Insurance coverage for each of the past three years was sufficient to cover any claims settlements.

9. PENSION PLAN OBLIGATIONS

Substantially all City employees are covered by one of two pension plans Ohio Police and Fire Pension Fund (OP&F) or Ohio Public Employees Retirement System (OPERS).

OHIO POLICE AND FIRE PENSION FUND (OP&F)

OP&F is a cost-sharing multiple-employer defined benefit pension plan, which provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 742 of the Ohio Revised Code. The Police and Fire Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, or by calling (614)228-2975.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 10% of their annual covered salary and the City is required to contribute 19.5% and

24% respectively for police officers and firefighters. The City's contributions to the plan for the years ending December 31, 2001, 2002 and 2003, were \$1,849,105, \$1,832,207 and \$1,919,561 respectively, equal to the required contributions for the year.

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

OPERS administers three separate pension plans. 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan. 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. 3) The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the TP and CO. Members of the MD do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614)222-6705.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Plan members are required to contribute 8.5% of their annual covered salary and the City is required to contribute 13.55%. The City's contributions to the plan for the years ending December 31, 2001, 2002 and 2003, were \$2,083,068, \$2,217,038 and \$2,277,370 respectively, equal to the required contributions for the year.

VOLUNTEER FIREFIGHTERS PENSION

Principal Life Insurance Company administers a single-employer, defined benefit pension plan for the Volunteer Firefighters. At January 1 2003, the plan's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	67
Terminated employees entitled to benefits but not yet receiving them	34
Active members	<u>68</u>
Total	<u><u>169</u></u>

All regular members of the Volunteer Fire Department are eligible for the plan upon completion of 3 years of continuous service. Members may retire at age 55 and receive a monthly benefit, payable for life. The monthly retirement benefit is equal to the sum of \$8.00 multiplied by the number of years of credited service not in excess of 10 years and \$10.00 multiplied by the number of years of credited service in excess of 10 years. Benefits vest at 15% upon 3 years of credited service plus 5% for each additional year, up to 100%. Benefits are established by and may be amended by City Ordinance.

Financial Statements of the Volunteer Firefighter Pension are prepared using the accrual basis of accounting. Employer contributions 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 terms of the plan. The Pension plan does not issue a stand-alone financial report.

Plan investments are reported at fair value. No investment, in any one organization, exceeded five percent of net assets available for benefits.

The City's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed in dollars, are designed to accumulate sufficient assets to pay benefits when due. Costs of administering the plan are paid separately by the City and not deducted from plan assets. The City is to make all contributions required to the plan. Contribution requirements are established or may be amended by City Ordinance. Active members are not required to contribute.

The annual required contribution for the current year was determined as part of the January 1, 2003, actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included a 6.5% investment rate of return and that benefits will not increase after retirement. The actuarial value of assets was determined using the contract basis. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Actual</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
1998	40,785	40,785	100%
1999	40,684	40,684	100%
2000	35,644	35,644	100%
2001	36,628	36,628	100%
2002	0	0	100%
2003	17,333	17,333	100%

For the fiscal years ended December 31, 2001, 2002 and 2003, the Annual Pension cost (APC) was \$36,628, \$0 and \$17,333 respectively; the Percentage of APC contributed was 100% and the net pension obligation was \$0.

The first year the City has reported the Volunteer firefighters Pension under GASB 27 was in 1996. The pension liability was \$0 and was determined in accordance with GASB 27. The amount of pension liability at transition was \$0. The difference between the amount of pension liability and the previously reported liability to the plan was \$0.

10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 9, both the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OP&F) provide postretirement health care coverage, commonly referred to OPEB (other postemployment benefits). For both systems, the Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions.

OHIO POLICE AND FIRE PENSION FUND OPEB

OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22, if attending school full-time or on a 2/3 basis.

Health care funding and accounting is on a pay-as-you-go basis. The Ohio Revised Code provides that health care costs paid shall be included in the employer's contribution rate. In addition, all retirees and survivors are required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. The 2003 employer contribution rate was 19.5% of covered payroll for Police and

24% for Fire of which 7.75% was used to fund health care. The City's contribution for the year ended December 31, 2003 was \$421,396 for Police and \$277,170 for Fire to pay postemployment benefits.

The number of participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for Police and 10,396 for Fire. OP&F's total health care expense for the year ended December 31, 2002 was \$141,028,006, which was net of member contributions of \$12,623,875.

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM OPEB

OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO), all of which are described in note 9. OPERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit for members of both the TP and CO plans. Members of the MD plan do not qualify for post-employment health care coverage. Health care coverage for disability recipients and primary survivor recipients is available.

The 2003 employer contribution rate was 13.55%, of which 5.0% was used to fund health care. The City's contribution for the year ended December 31, 2003, was \$840,349 to fund post-employment benefits.

OPEB are advanced-funded on an actuarially determined basis. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation. The investment assumption rate for 2002 was 8.00%. Individual base pay was assumed to increase 4.00% compounded annually with no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from .5% to 6.3%. Health care costs were assumed to increase 4.00% annually.

The number of active contributing participants to the TP and CO plans was 364,881 as of December 31, 2002; the date the latest actuarial review was performed. OPERS actuarially determined accrued liability for OPEB's at December 31, 2002, are \$18.7 billion with net assets available for OPEB of \$10 billion, leaving an unfunded actuarial liability of \$8.7 billion.

11. LEASES AND CONSTRUCTION COMMITMENTS

There are no operating leases, in which the City is a lessee, in excess of one year. Operating lease payments in 2003 were \$220,432.

Construction and other commitments at December 31, 2003, were approximately \$3,139,000.

12. LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2003, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
General obligation bonds:					
Fire station, 9.00%	\$140,000		\$45,000	\$95,000	\$45,000
Service center, 9.00%	165,000		55,000	110,000	55,000
Improvement bonds-					
Series 1991, 4.5%-6.65%	335,186		25,419	309,767	25,564
Improvement bonds-					
Series 1992, 3.25%-6.45%	657,439		42,439	615,000	55,000
Improvement Refunding, 2.65%-5.25%	2,405,000		555,000	1,850,000	585,000
Recreation Center Refunding, 2.65%-16.9%	<u>2,264,352</u>		<u>895,000</u>	<u>1,369,352</u>	<u>940,000</u>
Total general obligation bonds	<u>5,966,977</u>		<u>1,617,858</u>	<u>4,349,119</u>	<u>1,705,564</u>
Special assessment bonds:					
1983 David Road Improvement, 9.75%	17,000		17,000	0	0
Improvement bonds-					
Series 1991, 4.5%-6.65%	1,069,814		79,581	990,233	84,436
Improvement bonds-					
Series 1992, 3.7%-5.9%	<u>7,561</u>		<u>7,561</u>	<u>0</u>	<u>0</u>
Total special assessment bonds	<u>1,094,375</u>		<u>104,142</u>	<u>990,233</u>	<u>84,436</u>
Other:					
Accrued vacation and sick leave benefits	2,929,804	1,764,531	1,554,320	3,140,015	1,884,009
Ohio Public Works Commission Long-Term Promissory Notes, 0-3%	3,261,615	11,140	164,322	3,108,433	200,451
Montgomery County 800 Mhz, 0% Promissory Notes	<u>200,000</u>		<u>66,667</u>	<u>133,333</u>	<u>66,667</u>
Total other	<u>6,391,419</u>	<u>1,775,671</u>	<u>1,785,309</u>	<u>6,381,781</u>	<u>2,151,127</u>
Total long-term liabilities	<u>\$13,452,771</u>	<u>\$1,775,671</u>	<u>\$3,507,309</u>	<u>\$11,721,133</u>	<u>\$3,941,127</u>

The accrued vacation and sick leave benefits liability will be liquidated by several of the City's governmental and internal service funds. In the past, approximately 70% has been paid by the General Fund, 13% by the Street Maintenance Fund and the remainder by the other governmental and internal service funds. The City uses the "vesting method" to determine the appropriate liability.

In the event of delinquencies related to special assessment bonds, the City is required to use other resources until foreclosure proceeds are received to satisfy debt service. The City does not have a sinking fund or reserve established to cover defaults by property owners because foreclosure proceeds would eliminate any outstanding liability.

The annual requirements to pay principal and interest on long-term obligations at December 31, 2003, are as follows:

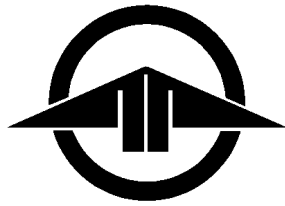
	General Obligation Bonds		Promissory Notes		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$1,705,564	\$220,866	\$267,118	\$15,191	\$84,436	\$65,157
2005	940,018	980,279	268,248	14,617	89,671	59,922
2006	854,196	954,064	202,172	14,026	95,320	54,272
2007	195,709	931,244	202,781	13,418	101,658	47,934
2008	184,361	939,422	177,915	12,790	108,419	41,173
2009-2013	469,271	79,338	772,207	53,862	510,729	87,639
2014-2018			731,920	35,082		
2019-2023			618,849	13,289		
2024			556			
	<u>\$4,349,119</u>	<u>\$4,105,213</u>	<u>\$3,241,766</u>	<u>\$172,275</u>	<u>\$990,233</u>	<u>\$356,097</u>

The Ohio Revised Code (ORC) provides that the total net debt (as defined in the ORC) of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. At December 31, 2003, the City had a legal debt margin for total debt of \$120,355,782 and a legal debt margin for unvoted debt of \$62,358,300.

13. CONTINGENT LIABILITIES

The City is the defendant in various lawsuits and subject to various claims over which litigation has not commenced. Although the outcome of these matters is not presently determinable, in the opinion of the Law Director the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City participates in several federally assisted programs that are subject to program compliance audits by the grantors or their representatives. A single financial and compliance audit of the city has been completed with no findings for recovery. The grantor agencies, at their option, may perform economy and efficiency audits, program results audits or conduct monitoring visits. Such audits and visits could lead to reimbursement to the grantor agencies. Management believes such reimbursements, if any, would be immaterial.



CITY OF KETTERING

REQUIRED SUPPLEMENTARY INFORMATION**BUDGET(GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$26,978,579	\$26,978,579	\$26,978,579	
Resources (inflows)				
Income taxes	25,400,000	25,400,000	26,033,273	\$633,273
Property taxes	6,429,000	6,740,000	6,642,309	(97,691)
Licenses and permits	420,000	540,000	556,674	16,674
Intergovernmental revenue	2,060,000	2,049,000	2,001,218	(47,782)
Charges for services	82,000	124,000	135,513	11,513
Fines and forfeits	1,215,000	1,315,000	1,296,181	(18,819)
Investment earnings	1,200,000	1,000,000	698,446	(301,554)
Special assessments	300,000	330,000	333,563	3,563
Refunds and reimbursements	810,000	1,133,000	1,269,955	136,955
Miscellaneous	50,000	10,000	13,191	3,191
Sale of city assets	100,000	127,000	14,988	(112,012)
Amounts available for appropriation	65,044,579	65,746,579	65,973,890	227,311
Charges to appropriations (outflows)				
General government:				
Mayor and Council:				
Personal services	209,700	212,900	212,856	44
Operating expenditures	101,410	101,250	81,930	19,320
Capital outlay				
Total mayor and council	311,110	314,150	294,786	19,364
Municipal court:				
Personal services	717,500	717,500	706,159	11,341
Operating expenditures	272,309	290,769	258,007	32,762
Capital outlay				
Total municipal court	989,809	1,008,269	964,166	44,103
Clerk of courts:				
Personal services	632,800	632,800	631,076	1,724
Operating expenditures	127,051	145,441	115,999	29,442
Capital outlay				
Total clerk of courts	759,851	778,241	747,075	31,166
Office of City Manager:				
Personal services	444,900	444,900	435,384	9,516
Operating expenditures	62,644	69,974	54,239	15,735
Capital outlay				
Total office of city manager	507,544	514,874	489,623	25,251
Law department:				
Personal services	598,100	598,100	593,022	5,078
Operating expenditures	152,226	302,586	258,558	44,028
Capital outlay				
Total law department	750,326	900,686	851,580	49,106
Finance department:				
Personal services	1,246,000	1,246,000	1,184,401	61,599
Operating expenditures	481,802	504,082	394,484	109,598
Capital outlay				
Total finance department	1,727,802	1,750,082	1,578,885	171,197
Administrative support:				
Personal services:	399,300	384,300	368,943	15,357
Operating expenditures	75,379	107,139	90,765	16,374
Capital outlay				
Total administrative support	474,679	491,439	459,708	31,731

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION**BUDGET(GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
General government:				
Human resources department:				
Personal services	\$526,200	\$526,200	\$508,828	\$17,372
Operating expenditures	284,332	294,692	228,188	66,504
Capital outlay				
Total human resources department	810,532	820,892	737,016	83,876
Planning and development:				
Personal services	1,661,600	1,661,600	1,616,163	45,437
Operating expenditures	487,122	674,692	396,040	278,652
Capital outlay	22,700	22,700	6,167	16,533
Total planning and development	2,171,422	2,358,992	2,018,370	340,622
Economic development:				
Personal services	107,500	117,500	115,557	1,943
Operating expenditures	1,264,811	1,357,011	1,174,878	182,133
Capital outlay				
Total economic development	1,372,311	1,474,511	1,290,435	184,076
Miscellaneous:				
Operating expenditures	814,366	1,234,957	650,702	584,255
Total miscellaneous	814,366	1,234,957	650,702	584,255
Total general government	10,689,752	11,647,093	10,082,346	1,564,747
Police:				
Personal services	8,009,000	7,813,000	7,758,336	54,664
Operating expenditures	1,542,128	1,925,098	1,663,269	261,829
Capital outlay	263,721	238,721	188,379	50,342
Total police	9,814,849	9,976,819	9,609,984	366,835
Fire:				
Personal services	5,508,700	5,508,700	5,407,069	101,631
Operating expenditures	1,979,058	2,036,710	1,873,592	163,118
Capital outlay	985,113	985,113	288,438	696,675
Total fire	8,472,871	8,530,523	7,569,099	961,424
Public works:				
Transportation department:				
Personal services	652,800	658,900	658,765	135
Operating expenditures	270,805	274,835	235,563	39,272
Capital outlay	8,000	8,000	7,554	446
Total transportation department	931,605	941,735	901,882	39,853
Engineering department:				
Personal services	1,119,100	1,119,100	1,085,730	33,370
Operating expenditures	193,443	237,580	196,377	41,203
Capital outlay	110,700	85,700	32,714	52,986
Total engineering department	1,423,243	1,442,380	1,314,821	127,559
Street lighting:				
Operating expenditures	568,400	568,400	492,619	75,781
Total street lighting	568,400	568,400	492,619	75,781
Total public works	2,923,248	2,952,515	2,709,322	243,193
Transfers to other funds	15,764,834	17,125,394	11,332,160	5,793,234
Total charges to appropriations	47,665,554	50,232,344	41,302,911	8,929,433
Fund balance, December 31	\$17,379,025	\$15,514,235	\$24,670,979	\$9,156,744

See accompanying notes to the required supplementary information.

34 CITY OF KETTERING, OHIO

REQUIRED SUPPLEMENTARY INFORMATION**BUDGET(GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE - STREET MAINTENANCE FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$515,729	\$515,729	\$515,729	
Resources (inflows)				
Licenses and permits		10,000	10,980	\$980
Intergovernmental revenue	1,750,000	1,870,000	1,903,675	33,675
Refunds and reimbursements	200,000	200,000	364,056	164,056
Miscellaneous	5,000	7,000	9,061	2,061
Transfer from the general fund	3,150,000	3,671,430	3,058,000	(613,430)
Amounts available for appropriation	<u>5,620,729</u>	<u>6,274,159</u>	<u>5,861,501</u>	<u>(412,658)</u>
Charges to appropriations (outflows)				
Public works:				
Street department:				
Personal services	3,222,200	3,307,200	3,223,845	83,355
Operating expenditures	1,345,955	1,640,380	1,499,790	140,590
Capital outlay	<u>895,427</u>	<u>937,427</u>	<u>419,306</u>	<u>518,121</u>
Total charges to appropriations	<u>5,463,582</u>	<u>5,885,007</u>	<u>5,142,941</u>	<u>742,066</u>
Fund balance, December 31	<u>\$157,147</u>	<u>\$389,152</u>	<u>\$718,560</u>	<u>\$329,408</u>

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
**BUDGET (GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE -
 PARKS, RECREATION AND CULTURAL ARTS FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$59,118	\$59,118	\$59,118	
Resources (inflows)				
Intergovernmental revenue	17,000	16,000	15,592	(\$408)
Charges for services	2,651,000	2,679,000	2,595,307	(83,693)
Refunds and reimbursements	102,000	70,000	124,234	54,234
Miscellaneous	25,000	16,000	135,606	119,606
Transfer from the general fund	5,450,000	5,758,810	5,163,000	(595,810)
Amounts available for appropriation	<u>8,304,118</u>	<u>8,598,928</u>	<u>8,092,857</u>	<u>(506,071)</u>
Charges to appropriations (outflows)				
Leisure services:				
Parks, recreation and cultural arts department:				
Personal services	4,570,200	4,610,200	4,437,541	172,659
Operating expenditures	3,414,919	3,625,999	3,347,854	278,145
Capital outlay	223,314	211,314	186,729	24,585
Total charges to appropriations	<u>8,208,433</u>	<u>8,447,513</u>	<u>7,972,124</u>	<u>475,389</u>
Fund balance, December 31	<u>\$95,685</u>	<u>\$151,415</u>	<u>\$120,733</u>	<u>(\$30,682)</u>

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION**BUDGET(GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE - FRAZE PAVILION FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$65,590	\$65,590	\$65,590	
Resources (inflows)				
Charges for services	1,845,000	1,798,000	1,784,399	(\$13,601)
Refunds and reimbursements	5,000	4,000	4,991	991
Miscellaneous	225,000	218,000	228,384	10,384
Transfer from the general fund	525,000	537,920	376,000	(161,920)
Amounts available for appropriation	<u>2,665,590</u>	<u>2,623,510</u>	<u>2,459,364</u>	<u>(164,146)</u>
Charges to appropriations (outflows)				
Leisure services:				
Fraze pavilion:				
Personal services	492,800	530,800	521,086	9,714
Operating expenditures	2,146,345	2,087,715	1,873,190	214,525
Capital outlay				
Total charges to appropriations	<u>2,639,145</u>	<u>2,618,515</u>	<u>2,394,276</u>	<u>224,239</u>
Fund balance, December 31	<u>\$26,445</u>	<u>\$4,995</u>	<u>\$65,088</u>	<u>\$60,093</u>

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
**BUDGET (GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE -
 COMMUNITY DEVELOPMENT FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$2,047,214	\$2,047,214	\$2,047,214	
Resources (inflows)				
Intergovernmental revenue	828,900	936,900	618,481	(\$318,419)
Refunds and reimbursements			1,264	1,264
Miscellaneous	47,000	47,000	41,502	(5,498)
Sale of city assets	100,000	100,000	67,151	(32,849)
Amounts available for appropriation	<u>3,023,114</u>	<u>3,131,114</u>	<u>2,775,612</u>	<u>(355,502)</u>
Charges to appropriations (outflows)				
General government	695,439	747,439	591,950	155,489
Capital improvements	449,602	553,602	397,731	155,871
Total charges to appropriations	<u>1,145,041</u>	<u>1,301,041</u>	<u>989,681</u>	<u>311,360</u>
Fund balance, December 31	<u>\$1,878,073</u>	<u>\$1,830,073</u>	<u>\$1,785,931</u>	<u>(\$44,142)</u>

See accompanying notes to the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION**BUDGET(GAAP BUDGET) TO ACTUAL COMPARISON SCHEDULE - EMERGENCY MEDICAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Fund balance, January 1	\$0	\$0	\$0	
Resources (inflows)				
Charges for services	600,000	600,000	880,863	\$280,863
Amounts available for appropriation	600,000	600,000	880,863	280,863
Charges to appropriations (outflows)				
Fire:				
Operating expenditures		100,000	47,015	52,985
Capital outlay		500,000	155,483	344,517
Total fire		600,000	202,498	397,502
Capital Improvements			30,043	(30,043)
Total charges to appropriations		600,000	232,541	367,459
Fund balance, December 31	\$600,000	\$0	\$648,322	\$648,322

See accompanying notes to the required supplementary information.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. BUDGETS AND BUDGETARY ACCOUNTING

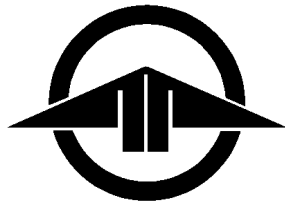
An annual budget for all governmental fund types covering the period January 1 through December 31 of the following year showing estimated revenues and expenditures is submitted to the County Auditor as Secretary of the County Budget Commission. The budget is passed by City Council, after public hearings are held, by July 15 of each year, and submitted to the County Budget Commission by July 20 of each year.

The County Budget Commission certifies its actions relative to the annual budget to the City by September 1. As part of this certification, the City receives an official certificate of estimated resources which states the projected receipts by fund. On or about January 1, this certificate is amended to include any unencumbered fund balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations ordinance.

A temporary appropriations ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriations ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriations ordinance generally controls expenditures at the level of personal services, operating expenditures and capital outlay on a department level, except for the state highway fund, cemetery fund, police pension fund, DESC (Defense Electronics Supply Center) reuse fund, special safety grants and programs fund, community development fund, emergency medical fund and the capital projects fund which are controlled at the fund level. The City Manager has the authority to amend appropriations within the department at the levels of personal service, operating expenditures and capital outlay; amendments above this level require council approval. The ordinance may be amended or supplemented by Council during the year as required. Amendments to the appropriations ordinance made during the year were not material in relation to the original appropriations. Total expenditures in any fund do not exceed the estimated resources for that fund. Unencumbered appropriations lapse at year-end, while encumbered amounts are reappropriated in the following year's budget. The Finance Director in conjunction with the annual budgeting process estimates revenues. However, these estimates are not included or required in the budget ordinance.

The City, being a home rule municipal corporation, has adopted, through ordinance, GAAP (generally accepted accounting principles) as its budgetary basis.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures.



CITY OF KETTERING

**FINANCIAL STATEMENTS
OF
INDIVIDUAL FUNDS**

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET DECEMBER 31, 2003

	State Highway	Cemetery	Police Pension	DESC Reuse	Special Safety Grants & Programs	Total Governmental Funds
ASSETS						
Pooled cash and investments	\$155,311	\$271,174	\$307,367	\$70,643	\$1,270,057	\$2,074,552
Receivables:						
Property taxes			379,700			379,700
Accounts					820	820
Due from other governments	60,301		1,869		164,991	227,161
Total assets	<u>\$215,612</u>	<u>\$271,174</u>	<u>\$688,936</u>	<u>\$70,643</u>	<u>\$1,435,868</u>	<u>\$2,682,233</u>
LIABILITIES						
Accounts payable	\$797	\$200	\$65	\$16,951	\$64,962	\$82,975
Accrued payroll			299,158		7,260	306,418
Deferred revenue	50,200		379,700		100,402	530,302
Total liabilities	<u>50,997</u>	<u>200</u>	<u>678,923</u>	<u>16,951</u>	<u>172,624</u>	<u>919,695</u>
FUND BALANCES						
Reserved for:						
Encumbrances				22,550	25,900	48,450
Unreserved	164,615	270,974	10,013	31,142	1,237,344	1,714,088
Total fund balances	<u>164,615</u>	<u>270,974</u>	<u>10,013</u>	<u>53,692</u>	<u>1,263,244</u>	<u>1,762,538</u>
Total liabilities and fund balances	<u>\$215,612</u>	<u>\$271,174</u>	<u>\$688,936</u>	<u>\$70,643</u>	<u>\$1,435,868</u>	<u>\$2,682,233</u>

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL (GAAP BUDGET)
 FOR THE YEAR ENDED DECEMBER 31, 2003

	State Highway			Cemetery		
	Final Budget	Actual	Variance	Final Budget	Actual	Variance
REVENUES						
Property taxes						
Intergovernmental revenue	\$1,141,000	\$1,144,708	\$3,708			
Charges for services				\$7,000	\$9,943	\$2,943
Fines and forfeits						
Investment earnings	2,000	8,830	6,830	7,000	7,516	516
Refunds and reimbursements	34,000	33,564	(436)			
Miscellaneous				9,000	8,750	(250)
Total revenues	<u>1,177,000</u>	<u>1,187,102</u>	<u>10,102</u>	<u>23,000</u>	<u>26,209</u>	<u>3,209</u>
EXPENDITURES						
Current:						
General government				18,200	12,544	5,656
Police						
Fire						
Public works	135,200	117,210	17,990			
Leisure services						
Capital improvements	1,266,000	1,201,319	64,681			
Total expenditures	<u>1,401,200</u>	<u>1,318,529</u>	<u>82,671</u>	<u>18,200</u>	<u>12,544</u>	<u>5,656</u>
Excess (deficiency) of revenues over expenditures	(224,200)	(131,427)	92,773	4,800	13,665	8,865
OTHER FINANCING SOURCES (USES)						
Transfers in	120,000		(120,000)			
Transfers out						
Net change in fund balance	<u>(104,200)</u>	<u>(131,427)</u>	<u>(27,227)</u>	<u>4,800</u>	<u>13,665</u>	<u>8,865</u>
Fund balances--beginning	296,042	296,042		257,309	257,309	
Fund balances--ending	<u>\$191,842</u>	<u>\$164,615</u>	<u>(\$27,227)</u>	<u>\$262,109</u>	<u>\$270,974</u>	<u>\$8,865</u>

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL (GAAP BUDGET) - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Police Pension			DESC Reuse		
	Final Budget	Actual	Variance	Final Budget	Actual	Variance
REVENUES						
Property taxes	\$356,000	\$350,097	(\$5,903)			
Intergovernmental revenue						
Charges for services				\$27,000	\$24,088	(\$2,912)
Fines and forfeits						
Investment earnings						
Refunds and reimbursements					6,925	6,925
Miscellaneous						
Total revenues	<u>356,000</u>	<u>350,097</u>	<u>(5,903)</u>	<u>27,000</u>	<u>31,013</u>	<u>4,013</u>
EXPENDITURES						
Current:						
General government				278,879	221,896	56,983
Police	1,090,000	1,056,525	33,475			
Fire						
Public works						
Leisure services						
Capital improvements						
Total expenditures	<u>1,090,000</u>	<u>1,056,525</u>	<u>33,475</u>	<u>278,879</u>	<u>221,896</u>	<u>56,983</u>
Excess (deficiency) of revenues over expenditures	(734,000)	(706,428)	27,572	(251,879)	(190,883)	60,996
OTHER FINANCING SOURCES (USES)						
Transfers in	750,000	706,000	(44,000)	236,000	174,000	(62,000)
Transfers out						
Net change in fund balance	<u>16,000</u>	<u>(428)</u>	<u>(16,428)</u>	<u>(15,879)</u>	<u>(16,883)</u>	<u>(1,004)</u>
Fund balances--beginning	10,441	10,441		70,575	70,575	
Fund balances--ending	<u>\$26,441</u>	<u>\$10,013</u>	<u>(\$16,428)</u>	<u>\$54,696</u>	<u>\$53,692</u>	<u>(\$1,004)</u>

NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCES - BUDGET AND ACTUAL (GAAP BUDGET) - CONTINUED
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Special Safety Grants & Programs			Total		
	Final Budget	Actual	Variance	Final Budget	Actual	Variance
REVENUES						
Property taxes				\$356,000	\$350,097	(\$5,903)
Intergovernmental revenue	\$875,396	\$448,321	(\$427,075)	2,016,396	1,593,029	(423,367)
Charges for services	34,700	18,512	(16,188)	68,700	52,543	(16,157)
Fines and forfeits	388,000	378,461	(9,539)	388,000	378,461	(9,539)
Investment earnings	10,000	5,810	(4,190)	19,000	22,156	3,156
Refunds and reimbursements		63	63	34,000	40,552	6,552
Miscellaneous	44,300	82,569	38,269	53,300	91,319	38,019
Total revenues	<u>1,352,396</u>	<u>933,736</u>	<u>(418,660)</u>	<u>2,935,396</u>	<u>2,528,157</u>	<u>(407,239)</u>
EXPENDITURES						
Current:						
General government	803,134	409,527	393,607	1,100,213	643,967	456,246
Police	187,545	120,203	67,342	1,277,545	1,176,728	100,817
Fire	85,930	60,283	25,647	85,930	60,283	25,647
Public works	229,709	204,218	25,491	364,909	321,428	43,481
Leisure services	114,784	71,631	43,153	114,784	71,631	43,153
Capital improvements	169,570	95,889	73,681	1,435,570	1,297,208	138,362
Total expenditures	<u>1,590,672</u>	<u>961,751</u>	<u>628,921</u>	<u>4,378,951</u>	<u>3,571,245</u>	<u>807,706</u>
Excess (deficiency) of revenues over expenditures	(238,276)	(28,015)	210,261	(1,443,555)	(1,043,088)	400,467
OTHER FINANCING SOURCES (USES)						
Transfers in	183,434	136,160	(47,274)	1,289,434	1,016,160	(273,274)
Transfers out						
Net change in fund balance	(54,842)	108,145	162,987	(154,121)	(26,928)	127,193
Fund balances--beginning	1,155,099	1,155,099		1,789,466	1,789,466	
Fund balances--ending	<u>\$1,100,257</u>	<u>\$1,263,244</u>	<u>\$162,987</u>	<u>\$1,635,345</u>	<u>\$1,762,538</u>	<u>\$127,193</u>

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL (GAAP BUDGET)
FOR THE YEAR ENDED DECEMBER 31, 2003

	Final Budget	Actual	Variance
REVENUES			
Property taxes	\$1,207,000	\$1,183,447	(\$23,553)
Investment earnings	30,000	59,629	29,629
Special assessments	176,000	176,257	257
Total revenues	<u>1,413,000</u>	<u>1,419,333</u>	<u>6,333</u>
EXPENDITURES			
Current:			
General government	5,000	2,106	2,894
Debt service:			
Principal	1,950,293	1,952,988	(2,695)
Interest	389,035	386,244	2,791
Total expenditures	<u>2,344,328</u>	<u>2,341,338</u>	<u>2,990</u>
Deficiency of revenues over expenditures	(931,328)	(922,005)	9,323
OTHER FINANCING SOURCES (USES)			
Transfers in	957,800	910,000	(47,800)
Net change in fund balance	26,472	(12,005)	(38,477)
Fund balances--beginning	46,554	46,554	
Fund balances--ending	<u>\$73,026</u>	<u>\$34,549</u>	<u>(\$38,477)</u>

CAPITAL PROJECTS FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
 BALANCE - BUDGET AND ACTUAL (GAAP BUDGET)
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Intergovernmental	\$8,481,000	\$8,537,213	\$56,213
Special assessments	511,000	515,051	4,051
Refunds and reimbursements	146,000	56,336	(89,664)
Miscellaneous		150,000	150,000
Total revenues	<u>9,138,000</u>	<u>9,258,600</u>	<u>120,600</u>
EXPENDITURES			
Capital improvements	16,188,253	11,056,930	5,131,323
Total expenditures	<u>16,188,253</u>	<u>11,056,930</u>	<u>5,131,323</u>
Deficiency of revenues over expenditures	(7,050,253)	(1,798,330)	5,251,923
OTHER FINANCING SOURCES (USES)			
Transfers in	4,910,000	809,000	(4,101,000)
General obligation note issuance		11,140	11,140
Sale of city assets	135,000	134,484	(516)
Net change in fund balance	<u>(2,005,253)</u>	<u>(843,706)</u>	<u>1,161,547</u>
Fund balances--beginning	<u>3,918,886</u>	<u>3,918,886</u>	
Fund balances--ending	<u><u>\$1,913,633</u></u>	<u><u>\$3,075,180</u></u>	<u><u>\$1,161,547</u></u>

**CAPITAL PROJECTS FUND
DETAILED SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (GAAP BUDGET)
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital improvements:			
Traffic controls	\$262,667	\$148,167	\$114,500
Street construction	13,045,501	9,491,642	3,553,859
Drainage	161,366	22,662	138,704
Parks and recreation	849,374	291,765	557,609
Tree planting and landscaping	82,000	36,618	45,382
Other	1,787,345	1,066,076	721,269
Total capital projects fund	<u>\$16,188,253</u>	<u>\$11,056,930</u>	<u>\$5,131,323</u>

INTERNAL SERVICE FUNDS
 COMBINING BALANCE SHEET
 DECEMBER 31, 2003

	Administrative Operations	Health Insurance	Totals
ASSETS			
Current assets:			
Pooled cash and investments	\$582,635	\$50,767	\$633,402
Accounts receivable	1,434		1,434
Due from other governments	5,851		5,851
Inventory	278,411		278,411
Total current assets	<u>868,331</u>	<u>50,767</u>	<u>919,098</u>
Noncurrent assets:			
Buildings and improvements	809,359		809,359
Machinery and equipment	2,050,237		2,050,237
Less: Accumulated depreciation	(2,003,517)		(2,003,517)
Total noncurrent assets	<u>856,079</u>		<u>856,079</u>
Total assets	<u>\$1,724,410</u>	<u>\$50,767</u>	<u>\$1,775,177</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$125,546		\$125,546
Accrued payroll	151,183		151,183
Total current liabilities	<u>276,729</u>		<u>276,729</u>
Noncurrent liabilities:			
Accrued vacation and sick leave benefits	215,732		215,732
Total liabilities	<u>492,461</u>		<u>492,461</u>
NET ASSETS			
Invested in capital assets	856,079		856,079
Unrestricted	375,870	\$50,767	426,637
Total net assets	<u>1,231,949</u>	<u>50,767</u>	<u>1,282,716</u>
Total liabilities and net assets	<u>\$1,724,410</u>	<u>\$50,767</u>	<u>\$1,775,177</u>

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Administrative Operations	Health Insurance	Totals
OPERATING REVENUES			
Charges for services	\$5,274,797	\$2,838,876	\$8,113,673
Total operating revenues	<u>5,274,797</u>	<u>2,838,876</u>	<u>8,113,673</u>
OPERATING EXPENSES			
Personal services	2,571,030		2,571,030
Repairs and maintenance	996,154		996,154
Contractual services	845,878	2,828,190	3,674,068
Other materials and expenses	556,037		556,037
Depreciation	166,818		166,818
Total operating expenses	<u>5,135,917</u>	<u>2,828,190</u>	<u>7,964,107</u>
Operating income (loss)	<u>138,880</u>	<u>10,686</u>	<u>149,566</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	26,138	1,024	27,162
Change in net assets	165,018	11,710	176,728
Total net assets--beginning	<u>1,066,931</u>	<u>39,057</u>	<u>1,105,988</u>
Total net assets--ending	<u>\$1,231,949</u>	<u>\$50,767</u>	<u>\$1,282,716</u>

INTERNAL SERVICE FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2003
 Increase (Decrease) in cash

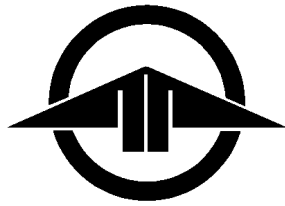
	Administrative Operations	Health Insurance	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received for services	\$5,272,037	\$2,838,876	\$8,110,913
Cash paid to suppliers for goods or services	(2,337,449)	(2,828,190)	(5,165,639)
Cash paid to employees for services	(2,533,512)		(2,533,512)
Net cash provided (used) by operating activities	<u>401,076</u>	<u>10,686</u>	<u>411,762</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(255,585)		(255,585)
Sale of capital assets	8,845		8,845
Net cash used by capital and related financing activities	<u>(246,740)</u>		<u>(246,740)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment earnings	26,138	1,024	27,162
Net cash provided by investing activities	<u>26,138</u>	<u>1,024</u>	<u>27,162</u>
Net increase (decrease) in cash	180,474	11,710	192,184
Cash at beginning of year	402,161	39,057	441,218
Cash at end of year	<u>\$582,635</u>	<u>\$50,767</u>	<u>\$633,402</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$138,880	\$10,686	\$149,566
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	166,818		166,818
(Increase) decrease in receivables	(1,367)		(1,367)
(Increase) decrease in inventories	4,498		4,498
Increase (decrease) in accounts payable	46,817		46,817
Net (increase) decrease in other operating net assets	45,430		45,430
Net cash provided (used) by operating activities	<u>\$401,076</u>	<u>\$10,686</u>	<u>\$411,762</u>

AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Balance December 31 2002	Additions	Deductions	Balance December 31 2003
<u>PAYROLL WITHHOLDING FUND</u>				
ASSETS - Cash	\$565,613	\$8,349,172	\$8,443,440	\$471,345
LIABILITIES - Withholdings payable	\$565,613	\$8,349,172	\$8,443,440	\$471,345
<u>MUNICIPAL COURT FUND</u>				
ASSETS - Investments with fiscal agent	\$326,972	\$3,462,638	\$3,510,953	\$278,657
LIABILITIES - Undistributed moneys	\$326,972	\$3,462,638	\$3,510,953	\$278,657
<u>UNCLAIMED MONEY AND OTHER MISCELLANEOUS FUND</u>				
ASSETS - Cash	\$7,151	\$62,341	\$59,128	\$10,364
LIABILITIES				
Accounts payable	\$1,979	\$57,610	\$53,956	\$5,633
Unclaimed moneys	5,172	4,731	5,172	4,731
Total liabilities	\$7,151	\$62,341	\$59,128	\$10,364
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash	\$572,764	\$8,411,513	\$8,502,568	\$481,709
Investments with fiscal agent	326,972	3,462,638	3,510,953	278,657
Total assets	\$899,736	\$11,874,151	\$12,013,521	\$760,366
LIABILITIES				
Accounts payable	\$1,979	\$57,610	\$53,956	\$5,633
Withholdings payable	565,613	8,349,172	8,443,440	471,345
Undistributed moneys	326,972	3,462,638	3,510,953	278,657
Unclaimed moneys	5,172	4,731	5,172	4,731
Total liabilities	\$899,736	\$11,874,151	\$12,013,521	\$760,366

DEBT SCHEDULE
DECEMBER 31, 2003

PURPOSE	Schedule of Bonds and Notes						
	Date Issued	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding	Payments Due in 2004	
						Principal	Interest
General Obligation Bonds:							
Fire station	9/1/1985	9.00%	12/1/2005	\$855,000	\$95,000	\$45,000	\$8,550
Service center	9/1/1985	9.00	12/1/2005	1,050,000	110,000	55,000	9,900
Improvement bonds-series 1991	12/1/1991	4.5-6.65	12/1/2012	524,921	309,767	25,564	20,378
Improvement bonds-series 1992	11/1/1992	3.25-6.45	12/1/2012	994,303	615,000	55,000	39,228
Improvement refunding	8/1/1993	2.65-5.25	12/1/2006	6,845,000	1,850,000	585,000	95,340
Recreation center refunding	8/1/1993	2.65-16.9	12/1/2008	9,289,352	1,369,352	940,000	47,470
Total general obligation bonds					4,349,119	1,705,564	220,866
Special Assessment Bonds:							
Improvement bonds-series 1991	12/1/1991	4.5-6.65	12/1/2012	1,665,079	990,233	84,436	65,157
Total special assessment bonds					990,233	84,436	65,157
Promissory Notes:							
Montgomery County 800 Mhz	10/30/2002	0.00	5/1/2005	200,000	133,333	66,667	0
Ohio public works commission:							
Bridge replacements	12/1/1994	0.00	7/1/2015	280,393	163,486	14,020	0
Rushland drive improvement	7/1/1996	0.00	7/1/2016	122,577	79,675	6,129	0
Dorothy lane resurfacing	1/1/1998	0.00	1/1/2008	509,850	229,432	50,985	0
Spaulding Road	12/1/2001	0.00	7/1/2022	1,520,719	1,444,683	76,036	0
Bigger Road	12/1/2001	3.00	7/1/2023	511,071	511,071	18,976	15,191
County Line Widening	12/31/2002	0.00	1/1/2023	686,098	668,946	34,305	0
Ridgeway Bridge Rehab	12/31/2003	1.00	1/1/2024	11,140	11,140	0	0
Total promissory notes					3,241,766	267,118	15,191
Total					\$8,581,118	\$2,057,118	\$301,214



CITY OF KETTERING

STATISTICAL SECTION

This part of the City of Kettering's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Category</u>	<u>Schedule #s</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	1, 2, 3 & 4
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the income tax.	5 & 6
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	7 & 8
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the City's financial activities take place.	9 & 10
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides.	11, 12 & 13

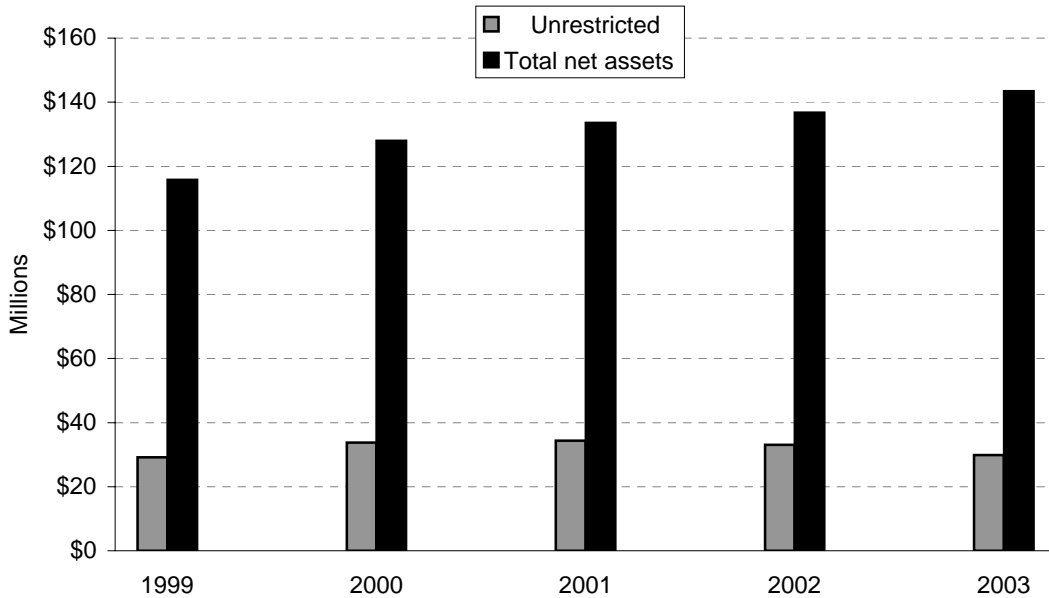
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 1999; schedules presenting government-wide information include information beginning in that year.

NET ASSETS BY CATEGORY
LAST FIVE YEARS (accrual basis of accounting)

	Year				
	1999	2000	2001	2002	2003
Governmental activities					
Invested in capital assets, net of related debt	\$83,168,667	\$91,355,281	\$95,986,319	\$100,065,903	\$109,267,077
Restricted for:					
Debt service	153,118	172,832	38,533	46,554	34,549
Community development block grant	2,285,033	2,168,695	2,035,858	2,080,807	1,863,768
Emergency medical					912,249
Other purposes	1,002,951	494,374	1,157,239	1,475,106	1,452,501
Unrestricted	29,181,595	33,743,585	34,320,366	33,037,037	29,905,347
Total net assets	<u>\$115,791,364</u>	<u>\$127,934,767</u>	<u>\$133,538,315</u>	<u>\$136,705,407</u>	<u>\$143,435,491</u>

Note: Accounting standards require that net assets be reported in three components in the financial statements: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are considered restricted when (1) and external party, such as the state or federal government, places a restriction on how the resources may be used, or (2) enabling legislation is enacted by the city.

Net Assets (accrual basis)



CHANGES IN NET ASSETS
LAST FIVE YEARS (*accrual basis of accounting*)

	1999	2000	2001	2002	2003
Expenses					
General government	\$8,882,212	\$10,324,836	\$10,716,604	\$11,179,273	\$12,142,127
Police	9,163,871	9,413,721	10,270,530	10,626,973	10,840,287
Fire	6,374,476	6,356,550	7,349,117	7,569,675	7,768,263
Public works	9,366,194	9,791,899	9,812,828	10,803,744	11,236,775
Leisure services	10,427,534	10,231,388	10,832,180	11,665,610	11,479,183
Interest on long term debt	749,636	619,018	541,085	458,517	386,200
Total expenses	<u>44,963,923</u>	<u>46,737,412</u>	<u>49,522,344</u>	<u>52,303,792</u>	<u>53,852,835</u>
Program Revenues					
Charges for services:					
General government	1,678,418	1,686,309	2,015,725	2,353,231	2,344,241
Fire					1,144,791
Leisure services	3,823,331	3,907,797	4,098,781	4,508,945	4,398,036
Other activities		2,660	880	205	67,602
Operating grants and contributions	1,959,598	1,860,874	1,216,785	1,743,952	1,388,760
Capital grants and contributions:					
Public works	1,229,161	4,449,371	4,284,996	3,779,248	6,560,882
Other activities	27,225	25,000	367,750		58,653
Total program revenues	<u>8,717,733</u>	<u>11,932,011</u>	<u>11,984,917</u>	<u>12,385,581</u>	<u>15,962,965</u>
Net (Expense)/Revenue ¹					
General government	(6,233,861)	(7,896,810)	(7,591,743)	(7,615,770)	(8,920,581)
Police	(9,121,479)	(9,349,083)	(10,198,837)	(10,534,263)	(10,692,821)
Fire	(6,372,176)	(6,355,945)	(7,319,277)	(7,569,335)	(6,568,248)
Public works	(7,381,653)	(4,422,113)	(5,477,029)	(6,971,161)	(4,519,146)
Leisure services	(6,387,385)	(6,162,432)	(6,409,456)	(6,769,165)	(6,802,874)
Interest on long term debt	(749,636)	(619,018)	(541,085)	(458,517)	(386,200)
Total net expense	<u>(36,246,190)</u>	<u>(34,805,401)</u>	<u>(37,537,427)</u>	<u>(39,918,211)</u>	<u>(37,889,870)</u>
General Revenues					
Taxes					
Income taxes	22,512,947	23,379,834	23,660,299	25,341,919	25,607,227
Property taxes, levied for general purposes	6,164,671	6,533,352	6,618,088	6,706,279	7,025,307
Property taxes, levied for debt service	1,198,897	1,206,793	1,169,189	1,192,441	1,183,447
Other taxes	6,181,380	8,184,945	6,992,076	6,432,237	8,302,792
Investment earnings	2,256,674	2,400,657	2,071,226	1,381,779	780,231
Refunds & reimbursements	1,061,974	1,161,602	2,212,010	1,306,890	1,284,483
Miscellaneous	4,576,102 ²	330,138	418,087	723,758	436,467
Total general revenues	<u>43,952,645</u>	<u>43,197,321</u>	<u>43,140,975</u>	<u>43,085,303</u>	<u>44,619,954</u>
Change in Net Assets	<u>\$7,706,455</u>	<u>\$8,391,920</u>	<u>\$5,603,548</u>	<u>\$3,167,092</u>	<u>\$6,730,084</u>

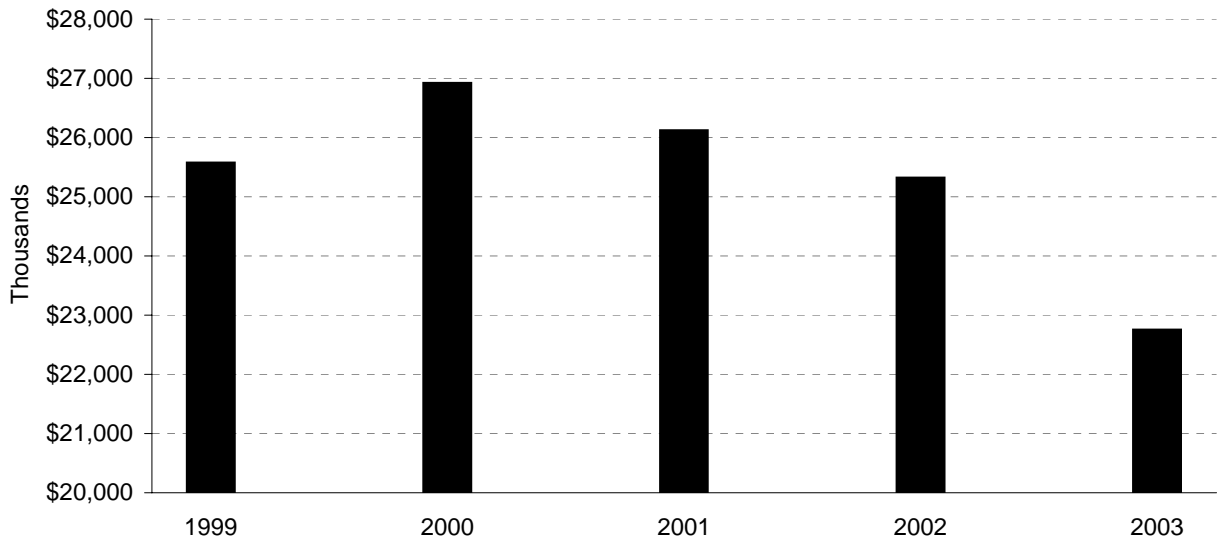
(1) Net (expense)/revenue is the difference between the expenses and program revenues of a function or program. It indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. Numbers in parentheses indicate that expenses were greater than program revenues and therefore general revenues were needed to finance that function or program. Numbers without parentheses mean that program revenues were more than sufficient to cover expenses.

(2) In 1999 the City was in the final stages of converting a closed Air Force base to private use. The U.S. Government deeded over to the City a building located on the former base. The fair market value at the time of donation was \$4.2 million.

FUND BALANCES, GOVERNMENTAL FUNDS
 LAST FIVE YEARS (modified accrual basis of accounting)

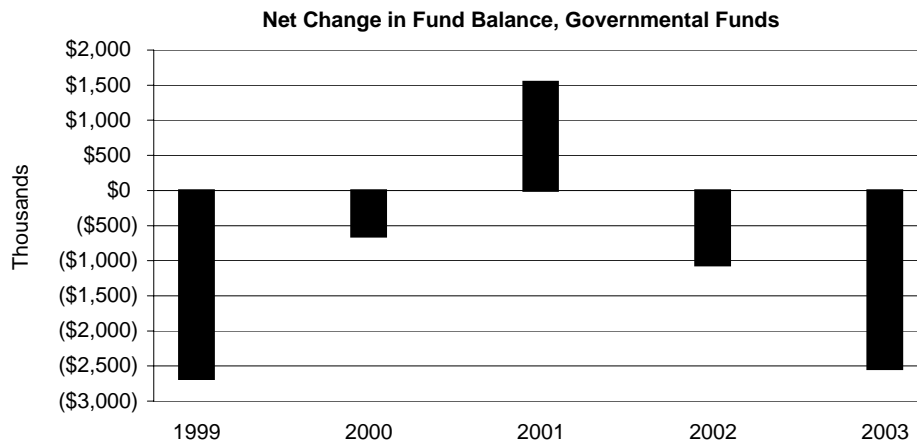
	Year				
	1999	2000	2001	2002	2003
General Fund					
Reserved	\$2,190,996	\$2,405,099	\$2,004,958	\$1,658,540	\$1,919,131
Unreserved	25,570,928	26,921,571	26,116,746	25,320,039	22,751,848
Total general fund	<u>\$27,761,924</u>	<u>\$29,326,670</u>	<u>\$28,121,704</u>	<u>\$26,978,579</u>	<u>\$24,670,979</u>
All Other Governmental Funds					
Reserved	\$7,112,526	\$4,353,076	\$6,995,171	\$6,723,658	\$5,796,672
Unreserved, reported in:					
Special revenue funds	355,843	68,155	1,140,426	1,662,040	2,360,777
Debt service fund	153,118	117,532	38,533	46,554	34,549
Capital project fund	210,977	1,076,034	10,445	10,305	18,903
Total all other governmental funds	<u>\$7,832,464</u>	<u>\$5,614,797</u>	<u>\$8,184,575</u>	<u>\$8,442,557</u>	<u>\$8,210,901</u>

Unreserved General Fund Balance



CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST FIVE YEARS (modified accrual basis of accounting)

	1999	2000	2001	2002	2003
REVENUES					
Income taxes	\$22,550,447	\$23,566,678	\$23,866,680	\$25,095,930	\$26,033,273
Property taxes	7,486,668	7,740,145	7,788,476	7,896,919	8,175,853
Licenses and permits	395,804	459,832	392,917	506,429	567,654
Intergovernmental revenue	7,800,085	10,035,712	10,276,158	10,043,805	14,669,208
Charges for services	4,021,532	4,001,529	4,223,430	4,615,432	5,448,625
Fines and forfeits	1,084,413	1,135,404	1,499,038	1,740,344	1,674,642
Investment earnings	2,011,338	2,645,992	2,071,226	1,381,779	780,228
Special assessments	1,168,726	1,418,452	1,251,362	1,308,754	1,024,871
Refunds and reimbursements	1,371,191	1,500,421	2,576,280	1,626,962	1,861,388
Miscellaneous	653,120	522,141	538,633	676,389	669,066
Total revenues	48,543,324	53,026,306	54,484,200	54,892,743	60,904,808
EXPENDITURES					
Current:					
General government	9,031,363	9,501,717	9,768,669	10,980,711	11,320,369
Police	9,315,128	9,353,231	10,064,525	10,429,392	10,786,712
Fire	6,099,968	7,125,540	7,224,511	7,275,877	7,831,880
Public works	6,701,394	7,053,955	6,897,648	7,952,650	8,173,691
Leisure services	8,876,221	8,774,617	9,335,122	10,283,469	10,438,031
Capital improvements	8,978,298	9,988,482	9,642,134	8,405,483	12,781,912
Debt service:					
Principal	1,523,134	1,583,134	1,648,134	1,718,134	1,952,988
Interest	697,513	625,480	547,930	465,787	386,244
Total expenditures	51,223,019	54,006,156	55,128,673	57,511,503	63,671,827
Excess (deficiency) of revenues over expenditures	(2,679,695)	(979,850)	(644,473)	(2,618,760)	(2,767,019)
OTHER FINANCING SOURCES (USES)					
Transfers in	14,371,198	9,543,432	11,583,704	10,879,070	11,332,160
Transfers out	(14,371,198)	(9,543,432)	(11,583,704)	(10,879,070)	(11,332,160)
General obligation note issuance			1,930,633	987,255	11,140
Sale of city assets		326,929	258,652	566,362	216,623
Net change in fund balance	(\$2,679,695)	(\$652,921)	\$1,544,812	(\$1,065,143)	(\$2,539,256)
Debt service as a percentage of noncapital expenditures	5.38%	5.25%	4.91%	4.55%	4.72%

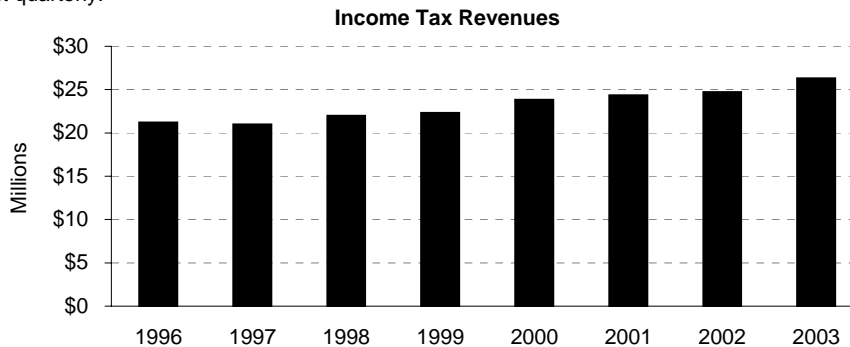


**INCOME TAX BY PAYER TYPE AND INCOME TAX RATE
LAST EIGHT YEARS (cash basis of accounting)**

Year	Individual		Total	Corporate	Partnership	Total	Income Tax Rate
	Withholding	Non-withholding	Individual				
1996	\$17,619,814	\$2,416,449	\$20,036,263	\$953,110	\$193,532	\$21,182,905	1.75%
1997	17,543,850	2,326,899	19,870,749	841,651	247,524	20,959,924	1.75%
1998	18,205,947	2,612,716	20,818,663	827,096	283,688	21,929,447	1.75%
1999	18,718,313	2,465,811	21,184,124	777,641	305,342	22,267,107	1.75%
2000	19,796,097	2,589,602	22,385,699	892,553	514,878	23,793,130	1.75%
2001	20,598,600	2,533,287	23,131,887	773,634	411,093	24,316,614	1.75%
2002	20,777,431	2,494,477	23,271,908	973,956	437,015	24,682,879	1.75%
2003	21,881,920	2,781,028	24,662,948	854,079	754,846	26,271,873	1.75%

Source: City of Kettering, Ohio, Finance Department

The City levies a 1.75% income tax on substantially all income earned within the City. Additional increases in the income tax rate require voter approval. City residents pay City income tax on income earned outside the City, however; a credit is allowed for income taxes paid to other municipalities. Employers within the City withhold income tax on employee compensation and remit at least quarterly.



**RANKING OF TOP TEN INCOME TAX WITHHOLDERS
CURRENT YEAR AND SEVEN YEARS AGO (cash basis of accounting)**

2003		1996		
Rank	Name	2003 Rank	Rank	Name
1	Delphi Automotive Systems Services LLC	1 ¹	1	General Motors Corporation
2	Kettering Medical Center	5	2	Federal Government
3	Reynolds & Reynolds Company	2	3	Kettering Medical Center
4	Monogram Services Co. LLC	9	4	Scitex Digital Printing Inc.
5	Federal Government	6	5	Kettering Board of Education
6	Kettering Board of Education	7	6	City of Kettering
7	City of Kettering	-	7	Valeo Electrical Systems Inc.
8	Intimate Brands Inc.	-	8	Reed Elsevier Inc.
9	Scitex Digital Printing Inc.	8 ¹	9	Victoria's Secret Catalogue Inc.
10	Time Warner Entertainment Inc.	-	10	Meijer Inc.

Combined percentage of
Total Income taxes 38.5%

Combined percentage of
Total Income taxes 40.5%

Source: City of Kettering, Ohio, Finance Department

Due to legal restrictions and confidentiality requirements, the City cannot disclose the amount of withholdings by taxpayer. The City chose not to disclose percentages and number of filers by income level because the City does not require all taxpayers to file a return, therefore it does not have, nor can it obtain, this type of information.

(1) Delphi Automotive Systems Services LLC is a spinoff of General Motors Corporation; Intimate Brands Inc. owns Victoria's Secret Catalogue.

CITY OF KETTERING, OHIO

SCHEDULE 7

RATIOS OF OUTSTANDING DEBT BY TYPE AND LEGAL DEBT MARGINS - LAST TEN YEARS

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General Obligation Bonds	\$16,744,832	\$15,576,504	\$14,355,963	\$13,098,471	\$11,784,316	\$10,418,777	\$8,997,168	\$7,514,792	\$5,966,977	\$4,349,119
Percent of estimated actual property value	0.64%	0.59%	0.55%	0.45%	0.41%	0.35%	0.28%	0.24%	0.19%	0.13%
Per capita	276	257	237	216	195	172	156	131	104	76
Special Assessment Bonds	1,777,520	1,703,848	1,627,389	1,547,881	1,465,036	1,378,574	1,288,184	1,193,560	1,094,375	990,233
Promissory Notes	664,500	275,643	384,201	364,052	828,261	757,129	685,994	2,545,494	3,461,615	3,241,766
Total Gross Indebtedness	19,186,852	17,555,995	16,367,553	15,010,404	14,077,613	12,554,480	10,971,346	11,253,846	10,522,967	8,581,118
Percentage of personal income	1.43%	1.26%	1.13%	0.99%	0.91%	0.80%	0.71%	0.72%	0.64%	0.50%
Per capita	317	290	270	248	232	207	191	196	183	149
Less debt outside limitations:										
Special Assessment Debt	1,777,520	1,703,848	1,627,389	1,547,881	1,465,036	1,378,574	1,288,184	1,193,560	1,094,375	990,233
Promissory Notes	664,500	275,643	384,201	364,052	828,261	757,129	685,994	2,545,494	3,461,615	3,241,766
Less debt service fund balance	413,403	339,289	251,309	129,069	161,955	153,118	117,532	38,533	46,554	34,549
Net debt within limitations for both Voted and Unvoted debt	16,331,429	15,237,215	14,104,654	12,969,402	11,622,361	10,265,659	8,879,636	7,476,259	5,920,423	4,314,570
Debt limitation for both Voted and Unvoted debt 10.5% of assessed valuation	95,741,178	95,933,333	96,127,009	105,503,172	106,250,644	107,882,576	115,575,064	115,633,711	114,650,117	124,670,352
Legal debt margin for Voted and Unvoted debt	\$79,409,749	\$80,696,118	\$82,022,355	\$92,533,770	\$94,628,283	\$97,616,917	\$106,695,428	\$108,157,452	\$108,729,694	\$120,355,782
Net debt within limitations for both Voted and Unvoted debt as a percentage of debt limit	17.06%	15.88%	14.67%	12.29%	10.94%	9.52%	7.68%	6.47%	5.16%	3.46%
Net debt within limitations for both Voted and Unvoted limitation	\$16,331,429	\$15,237,215	\$14,104,654	\$12,969,402	\$11,622,361	\$10,265,659	\$8,879,636	\$7,476,259	\$5,920,423	\$4,314,570
Less voted debt	8,139,352	7,504,352	6,844,352	6,159,352	5,444,352	4,699,352	3,924,352	3,114,352	2,264,352	1,369,352
Net debt within limitations for Unvoted debt	8,192,077	7,732,863	7,260,302	6,810,050	6,178,009	5,566,307	4,955,284	4,361,907	3,656,071	2,945,218
Debt limitation for Unvoted debt 5.5% of assessed valuation	50,150,141	50,250,793	50,352,243	55,263,567	55,655,099	56,509,921	60,539,319	60,570,039	60,054,823	65,303,518
Legal debt margin for Unvoted debt	\$41,958,064	\$42,517,930	\$43,091,941	\$48,453,517	\$49,477,090	\$50,943,614	\$55,584,035	\$56,208,132	\$56,398,752	\$62,358,300
Net debt within limitations for Unvoted debt as a percentage of debt limit	16.34%	15.39%	14.42%	12.32%	11.10%	9.85%	8.19%	7.20%	6.09%	4.51%

Source: City of Kettering, Ohio, Finance Department

DIRECT AND OVERLAPPING DEBT
DECEMBER 31, 2003

Jurisdiction	Net Debt Outstanding	Percentage Applicable to City of Kettering ¹	Amount Applicable to City of Kettering
State of Ohio			
City of Kettering	\$7,556,336	100.0%	\$7,556,336
Kettering City School District	111,366,954	91.4%	101,789,396
Montgomery County	35,982,639	11.8%	4,245,951
Beavercreek Local School District	41,020,979	1.1%	451,231
Total	<u>\$195,926,908</u>		<u>\$114,042,914</u>

Source: Individual jurisdictions.

(1) The percentage of overlapping debt applicable is estimated using assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's assessed value that is within the City's boundaries and dividing it by each unit's total assessed value.

Individual jurisdictions with immaterial amounts of overlapping debt are excluded from this table.

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN YEARS

Year	Population ¹	Personal Income ²	Per capita Personal Income ^{1,2}	Unemployment Rate ³	Avg Sale Price for a Single Family Home ⁴	Total Assessed Property Value ⁵	Estimated Actual Property Value ⁵
1994	60,569	\$1,343,783,834	\$22,186	2.4%	\$103,713	\$911,820,746	\$2,615,029,851
1995	60,569	1,397,084,554	23,066	2.0%	105,886	913,650,786	2,623,078,537
1996	60,569	1,452,929,172	23,988	2.2%	107,992	915,495,327	2,631,770,962
1997	60,569	1,511,075,412	24,948	2.0%	109,792	1,004,792,119	2,884,674,180
1998	60,569	1,541,299,343	25,447	2.0%	116,461	1,011,910,890	2,906,512,889
1999	60,569	1,572,128,964	25,956	1.9%	116,524	1,027,453,106	2,944,151,764
2000	57,502	1,553,071,518	27,009	1.9%	121,534	1,100,714,894	3,169,669,776
2001	57,502	1,572,794,704	27,352	2.2%	123,524	1,101,273,442	3,174,922,055
2002	57,502	1,653,815,022	28,761	2.8%	132,529	1,091,905,872	3,167,681,964
2003	57,502	1,715,572,170	29,835	3.2%	138,690	1,187,336,684	3,433,251,092

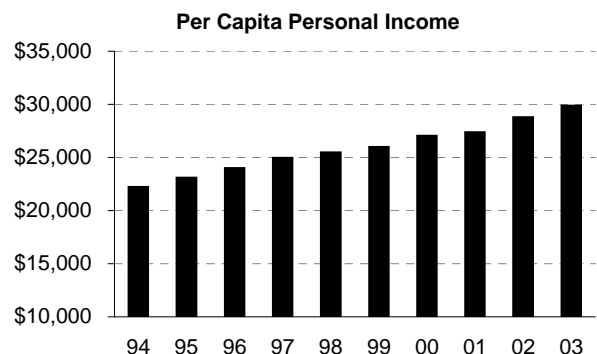
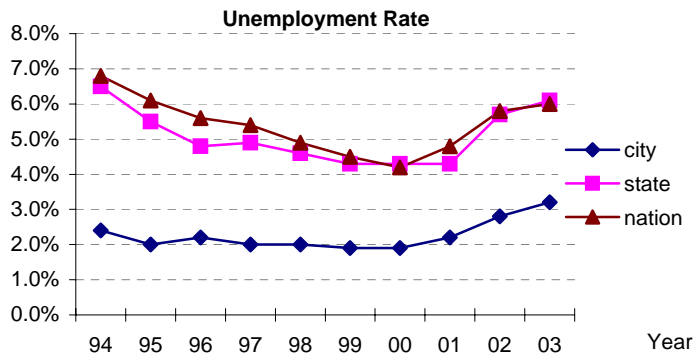
(1) 1990 & 2000 United States Census Bureau.

(2) City of Kettering, Ohio, Finance Department.

(3) Ohio Bureau of Employment Services.

(4) Dayton Area Board of Realtors, Dayton, Ohio (2003 price range: \$34,000 - \$960,000).

(5) Montgomery County, Ohio, Auditor's Office.



PRINCIPAL EMPLOYERS
CURRENT YEAR AND THIRTEEN YEARS AGO

Employer	2003		1990	
	Employees	% of Total City Employment	Employees	% of Total City Employment
Kettering Medical Center	2,900	9.24%	General Motors Corporation ²	4,405 13.39%
Delphi Automotive Systems Services, LLC ²	1,770	5.64%	Kettering Medical Center	2,975 9.04%
Reynolds & Reynolds Company	1,500	4.78%	Defense Electronics Supply Center	2,500 7.60%
Intimate Brands Inc.	1,500	4.78%	Kroger Company	1,313 3.99%
Monogram Services Co. LLC	1,200	3.82%	Kettering City Schools	1,033 3.14%
Kettering City Schools	900	2.87%	Meijer Inc	900 2.74%
City of Kettering	555	1.77%	City of Kettering	502 1.53%
Meijer Inc.	550	1.75%	Eastman Kodak Company ²	350 1.06%
Scitex Digital Printing Inc. ²	520	1.66%	Ohio Bell Telephone Company	292 0.89%
Total	11,395	36.29%	Total	14,270 43.37%

Source: City of Kettering, Ohio, Office of Economic Development

(1) Past information is available every 10 years.

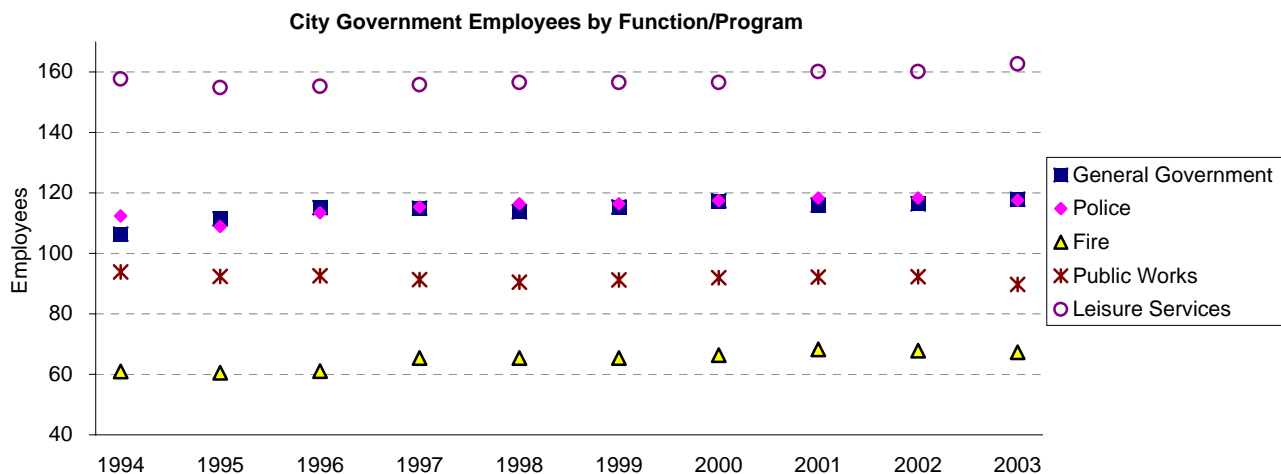
(2) Delphi Automotive Systems Services, LLC is a spinoff of General Motors Corp.; Scitex Digital Printing is a spinoff of Eastman Kodak Co.

SCHEDULE 11

CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN YEARS

Function/program	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
General Government	106.4	111.5	115.1	115.0	113.8	115.4	117.4	116.0	116.4	117.9
Police	112.4	108.9	113.5	115.4	116.5	116.5	117.5	118.4	118.4	117.6
Fire	60.9	60.5	61.1	65.4	65.4	65.4	66.4	68.3	67.8	67.3
Public Works	93.9	92.4	92.7	91.3	90.4	91.2	91.9	92.2	92.3	89.8
Leisure Services	157.8	154.8	155.2	155.8	156.5	156.5	156.5	160.2	160.2	162.7
Total	531.4	528.1	537.6	542.9	542.6	545.0	549.7	555.1	555.1	555.3

Source: City of Kettering, Ohio, Finance Department



OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN YEARS

<u>Function/program</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General Government										
Positions filled ¹	20	22	20	26	20	16	27	19	17	15
Permits issued ²	5,354	4,306	4,420	4,657	4,483	4,248	4,295	3,861	3,705	3,824
Inspections performed ²	11,449	9,053	9,894	9,862	11,520	7,071	8,971	6,828	7,144	7,435
CDBG loan applications ³	31	22	24	23	23	24	21	14	5	10
Payroll checks processed ⁴	19,749	20,215	20,540	19,986	20,332	20,387	20,375	20,852	20,898	20,648
Purchase orders issued ⁵	1,744	1,666	1,834	1,614	1,431	1,474	1,557	2,068	1,816	2,002
Ordinances & resolutions ⁶	171	201	171	178	181	214	238	230	234	243
Court cases ⁷	18,102	18,383	22,073	21,800	25,333	21,839	20,913	19,979	19,865	18,742
Police										
Criminal arrests ⁸	2,460	2,976	3,351	3,248	3,354	3,216	2,925	3,263	3,112	2,854
Calls for service ⁹	33,308	33,833	37,338	37,281	38,966	37,462	34,881	40,115	40,218	37,162
Fire										
Fire alarms ¹⁰	2,454	2,648	1,375	1,406	1,385	1,224	1,273	1,397	1,421	2,393
Medic alarms ¹⁰	3,600	3,890	3,917	3,962	4,029	4,445	4,495	4,551	4,601	5,120
Public Works										
Asphalt resurfacing (miles) ¹¹	13	7	20	12	16	15	13	13	14	16
Truckloads of leaves picked-up ¹²	1,968	1,953	2,054	2,222	2,038	2,100	1,735	1,740	2,206	2,062
Tons of snow melting salt used ¹²	3,386	5,661	4,361	2,953	1,992	5,500	9,118	2,147	3,000	5,452
Leisure Services										
Recreation complex attendance ¹³	965,960	1,018,770	981,000	949,000	933,000	920,270	900,910	879,000	918,560	931,040
Fraze Pavilion attendance ¹³	107,680	90,018	72,050	78,805	95,605	97,714	81,803	96,395	110,642	113,669

(1) City of Kettering, Human Resources Department

(2) City of Kettering, Planning and Development Dept. Permits and inspections performed include Building, Electrical, Plumbing & Heating.

(3) City of Kettering, Planning and Development Department. Community Development Block Grant (CDBG) loan applications processed include housing rehabilitation, purchase rehabilitation, and business loan applications.

(4) City of Kettering, Finance Department. Payroll checks include electronic funds transfers processed for payroll.

(5) City of Kettering, Finance Department.

(6) City of Kettering, Law Department

(7) City of Kettering, Municipal Court

(8) City of Kettering, Police Department. Criminal arrests include arrests by detective section and patrol.

(9) City of Kettering, Police Department.

(10) City of Kettering, Fire Department.

(11) City of Kettering, Public Service Department, Engineering Division

(12) City of Kettering, Public Service Department, Street Division

(13) City of Kettering, Parks, Recreation, and Cultural Arts Department

SCHEDULE 13

CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION/PROGRAM
LAST TEN YEARS

<u>Function/program</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General Government										
Square footage occupied ¹	25,582	25,582	25,582	25,582	25,582	25,582	25,582	25,582	25,582	25,582
Police										
Stations ¹	1	1	1	1	1	1	1	1	1	1
Square footage of building ¹	16,515	16,515	16,515	16,515	16,515	16,515	16,515	16,515	16,515	16,515
Fire										
Stations ¹	7	7	7	7	7	7	7	7	7	7
Public Works										
Miles of roads ²	244	244	244	244	244	244	244	246	246	246
Linear ft. of storm sewer/channel ²	800	3,000	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Leisure Services										
Number of parks ³	21	21	21	21	21	21	21	21	21	21
Area of parks (acres) ³	402	408	408	408	408	408	408	408	419	419
Recreation complex square ft. ¹	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000

(1) City of Kettering, Facilities Department

(2) City of Kettering, Public Service Department, Engineering Division

(3) City of Kettering, Parks, Recreation, and Cultural Arts Department



**Auditor of State
Betty Montgomery**

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800-282-0370
Facsimile 614-466-4490

**CITY OF KETTERING
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 18, 2004**