



Financial Section



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Ontario, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ontario, California, as of and for the year ended June 30, 2005, 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 Ontario's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ontario as of June 30, 2005, and the respective changes in financial position and cash flows where applicable thereof, and the respective budgetary comparison for the General Fund 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 October 3, 2005 on our consideration of the City of Ontario's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the Modified Approach for City Infrastructure Capital Assets is not a required part of the basic financial statements but is 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.





To the Honorable Mayor and Members of the City Council
City of Ontario, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introductory section, the combining and individual fund statements, schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules 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 accompanying 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.

Lance, Soll & Lunghard, LLP

October 3, 2005

MANAGEMENT DISCUSSION
AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ontario ("City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, we encourage the readers to consider the information presented here in conjunction with additional information furnished in the Letter of Transmittal and the accompanying basic financial statements. This is the third consecutive year that the City has issued financials statements pursuant to Statement No. 34 of the Governmental Accounting Standards Board (GASB 34). Comparative data on the government-wide financial statements are only presented in the MD&A.

FINANCIAL HIGHLIGHTS**Government-Wide**

- Total assets of the City were \$1.24 billion and total liabilities were \$248.74 million at June 30, 2005. The assets exceeded liabilities by \$991.33 million (*net assets*). Of this amount, \$116.39 million (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended June 30, 2005, total net assets increased by \$67.04 million before a \$0.42 million restatement. This increase results from a favorable variance of revenues over expenses. Total revenues from all sources were \$301.50 million and total expenses for all functions/programs were \$234.46 million.
- Of total revenues, program revenues were \$124.85 million and general revenues were \$176.65 million. Program revenues are broken into three categories: Charges for Services, \$80.74 million; Operating Contributions and Grants, \$15.76 million; and Capital Contributions and Grants, \$28.35 million.

Fund Based

- For the fiscal year ended June 30, 2005, the unreserved/undesignated fund balance of the General Fund was \$23.90 million.
- For the General Fund, actual resources (inflows) available for appropriation were \$227.70 million, which exceeded the final budget of \$221.54 million by \$6.16 million. Actual charges (outflows) of \$151.64 million were \$10.87 million less than the final budget of \$162.51 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) *Government-Wide Financial Statements*, 2) *Fund Financial Statements* and 3) *Notes to the Basic Financial Statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

These statements are designed to provide information about the activities of the City as a whole and present a longer-term view of the City's finances. They are prepared using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. In time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; (e.g., uncollected taxes or earned but unused leaves).

Program Revenues – Revenues that derive directly from the program itself.
General Revenues – Revenues received from the citizenry or taxpayer.

In both the *Statement of Net Assets* and *Statement of Activities*, we divide the City into two kinds of activities:

Governmental activities – Most of the City's basic services are reported here, including General Government (City Council, City Manager's Department, City Clerk, General Services, Revenue Services and Fiscal Services), Public Safety, Community Development, Library, and Public Works. Revenues from property taxes, transient occupancy taxes, sales tax, parking taxes, franchise taxes, business license taxes, motor vehicle in-lieu, interest earnings, state and federal grants, and reimbursements finance most of these activities.

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and solid waste services are reported here.

The *government-wide financial statements* include not only the City, known as the *primary government*, but also the legally separate *component units*. The Ontario Redevelopment Agency, the Ontario Housing Authority, the Industrial Development Authority and the Ontario Redevelopment Financing Authority are known as *Blended Component Units* and all function for practical purposes have been included (blended) as an integral part of the primary government.

Fund Financial Statements

The *Fund Financial Statements* are designed to report information about groupings (*funds*) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The City uses all three types, each using different accounting methods.

Governmental funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the *government-wide financial statements*. However, unlike the *government-wide financial statements*, *governmental fund financial statements* focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the *government-wide financial statements*, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the *government-wide financial statements*. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-eight individual governmental funds. These funds report financial transactions using the modified accrual accounting method. Information for four out of the twenty-eight funds is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. These four funds are considered to be the major funds: General Fund, Capital Projects Fund, Combined Low/Moderate Housing Capital Projects Fund, and Redevelopment Project Area No. 1 Debt Service Fund. Data for other governmental funds (non-major) are combined into a single presentation as part of the required supplementary information. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements that follow the notes to the financial statements.

The City adopts an annual appropriated budget for the General Fund, the Special Revenue Funds, and Debt Service Funds. A budgetary comparison statement has been provided for each of the funds to demonstrate compliance with this budget.

Proprietary funds – *Proprietary funds* are primarily used to account for when the City charges for the services it provides, whether to outside customers or to other units of the City. These funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities, using an accrual basis of accounting. In fact, the City's *enterprise funds* (a component of proprietary funds) are the same as the business-type activities we report in the *government-wide financial statements* but provide more detail information, such as the statement of cash flows. The City uses *internal service funds* (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities, such as Equipment Services, Self-Insurance and the Information Technology Fund. Since these activities predominantly benefit governmental rather than business-type functions, they are included within the governmental activities in the *government-wide financial statements*.

Fiduciary funds – *Fiduciary funds* are used to account for resources held for the benefit of parties outside the City. In these cases, the City has a fiduciary responsibility and is acting as a *trustee*. The *Statement of Fiduciary Net Assets* separately reports all of the City's fiduciary activities. The City excludes these activities from the City's other financial statements because the City cannot use these assets to finance its operations. However, the City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, and it is an integral part of the financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain combining statements referred to earlier in connection with non-major governmental and proprietary funds, as well as all agency funds. These combining and individual fund statements and schedules can be found immediately following the *Notes to the Financial Statements*.

GOVERNMENT - WIDE FINANCIAL ANALYSIS

This analysis will focus on the City's net assets (Table 1) and changes in net assets (Table 2) of the governmental and business-type activities for the fiscal year ending June 30, 2005. Management has included comparative data from fiscal year ending June 30, 2004 in its analysis.

Net Assets (Table 1)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 348.83	\$ 308.80	\$ 133.59	\$ 78.84	\$ 482.42	\$ 387.64
Capital assets	656.45	636.37	101.20	95.66	757.65	732.03
Total Assets	1,005.28	945.17	234.79	174.50	1,240.07	1,119.67
Long-term debt outstanding	138.53	140.71	53.53	0.63	192.06	141.34
Other liabilities	46.52	44.23	10.16	9.39	56.68	53.62
Total liabilities	185.05	184.94	63.69	10.02	248.74	194.96
Net assets:						
Invested in capital assets,						
net of debt	525.89	502.71	101.20	95.66	627.09	598.37
Restricted	216.34	166.89	31.51	-	247.85	166.89
Unrestricted	78.00	90.63	38.39	68.81	116.39	159.44
Total net assets	\$ 820.23	\$ 760.23	\$ 171.10	\$ 164.48	\$ 991.33	\$ 924.71

The City's Government-wide total net assets were \$991.33 million, with assets of \$1.24 billion and liabilities of \$248.74 million. The net investment in capital assets of \$627.09 million represents 63.26 percent of the City's total net assets. This is an increase of \$28.72 million from the previous year. Investment in capital assets (e.g., infrastructure, land, structures and improvements, furniture and equipment) for this purpose is reduced by any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves can not be used to liquidate these liabilities.

Another portion of the City's net assets of \$247.85 million (25.00 percent of the total net assets) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$116.39 million or 11.74 percent of the total net assets (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors within the programs areas.

Overall Financial Activities

Overall the City's financial position increased from the prior year by \$67.04 million (increase in net assets) before the restatement of \$0.42 million of prior fiscal year's net assets. The overall cost of all governmental and business-type activities this year was \$234.46 million and was an increase of \$29.00 million from the prior year mainly due to the increased expenditures for community development and public safety.

The government's net assets increased \$67.04 million (Table 2), with total revenues of \$301.50 million and total expenses of \$234.46 million. Program revenues were \$124.85 million and general revenues were \$176.65 million, funding the net difference between program revenues and expenses. The largest single revenue category was Charges for Services, at \$80.74 million, which is *program revenue*. This revenue goes directly against the expenses in recovering the costs of providing those services. Sales Taxes were the second largest revenue at \$54.00 million. The third largest revenue source was Property Taxes, at \$52.62 million, and the fourth was motor vehicle in-lieu, referred as Intergovernmental, unrestricted, at \$14.14 million. Property taxes, sales taxes and motor vehicle in-lieu are considered *general revenues*.

In comparison to the prior fiscal year, the government's total revenues increased by \$43.08 million, which includes \$9.61 million in program revenues and \$33.47 million in general revenues. While operating contributions and grants decreased by \$2.91 million, capital contributions and grants increased by \$1.14 million due to the increased activity in the New Model Colony, and charges for services increased by \$11.38 million. Of this increase, \$2.26 million is due to increased revenue from planning activities, including permit fees, plan check fees and subdivision fees as a result of growing community development activity throughout the City; \$9.19 million is due to the increased utility service charge rates as a result of the rate study performed by the City in the beginning of the fiscal year.

The general revenue increase of \$33.47 million was a result of an overall increase in all general revenue categories. Sales tax increased by \$7.98; motor vehicle in lieu increased by \$6.79; Use of money and property grew \$5.99 million due to the increased rate of development by selling City owned property to developers; property taxes increased by \$3.24, transient occupancy taxes grew \$1.08 million, and public safety taxes, parking tax, property transfer tax, park development tax, off highway motor vehicle in lieu has a combined growth of \$6.52 as the result of the overall economic growth of the City as a whole.

Changes in Net Assets (Table 2)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for Services	\$ 13.03	\$ 10.84	\$ 67.71	\$ 58.52	\$ 80.74	\$ 69.36
Operating Contributions and Grants	15.62	18.56	0.14	0.11	15.76	18.67
Capital Contributions and Grants	28.35	27.20	-	-	28.35	27.20
Sub-total Program Revenues	\$ 57.00	\$ 56.60	\$ 67.85	\$ 58.63	\$ 124.85	\$ 115.23
General Revenues						
Property taxes	52.62	49.38	-	-	52.62	49.38
Sales taxes	54.00	46.02	-	-	54.00	46.02
Franchise taxes	2.19	2.13	-	-	2.19	2.13
Transient occupancy taxes	10.50	9.42	-	-	10.50	9.42
Other taxes	19.18	17.38	-	-	19.18	17.38
Intergovernmental, unrestricted	14.14	7.35	-	-	14.14	7.35
Use of money and property	8.54	4.14	1.96	0.37	10.50	4.51
Other	11.46	4.16	2.06	2.84	13.52	7.00
Sub-total General Revenues	172.63	139.98	4.02	3.21	176.65	143.19
Total Revenues	229.63	196.58	71.87	61.84	301.50	258.42
Expenses						
General government	23.17	22.49	-	-	23.17	22.49
Public safety	77.22	67.82	-	-	77.22	67.82
Community development	51.69	42.75	-	-	51.69	42.75
Library	2.69	4.50	-	-	2.69	4.50
Public works	12.60	11.47	-	-	12.60	11.47
Interest on long-term debt	14.19	11.59	-	-	14.19	11.59
Water	-	-	23.17	18.31	23.17	18.31
Sewer	-	-	9.91	7.82	9.91	7.82
Solid Waste	-	-	19.82	18.71	19.82	18.71
Convention Center	-	-	-	-	-	-
Total Expenses	181.56	160.62	52.90	44.84	234.46	205.46
Increase (decrease) in Net Assets Before Transfers	48.07	35.96	18.97	17.00	67.04	52.96
Transfers	12.21	11.54	(12.21)	(11.54)	-	-
Increase (decrease) in Net Assets	60.28	47.50	6.76	5.46	67.04	52.96

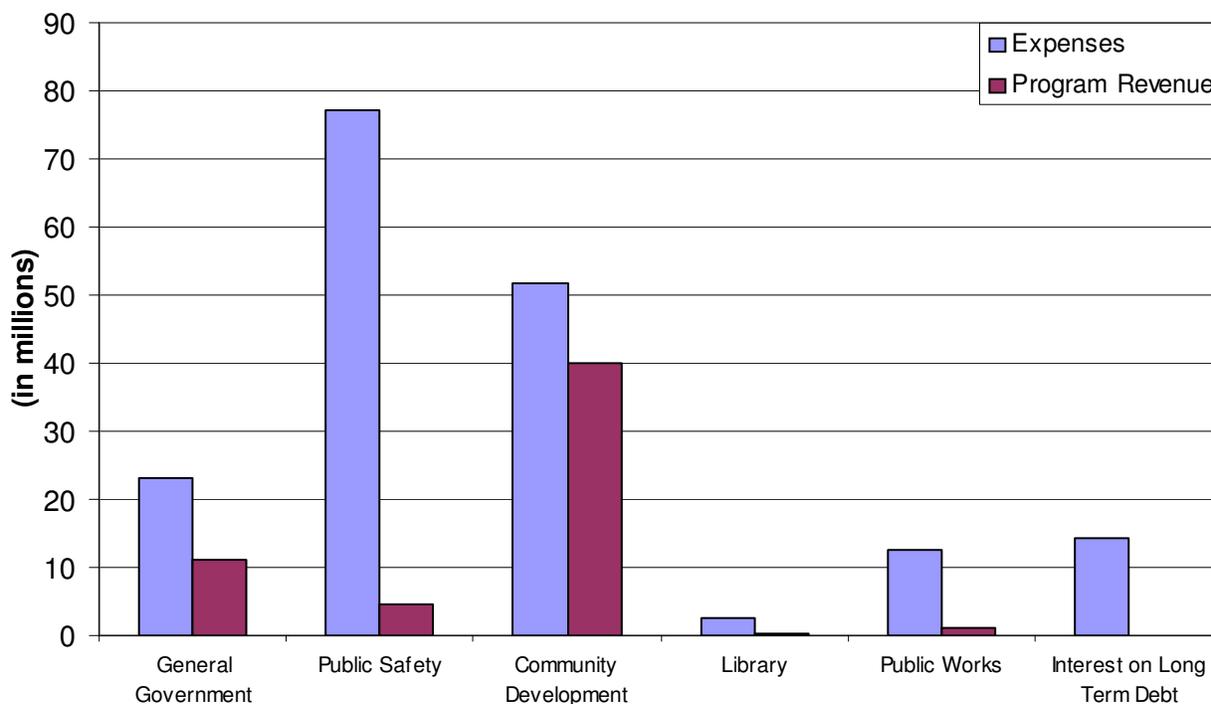
The overall expenses increased by \$29.00 million as compared to the prior year. While general government expenditures slightly increased by \$.68 million and expenses on enterprise activities increased by \$8.07 million, the majority of the increase resulted from a \$9.40 million or 13.88 percent increase in public safety and an \$8.94 million or 20.91 percent increase in community development from the prior year. This is the second year in a row of significant increases of community development expenses, and is a direct result of the development of the City’s 8,200-acre upscale New Model Colony.

Governmental Activities

Under the governmental activities, the City’s *net assets* increased by \$60.00 million. The cost of all governmental activities this year was \$181.56 million or 77.43 percent of the government-wide total expenses and was an increase of \$20.93 million from the prior year mainly due to the increased expenditures for public safety and community development as explained earlier.

Graph 1 below presents the costs of each of the City’s six governmental functions – general government, public safety, community development, library, public service and interest on long-term debt, as well the governmental program’s revenues. The net cost (total cost less *program revenues*) is the amount that was paid from *general revenues*.

Expenses and Program Revenues – Governmental Activities (Graph 1)



Expenses in *General Government* were \$23.17 million or 12.76 percent of total Governmental Activities expenses. Of this amount, \$11.19 million was funded by program revenues, while the remaining \$11.98 was funded by general revenues. This is a decrease of \$.48 million or 3.85 percent from the prior year.

Expenses in *Public Safety* were \$77.22 million or 42.53 percent of the total Governmental Activities expenses. Of this amount, \$4.65 million was funded by program revenues while the remaining \$72.57 million was funded by general revenues. This is an increase of \$11.30 million or 18.44 percent from the previous year, as a result of enhanced service levels accompanied by reduced state and federal grant funding.

Expenses in *Community Development* were \$51.69 million or 28.47 percent of the total Governmental Activities expenses. Of this amount, \$39.89 million was funded by program revenues, while the remaining \$11.80 million was funded by general revenues. This is an increase of \$6.52 million from the prior year.

Expenses in *Public Works* were \$12.60 million or 6.94 percent of the total Governmental Activities expenses. Of this amount, \$1.01 million was funded by program revenues, while the remaining \$11.59 million was funded by general revenues. This is an increase of \$1.78 million or 18.14 percent from the prior year.

The *Library* had expenses of \$2.70 million or 1.49 percent of the total Governmental Activities expenses. Of this amount \$.24 million was funded by program revenues, while the remaining \$2.46 was funded by general revenues. This is an increase of \$.55 million or 28.80 percent from the prior year.

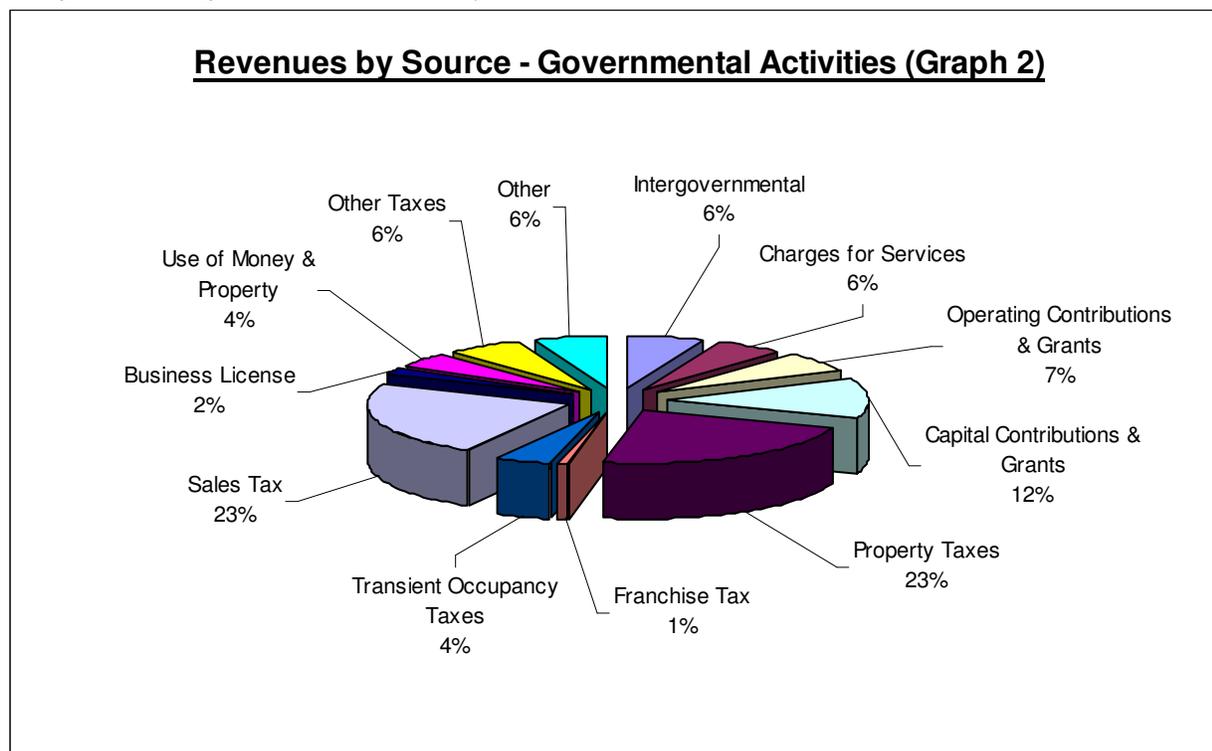
Interest on long-term debt had expenditures of \$14.19 million or 7.82 percent of Governmental Activities) and is funded solely by general revenues.

Graph 2 on the next page presents governmental activities revenue by source. The two largest revenue sources under governmental activities were sales taxes and property taxes. Sales tax revenue was \$54.00 million or 23.11 percent of total governmental activities revenue. This is an increase of \$7.99 million from the prior year as the result of the City's aggressive economic development efforts in recent years which brought in business enterprises of all sizes with additional sales tax revenue. Property tax consists of \$18.74 million in General Fund revenue and \$33.88 million in Redevelopment Agency tax increment revenue, with a total of \$52.62 million, is the second largest governmental revenue. It has an increase of \$3.24 million due to the overall increase in assessed property valuation and a strong housing market.

Other General Revenues totaled \$70.03 million and represented 29.97 percent of the total revenues from governmental activities.

Program revenues include charges for services of \$13.03 million, operating contributions and grants \$15.62 million and capital contributions and grants \$28.35 million. Together they represent 24.40 percent of the total governmental activities revenue.

Graph 2 below presents revenues by source for Governmental Activities.

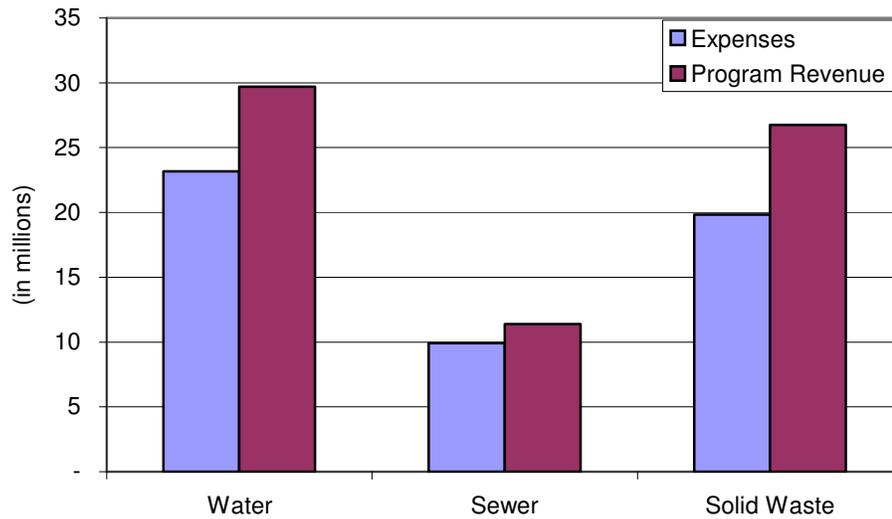


Business-type Activities

Net assets for business-type activities at June 30, 2005 were \$171.10 million, with assets of \$234.78 million and liabilities of \$63.68 million. Unrestricted net assets of \$38.39 million represented 22.44 percent of total business-type activities net assets; this amount may be used to meet the government's ongoing obligations. Investment in capital assets of \$101.20 million represented 59.15 percent of the total net assets from business-type activities. The remaining \$31.51 million were restricted for capital projects (\$28.23 million) and debt service (\$3.28 million) respectively. Comparing to the prior year, the City's net assets from business-type activities increased by \$6.62 million or 4.03 percent. Revenues from the City's business-type activities were \$67.85 million, a \$9.22 million or 15.73 percent increase from the prior year as a result of increased utility rate; and the expenses were \$52.91 million, with an \$8.07 million or 18.00 percent increase from the previous year due to higher service cost.

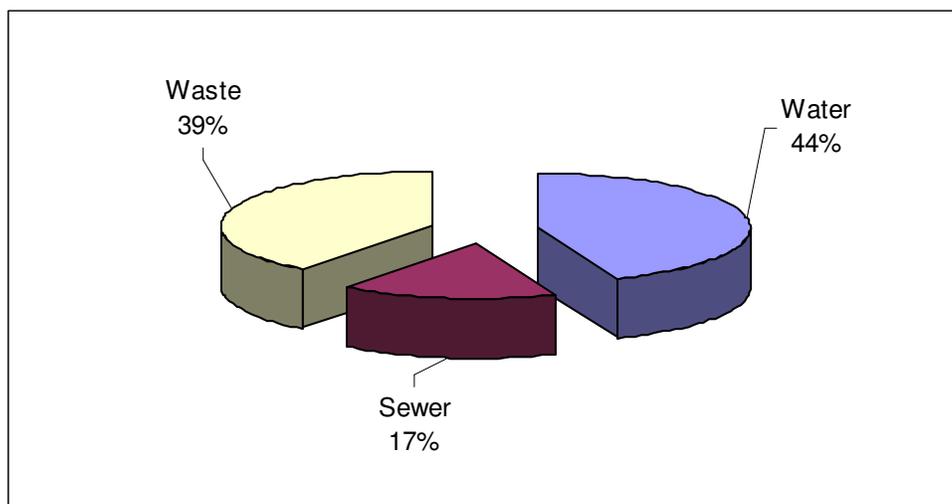
Graph 3 on the next page presents the costs of each of the City's business activities and the associated program revenue. Since business-type activities are primarily used when the City charges customers for the services it provides, program revenues (charges for services) should be similar to the costs of these programs and represent the major funding source for these activities.

Expenses and Program Revenues – Business-type Activities (Graph 3)



Graph 4 below presents revenues by source for business-type activities. Revenue from water services is the largest revenue source with \$29.71 million or 43.78 percent of the total revenues from business-type activities. Charges for services account for \$67.71 million or 99.79 percent of total business-type activities revenues, while the remaining .21 percent is from operating contributions and grants.

Revenues by Source – Business-Type Activities (Graph 4)



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

During the current fiscal year, the City has four major governmental funds: General Fund, Capital Projects Fund, Combined Low/Moderate Housing Fund, and the Redevelopment Agency's Project Area No. 1 Capital Projects Fund. The General Fund is discussed in depth later in the MD&A. The City's Capital Project Fund accounts for the financial transactions of general capital improvements. The Combined Low/Moderate Housing Capital Projects Fund promotes affordable housing citywide. The Ontario Redevelopment Agency Project Area No. 1 Capital Project Fund accounts for the financing, construction and administrative activities of Project Area No. 1. Each major fund is discussed in the *Notes to the Financial Statements*.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$272.39 million, increased by \$25.02 million or 10.13 percent from the previous fiscal year. Approximately 14.02 percent of this total amount (\$38.19 million) constitutes unreserved/undesignated fund balance. The remainder of fund balance of \$234.20 million is reserved (\$158.27 million) or designated (\$75.93 million) to indicate that it is not available for new spending because it is committed for: 1) Liquidation of contracts and purchase orders of the prior period (\$18.05 million), 2) Prepaid costs and deposits (\$1.55 million), 3) Advances to other funds (\$41.75 million), 4) Reserved for land that was purchased and held for resale (\$82.83 million), 5) Reserved for contracts and notes (\$14.09 million) 6) designated for future expenditures (\$34.48 million), 7) designated for capital improvement projects (\$38.03 million), and 8) designated for debt service (\$3.42 million).

Governmental Revenues

Revenues of governmental funds for fiscal year 2004-05 were \$219.71 million, with an increase of \$34.09 million or 18.37 percent from fiscal year 2003-04. Charges for services enjoyed the largest increase of \$13.02 million from the prior year as the result of the increased activity in the New Model Colony (NMC) development. Developer impact fees account for \$14.29 million or 59.38 percent of the total amount of charges for services. These fees were collected during the fiscal year to facilitate the construction of NMC infrastructure. Taxes revenue had the second largest increase by \$10.08 million, with the increase of two major contributors, sales taxes and property taxes. The third largest increase was in miscellaneous revenue (\$6.34 million). This was mainly due to the sale of appreciated City property to the developers in various

redevelopment areas. Of the total miscellaneous revenue reported, \$5.96 million or 37.37 percent was related to the gain on sales of City properties.

Table 3 below presents a summary of governmental fund revenues for the fiscal year ended June 30, 2005, with comparative amounts from the prior year.

**Comparison of Major Governmental Revenues (Table 3)
Fiscal Years 2004-05 and 2003-04**

	<u>Amount FY 04-05</u>	<u>% of Total Revenues</u>	<u>Amount FY 03-04</u>	<u>% of Total Revenues</u>	<u>\$ Increase / (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Property Tax	\$ 52,621,082	23.95%	\$ 49,828,953	26.84%	\$ 2,792,129	5.60%
Sales Tax	54,003,509	24.58%	47,168,779	25.41%	6,834,730	14.49%
Transient Occupancy Tax	10,495,259	4.78%	9,417,101	5.07%	1,078,158	11.45%
Parking Tax	5,317,843	2.42%	4,949,011	2.67%	368,832	7.45%
Business Licenses Tax	4,855,324	2.21%	4,561,542	2.46%	293,782	6.44%
Other Taxes	2,244,893	1.02%	3,527,568	1.90%	(1,282,675)	-36.36%
Licenses & Permits	3,150,121	1.43%	2,251,562	1.21%	898,559	39.91%
Intergovernmental	37,347,967	17.00%	36,011,184	19.40%	1,336,783	3.71%
Charges for Services	24,070,910	10.96%	11,045,360	5.95%	13,025,550	117.93%
Use of Money & Property	8,555,954	3.89%	5,930,672	3.20%	2,625,282	44.27%
Fines and Forfeitures	1,099,057	0.50%	1,320,994	0.71%	(221,937)	-16.80%
Miscellaneous	15,952,394	7.26%	9,609,247	5.18%	6,343,147	66.01%
TOTAL	<u>\$ 219,714,313</u>	<u>100.00%</u>	<u>\$ 185,621,973</u>	<u>100.0%</u>	<u>\$ 34,092,340</u>	<u>18.37%</u>

Governmental Expenditures

Operating expenditures for fiscal year 2004-05 were \$185.16 million, an increase of 9.50% or \$16.06 million over the prior fiscal year. Of the total increase, \$6.57 million was attributable to the community development expenditure. The Fourth Street widening and storm drain improvement project was the main contributor to the increase. During the fiscal year, \$5.07 million was incurred as the project went into construction phase. Public works expenditure increased by \$5.83 million due to the increased activity in the New Model Colony development. The increase of \$4.54 million in library expenditures was due to the near completion of the \$20 million library renovation project in the current fiscal year. General government expenditures increased by \$3.68 million reflects the increased cost of operation for the government. The decrease of \$4.56 million in the public safety category was a result of completion of the new police facility in the previous fiscal year.

Table 4 on the following page presents a summary of governmental fund expenditures for the fiscal year ended June 30, 2005 with comparative amounts from the prior year.

Comparison of Major Governmental Expenditures (Table 4)
Fiscal Years 2003-04 and 2002-03

	<u>Amount FY 04-05</u>	<u>% of Total Expenditures</u>	<u>Amount FY 03-04</u>	<u>% of Total Expenditures</u>	<u>\$ Increase / (Decrease)</u>	<u>% Increase/ (Decrease)</u>
General Government	\$ 23,230,597	11.31%	\$ 19,548,804	10.2%	\$ 3,681,793	18.83%
Public Safety	77,600,019	37.80%	82,159,396	42.8%	(4,559,377)	-5.55%
Community Development	54,441,920	26.52%	47,871,264	25.0%	6,570,656	13.73%
Library	9,661,210	4.71%	5,125,528	2.7%	4,535,682	88.49%
Public Works	<u>20,226,449</u>	<u>9.85%</u>	<u>14,391,663</u>	<u>7.5%</u>	<u>5,834,786</u>	<u>40.54%</u>
Total Operating						
Expenditures	185,160,195	90.18%	169,096,655	88.2%	16,063,540	9.50%
Debt Service	<u>20,152,888</u>	<u>9.82%</u>	<u>22,719,607</u>	<u>11.8%</u>	<u>(2,566,719)</u>	<u>-11.30%</u>
TOTAL	<u>\$ 205,313,083</u>	<u>100.00%</u>	<u>\$ 191,816,262</u>	<u>100.0%</u>	<u>\$ 13,496,821</u>	<u>7.04%</u>

Proprietary Funds

The City's Proprietary funds consist of three major Enterprise Funds and three Internal Service Funds. The Internal Service Funds are presented as *Governmental Activities* in the Proprietary Funds financial statements. Individual fund data is provided in the form of *combining statements*.

Operating revenues for Enterprise Funds include charges for service, interdepartmental charges and miscellaneous revenue. Total operating revenues for all Enterprise Funds for fiscal year 2004-05 were \$69.77 million, while non-operating revenues were \$2.10 million. Operating expenses for fiscal year 2004-05 were \$52.08 million while non-operating expenses and transfer-outs were \$13.76 million. The City also has three internal service funds to allocate costs of the City's information systems, equipment services and risk management operations to the various departments. The interdepartmental charges for service (revenues) in fiscal year 2004-05 were \$19.45 million.

Fiduciary Funds

As mentioned earlier, the City uses Fiduciary Funds to account for resources held for the benefit of parties outside the City, in which the City is acting as trustee. The *Statement of Fiduciary Net Assets* reports fourteen activities for which the City has a fiduciary responsibility. These include: the Redevelopment Financing Authority, a JPA formed between the City and the Agency to establish a vehicle to reduce local borrowing costs and promote greater use of new and existing financial instruments; West End Communications Authority, a seven-member JPA that operates and maintains a consolidated 800MHZ communication system designed to serve public safety

agencies; the Redevelopment Agency Grove Avenue Apartments which acts as a housing authority for the low/moderate income senior complex; the Sanitary Collection Treatment Fund which collects sewer capital assessment fees on behalf of the Inland Empire Utilities Agency; and the West End Fire and Emergency Response Commission, a JPA of five local fire departments to establish a hazardous materials response team, an urban search and rescue team and the servicing of joint authority breathing apparatus equipment used for emergency purposes. The remaining nine are assessment/special assessment bond redemption funds used to collect assessments and administer the debt service of the districts.

GENERAL FUND – FUND BALANCE ANALYSIS

The General Fund is the chief operating fund of the City. The fund balance of \$76.07 million as of June 30, 2005 had a decrease of \$7.20 million compared to the prior year. This decrease was due to an operating deficit of \$6.35 million and a \$.85 million restatement of beginning fund balance. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved/undesignated fund balance and total fund balance to total fund operating expenditures. Unreserved/undesignated fund balance represents 20.08 percent of total General Fund operating expenditures, while total fund balance represents 63.91 percent of that same amount.

The total fund balance is represented by three components: the reserved fund balance of \$17.82 million, a decrease of \$.75 million from the prior year; the unreserved/designated fund balance of \$34.35 million and unreserved/undesignated fund balance of \$23.90 million.

Over the past five years, the accumulation in fund balance has enabled City Council to designate a total of \$34.35 million for: 1) City ERAF reserve (\$2.32 million), 2) compensated absences (\$8.81 million), 3) unfunded retiree health benefits (\$13.31 million), 4) City facilities improvements (\$4.00 million), 5) equipment replacement (\$1.34 million), 6) Assessment District Maintenance (\$1.66 million), 7) general plan update (\$2.00 million), and 8) miscellaneous contractual obligations and trusts (\$.91 million).

Reserved fund balance of \$17.82 million consists of: \$1.75 million for encumbrances, \$.06 million for prepaid expenditures for next year, \$9.57 million in advances to the Redevelopment Agency, \$6.39 for land inventory held for resale, and \$.05 for miscellaneous contracts and notes.

Table 5 on next page shows the three components of fund balance for the past five years. The bottom portion of the table shows the beginning balance, operating surplus/(deficit), restatements, and ending balance. The restatement for this fiscal year of \$.85 million was to correct understated accrued liabilities for the prior year of \$.90 million and misclassification of vehicle license fee of \$.05 million.

General Fund – Changes to Fund Balance – Five-Year Trend (Table 5)

	<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>	<u>FY 03-04</u>	<u>FY 04-05</u>
Fund Balance					
Reserved	\$ 14,768,076	\$ 13,804,470	\$ 8,858,104	\$ 18,569,213	\$ 17,815,758
Designated Unreserved	19,828,730	23,521,437	36,548,911	44,683,947	34,346,266
Undesignated Unreserved	19,575,201	24,559,615	23,097,303	20,019,503	23,903,588
Total Fund Balance	\$ 54,172,007	\$ 61,885,522	\$ 68,504,318	\$ 83,272,663	\$ 76,065,612
Beginning Balance	\$ 43,228,980	\$ 54,172,007	\$ 61,885,522	\$ 68,504,318	\$ 83,272,663
Operating Surplus/(Deficit)	10,983,144	7,713,515	13,193,354	14,768,345	(6,351,292)
Restatements/Equity Transfers	(40,117)	-	(6,574,558)	-	(855,759)
Ending Balance	\$ 54,172,007	\$ 61,885,522	\$ 68,504,318	\$ 83,272,663	\$ 76,065,612

GENERAL FUND – REVENUE AND EXPENDITURE ANALYSIS**Revenues**

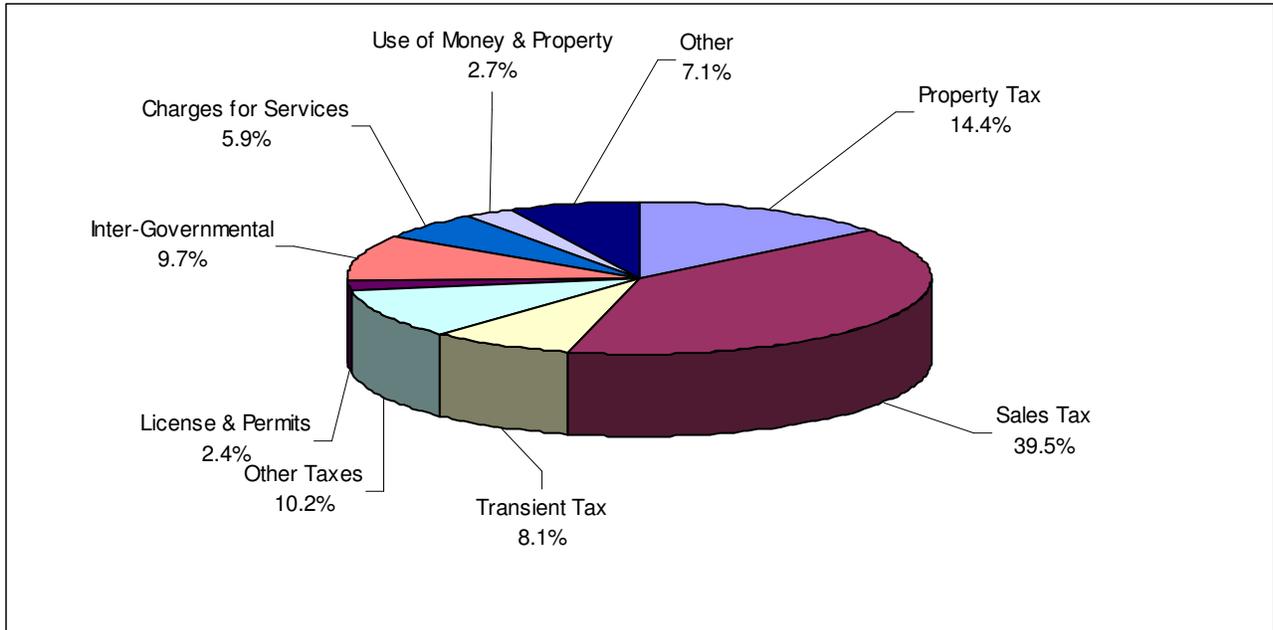
For fiscal year 2004-05, General Fund revenues were \$130.31 million, an increase of 13.22 percent primarily due to increases in sales tax, motor vehicle in lieu, and charge for services.

General Fund Revenues (Table 6)**Fiscal Years 2004-05, 2003-04, and 2002-03**

	<u>2002-2003</u>	<u>2003-04</u>	<u>2004-2005</u>	<u>% of Total</u>	<u>\$ Increase / (Decrease) over Prior Year</u>	<u>% Increase / (Decrease) over Prior Year</u>
Property Tax	\$ 15,385,302	\$ 17,059,347	\$ 18,740,712	14.4%	\$ 1,681,365	9.9%
Sales Tax	40,853,969	47,168,779	51,445,124	39.5%	4,276,345	9.1%
Transient Occupancy Tax	8,710,404	9,417,101	10,495,259	8.1%	1,078,158	11.4%
Other Taxes	10,796,364	12,424,621	13,289,557	10.2%	864,936	7.0%
License & Permits	1,944,438	2,251,562	3,150,121	2.4%	898,559	39.9%
Inter-Governmental	12,218,461	10,530,852	12,601,100	9.7%	2,070,248	19.7%
Charges for Services	5,607,076	5,929,826	7,662,762	5.9%	1,732,936	29.2%
Use of Money & Property	4,639,274	2,181,002	3,565,259	2.7%	1,384,257	63.5%
Fines & Forfeitures	689,306	787,772	1,090,697	0.8%	302,925	38.5%
Other	7,013,768	7,340,830	8,266,945	6.3%	926,115	12.6%
Totals	\$ 107,858,362	\$ 115,091,692	\$ 130,307,536	100.0%	\$ 15,215,844	13.2%

Graph 5 below illustrates General Fund revenues by source.

General Fund Revenues - Fiscal Years 2004-05 (Graph 5)



Below is an in-depth analysis of each of the revenue sources.

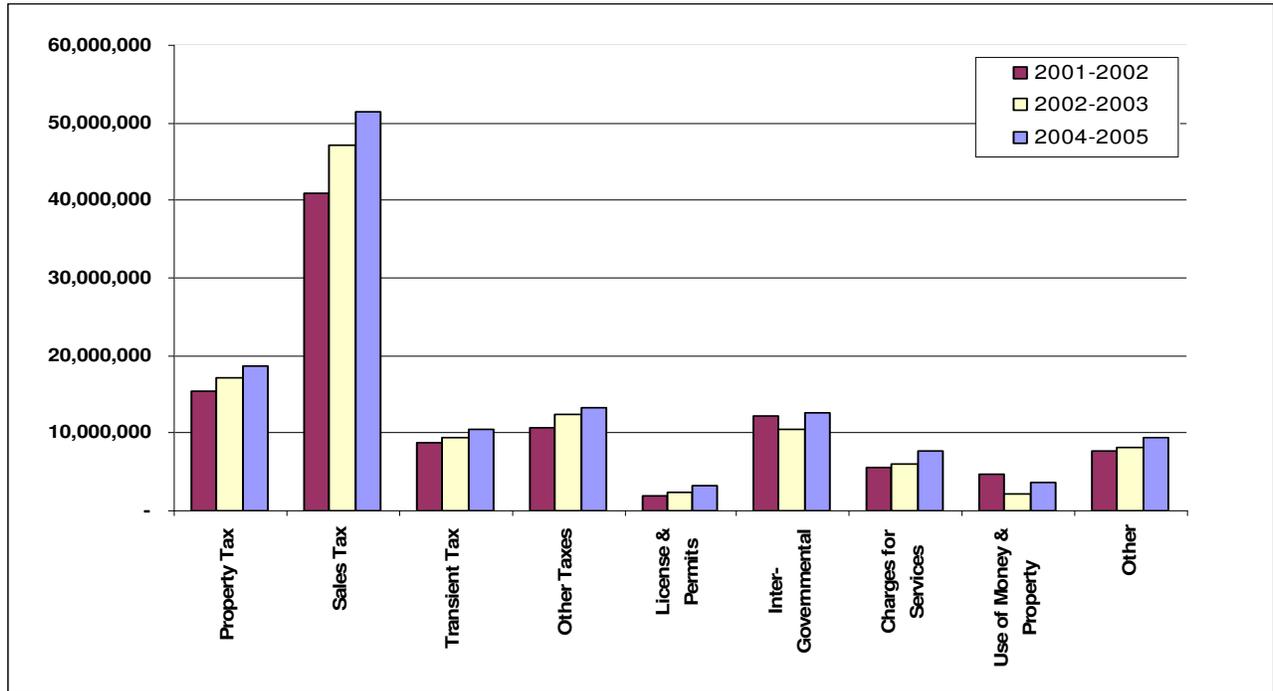
- Property tax revenues increased 9.9 percent, comprising 14.4 percent of total General Fund revenue. This increase is attributed primarily to the adjusted valuations of properties which was sold and subsequently reassessed.
- Sales tax revenues increased 9.1 percent from the prior year, comprising 39.5 percent of total General Fund revenue. Spurred on by the strong housing market and economic expansion, consumer confidence and the resultant spending were up as compared to the prior periods. The increase was primarily from building material sales (which also was reflected in property taxes increase) and auto sales.
- Transient occupancy taxes increased 11.4 percent, comprising 8.1 percent of the City's total General Fund revenue base. The increase was a result of hotel expansion from the previous year and a recovery in the tourism industry following September 11, 2001 events.
- Other tax revenues include franchise fee, business license tax, property transfer tax and parking tax, comprising 10.2 percent of the City's total General Fund revenue. Of the total \$.86 million increase, parking tax contributed by \$.37 million as passenger traffic continues to grow connected to increased airport activity. Business license tax increased by \$.29 million as a result of the City's continuous effort in collecting such tax from business owners.

Property transfer tax increased another \$.15 million from previous year due to the increased number transactions in an active housing market.

- License and Permit revenues increased by \$.90 million (39.9 percent) from the prior year, due to increases in both the dollar value of construction permits, and the number of permits issued along with the beginning of the development of the New Model Colony.
- Intergovernmental revenues increased by \$2.07 million or 19.7 percent. This increase was directly connected to the decrease of \$1.69 million in the previous year compared to the year before. Motor vehicle in lieu fee is the major component of the intergovernmental revenue. In the previous year, motor vehicle in-lieu fee was reduced by \$2.22 million as a result of the State trip flip swap. In the fiscal year 2003-04, the State of California reduced vehicle registration fees to .65 percent but replaced this loss in revenue to cities with property tax monies. However, this back-fill resulted in an approximately 90-day lag which impacted the City's revenue stream. Portion of current year's motor vehicle in lieu fee was attributable to prior year's back-fill. Total motor vehicle in-lieu fee, including the triple flip swap, was \$10.77 million, and represents 85.44 percent of the total General Fund intergovernmental revenues in fiscal year 2004-05.
- Graphs 5 and 6 presents General Fund revenues by category with comparative amounts for the past two fiscal years.
- Charges for Services increased by 29.2 percent, comprising 5.9 percent of total General Fund revenue. This increase was primarily due to construction related fees associate with the beginning construction of the New Model Colony.
- Revenues from the use of money and property represent 2.7 percent of total General Fund revenue and had an increased of 63.5 percent (\$1.38 million) from the prior year. Of the total increase, \$1.13 million is from change in fair market value of the City's investment portfolio as a result of the recovering stock and bond market.
- Other revenue, including fines and forfeiture increased by 12.6 percent (\$.93 million) and represents 7.1 percent of total General Fund revenues. This increase was primarily due to an increase in real and personal property (\$.92 million) as a result of selling the KME fire station at the end of the lease term.

Graph 6 on the next page presents a comparison of each revenue source for the three consecutive fiscal years.

Comparison of General Fund Revenues (Graph 6)
Fiscal Years 2004-05, 2003-04, and 2002-03



Expenditures

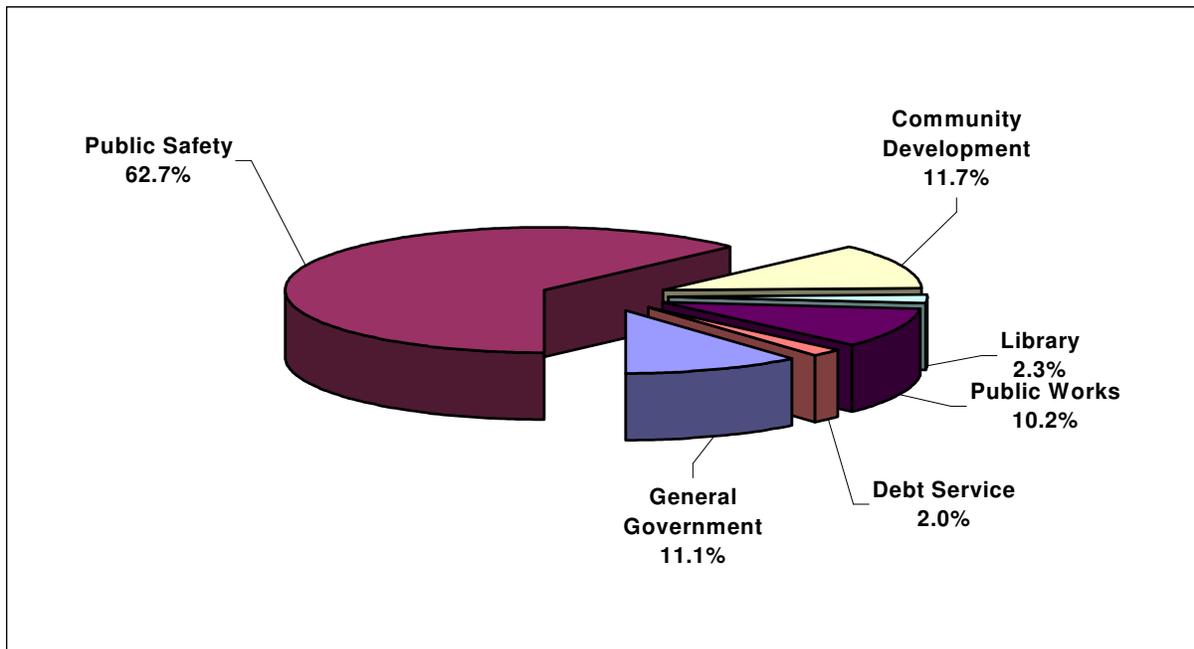
For fiscal year 2004-05, total General Fund expenditures were \$119.01 million, an increase of 9.8 percent from the prior year. Following are key points and graphs of General Fund expenditures:

General Fund Expenditures (Table 7)
Fiscal Years 2004-05, 2003-02 and 2002-03

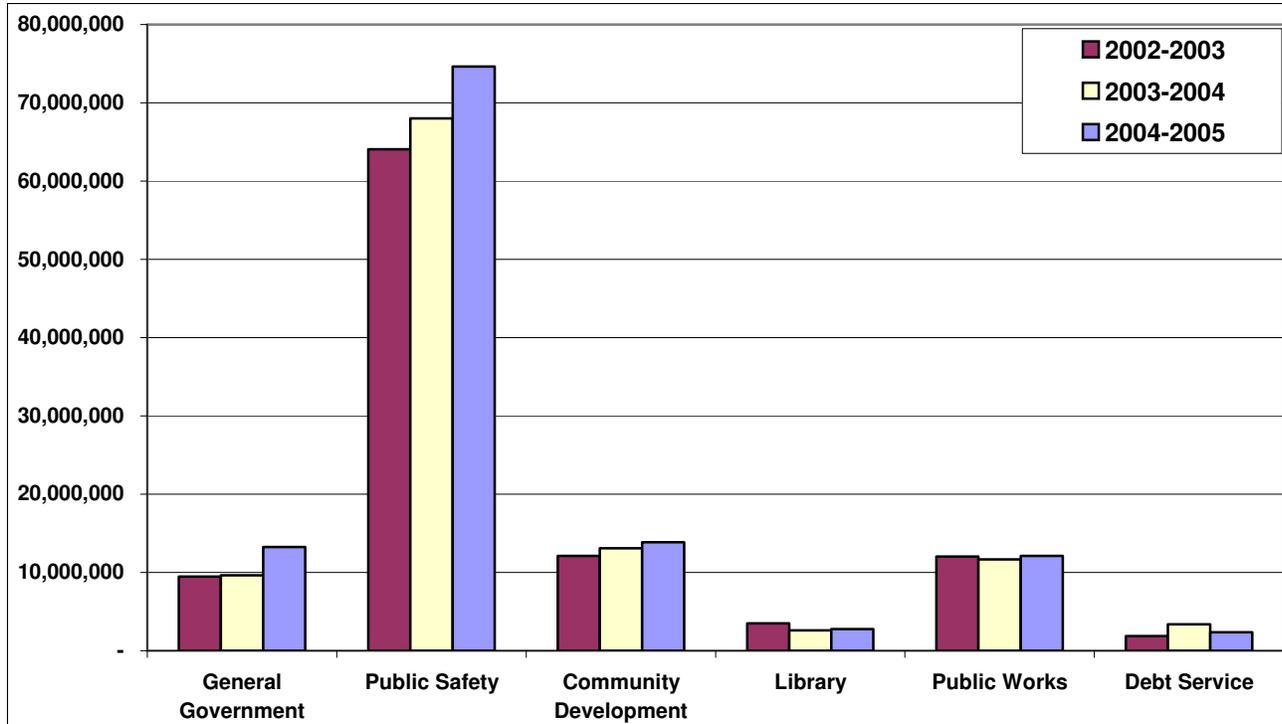
	<u>2002-2003</u>	<u>2003-2004</u>	<u>2004-2005</u>	<u>% of Total</u>	<u>\$ Increase / (Decrease) over Prior Year</u>	<u>% Increase / (Decrease) over Prior Year</u>
General Government	\$ 9,472,577	\$ 9,639,153	\$ 13,260,743	11.1%	\$ 3,621,590	37.6%
Public Safety	64,072,380	67,994,648	74,619,164	62.7%	6,624,516	9.7%
Community Development	12,116,550	13,097,301	13,876,531	11.7%	779,230	5.9%
Library	3,493,889	2,601,637	2,781,161	2.3%	179,524	6.9%
Public Works	12,031,870	11,646,397	12,106,505	10.2%	460,108	4.0%
Debt Service	1,856,736	3,390,399	2,369,337	2.0%	(1,021,062)	-30.1%
Totals	<u>\$ 103,044,002</u>	<u>\$ 108,369,535</u>	<u>\$ 119,013,441</u>	<u>100.0%</u>	<u>\$ 10,643,906</u>	<u>9.8%</u>

- General government expenditures were \$13.26 million, an increase of \$3.62 million or 37.6 percent from the prior fiscal year. The increase was attributable to the City's ERAF payment to the State of \$2.38 million, and the result of higher State worker's compensation insurance rate included in the General Fund personnel expenditures of \$.92 million.
- Public Safety expenditures were \$74.62 million, an increase of 9.7 percent. The increase was due primarily to increases in personnel costs.
- Community Development expenditures were \$13.88 million with a 5.9 percent increase from the prior year, as a result of a moderate overall increase throughout the development departments.
- Library expenditures were \$2.78 million, an increase of \$.18 million from the previous fiscal year as a result of increase operating costs.
- Public Works expenditures were \$12.11 million, a slight increase of 4.0 percent over the prior year.
- Debt Service expenditures were \$2.37 million, a decrease of 30.1 percent over the prior year. This decrease was a result of the paying down the outstanding City debt.

General Fund Expenditures – Fiscal Year 2004-05 (Graph 7)



**Comparison of General Fund Expenditures (Graph 8)
Fiscal Years 2004-05, 2003-04, and 2002-03**



GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. Budget revisions fall into three categories: carry-forward encumbrances and capital projects that are approved shortly after the beginning of the year; changes that the Council makes during the quarterly budget process; and supplemental appropriations approved by Council throughout the year based on individual items that are brought forward by various departments. The General Fund budgetary comparison statement is located on in the Basic Financial Statements as Exhibit G.

Resources (Inflows)

The budgeted amount for *revenues* (resources available for appropriation) had an increase of \$15.06 million between the original budget of \$124.06 million and the final amended budget of \$139.12 million. The increase was due in part to first quarter adjustment to include the \$8.96 million vehicle license fee swap from the State, and mid-year adjustments for several state grants of \$4.01 million.

With these adjustments, actual revenues exceeded the final amended budget by \$6.16 million. The increase in actual revenues was primarily due to the City receiving higher than anticipated revenue from property taxes (\$1.94 million), sales tax (5.45 million), and other taxes (\$3.08 million).

Table 8 below is a comparison of actual inflow and outflow with final budget:

Budgetary Comparison for General Fund (Table 8)
Fiscal Year 2004-05

	Budget Amounts		Actual Amounts	Variance with Final Budget Favorable / (Unfavorable)
	Original	Final		
Resources (Inflow s):				
Taxes	\$ 83,861,300	\$ 83,481,400	\$ 93,970,652	\$ 10,489,252
License and permits	1,907,000	2,207,000	3,150,121	943,121
Intergovernmental	4,622,097	16,518,053	12,601,100	(3,916,953)
Charges for services	5,542,956	7,450,808	7,662,762	211,954
Use of money and property	3,617,405	3,617,405	3,565,259	(52,146)
Fines and forfeitures	1,132,000	1,132,000	1,090,697	(41,303)
Miscellaneous	7,762,216	9,070,066	8,266,945	(803,121)
Transfers from other funds	15,613,858	15,645,600	14,980,458	(665,142)
Total Resources	\$ 124,058,832	\$ 139,122,332	\$ 145,287,994	\$ 6,165,662
Charges to Appropriation (Outflow):				
General government	\$ 11,543,580	\$ 14,764,631	\$ 13,260,743	\$ 1,503,888
Public safety	74,045,995	75,805,687	74,619,164	1,186,523
Community development	14,645,683	15,900,664	13,876,531	2,024,133
Library	3,156,864	3,179,644	2,781,161	398,483
Public works	13,677,676	17,858,075	12,106,505	5,751,570
Debt service	2,369,337	2,369,337	2,369,337	-
Transfers to other funds	24,283,734	32,636,338	32,625,845	10,493
Total Charges to Appropriations	\$ 143,722,869	\$ 162,514,376	\$ 151,639,286	\$ 10,875,090

Charges to Appropriations (Outflows)

The difference between the original budget and the final budget was an increase of \$18.79 in appropriations. Transfers to fund capital projects were increased by \$8.35, public works projects were increased by \$3.96 million, general government appropriations increased by \$2.37 to cover increased operating cost of the government, and community development increased \$1.69 million to support the development of New Model Colony. The remainder of the increase was spread throughout various departments of the City.

Actual amounts had a favorable variance of \$10.88 million comparing to the final budget. Among all outflow categories, \$5.75 million was attributable to public works, and \$2.02 million to community development as a result of releasing unspent encumbrances for several major projects at the end of the fiscal year as part of the City's accounting policy. These unspent encumbrances will be re-encumbered in the following fiscal year if deemed necessary. Another \$2.69 million of favorable variances was in general government and public safety, mainly due to overall budget savings from unfilled personnel positions as well as the City-wide effort in cutting operating expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets (Table 9) for its governmental and business-type activities as of June 30, 2005, was \$757.65 million (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, furniture and equipment, infrastructure and construction in progress. For more information, please refer to Note 5 of in the Notes to the Basic Financial Statements.

The Capital Assets of the City are those assets which are used in the performance of the City's functions including infrastructure assets. Depreciation on capital assets is recognized in the Government-wide financial statements.

**Capital Assets (Table 9)
(net of depreciation)
(in millions)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-Wide Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 28.70	\$ 25.98	\$ 6.76	\$ 3.07	\$ 35.46	\$ 29.05
Structures and Improvements	91.20	89.16	0.62	0.65	91.82	89.81
Furniture and Equipment	8.06	8.43	0.64	0.70	8.70	9.13
Infrastructure	475.32	471.81	81.03	81.31	556.35	553.12
Construction in Progress	53.17	40.99	12.15	9.93	65.32	50.92
Total Capital Assets	<u>\$ 656.45</u>	<u>\$ 636.37</u>	<u>\$ 101.20</u>	<u>\$ 95.66</u>	<u>\$ 757.65</u>	<u>\$ 732.03</u>

The City has elected to use the “Modified Approach” as defined by GASB Statement No. 34 for its Governmental Activities infrastructure reporting. Under GASB Statement No. 34, eligible infrastructure capital asset is not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.
- The City documents that eligible infrastructure capital assets are being preserved approximately at or above the established disclosed assessment.

The City's streets are constantly deteriorating resulting from the following four factors: (1) traffic using the streets; (2) the sun's ultra-violet rays drying out and breaking down the top layer of pavement; (3) utility company/private development interests trenching operations; and (4) water damage from natural precipitation and other urban runoff. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching, street sweeping, and street paving.

The City expended \$10.5 million on street maintenance for the fiscal year ended June 30, 2005, 45.83% higher than the previous year. The City has estimated that the amount of annual expenditures required maintaining the City's streets at the minimum PCI rating of 69 (rating of 2 with City's Pavement Management System, See Required Supplemental Information) through 2006 is \$11.8 million per year. As of June 30, 2005, the City had 114 million square feet of streets with a carrying amount of approximately \$264.7 million and a replacement cost of approximately \$520.0 million.

The City is also continuously taking actions to address the deterioration of other infrastructure assets through short-term maintenance activities. The City expended \$3.7 million on other infrastructure (sidewalks, traffic signals/street lights and catch basins/storm drains) maintenance for the fiscal year ended June 30, 2005 (8.82% higher than the previous year). These expenditures delayed deterioration and improved the overall condition through these maintenance expenditures. It is estimated that it will cost approximately \$4.2 million per year to maintain other infrastructure assets at their present level. For more information, see Required Supplemental Information following the footnotes to the financial statements.

Long-term Debt

At year end, the City had \$138.53 million in outstanding long-term debt for Governmental Activities. As shown in Table 10, this debt consisted of tax allocation bonds, revenue bonds, compensated absences, loans, capitalized leases and unamortized bond premiums. Long-term debt decreased \$2.19 million over the prior year from \$140.72 million.

Long-Term Debt (Table 10)
(in millions)

	Governmental Activities			
	2005	2004	Amount Increase / (Decrease)	Percentage Increase / (Decrease)
Tax Allocation Bonds	\$ 62.34	\$ 61.59	\$ 0.75	1.2%
Revenue Bonds	51.71	54.89	(3.18)	-5.8%
Compensated Absences	7.97	7.06	0.91	12.9%
Loans	14.74	15.31	(0.57)	-3.7%
Unamortized Bond Premium	1.77	1.87	(0.10)	-5.3%
	<u>\$ 138.53</u>	<u>\$ 140.72</u>	<u>\$ (2.19)</u>	-1.6%

For more information, please refer to Note 6 in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND OUTLOOK FOR FUTURE YEARS

Although the focus of this Annual Report is the economic condition of the City in the Fiscal Year ended June 30, 2005, in preparing the budget for Fiscal Year 2005-06, management gave careful consideration to the possible impact to the City of Ontario's revenues due to the State of California's budget deficit. Key budget assumptions for forecasting General Fund revenues include the following:

- The most substantial element of local impact from last year's State budget is the second and final year shifting \$1.3 billion from local government agencies to the State to cover the State budget shortfalls. The portion attributed to the current year is \$5.39 million.
- The State will eliminate the "back-fill" reimbursement of Motor Vehicle License Fee revenue of \$9 million and replace the loss of revenue to local governments with additional property tax revenue from the County. Although there is no overall impact to revenues in total, it will result in a change in reporting of revenue components.
- The national economy's continued modest recovery and stock market fluctuations will not have significant adverse impact on the City's revenue stream.

- Sales tax revenue is expected to moderate due to the anticipated cooling of the housing market by early 2006, which in turn will reciprocate into a reduction of consumer spending.
- Transient occupancy tax revenues will increase by \$.61 million over the next year based upon previous hotel expansions and aggressive marketing efforts.
- Property tax revenue, after excluding the commensurate increase of approximately \$9 million in property tax revenues in lieu of motor vehicle license “back-fill”, will increase 8.6% over the City’s current projection of almost \$16 million.
- Ontario Redevelopment Agency will annually reimburse the City \$1.0 million for the Allegiance (formerly Baxter) Sales Tax Agreement.
- Development related revenues will significantly increase by over 25% compared to the prior year budget due to continued commercial and residential development.
- PERS retirement contribution will be reduced by approximately \$0.32 million offset from prior year surpluses.
- City revenues or expenditure will not be adversely affected by court decisions, state legislative actions, carious propositions, initiatives, or other actions beyond the City’s control.

The Adopted Operating Budget for Fiscal Year 2005-06 is a well-balanced budget that reflects the City’s commitment to foster steady, controlled growth and provide the highest level of service to the community with the City’s fiscal constraints. Given the severity of the State’s fiscal situation, the City will be faced with very difficult choices in the future and must ensure that the choices made in the short-term are consistent with the Council’s goals that have been set for the long term. Accordingly, the adopted fiscal plan cautiously and prudently allows for fluctuations in revenue and expenditures, and ensures flexibility to respond to urgent needs and events.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services/Finance Director, City of Ontario, 303 East “B” Street, Ontario, California 91764.