

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, 2010, 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, 2010, and the respective changes in financial position and cash flows where applicable thereof, and the respective budgetary comparison for the General Fund and the Quiet Home Program 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 December 13, 2010, 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, statistical tables and AB 1600 Development Impact Fee annual report 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 & Lingham, LLP

December 13, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the City of Ontario's (City) financial performance provides an introduction and overview to the financial activities of the City for the fiscal year ended June 30, 2010. This narrative discussion and analysis focuses on the current year's activities, resulting changes and currently known facts; therefore, the information presented here should be considered in conjunction with additional information furnished in the Letter of Transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide

- Total assets of the City were \$1.69 billion and total liabilities were \$295.01 million at June 30, 2010. The assets exceeded liabilities by \$1.40 billion (net assets). Of this amount, \$295.46 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended June 30, 2010, total net assets increased by \$48.86 million before a \$1.99 million restatement. This increase results from a favorable variance of revenues over expenses. Total revenues from all sources were \$343.21 million and total expenses for all functions/programs were \$294.35 million.
- Of total revenues, program revenues were \$143.34 million and general revenues were \$199.87 million. Program revenues are broken into three categories: Charges for Services, \$108.20 million; Operating Contributions and Grants, \$15.23 million; and Capital Contributions and Grants, \$19.91million.

Fund Based

- For the fiscal year ended June 30, 2010, the unreserved/undesignated fund balance of the General Fund was \$25.87 million.
- For the General Fund, actual resources (inflows) available for appropriation were \$246.70 million, which was less than the final budget of \$252.94 million by \$6.24 million. Actual charges (outflows) of \$155.69 million were \$12.76 million less than the final budget of \$168.44 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Ontario and its component units as prescribed by GASB Statement No. 34. 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 Financial Statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* present both long-term and short-term information about the City's overall financial picture. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

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*. This is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets may serve as an indicator of whether or not its financial health 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 vacation leaves).

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, Records Management, General Services, Revenue Services, and Fiscal Services), Public Safety, Community Development, Library, and Public Works. Revenues from property taxes, transient occupancy tax (TOT), sales tax, parking tax, business license tax, etc., finance most of these activities.

Business-type activities – The City charges a fee to customers to recover all or most of the cost of certain services it provides. The City's water, sewer, and refuse operations are reported in this category.

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*. Although legally separate, these component units function for all practical purposes as departments of the City, and therefore have been included 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 thirty-one individual governmental funds. These funds report financial transactions using the modified accrual accounting method. Information for five out of the thirty-one funds is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. These five funds are considered to be major funds. They are the General Fund, the Quiet Home Program Fund, the Capital Projects Fund, the Impact Fees Fund, and the 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, the Capital Project Funds, and the 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 that is reported 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 funds. 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. 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, 2010. Management has included comparative data from fiscal year ending June 30, 2009 in its analysis.

Net Assets (Table 1)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2010	2009	2010	2009	2010	2009
Current and Other Assets	\$ 475.84	\$ 465.47	\$ 191.25	\$ 166.44	\$ 667.09	\$ 631.91
Capital Assets	845.39	838.81	181.79	173.25	1,027.18	1,012.06
Total Assets	1,321.23	1,304.28	373.04	339.69	1,694.27	1,643.97
Long-term Debt Outstanding	193.34	186.22	48.90	49.94	242.24	236.16
Other Liabilities	41.19	45.92	11.58	13.48	52.77	59.40
Total Liabilities	234.53	232.14	60.48	63.42	295.01	295.56
Net Assets:						
Invested in Capital Assets,						
Net of Debt	705.17	697.13	133.93	132.55	839.11	829.68
Restricted	260.69	270.09	4.00	12.04	264.69	282.13
Unrestricted	120.83	104.93	174.63	131.68	295.46	236.61
Total Net Assets	\$ 1,086.70	\$ 1,072.15	\$ 312.56	\$ 276.27	\$ 1,399.26	\$ 1,348.41

The City's Government-wide total net assets were \$1.40 billion, with assets of \$1.69 billion and liabilities of \$295.01 million. The net investment in capital assets of \$839.11 million represents 60.0 percent of the City's total net assets. This is an increase of \$9.43 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 are 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 \$264.69 million (18.9 percent of the total net assets) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$295.46 million or 21.1 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 3.6 percent or \$48.86 million (increase in net assets) before the restatement of \$1.99 million of prior fiscal year's net assets (see Table 2 on the following page). This gain is attributable to the favorable variance of total revenues over total expenditures, especially for business-type activities – a growth in net assets of \$34.31 million or 12.4 percent.

The overall cost of all governmental and business-type activities this year was \$294.34 million and was an overall net increase of \$16.26 million or 5.8 percent compared to the prior year. This is primarily from the increase in General Government expenditures \$15.84 million as a result of the statutory payment of \$16.40 million to the State for the Educational Revenue Augmentation Fund.

Total revenue of all governmental and business-type activities was \$343.20 million for this fiscal year; a minor reduction of \$2.49 million or less than one percent. Program revenues were \$143.34 million and general revenues were \$199.86 million, funding the net difference between program revenues and expenses. The largest single revenue category was Charges for Services, at \$108.20 million, which is *program revenue*. This revenue goes directly against the expenses in recovering the costs of providing those services. Charges for Services revenue decreased by \$1.56 million or 1.4%, mainly due to an overall reduction of \$0.82 million or less than one percent in business-type activities (Water, Sewer and Solid Waste) as a result of consumer consumption reductions in water and solid waste services. Property Taxes, which are considered *general revenues*, were the second largest revenue at \$95.05 million. This revenue category experienced a moderate increase from the prior year of \$3.97 million or 4.4 percent as a result of an overall assessed valuation gain in the redevelopment project areas of approximately four percent. The third largest revenue source was Sales Taxes, another *general revenue* source, at \$54.73 million. Sales Tax revenue was \$5.81 million or 11.9 percent higher than the prior year as a result of an accounting change to accrue for sales tax revenues received 90 days from the end of the fiscal year instead of the previous 60 days. The revenue category of Use of Money and Property was the fourth largest revenue category at \$20.18 million. Use of Money and Property decreased by \$1.37 million compared to the prior year amount of \$21.55 million due to lower investment earnings and interest rates as a result of the continued fall-out of the ongoing severe economic conditions.

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

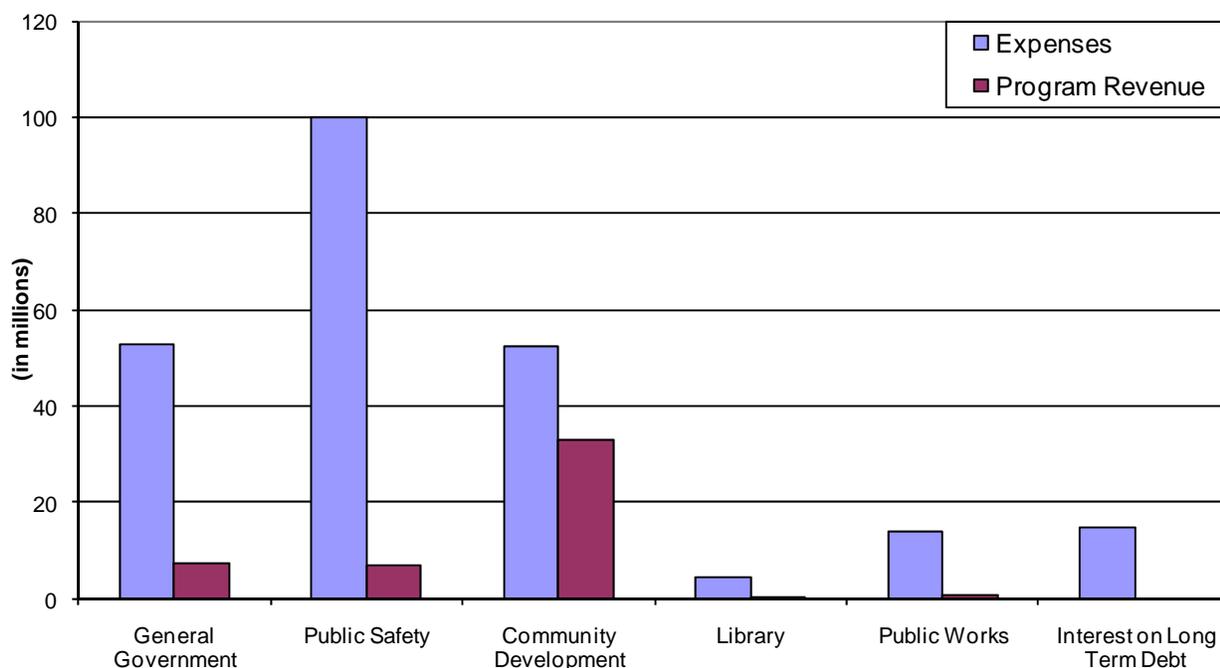
	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for Services	\$ 13.25	\$ 13.99	\$ 94.95	\$ 95.77	\$ 108.20	\$ 109.76
Operating Contributions and Grants	15.11	14.63	0.12	0.05	15.23	14.68
Capital Contributions and Grants	19.91	26.22	-	-	19.91	26.22
Sub-total Program Revenues	48.27	54.84	95.07	95.82	143.34	150.66
General Revenues:						
Property Taxes	95.05	91.08	-	-	95.05	91.08
Sales Taxes	54.73	48.92	-	-	54.73	48.92
Business Licenses Taxes	5.17	5.55	-	-	5.17	5.55
Franchise Taxes	2.74	3.16	-	-	2.74	3.16
Transient Occupancy Taxes	8.40	9.37	-	-	8.40	9.37
Other Taxes	4.01	4.80	-	-	4.01	4.80
Motor Vehicle In-Lieu	0.51	0.59	-	-	0.51	0.59
Use of Money and Property	16.66	16.87	3.52	4.68	20.18	21.55
Other	9.07	10.01	-	-	9.07	10.01
Sub-total General Revenues	196.34	190.35	3.52	4.68	199.86	195.03
Total Revenues	\$ 244.61	\$ 245.19	\$ 98.59	\$ 100.50	\$ 343.20	\$ 345.69
Expenses						
General government	\$ 52.79	\$ 36.95	\$ -	\$ -	\$ 52.79	\$ 36.95
Public safety	100.02	99.58	-	-	100.02	99.58
Community development	52.55	54.58	-	-	52.55	54.58
Library	4.41	4.22	-	-	4.41	4.22
Public works	13.89	8.69	-	-	13.89	8.69
Interest on long-term debt	14.62	14.15	-	-	14.62	14.15
Water	-	-	24.62	27.86	24.62	27.86
Sewer	-	-	10.88	10.27	10.88	10.27
Solid Waste	-	-	20.56	21.79	20.56	21.79
Total Expenses	\$ 238.28	\$ 218.17	\$ 56.06	\$ 59.92	\$ 294.34	\$ 278.09
Increase/(Decrease) in Net Assets Before Transfers	\$ 6.33	\$ 27.02	\$ 42.53	\$ 40.58	\$ 48.86	\$ 67.60
Transfers	8.22	(4.65)	(8.22)	4.65	-	-
Increase/(Decrease) in Net Assets	\$ 14.55	\$ 22.37	\$ 34.31	\$ 45.23	\$ 48.86	\$ 67.60

Governmental Activities

Under the governmental activities, the City’s *net assets* increased by \$14.55 million. The cost of all governmental activities this year was \$238.28 million or 81.0 percent of the government-wide total expenses and was an increase of \$20.11 million from the prior year primarily the net result of increases and decreases in governmental activities overall 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 \$52.79 million or 22.2 percent of total Governmental Activities expenses. Of this amount, \$7.38 million was funded by program revenues, while the remaining \$45.40 million was funded by general revenues. General Government expenditures increased \$15.84 million from a combination of a statutory payment of \$16.40 million to the State for the Educational Revenue Augmentation Fund and a decline of approximately \$0.50 in personnel expenses as a result of salary savings from eliminated positions.

Public Safety expenditures were \$100.02 million or 42.0 percent of the total Governmental Activities expenses. Of this amount, \$6.77 million was funded by program revenues while the remaining \$93.25 million was funded by general revenues. Public safety expenses were relatively flat with only a minimal increase of \$0.44 million compared to the previous year.

Expenses in *Community Development* were \$52.55 million or 22.1 percent of the total Governmental Activities expenditures. These expenses decreased slightly by \$2.03 million or 3.7 percent compared to the prior year. This reduction in expenditures is due to savings in personnel costs and decline in capital projects expenses. Program revenues relating to the funding of community development activities amounted to \$33.09 million, with the remaining funding of \$19.46 million was from general revenues. The majority of program revenues resulted from capital contributions and grants (\$19.15 million) for future development in the City.

The *Library* had expenses of \$4.41 million or 1.9 percent of the total Governmental Activities expenses. Of this amount \$0.21 million was funded by program revenues, while the remaining \$4.20 was funded by general revenues. Expenditures for Library remained primarily stagnant, with only a minimal increase of \$0.19 million.

Public Works expenditures were \$13.89 million or 5.8 percent of the total Governmental Activities expenses. Of this amount, \$0.81 million was funded by program revenues, while the remaining \$13.08 million was funded by general revenues. The growth in Public Works expenditures of \$5.20 million is the result of additional capital projects and increases in materials costs.

Interest on long-term debt had expenditures of \$14.62 million or 6.1 percent of Governmental Activities and is funded entirely by general revenues.

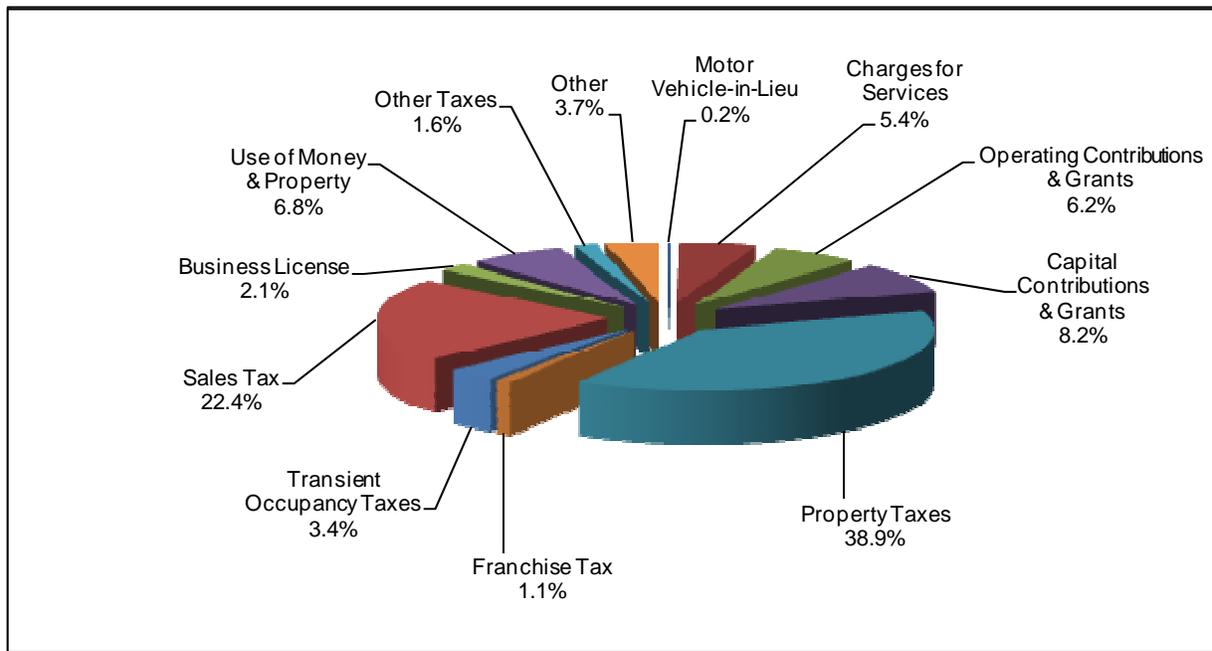
Graph 2 on the following page presents governmental activities revenue by source. Total revenue (before transfers) for governmental activities was \$244.61 million; a minimal decrease of \$0.58 million or less than one percent. The three largest revenue sources under Governmental Activities were the categories of Property Taxes, Sales Taxes, and Capital Contributions and Grants.

Property Tax revenue (general revenue) was \$95.05 million or 38.9 percent of total governmental activities revenue. An increase of \$3.97 million or 4.4 percent compared to the previous year as a result of an overall assessed valuation gain in the redevelopment project areas of approximately four percent. Sales Tax revenue (general revenue) was \$54.73 million or 22.4 percent of total governmental activities revenue. Sales Tax revenue was \$5.81 million or 11.9 percent higher than the prior year as a result of an accounting change to accrue for sales tax revenues received 90 days from the end of the fiscal year instead of the previous 60 days. In addition slight gains have been experienced in the last three quarters compared to the same quarter in the prior year. The third largest revenue source was Capital Contributions and Grants (program revenue) at \$19.91 million or 8.1 percent of total governmental activities revenue. A major decrease of \$6.31 million or 24.1 percent from the prior year due to reduction in governmental related grants and/or contributions received and/or recognized, including those in the funds Gas Tax, Measure I, and Quiet Home.

Other General Revenues totaled \$46.57 million and represented 19.0 percent of the total revenues from governmental activities. The remaining Program Revenues include: Charges for Services of \$13.25 million; and Operating Contributions and Grants of \$15.11 million. Together they represent 11.6 percent of the total governmental activities revenue.

Graph 2 below presents revenues by source for Governmental Activities.

Revenues by Source – Governmental Activities (Graph 2)



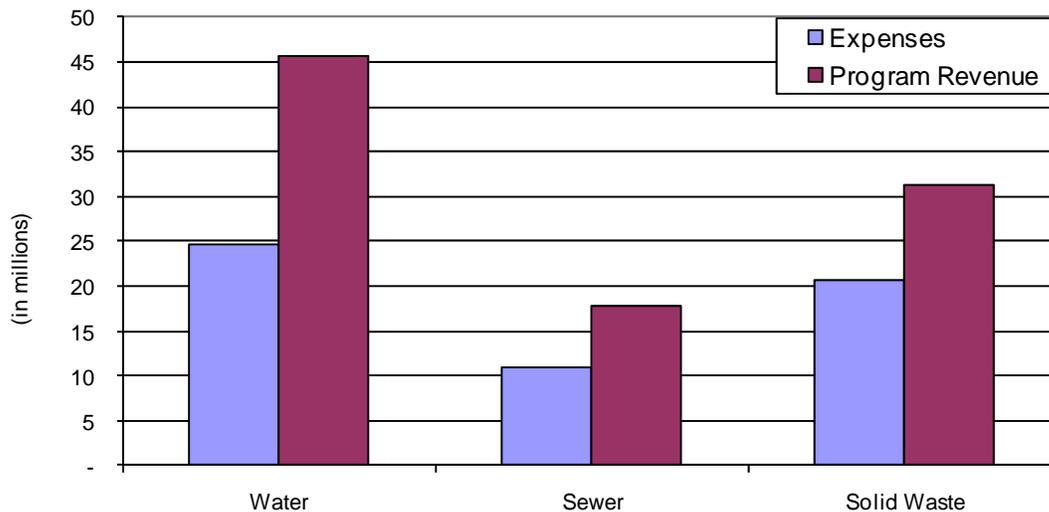
Business-type Activities

Net assets for business-type activities at June 30, 2010 were \$312.56 million, with assets of \$373.04 million and liabilities of \$60.48 million. Unrestricted net assets of \$174.63 million represented 55.9 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 \$133.93 million represented 42.8 percent of the total net assets from business-type activities. The remaining \$4.0 million was restricted for debt service. Compared to the prior year, the City's net assets from business-type activities increased by \$36.29 million or 13.1 percent.

Total revenues (excluding transfers) for the City's business-type activities were \$98.59 million, which represented a \$1.91 million or 1.9 percent decrease from the prior year. Program revenues amounted to \$95.07 million or 96.4 percent of total business-type related revenue. This is a relatively flat compared to the previous year; a minimal decrease of only \$0.75 million or less than one percent. General revenues for business-type activities were \$3.52 million (Use of Money and Property). This was a reduction of \$1.16 million or 24.8 percent due to the lower investment yields as a result of the continued dismal economic conditions. Business-type activities incurred \$56.06 million of expenditures for the year. This is a reduction of \$3.86 million or 6.4% percent compared to the previous year due to lower operating costs.

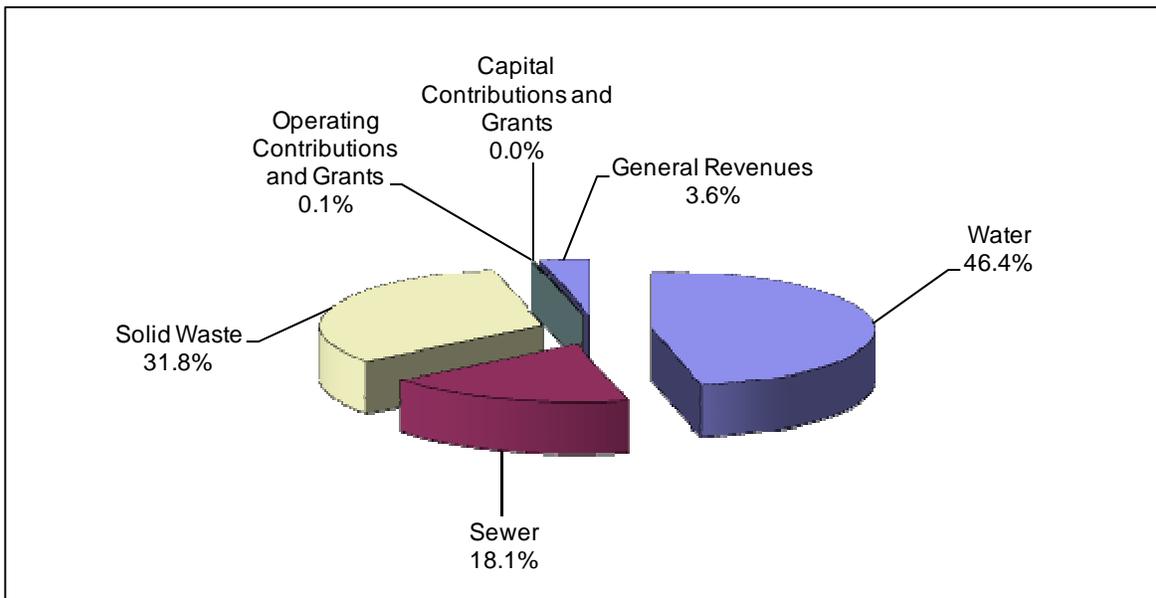
Graph 3 presents the costs of each of the City's business activities and the associated program revenue. Since business-type activities are primarily used when the City charges customers for the services it provides, program revenues (charges for services) should be similar to the costs of these programs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

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



Graph 4 presents revenues by source for business-type activities. Revenue from Water services is the largest revenue source with \$45.77 million or 46.4 percent of the total revenues from business-type activities. The second largest revenue source was revenue from Solid Waste services at \$31.37 million or 31.8 percent of total business-type activities revenues. *Charges for services account* for \$94.95 million or 96.3 percent of total business-type activities revenues (before transfers), while the remaining 3.7 percent is from *general revenues* (\$3.52 million) and *operating contributions and grants* (\$.12 million).

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 had five major governmental funds: General Fund, Quiet Home Program Fund, Capital Projects Fund, Impact Fees Fund, and Redevelopment Agency's Project Area No. 1 Debt Service Fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is discussed in depth later in the MD&A. The special revenue fund for the Quiet Home Program accounts for revenues received primarily from federal sources and the Los Angeles World Airports which are designated for specified airport noise mitigation programs, especially property acquisition, land use conversion and the noise insulation of residences. The City's Capital Project Fund accounts for the financial transactions of general capital improvements. The Impact Fee Fund accounts for revenues from developer-paid impact fees for infrastructure construction in the City. The Ontario Redevelopment Agency Project Area No. 1 Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency's 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 \$351.71 million. Approximately 21.8 percent or \$76.83 million of this total amount constitutes unreserved/undesignated fund balance. The remainder fund balance of \$274.88 million is reserved (\$169.25 million) or designated (\$105.63 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 (\$28.36 million); 2) Prepaid costs and deposits (\$0.66 million); 3) Advances to other funds (\$33.12 million); 4) Reserved for land that was purchased and held for resale (\$99.43 million); 5) Reserved for contracts and notes (\$6.58 million); 6) Reserved for inventory, contractual obligations, and trust and endowment (\$1.10 million) 7) Designated for future expenditures (\$25.18 million); 7) Designated for capital improvement projects (\$54.46 million); 8) Designated for economic uncertainties (\$18.70 million); and 9) Designated for debt service (\$7.28 million).

Governmental Revenues

Revenues of governmental funds for Fiscal Year 2009-10 were \$232.95 million, with a decrease of \$9.35 million or 3.9 percent compared to the previous fiscal year. This decline in government revenue is mainly attributable to the combination of decreases in the following categories of revenues: Use of Money and Property of \$3.37 million or 27.1 percent as a result of lower investment earnings and all time lows of interest rates due to the continued severe economic recession; Intergovernmental of \$3.09 million or 9.2 percent from a reduction of revenues received from the State; Contributions of \$2.17 million or 55.8 percent due the prior year capital contribution from the Community Facilities District (CFD) Agency fund; Sales Tax of \$1.65 million or 3.1 percent due to the continued dismal economic conditions; and Miscellaneous of \$1.01 million or 8.8 percent due to a one time receipt of \$0.88 million revenue in the Assessment District fund. These decreases are offset by the gain in Property Tax of \$3.97 million or 4.4 percent resulting from an overall increase in the assessed valuation in the Redevelopment projects areas of approximately 4.0 percent.

Table 3 below presents a summary of governmental fund revenues for the fiscal year ended June 30, 2010, with comparative amounts from the prior year.

Comparison of Major Governmental Revenues (Table 3)
Fiscal Years 2009-10 and 2008-09

	<u>Amount</u> <u>FY 09-10</u>	<u>% of Total</u> <u>Revenues</u>	<u>Amount</u> <u>FY 08-09</u>	<u>% of Total</u> <u>Revenues</u>	<u>\$ Increase /</u> <u>(Decrease)</u>	<u>% Increase /</u> <u>(Decrease)</u>
Property Tax	\$ 95,049,840	40.80%	\$ 91,075,881	37.59%	\$ 3,973,959	4.36%
Sales Tax	50,932,011	21.86%	52,577,241	21.70%	(1,645,230)	-3.13%
Transient Occupancy Tax	8,398,053	3.61%	9,367,537	3.87%	(969,484)	-10.35%
Parking Tax	3,613,498	1.55%	4,059,902	1.68%	(446,404)	-11.00%
Business Licenses Tax	5,170,173	2.22%	5,550,779	2.29%	(380,606)	-6.86%
Other Taxes	3,772,140	1.62%	4,520,865	1.87%	(748,725)	-16.56%
Licenses & Permits	1,455,692	0.62%	1,344,689	0.55%	111,003	8.25%
Intergovernmental	30,382,263	13.04%	33,475,335	13.82%	(3,093,072)	-9.24%
Charges for Services	11,618,059	4.99%	10,850,659	4.48%	767,400	7.07%
Use of Money & Property	9,038,266	3.88%	12,406,158	5.12%	(3,367,892)	-27.15%
Fines and Forfeitures	1,312,115	0.56%	1,679,130	0.69%	(367,015)	-21.86%
Contributions	1,719,084	0.74%	3,887,060	1.60%	(2,167,976)	-55.77%
Miscellaneous	10,484,584	4.50%	11,499,201	4.75%	(1,014,617)	-8.82%
TOTAL	<u>\$ 232,945,778</u>	<u>100.00%</u>	<u>\$ 242,294,437</u>	<u>100.00%</u>	<u>\$ (9,348,659)</u>	<u>-3.86%</u>

Governmental Expenditures

Operating expenditures for Fiscal Year 2009-10 were \$235.89 million, a significant reduction of \$52.81 million or 18.3 percent over the prior fiscal year. Of the total decrease, Community Development reflected a reduction of \$49.70 million or 43.7 percent as a result of lower activity in development related projects due to the continued dismal economic conditions. Public Works decreased \$3.68 million or 19.1 percent due to the reduction of Public Works projects and savings in operating costs.

Table 4 below presents a summary of governmental fund expenditures for the Fiscal Year ended June 30, 2010 with comparative amounts from the prior year.

**Comparison of Major Governmental Expenditures (Table 4)
Fiscal Years 2009-10 and 2008-09**

	<u>Amount FY 09-10</u>	<u>% of Total Expenditures</u>	<u>Amount FY 08-09</u>	<u>% of Total Expenditures</u>	<u>\$ Increase / (Decrease)</u>	<u>% Increase/ (Decrease)</u>
General Government	\$ 25,731,003	10.91%	\$ 25,940,539	8.99%	\$ (209,536)	-0.81%
Public Safety	101,743,831	43.13%	101,562,349	35.18%	181,482	0.18%
Community Development	64,139,983	27.19%	113,840,713	39.43%	(49,700,730)	-43.66%
Library	4,084,426	1.73%	4,063,682	1.41%	20,744	0.51%
Public Works	<u>15,547,113</u>	<u>6.59%</u>	<u>19,227,003</u>	<u>6.66%</u>	<u>(3,679,890)</u>	<u>-19.14%</u>
Total Operating Expenditures	211,246,356	89.55%	264,634,286	91.66%	(53,387,930)	-20.17%
Debt Service	<u>24,642,229</u>	<u>10.45%</u>	<u>24,066,631</u>	<u>8.34%</u>	<u>575,598</u>	<u>2.39%</u>
TOTAL	<u>\$ 235,888,585</u>	<u>100.00%</u>	<u>\$ 288,700,917</u>	<u>100.0%</u>	<u>\$ (52,812,332)</u>	<u>-18.29%</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 2009-10 were \$94.95 million, while non-operating revenues were \$9.13 million. Operating expenses for fiscal year 2009-10 were \$56.09 million while non-operating expenses were \$2.53 million (debt service interest expense). During the fiscal year, the net amount transferred out to the City's Governmental Funds was \$13.71 million to support for the various governmental activities.

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 2009-10 were \$29.93 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 fifteen 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 Sanitary Collection Treatment Fund which collects sewer capital assessment fees on behalf of the Inland Empire Utilities Agency; the Other Post Employment Benefits supports the reporting requirements of GASB Statement 43 to separately identify the costs and activities related to employee post-employment benefits other than pensions; 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 ten 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 primary operating fund of the City. The fund balance of \$91.02 million as of June 30, 2010 had a gain of \$4.24 million compared to the prior year. This was the combination of a reduction in the Reserve for Encumbrances by \$1.15 million, as well as an overall increase in total designations by \$4.21 million and a growth in Undesignated by \$1.62 million. 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 17.2 percent of total General Fund operating expenditures, while total reserved/designated fund balance amounts to 43.3 percent of the same amount.

The total fund balance is represented by three components: the reserved fund balance of \$14.27 million, a decrease of \$1.31 million from the prior year; the unreserved/designated fund balance of \$50.87 million, an increase of \$4.21 million compared to the previous year; and unreserved/undesignated fund balance of \$25.88 million, a gain of \$1.62 million from the prior year. Over the past five years, the growth in fund balance has enabled City Council to designate a total of \$50.87 million for: 1) City facilities improvement (\$7.69 million); 2) Compensated absences (\$12.25 million); 3) Equipment replacement (\$4.81 million); 4) Assessment District maintenance (\$1.52 million); 4) future development related expenditures (\$5.91 million); and 5) Economic uncertainties (\$18.70 million). Reserved fund balance of \$14.27 million consists of: 1) \$0.99 million for encumbrances; 2) \$12.03 million in advances to the Redevelopment Agency; and 3) \$1.25 million for contractual obligations, prepaid/inventory, and notes.

Table 5 below shows the three components of fund balance for the past five years. The bottom portion of the table shows the opening balance, operating surplus / (deficit), restatements, and ending balance.

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

	<u>FY 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>
Fund Balance					
Reserved	\$ 22,525,397	\$ 19,497,164	\$ 13,829,969	\$ 15,662,478	\$ 14,268,790
Designated Unreserved	31,384,441	23,944,065	44,599,841	46,664,841	50,872,373
Undesignated Unreserved	38,435,090	47,548,903	33,586,103	24,448,021	25,874,462
Total Fund Balance	<u>\$ 92,344,928</u>	<u>\$ 90,990,132</u>	<u>\$ 92,015,913</u>	<u>\$ 86,775,340</u>	<u>\$ 91,015,625</u>
Beginning Balance	\$ 77,520,056	\$ 92,344,928	\$ 90,990,132	\$ 92,015,913	\$ 86,775,340
Operating Surplus/(Deficit)	13,617,857	(1,354,796)	1,025,781	(5,240,573)	4,240,285
Restatements/Equity Transfers	1,207,015	-	-	-	-
Ending Balance	<u>\$ 92,344,928</u>	<u>\$ 90,990,132</u>	<u>\$ 92,015,913</u>	<u>\$ 86,775,340</u>	<u>\$ 91,015,625</u>

GENERAL FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

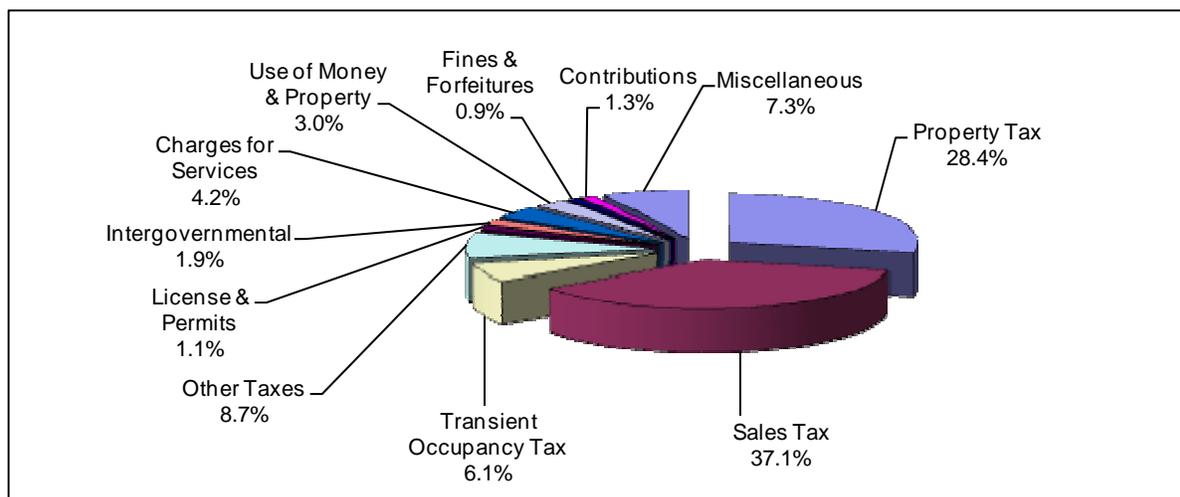
For Fiscal Year 2009-10, General Fund revenues were \$137.40 million, a reduction of \$5.62 million or 3.9 percent. This is primarily due to revenue declines in: Intergovernmental (\$2.43 million) from less State grant funding; and Sales Tax (\$1.65 million), Other Taxes (\$1.21 million), and Transient Occupancy Tax (\$0.97 million) due to lower consumer and business spending.

**General Fund Revenues (Table 6)
Fiscal Years 2007-08, 2008-09 and 2009-10**

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>% of Total</u>	<u>\$ Increase / (Decrease) to Last Year</u>	<u>% of Increase (Decrease)</u>
Property Tax	\$ 37,871,410	\$ 39,868,167	\$ 39,002,655	28.4%	\$ (865,512)	-2.2%
Sales Tax	64,410,513	52,577,241	50,932,011	37.1%	(1,645,230)	-3.1%
Transient Occupancy Tax	11,025,406	9,367,537	8,398,053	6.1%	(969,484)	-10.3%
Other Taxes	14,467,629	13,130,900	11,924,916	8.7%	(1,205,984)	-9.2%
License & Permits	2,745,841	1,344,689	1,455,692	1.1%	111,003	8.3%
Intergovernmental	3,829,705	5,093,261	2,662,954	1.9%	(2,430,307)	-47.7%
Charges for Services	8,376,923	6,332,707	5,798,164	4.2%	(534,543)	-8.4%
Use of Money & Property	8,500,158	4,497,562	4,197,393	3.0%	(300,169)	-6.7%
Fines & Forfeitures	1,548,438	1,675,666	1,301,515	0.9%	(374,151)	-22.3%
Contributions	-	-	1,719,084	1.3%	1,719,084	100.0%
Miscellaneous	7,894,599	9,128,164	10,006,316	7.3%	878,152	9.6%
Totals	<u>\$ 160,670,622</u>	<u>\$ 143,015,894</u>	<u>\$ 137,398,753</u>	<u>100.0%</u>	<u>\$ (5,617,141)</u>	<u>-3.9%</u>

Graph 5 below illustrates General Fund revenue by source.

General Fund Revenues – Fiscal Year 2009-10 (Graph 5)

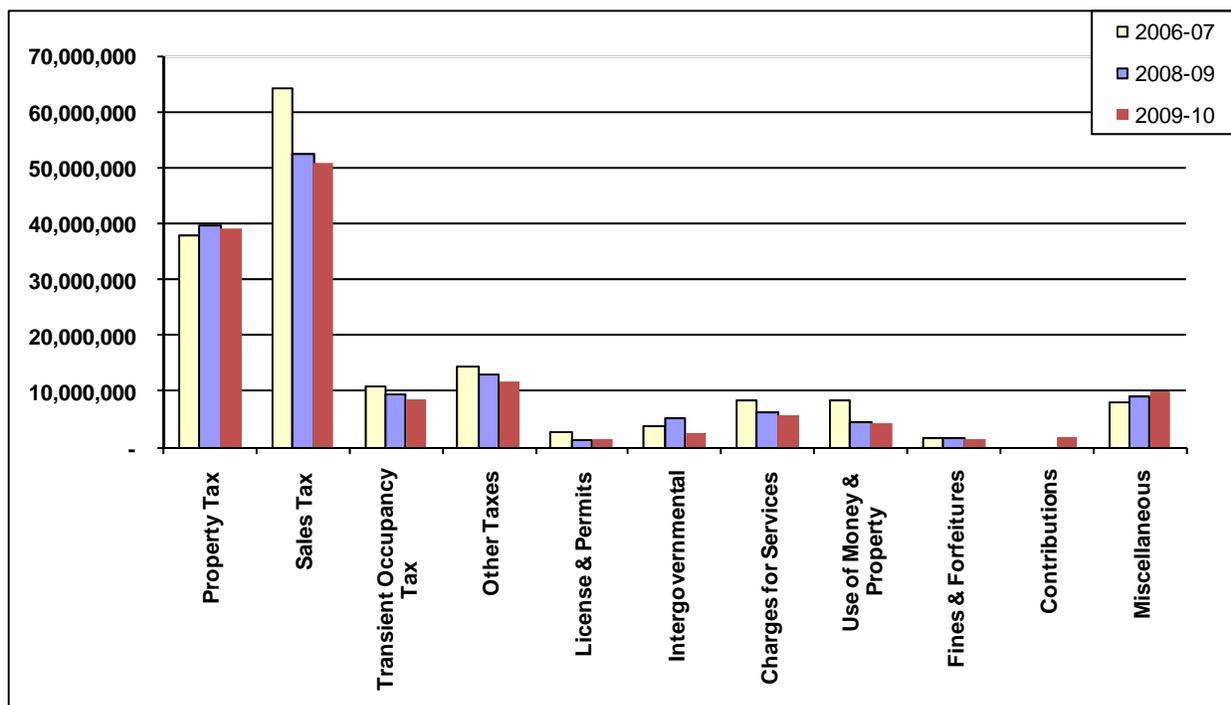


Following is an in-depth analysis of each of the revenue sources.

- Property Tax revenues decreased \$0.87 million or 2.2 percent, comprising 28.4 percent of total General Fund revenue. This was due to a 1.8% decrease in the City's assessed property valuation as a result of the continued sluggish real estate market.
- Sales Tax revenues experienced a decline of \$1.65 million or 3.1 percent from the prior year. Of the total General Fund revenue, 37.1 percent comes from sales taxes. This reduction of revenue is due to lower consumer and business spending as a result of the continued severe economic downturn.
- Transient Occupancy taxes (TOT) also declined by \$0.97 million or 10.3 percent; it comprises 6.1 percent of the City's total General Fund revenue base.
- Other tax revenues include Franchise Fee, Business License Tax, Property Transfer Tax and Parking Tax, comprising 8.7 percent of the City's total General Fund revenue. This revenue category reflected a decrease by \$1.21 million or 9.2 percent. Contributing to this reduction are declines in Parking Tax revenue (\$0.45 million), Franchise Fee revenue (\$0.42 million), and Business License Tax revenue (\$0.38 million).
- License and Permit revenues experienced a slight increase of \$0.11 million or 8.3 percent from the prior year. This is still a decline in revenue from previous years (a decline of \$1.29 million or 47.0 percent from FY 2007-08) as a result of all time lows of development activity that has continued with the current economic recession.
- Intergovernmental revenues decreased by \$2.43 million or 47.7 percent compared to the previous year, due to a reduction in governmental grant revenue received during the year.
- Charges for Services decreased by \$0.53 million or 8.4 percent from the previous year. This is due to the decline in construction related fees associated with the severe curtail of development as a result of the continued economic recession. Charges for Services comprise 4.2 percent of the City's total General Fund revenues.
- Revenues from the Use of Money and Property represent 3.0 percent of total General Fund revenue and experienced a reduction of \$0.30 million or 6.7 percent from the prior year. This reduction was attributable to lower investment returns and all time low interest rates as a result of the continued economic crisis.
- Miscellaneous revenue, including Fines and Forfeiture and Contribution from Other Agency, increased 20.6 percent (\$2.22 million) and represents 9.5 percent of total General Fund revenues. This is mainly attributable to the contribution from the Ontario Redevelopment Financing Authority (\$1.72 million) for capital funding of City facilities improvements, and additional administrative overhead charged by the City to the Ontario Redevelopment Agency and the Ontario Housing Authority City to recover expenses incurred in the General Fund for administration.

Graph 6 included below, presents a comparison of each General Fund revenue source for the past three consecutive years.

Comparison of General Fund Revenues (Graph 6)
Fiscal Years 2007-08, 2008-09 and 2009-10



Expenditures

For Fiscal Year 2009-10, total General Fund expenditures were \$150.53 million, a reduction of \$4.76 million or 3.1 percent compared to the previous year, mainly attributable to citywide savings in operating expenditures. Following are key points of General Fund expenditures.

- General Government expenditures were \$9.99 million, a slight decline of \$0.19 million or 1.9 percent from the prior fiscal year. This decline is the result of savings in operating costs.
- Public Safety expenditures were \$100.59 million, a minimal decrease of \$0.43 million or less than one percent compared to the previous year. This decrease is from operating expenditure savings.
- Community Development expenditures of \$16.92 million were lower by \$2.58 million or 13.2 percent compared to the previous year. This is due to lower operating costs as a direct result of the continued slowdown of development activity.
- Library expenditures were \$4.08 million; relatively no change from the prior year.

- Public Works expenditures were \$14.47 million, a decrease of 11.8 percent or \$1.93 million lower compared to the prior year, mainly due to savings in material and contractual services expenditures.
- Debt Service expenditures were \$4.48 million, a slight decline of \$0.21 million or 4.4 percent over the previous year. Primarily the result of lower debt service payments.

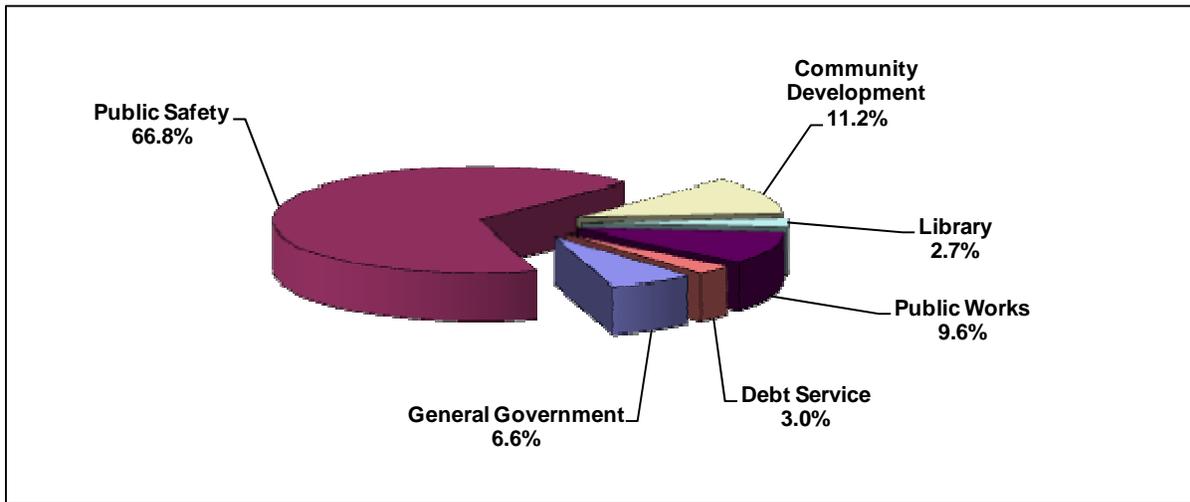
Table 7 below presents General Fund expenditures by category for the past three consecutive fiscal years.

**General Fund Expenditures (Table 7)
Fiscal Years 2007-08, 2008-09 and 2009-10**

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>% of Total</u>	<u>\$ Increase / (Decrease) to Last Year</u>	<u>% of Increase (Decrease)</u>
General Government	\$ 16,985,019	\$ 10,183,786	\$ 9,990,282	6.6%	\$ (193,504)	-1.9%
Public Safety	97,073,618	101,021,285	100,588,380	66.8%	(432,905)	-0.4%
Community Development	21,397,507	19,497,804	16,915,964	11.2%	(2,581,840)	-13.2%
Library	4,062,996	4,063,682	4,084,426	2.7%	20,744	0.5%
Public Works	14,869,562	16,399,937	14,468,632	9.6%	(1,931,305)	-11.8%
Debt Service	2,952,186	4,684,889	4,479,017	3.0%	(205,872)	-4.4%
Totals	<u>\$ 157,340,888</u>	<u>\$ 155,851,383</u>	<u>\$ 150,526,701</u>	<u>100.0%</u>	<u>\$ (5,324,682)</u>	<u>-3.4%</u>

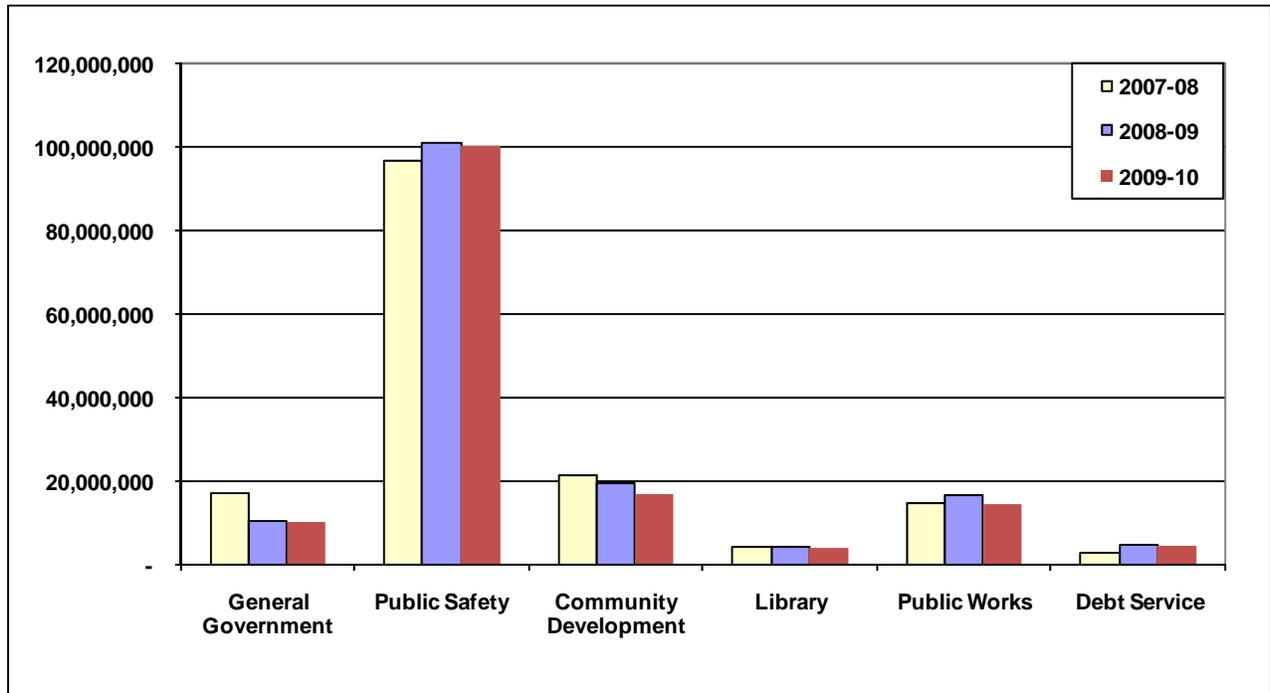
Graph 7 below presents General Fund expenditures by category.

General Fund Expenditures – Fiscal Year 2009-10 (Graph 7)



Graph 8 below illustrates a comparison of each expenditure category for the past three consecutive fiscal years.

**Comparison of General Fund Expenditures (Graph 8)
Fiscal Years 2007-08, 2008-09 and 2009-10**



QUIET HOME PROGRAM FUND – FUND BALANCE ANALYSIS

The Quiet Home Program Fund accounts for revenues received primarily from federal sources and the Los Angeles World Airports which are designated for specified airport noise mitigation programs, especially property acquisition, land use conversion and the noise insulation of residences. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2010. The fund balance of \$52.60 million as of June 30, 2010 had a gain of \$1.67 million or 3.3 percent compared to the prior year. Total Assets of \$54.23 million experienced a slight decline of \$0.34 million or less than one percent. Total Liabilities of \$1.62 million decreased \$2.01 million primarily due to the reduction in Unearned Revenues of \$1.06 million compared to the prior year in which a higher amount of grant monies were received but not recognized at the end of the fiscal year. In addition, the accounts payable liability was reduced by \$0.95 million.

QUIET HOME PROGRAM FUND – REVENUE AND EXPENDITURE ANALYSIS**Revenues**

For Fiscal Year 2009-10, total Quiet Home Program Fund revenues were \$4.53 million, a decrease of \$1.27 million. This is primarily due to the decrease in Intergovernmental revenues of \$1.25 million as a result of timing of when grant revenues are recognized – when they are earned.

Expenditures

For Fiscal Year 2009-10, total Quiet Home Program Fund expenditures were \$2.86 million, a slight reduction of \$0.10 million or 3.4 percent compared to the prior year. This is primarily the result of lower grant activity experienced in this fiscal year compared to the previous year due to lower grant funding amounts.

CAPITAL PROJECTS FUND – FUND BALANCE ANALYSIS

The Capital Projects Fund accounts for financial transactions of general capital improvements. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2010. The fund balance of \$32.09 million as of June 30, 2010 had a minimal increase of \$0.64 million or 2.0 percent compared to the prior year. Total Assets were \$43.55 million, a slight decline of \$1.20 million or 2.7 percent. Cash and Investments increased \$4.13 million over the previous year, which is attributable to the capital funding transfers for various capital projects, including the City Hall renovation project. Cash and Investments with Fiscal Agents decreased \$6.87 million or 26.0 percent, as a result of the progress on bond funded projects, including City Hall improvements and such other public facilities as may from time to time be designated by the City. Total Liabilities of \$11.46 million, reflected a reduction of \$1.84 million or 13.8 percent, primarily the combination of decreases in Due to Other Funds of \$2.04 million and Accounts Payable of \$1.29 million, and an increase in Deferred Revenues of \$1.58 million. The Capital Project Fund also reflected an increase of \$12.75 million in the Reserve for Encumbrances, as a result of the carryover of prior year contractual obligations relating to the City Hall renovation project.

CAPITAL PROJECTS FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2009-10, total Capital Projects Fund revenues were relatively flat compared to the prior year at \$5.76 million; a minimal gain of \$0.12 million or 2.2 percent, mainly the result of a slight increase of \$0.12 million in Intergovernmental revenues.

Expenditures

For Fiscal Year 2009-10, total Capital Projects Fund expenditures were \$10.12 million, a significant reduction of \$53.14 million or 84.0 percent compared to the prior year. This decrease was mainly attributable to the completion of capital projects in the prior year, mainly the Citizens Business Bank Arena project (a \$150.0 million funded project) and the Soccer Complex.

IMPACT FEES – FUND BALANCE ANALYSIS

The Impact Fees Fund accounts for revenues from developer paid impact fees for related infrastructure construction. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2010. The fund balance of \$42.68 million as of June 30, 2010 had a decline of \$4.45 million or 9.4 percent compared to the prior year. This is mainly attributable to the slowdown in development activity as a result of the continued economic downturn. Total Assets were \$45.83 million; a reduction of \$4.48 million or 8.9 percent. This is primarily the result of decreased in Deposits with Others (\$2.11 million) and Cash and Investments (\$2.24 million). Total Liabilities of \$3.16 million remain relatively flat with a decrease of only \$0.03 million or less than one percent.

IMPACT FEES FUND – REVENUE AND EXPENDITURE ANALYSIS**Revenues**

For Fiscal Year 2009-10, total Impact Fees Fund revenues were \$3.35 million, a reduction of \$1.93 million or 36.5 percent compared to the prior year. This is mainly attributable to reductions in Charges for Services of \$0.90 million or 32.0 percent due to the continued slowdown in development activity from the current economic downturn, and in Use of Money and Property of \$1.04 million or 42.5 percent resulting from lower investment earnings due to the continued economic recession.

Expenditures

For Fiscal Year 2009-10, total Impact Fees Fund expenditures were \$2.30 million, a decline of \$0.55 million or 19.2 percent compared to the prior year. This decrease is primarily from lower project expenditures resulting from the sluggish development activity due to the continued dismal economic conditions.

REDEVELOPMENT AREA #1 - DEBT SERVICE FUND – FUND BALANCE ANALYSIS

The Redevelopment Area #1-Debt Service Fund is an Ontario Redevelopment Agency fund that receives the tax increment for the Redevelopment Project Area #1 that is used to pay bond and other project area debts. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2010. The fund balance of \$7.28 million as of June 30, 2010 reflected a reduction of \$10.02 million or 57.9 percent compared to the prior year. Contributing to this decrease was the statute payment of \$16.4 million to the State for the Educational Revenue Augmentation Fund. Total Assets were \$31.98 million; a decrease of \$8.53 million from the previous year which is attributable to the reduction in Cash and Investments (\$9.98 million) and an increase in Receivables-Taxes (\$1.57 million). Total Liabilities of \$24.70 million increased \$1.49 million primarily due to the growth of \$0.98 million in Advance from Other Funds. This was the result of additional interest accrued on various City notes but not paid. In addition, Accounts Payable increased by \$0.51 million.

REDEVELOPMENT AREA #1 - DEBT SERVICE FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2009-10, total Redevelopment Area #1-Debt Service Fund revenues were \$35.95 million; a growth of \$2.04 million compared to the prior year. This increase is mainly attributable to the gain in tax increment revenue of \$2.75 million or 8.4 percent as a result of the growth in property assessed valuations in the Redevelopment Project Area #1, combined with the reduction of \$0.71 million or 55.4% in Use of Money and Property due to the lower investment returns and all time low interest rates resulting from the continued economic crisis, and reduced cash balances from the large statute payment of \$16.4 million to the State for the Educational Revenue Augmentation Fund.

Expenditures

For Fiscal Year 2009-10, total Redevelopment Area #1-Debt Service Fund expenditures were \$19.70 million, a minor increase of \$0.76 million or 4.0 percent over the previous year. This is the result of a combination of increases from General Government of \$0.48 million and Pass-through Agreements of \$0.20 million. Both increases are an indirect result from growth in tax increment revenue which results in increase collection charges and pass-through payments to other taxing agencies.

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. The first category includes carry-forward encumbrances and capital projects that are approved shortly after the beginning of the year. The second category includes changes that the Council makes during the quarterly budget process. Finally, the Council approves supplemental appropriations through out the year based on individual items that are brought forward by various departments. The General Fund budgetary comparison statement is located in the Basic Financial Statements.

Resources (Inflows)

The budgeted amount for *revenues* (resources available for appropriation) had an increase of \$15.64 million between the original budget of \$150.53 million and the final amended budget of \$166.17 million. The increase was due in part to budget adjustments for Intergovernmental (\$8.61 million) and Transfers from Other Funds (\$7.25 million). With these adjustments, actual revenues understated the final amended budget by \$6.24 million.

Charges to Appropriations (Outflows)

The difference between the original budget and the final budget was an increase of \$15.28 million in appropriations. Public Safety appropriations were increased by \$4.98 million primarily as a result of anticipated grant related expenditures (\$3.98 million) and carryover of appropriations from the prior year (\$0.81 million). Community Development appropriations were increased by \$5.14 million primarily for carryover of appropriations from the prior year and contractual services related to the development of the general plan and other development related projects. Transfers to Other Funds were increased by \$4.98 million to provide additional funding for capital improvement projects, including the City Hall Renovation project.

Table 8 on the following page is a comparison of actual inflow and outflow with the final budget.

Budgetary Comparison for General Fund (Table 8)
Fiscal Year 2009-10
(in millions)

	Budget Amounts			Actuals	Final Budget Variance Favorable / (Unfavorable)
	Original	Final	Variance		
Resources (Inflows):					
Taxes	\$ 109.08	\$ 108.06	\$ 1.02	\$ 110.26	\$ 2.20
Licenses and Permits	0.77	1.19	(0.42)	1.45	0.26
Intergovernmental	1.56	10.17	(8.61)	2.66	(7.51)
Charges for Services	4.42	4.97	(0.55)	5.80	0.83
Use of Money and Property	4.78	4.54	0.24	4.20	(0.34)
Fines and Forfeitures	1.09	1.09	-	1.30	0.21
Contributions	-	-	-	1.72	1.72
Miscellaneous	8.01	8.08	(0.07)	10.01	1.93
Transfers from Other Funds	20.82	28.07	(7.25)	22.53	(5.54)
Total Resources	\$ 150.53	\$ 166.17	\$ (15.64)	\$ 159.93	\$ (6.24)
Charges to Appropriations (Outflows):					
General Government	\$ 10.27	\$ 10.31	\$ (0.04)	\$ 9.99	\$ 0.32
Public Safety	99.70	104.68	(4.98)	100.59	4.09
Community Development	15.96	21.10	(5.14)	16.92	4.18
Library	4.17	4.17	-	4.08	0.09
Public Works	16.50	16.64	(0.14)	14.47	2.17
Debt Service	4.48	4.48	-	4.48	-
Transfers to Other Funds	2.08	7.06	(4.98)	5.16	1.90
Total Charges to Appropriations	\$ 153.16	\$ 168.44	\$ (15.28)	\$ 155.69	\$ 12.75

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, 2010, is \$1,027.18 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 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)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 37.05	\$ 35.76	\$ 15.09	\$ 15.09	\$ 52.14	\$ 50.85
Structures and Improvements	285.27	132.07	6.00	5.44	291.27	137.51
Furniture and Equipment	6.06	6.84	0.35	0.51	6.41	7.35
Infrastructure	486.48	483.68	120.30	116.04	606.78	599.72
Construction in Progress	30.53	180.46	40.05	36.17	70.58	216.63
Total Net Assets	\$ 845.39	\$ 838.81	\$ 181.79	\$ 173.25	\$ 1,027.18	\$ 1,012.06

Additional detail information is provided on Capital Assets in the *Notes to Financial Statements, Note 5*.

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 \$8.24 million on street maintenance for the fiscal year ended June 30, 2010 to delay deterioration. The City has estimated that the amount of annual expenditures required maintaining the City's streets at the minimum PCI rating of "Good" through the year of 2010 is a minimum of \$5.81 million per year. As of June 30, 2010, the City had approximately 117 million square feet of streets with a carrying amount of approximately \$295.35 million and a replacement cost of approximately \$330.81 million.

The City is also continuously taking actions to arrest the deterioration of other infrastructure assets through short-term maintenance activities. The City expended \$5.20 million on other infrastructure (sidewalks, traffic signals/street lights and catch basins/storm drains) maintenance for the fiscal year ended June 30, 2010. These expenditures delayed deterioration and improved the overall condition through these maintenance efforts. It is estimated that it will cost approximately \$13.2 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 \$193.34 million in outstanding long-term debt for Governmental Activities. This debt consisted of tax allocation bonds, revenue bonds, loans, compensated absences, claims and judgments, and unamortized bond premiums. Long-term debt increased \$7.12 million compared to the prior year total of \$186.22 million, primarily due to the increase of \$8.89 million for the Other Post Employment Benefits (future retiree medical costs) obligation.

More detail information is provided on long-term debt activity in the *Notes to the Financial Statements, Note 7*.

Table 10 below is a summary of the City's long-term debt for the year ended June 30, 2010.

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

	Governmental Activities			
	2010	2009	Amount Increase / (Decrease)	Percentage Increase (Decrease)
Tax Allocation Bonds	\$ 52.15	\$ 55.14	\$ (2.99)	-5.4%
Revenue Bonds	82.97	83.78	(0.81)	-1.0%
Loans	12.82	13.18	(0.36)	-2.7%
Other Post Employment Benefits	20.62	11.73	8.89	75.8%
Claims and Judgments	13.44	11.56	1.88	16.3%
Compensated Absences	9.67	9.05	0.62	6.9%
Unamortized Bond Premium	1.67	1.78	(0.11)	-6.2%
	<u>\$ 193.34</u>	<u>\$ 186.22</u>	<u>\$ 7.12</u>	<u>3.8%</u>

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, 2010, in preparing the budget for fiscal year 2010-11, management gave careful consideration to the possible impact to the State of California and the national economies will have on the City's budget. Substantial changes have occurred in the economy in which the City operates, and at this time the effect of these factors on the City's operations and its costs are difficult to predict. Unfortunately, there is no consensus, at any level, as to the depth and length of this current downturn, which presented a challenge to the preparation of the City's adopted budget. The overall approach in the development of the fiscal year 2010-11 budget was to achieve and maintain an appropriate balance of expenditure reductions to address the negative economic impacts on City revenues, while minimizing impacts on the delivery of services, programs and capital projects.

In anticipation of and in keeping ahead of the impacts of the Global recession on the City's fiscal health, the City Council authorized a number of forward-thinking budget actions over the years, a summary of which is as follows:

- **Hiring / Position Review Process** – The City initiated a formal position review/hiring freeze in November 2007, well ahead of and in anticipation of a downturn in the economy. This action has dramatically reduced the need to eliminate filled positions thus far and continues in place today.
- **Increase Economic Uncertainty Reserve to \$24.6 million**
- **General Fund Expenditure Reduction Plan** – Early on, analysis of revenues and expenditures project a City five-year General Fund budget deficit of approximately \$85.5 million. Accordingly, the City Council adopted a series of cost reduction measures as part of the FY 2008-09 and FY 2009-10 Operating Budgets, the primary elements of which included 1) use of certain reserves; 2) development of new revenue sources; 3) temporary reductions in internal service fund transfers; and 4) personnel and operating cost reduction measures.
- **Labor Agreements** – The City's Bargaining Groups, across the board, voted to forgo certain scheduled wage and/or merit increases during FY 2009-10 and FY 2010-11.
- **American Reinvestment and Recovery Act (ARRA, aka Federal Stimulus Funds)** – The City has been awarded, and continues to proactively seek, Federal Stimulus funding opportunities in the areas of Energy, Fire, and Transportation.

The Economy continued to present challenges in the preparation and development of the Adopted FY 2010-11 Operating and Capital Budgets – in trying to predict the rate of growth and corresponding needs in the City; the ongoing requirements of maintaining service levels to the Community; and focusing the appropriate level of resources in the City's business sector – all while many of the City's major revenue sources have been and are projected to experience flat and/or negative growth.

Accordingly, the adopted overall budget for FY 2010-11 maintains critical Public Safety services at their current levels; continues targeted investment in capital projects to improve public facilities and infrastructure; provides reserves for other liabilities such as accrued employee leave liability, public safety equipment, communications equipment, and retiree medical; and is consistent with the 5 year, \$85.5 million deficit plan which includes funding of the \$24.6 million from Economic Uncertainty Reserves.

The Fiscal Year 2010-11 Budget, as adopted, does not, however, provide for further State “takeaways” affecting the General Fund. Due to the uncertainty regarding the State Budget and wide range of potential reductions, it is difficult to determine the fiscal impact to the City at this time. However, it is anticipated that further budget adjustments may be required due to the likelihood that the State will take revenues from local government as they have done in the past.

Significant Issues Concerning Future Budget Development:

- ***OPEB Liability*** – In Fiscal Year 2001-02, the City Council began allocating funds toward the costs of post-employment benefits (OPEB), such as retiree medical costs. As of June 30, 2010, the City's total liability for OPEB is approximately \$135 million, of which \$90.51 million still remains unfunded. In the coming years, focus must be kept on OPEB costs as these will continue to increase due to higher health care premiums.
- ***State's Finances*** – During FY 2009-10, the State of California, due to its inability to live within its means, “borrowed” \$3.4 million from the City through a “take” of property taxes. Further, the State outright “took” (not borrowed) \$16.4 million in Redevelopment property tax increment and is scheduled to “take” an additional \$3.4 million of Redevelopment tax increment next year as well. The State's inability to manage its finances will continue to be a threat to local government, especially in light of the fact that even though they continue to take money from local government, it has done nothing towards resolving their historical \$25+ billion annual deficits.
- ***CalPERS*** – The California State Public Employees Retirement System is considerably underfunded, primarily due to unrealistic projected earning rates; significant losses from investments; and unsustainable levels of benefit provisions. All of this has led to CalPERS needing to dramatically increase the amounts to be paid in by plan

participants. The City has done its best to plan for such increases and has built in an estimate as part of the five-year budget forecast.

The Adopted Operating Budget for Fiscal Year 2010-11 is structurally balanced, addresses City Council's priorities, and effectively balances achievement of community needs and accomplishment of the Council's goals and objectives while maintaining financial strength. The Adopted Budget for 2010-11 continues to support high-quality municipal services, maintenance and needed expansion of the City's infrastructure and facilities, and the investment and reinvestment of City resources in the community to bring about dividends for years to come.

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 91762.