

# **FINANCIAL SECTION**

*Retired*

**Robert C. Lance**  
1914-1994

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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, 2007, 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, 2007, 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 November 16, 2007, 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*

November 16, 2007

## 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, 2007. 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 \$1.45 billion and total liabilities were \$252.59 million at June 30, 2007. The assets exceeded liabilities by \$1.20 billion (net assets). Of this amount, \$196.41 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended June 30, 2007, total net assets increased by \$149.26 million before a (\$7.21) million restatement. This increase results from a favorable variance of revenues over expenses. Total revenues from all sources were \$430.41 million and total expenses for all functions/programs were \$281.15 million.
- Of total revenues, program revenues were \$196.23 million and general revenues were \$234.19 million. Program revenues are broken into three categories: Charges for Services, \$105.25 million; Operating Contributions and Grants, \$14.47 million; and Capital Contributions and Grants, \$76.51 million.

#### Fund Based

- For the fiscal year ended June 30, 2007, the unreserved/undesignated fund balance of the General Fund was \$46.62 million.
- For the General Fund, actual resources (inflows) available for appropriation were \$276.40 million, which exceeded the final budget of \$253.76 million by \$22.64 million. Actual charges (outflows) of \$186.46 million were \$14.0 million less than the final budget of \$200.47 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 individual governmental funds. These funds report financial transactions using the modified accrual accounting method. Information for four out of the thirty 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 major funds. They are the General 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, 2007. Management has included comparative data from fiscal year ending June 30, 2006 in its analysis.

**Net Assets (Table 1)**  
**(in millions)**

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 492.27	\$ 387.31	\$ 145.20	\$ 130.42	\$ 637.47	\$ 517.73
Capital Assets	706.27	682.70	110.11	100.00	816.38	782.70
<b>Total Assets</b>	<b>1,198.54</b>	<b>1,070.01</b>	<b>255.31</b>	<b>230.42</b>	<b>1,453.85</b>	<b>1,300.43</b>
Long-term Debt Outstanding	142.87	144.76	51.80	52.69	194.67	197.45
Other Liabilities	47.74	34.02	10.18	9.75	57.92	43.77
<b>Total Liabilities</b>	<b>190.61</b>	<b>178.78</b>	<b>61.98</b>	<b>62.44</b>	<b>252.59</b>	<b>241.22</b>
Net Assets:						
Invested in Capital Assets,						
Net of Debt	582.41	555.45	76.79	100.00	659.20	655.45
Restricted	324.61	235.41	21.04	25.32	345.65	260.73
Unrestricted	100.91	100.36	95.50	42.63	196.41	142.99
<b>Total Net Assets</b>	<b>\$ 1,007.93</b>	<b>\$ 891.23</b>	<b>\$ 193.33</b>	<b>\$ 167.98</b>	<b>\$ 1,201.26</b>	<b>\$ 1,059.21</b>

The City's Government-wide total net assets were \$1.20 billion, with assets of \$1.45 billion and liabilities of \$252.59 million. The net investment in capital assets of \$659.20 million represents 54.9 percent of the City's total net assets. This is an increase of \$3.75 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 \$345.65 million (28.8 percent of the total net assets) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$196.41 million or 16.3 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 \$149.26 million (increase in net assets) before the restatement of (\$7.21) million of prior fiscal year's net assets. The overall cost of all governmental and business-type activities this year was \$281.15 million and was an overall net increase of \$8.08 million from the prior year primarily from the increase of expenditures in public works of \$22.02 million, and decreases of expenditures in general government of \$10.32 million and in sewer of \$3.87 million.

The government's net assets increased \$149.26 million (Table 2), with total revenues of \$430.41 million and total expenses of \$281.15 million. Program revenues were \$196.23 million and general revenues were \$234.18 million, funding the net difference between program revenues and expenses. The largest single revenue category was Charges for Services, at \$105.25 million, which is *program revenue*. This revenue goes directly against the expenses in recovering the costs of providing those services. Property Taxes, which are consider *general revenues*, were the second largest revenue at \$77.08 million. The third largest revenue source was Capital Contributions and Grants at \$76.51 million.

In comparison to the prior fiscal year, the government's total revenues increased by \$91.43 million, which includes \$53.39 million in program revenues and \$38.04 million in general revenues. The largest increase in program revenues is in capital contributions and grants of \$45.44 million is attributable to \$47.10 million of impact fees collected during the year as a result of the growing capital development in the New Model Colony. Charges for services increased by \$18.43 million comparing to the previous fiscal year, due to rate increases for water, sewer, and solid waste services, and an increase in development fees collected as a result of development activity in the New Model Colony. Operating contributions and grants decreased by \$10.48 million from the previous year as a result of decreases in the governmental activities of general government (\$6.46 million) and community development (\$3.98 million). The general revenue increase of \$38.04 million was primarily the result of a \$21.46 million increase in other revenue (of which \$19.62 is attributable to gain on sale of assets), \$11.88 million in the category use of money and property which resulted from higher investment returns, and \$6.12 million in additional property taxes due to overall increase in assessed property valuation.

The overall expenses increased by \$8.08 million as compared to the prior year. This is attributable to a combination of increases in public works expenditures (\$22.02 million) and public safety expenditures (\$2.31 million), and decreases in general government expenditures (\$10.32 million), library expenditures (\$1.62 million), and interest on long-term debt (\$1.56 million).

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

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program Revenues:						
Charges for Services	\$ 23.59	\$ 16.29	\$ 81.66	\$ 70.53	\$ 105.25	\$ 86.82
Operating Contributions and Grants	14.36	24.79	0.11	0.16	14.47	24.95
Capital Contributions and Grants	76.51	31.07	-	-	76.51	31.07
Sub-total Program Revenues	114.46	72.15	81.77	70.69	196.23	142.84
General Revenues:						
Property Taxes	77.08	70.96	-	-	77.08	70.96
Sales Taxes	61.39	63.45	-	-	61.39	63.45
Franchise Taxes	2.56	2.34	-	-	2.56	2.34
Transient Occupancy Taxes	11.01	11.07	-	-	11.01	11.07
Other Taxes	20.08	20.04	-	-	20.08	20.04
Motor Vehicle In-Lieu	1.02	0.58	-	-	1.02	0.58
Use of Money and Property	18.69	8.95	4.69	2.55	23.38	11.50
Other	33.30	13.26	4.36	2.94	37.66	16.20
Sub-total General Revenues	225.13	190.65	9.05	5.49	234.18	196.14
<b>Total Revenues</b>	<b>\$ 339.59</b>	<b>\$ 262.80</b>	<b>\$ 90.82</b>	<b>\$ 76.18</b>	<b>\$ 430.41</b>	<b>\$ 338.98</b>
<b>Expenses</b>						
General government	\$ 36.57	\$ 46.89	\$ -	\$ -	\$ 36.57	\$ 46.89
Public safety	84.00	81.69	-	-	84.00	81.69
Community development	49.07	49.14	-	-	49.07	49.14
Library	2.80	4.42	-	-	2.80	4.42
Public works	33.55	11.53	-	-	33.55	11.53
Interest on long-term debt	12.40	13.96	-	-	12.40	13.96
Water	-	-	31.43	29.94	31.43	29.94
Sewer	-	-	8.91	12.78	8.91	12.78
Solid Waste	-	-	22.42	22.72	22.42	22.72
<b>Total Expenses</b>	<b>\$ 218.39</b>	<b>\$ 207.63</b>	<b>\$ 62.76</b>	<b>\$ 65.44</b>	<b>\$ 281.15</b>	<b>\$ 273.07</b>
<b>Increase/(Decrease) in Net Assets Before Transfers</b>	<b>\$ 121.20</b>	<b>\$ 55.17</b>	<b>\$ 28.06</b>	<b>\$ 10.74</b>	<b>\$ 149.26</b>	<b>\$ 65.91</b>
Transfers	12.38	13.89	(12.38)	(13.89)	-	-
<b>Increase/(Decrease) in Net Assets</b>	<b>\$ 133.58</b>	<b>\$ 69.06</b>	<b>\$ 15.68</b>	<b>\$ (3.15)</b>	<b>\$ 149.26</b>	<b>\$ 65.91</b>

General government expenditures decreased by \$10.32 million compared to the previous year, mainly the result of the prior year's \$17.78 million contribution to the Other Post Employment Benefits (OPEB) Fund from the General Fund. For Fiscal Year 2006-07, the contribution to the OPEB Fund was \$7.78 million.

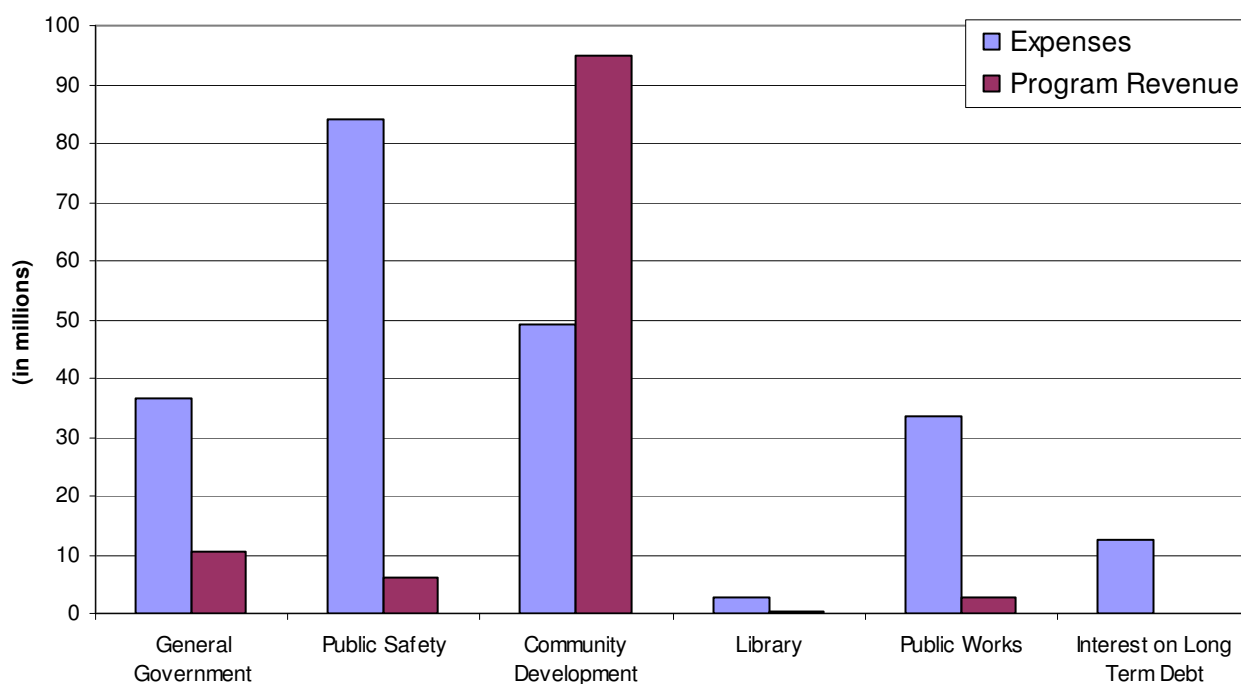
Business-type activities expenditures slightly decrease by \$2.68 million, primarily attributable to the slight decrease in sewer activities of \$3.87 million.

### **Governmental Activities**

Under the governmental activities, the City's *net assets* increased by \$116.70 million. The cost of all governmental activities this year was \$218.39 million or 77.7% percent of the government-wide total expenses and was an increase of \$10.76 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 \$36.57 million or 16.75 percent of total Governmental Activities expenses. Of this amount, \$10.58 million was funded by program revenues, while the remaining \$25.99 was funded by general revenues. General government expenditures decreased \$10.32 million compared to the previous year, mainly the result of the prior year's \$17.78 million contribution to the Other Post Employment Benefits (OPEB) Fund from the General Fund. For Fiscal Year 2006-07, the contribution to the OPEB Fund was \$7.78 million.

*Public Safety* expenditures were \$84.0 million or 38.5 percent of the total Governmental Activities expenses. Of this amount, \$6.06 million was funded by program revenues while the remaining \$77.94 million was funded by general revenues. Public safety expenses experienced a slight increase of \$2.31 million or 2.8 percent from the previous year.

Expenses in *Community Development* were \$49.07 million or 22.5 percent of the total Governmental Activities expenditures. These expenses slightly decreased by \$0.07 million or less than one percent compared to the prior year. Program revenues relating to the funding of community development activities amounted to \$95.0 million, which was substantially more than the total expenditures. The majority of program revenues resulted from capital contributions (\$73.69 million) for future development in the City.

*Public Works* expenditures were \$33.55 million or 15.4 percent of the total Governmental Activities expenses. Of this amount, \$2.58 million was funded by program revenues, while the remaining \$30.97 million was funded by general revenues. The Public Works expenses experience an increase of \$22.02 million from the prior year, as a result of additional public works projects that were completed this year.

The *Library* had expenses of \$2.8 million or 1.3 percent of the total Governmental Activities expenses. Of this amount \$2.24 million was funded by program revenues, while the remaining \$2.56 was funded by general revenues. Expenditures for the library had a decrease of \$1.62 million or 36.7 percent from the prior year, mainly due to the relocation of the main library to the newly remodeled library building that occurred in the previous year.

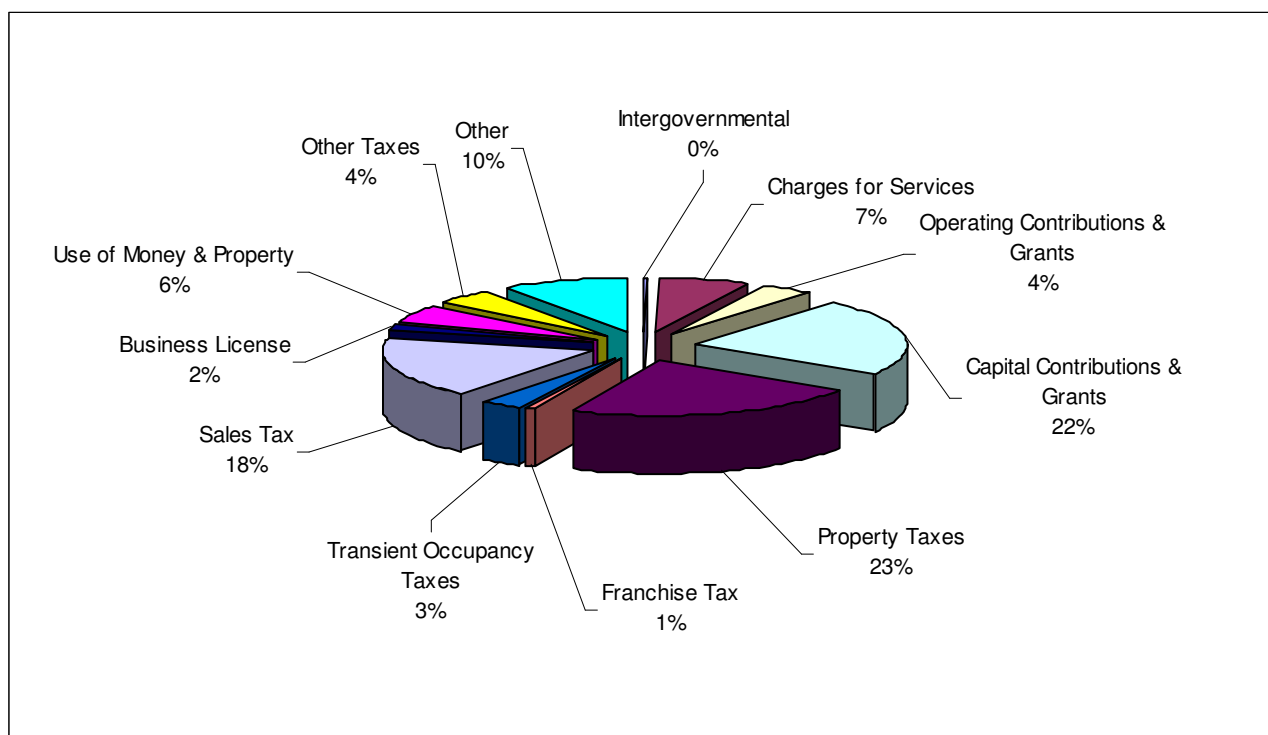
*Interest on long-term debt* had expenditures of \$12.40 million or 5.7 percent of Governmental Activities and is funded entirely by general revenues.

Graph 2 on next page presents governmental activities revenue by source. The three largest revenue sources under Governmental Activities were the categories of property taxes, capital contributions and grants, and sales taxes. Property taxes revenue (general revenue) was \$77.08 million or 22.7 percent of total governmental activities revenue. This has resulted in an increase of \$6.12 million compared to the previous year due to the overall increase in assessed property valuation. Capital contributions and grants (program revenue) was the second largest revenue source at \$76.51 million or 22.5 percent of total governmental activities revenue. This is mainly attributable to the \$47.10 million of impact fees collected during the year as a result of the growing capital development in the New Model Colony. Sales taxes revenue (general

revenue) was \$61.39 million or 18.1 percent of total governmental activities revenue. This is a decrease of \$2.06 million compared to the prior year, due to the sluggish economy resulting from the fallout of the housing market.

Graph 2 below presents revenues by source for Governmental Activities.

**Revenues by Source – Governmental Activities (Graph 2)**



Other General Revenues totaled \$86.66 million and represented 25.5 percent of the total revenues from governmental activities. Other program revenues include charges for services of \$23.59 million and operating contributions and grants of \$14.36 million. Together they represent 11.2 percent of the total governmental activities revenue.

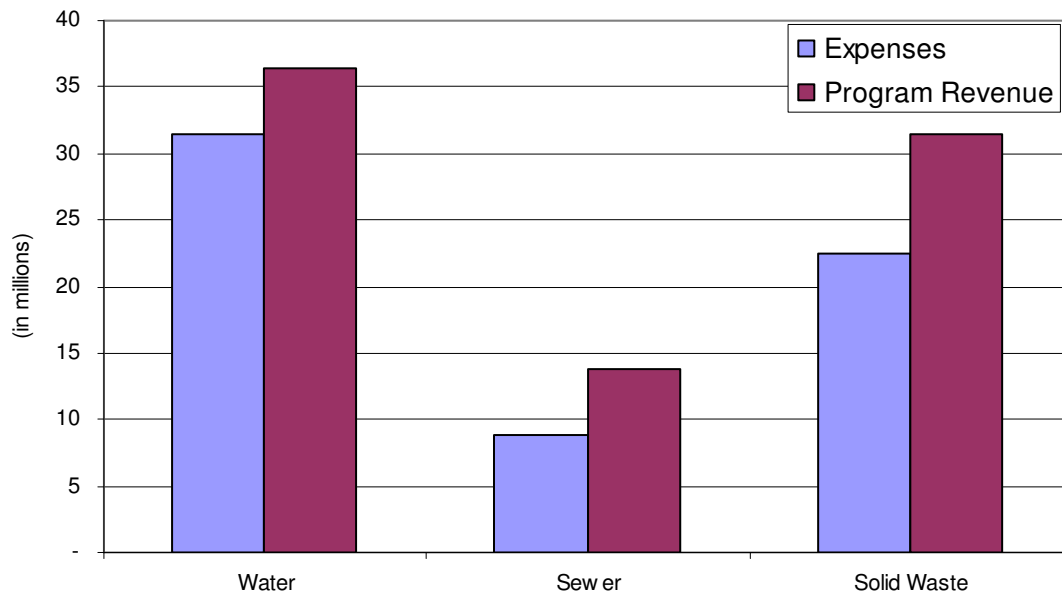
### **Business-type Activities**

*Net assets* for business-type activities at June 30, 2007 were \$193.33 million, with assets of \$255.31 million and liabilities of \$61.98 million. Unrestricted net assets of \$95.5 million represented 49.4 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 \$76.79 million represented 39.7 percent of the total net assets from business-type activities. The remaining \$21.04 million were restricted for capital projects (\$17.61 million) and debt service (\$3.43 million) respectively. Comparing to the prior year, the City's net assets from business-type activities increased by \$25.35 million or 15.1 percent.

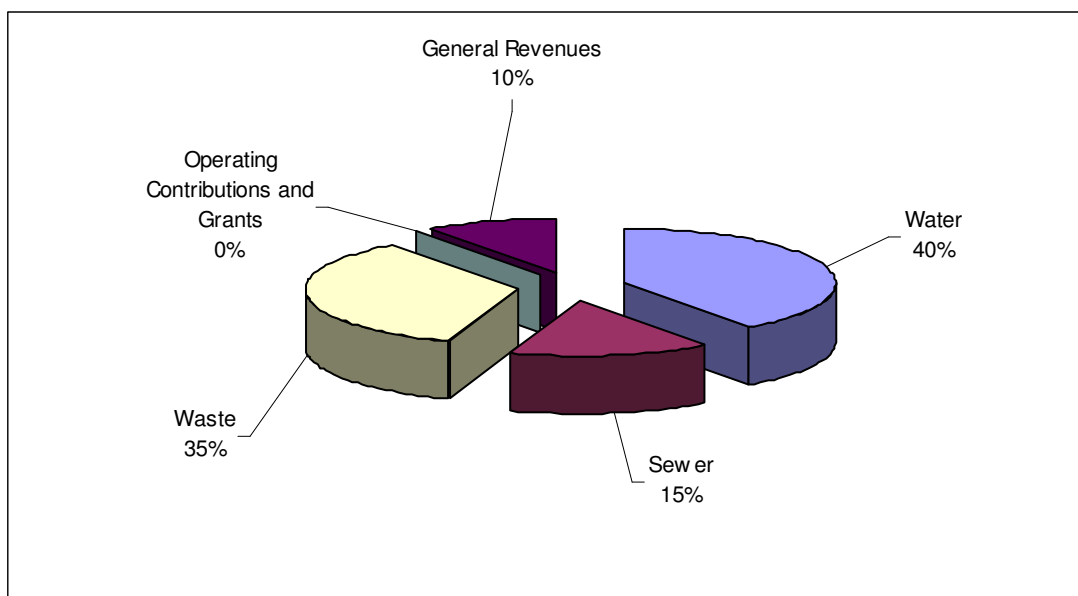
Total revenues for the City's business-type activities were \$90.83 million, which represented a \$14.64 million or 19.2 percent increase from the prior year. Program revenues amounted to \$81.77 million or 90.0 percent of total business-type related revenue. This is an increase of \$11.08 million or 15.7 percent over the prior year. General revenues for business-type activities were \$9.05 million. Business-type activities incurred \$62.76 million of expenditures for the year; this is a slight decrease of \$2.68 million or 4.1 percent compared to the previous year.

Graph 3 below 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 on next page presents revenues by source for business-type activities. Revenue from water services is the largest revenue source with \$36.42 million or 44.5 percent of the total revenues from business-type activities. *Charges for services account* for \$81.66 million or 89.9 percent of total business-type activities revenues (before transfers), while the remaining 9.2% is from *operating contributions and grants* as well as *general revenues*.

**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 four major governmental funds: General 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 City's Capital Project Fund accounts for the financial transactions of general capital improvements. The Impact Fees Fund accounts for the construction of additional or expanded infrastructure and other general facilities funded by developer-paid impact fees in various locations of 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 \$405.20 million. Approximately 24.0% of this total amount (\$97.36 million) constitutes unreserved/undesignated fund balance. The remainder fund balance of \$307.84 million is reserved (\$242.15 million) or designated (\$65.69 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 (\$108.94 million); 2) Prepaid costs and deposits (\$5.62 million); 3) Advances to other funds (\$28.61 million); 4) Reserved for land that was purchased and held for resale (\$85.65 million); 5) Reserved for contracts and notes (\$12.64 million); 6) designated for future expenditures (\$15.62 million); 7) designated for capital improvement projects (\$39.89 million); and 8) designated for debt service (\$10.87 million).

### **Governmental Revenues**

Revenues of governmental funds for Fiscal Year 2006-07 were \$342.19 million, with an increase of \$81.46 million or 31.2% compared to the previous fiscal year. Charges for services reported the largest increase of \$38.24 million as result of the additional development impact fees collected (\$47.10 million) during the year to facilitate the construction of the City's New Model Colony infrastructure. The governmental revenue category of other revenue reported the second largest revenue gain of \$21.15 million. Other revenue includes proceeds from land sales of \$38.73 million from the Capital Projects Fund which is attributable to the ongoing development of The Ontario Center (TOC). The third largest growth in revenue was in use of money and property (\$13.90 million) due to the higher investment returns.

Table 3 below presents a summary of governmental fund revenues for the fiscal year ended June 30, 2007, with comparative amounts from the prior year.

**Comparison of Major Governmental Revenues (Table 3)**  
**Fiscal Years 2006-07 and 2005-06**

	<b>Amount FY 05-06</b>	<b>% of Total Revenues</b>	<b>Amount FY 05-06</b>	<b>% of Total Revenues</b>	<b>\$ Increase / (Decrease)</b>	<b>% Increase / (Decrease)</b>
Property Tax	\$ 77,084,582	22.53%	\$ 70,964,804	27.22%	\$ 6,119,778	8.62%
Sales Tax	61,385,360	17.94%	63,445,795	24.33%	(2,060,435)	-3.25%
Transient Occupancy Tax	11,013,014	3.22%	11,068,749	4.25%	(55,735)	-0.50%
Parking Tax	5,529,102	1.62%	5,736,120	2.20%	(207,018)	-3.61%
Business Licenses Tax	5,595,149	1.64%	5,206,797	2.00%	388,352	7.46%
Other Taxes	7,438,126	2.17%	3,790,610	1.45%	3,647,516	96.23%
Licenses & Permits	3,077,713	0.90%	2,802,140	1.07%	275,573	9.83%
Intergovernmental	38,815,828	11.34%	39,149,116	15.02%	(333,288)	-0.85%
Charges for Services	70,405,497	20.58%	32,161,431	12.34%	38,244,066	118.91%
Use of Money & Property	21,361,232	6.24%	7,459,982	2.86%	13,901,250	186.34%
Fines and Forfeitures	1,628,664	0.48%	1,243,200	0.48%	385,464	31.01%
Other	38,854,280	11.35%	17,701,314	6.79%	21,152,966	119.50%
<b>TOTAL</b>	<b>\$ 342,188,547</b>	<b>100.00%</b>	<b>\$ 260,730,058</b>	<b>100.0%</b>	<b>\$ 81,458,489</b>	<b>31.24%</b>



## **Governmental Expenditures**

Operating expenditures for fiscal year 2006-07 were \$241.20 million, an increase of \$25.11 million or 11.6 percent over the prior fiscal year. Of the total increase, \$21.17 million was attributable to Community Development and \$10.48 million was attributable to Public Works; both increases were the result of increased activity in development and public works projects. These increases were offset by a decrease of \$14.30 million in General Government, primarily the result of the prior year contribution of \$17.78 million to the Other Post Employment Benefit (OPEB) fund from the General Fund. For Fiscal Year 2006-07, the contribution to the OPEB Fund was \$7.78 million.

Table 4 below presents a summary of governmental fund expenditures for the Fiscal Year ended June 30, 2007 with comparative amounts from the prior year.

**Comparison of Major Governmental Expenditures (Table 4)**  
**Fiscal Years 2006-07 and 2005-06**

	<b>Amount FY 06-07</b>	<b>% of Total Expenditures</b>	<b>Amount FY 05-06</b>	<b>% of Total Expenditures</b>	<b>\$ Increase / (Decrease)</b>	<b>% Increase/ (Decrease)</b>
General Government	\$ 32,363,072	12.38%	\$ 46,664,029	19.73%	\$ (14,300,957)	-30.65%
Public Safety	87,796,439	33.59%	80,070,884	33.85%	7,725,555	9.65%
Community Development	82,665,039	31.63%	61,499,015	26.00%	21,166,024	34.42%
Library	4,096,171	1.57%	4,050,405	1.71%	45,766	1.13%
Public Works	34,282,333	13.12%	23,804,817	10.06%	10,477,516	44.01%
Total Operating Expenditures	241,203,054	92.29%	216,089,150	91.34%	25,113,904	11.62%
Debt Service	20,164,088	7.71%	20,482,003	8.66%	(317,915)	-1.55%
TOTAL	<u>\$ 261,367,142</u>	<u>100.00%</u>	<u>\$ 236,571,153</u>	<u>100.0%</u>	<u>\$ 24,795,989</u>	<u>10.48%</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 2006-07 were \$86.02 million, while non-operating revenues were \$4.80 million. Operating expenses for fiscal year 2006-07 were \$62.23 million while non-operating expenses were \$2.71 million (debt service interest expense). During the fiscal year, \$12.38 million were transferred out to the City's Governmental Funds 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 2006-07 were \$26.64 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 primary operating fund of the City. The fund balance of \$89.94 million as of June 30, 2007 had a slight decrease of \$1.03 million compared to the prior year. This was the result of increased funding of capital projects by the General Fund. 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 32.0 percent of total General Fund operating expenditures, while total reserved/designated fund balance amounts to 29.7 percent of the same amount.

The total fund balance is represented by three components: the reserved fund balance of \$19.38 million, a decrease of \$2.88 million from the prior year; the unreserved/designated fund balance of \$23.94 million; and unreserved/undesignated fund balance of \$46.62 million. Over the past five years, the growth in fund balance has enabled City Council to designate a total of \$23.94 million for: 1) City facilities improvement (\$5.09 million); 2) compensated absences (\$10.41 million); 3) equipment replacement (\$3.92 million); 4) Assessment District Maintenance (\$1.52 million); and 4) future development related expenditures (\$3.0 million).

Reserved fund balance of \$19.38 million consists of: \$3.46 million for encumbrances, \$8.67 million in advances to the Redevelopment Agency, \$6.38 for land inventory held for resale, and \$0.87 million for contractual obligations 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)

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07
Fund Balance					
Reserved	\$ 8,858,104	\$ 18,569,213	\$ 17,815,758	\$ 22,255,872	\$ 19,375,419
Designated Unreserved	36,548,911	44,683,947	34,346,266	31,384,441	23,944,065
Undesignated Unreserved	23,097,303	20,019,503	23,903,588	37,329,464	46,619,116
Total Fund Balance	<u>\$ 68,504,318</u>	<u>\$ 83,272,663</u>	<u>\$ 76,065,612</u>	<u>\$ 90,969,777</u>	<u>\$ 89,938,600</u>
Beginning Balance	\$ 61,885,522	\$ 68,504,318	\$ 83,272,663	\$ 76,065,612	\$ 90,969,777
Operating Surplus/(Deficit)	13,193,354	14,768,345	(6,351,292)	13,697,150	(1,031,177)
Restatements/Equity Transfers	(6,574,558)	-	(855,759)	1,207,015	-
Ending Balance	<u>\$ 68,504,318</u>	<u>\$ 83,272,663</u>	<u>\$ 76,065,612</u>	<u>\$ 90,969,777</u>	<u>\$ 89,938,600</u>

### GENERAL FUND – REVENUE AND EXPENDITURE ANALYSIS

#### Revenues

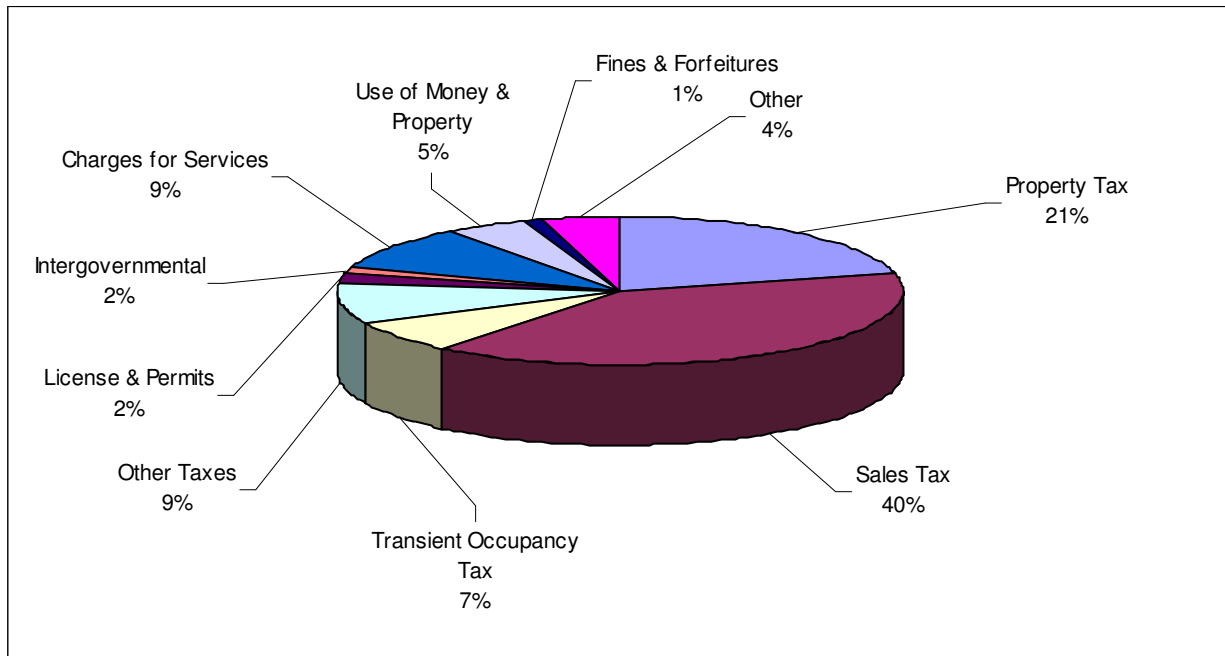
For Fiscal Year 2006-07, General Fund revenues were \$162.50 million, an increase of 7.0 percent primarily due to increases in use of money and property and charges for services.

### General Fund Revenues (Table 6) Fiscal Years 2004-05, 2005-06 and 2006-07

	FY 04-05	FY 05-06	FY 06-07	% of Total	\$ Increase / (Decrease) to Last Year	% of Increase (Decrease)
Property Tax	\$ 18,740,712	\$ 32,162,296	\$ 34,722,414	21.4%	\$ 2,560,118	8.0%
Sales Tax	51,445,124	62,576,477	64,180,674	39.5%	1,604,197	2.6%
Transient Occupancy Tax	10,495,259	11,068,749	11,013,014	6.8%	(55,735)	-0.5%
Other Taxes	13,289,557	14,501,537	14,684,085	9.0%	182,548	1.3%
License & Permits	3,150,121	2,802,140	3,077,713	1.9%	275,573	9.8%
Intergovernmental	12,601,100	6,285,880	2,849,284	1.8%	(3,436,596)	-54.7%
Charges for Services	7,662,762	10,887,199	15,109,757	9.3%	4,222,558	38.8%
Use of Money & Property	3,565,259	3,491,738	8,005,959	4.9%	4,514,221	129.3%
Fines & Forfeitures	1,090,697	1,236,494	1,628,564	1.0%	392,070	31.7%
Other	8,266,945	6,861,856	7,226,086	4.4%	364,230	5.3%
Totals	<u>\$ 130,307,536</u>	<u>\$ 151,874,366</u>	<u>\$ 162,497,550</u>	<u>100.0%</u>	<u>\$ 10,623,184</u>	<u>7.0%</u>

Graph 5 below illustrates General Fund revenue by source.

**General Fund Revenues – Fiscal Year 2006-07 (Graph 5)**



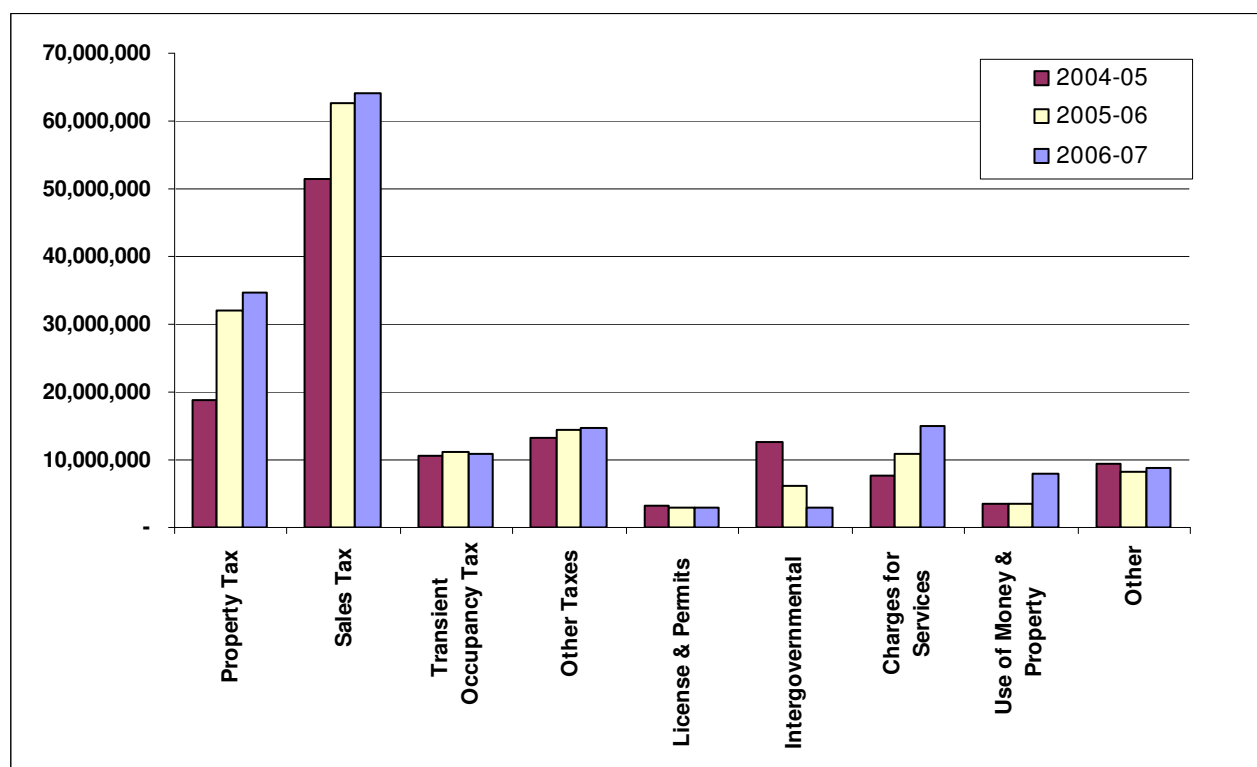
Following is an in-depth analysis of each of the revenue sources.

- Property tax revenues increased \$2.56 million or 8.0 percent, comprising 21.4 percent of total General Fund revenue. This was due to the overall increase in assessed property valuation.
- Sales tax revenues slightly increased \$1.60 million or 2.6 percent from the prior year, comprising 39.5 percent of total General Fund revenue. This small increase is reflection of the beginning of a slowdown in the economy as the result of the housing market fallout.
- Transient occupancy taxes decreased slightly by less than 1 percent; it comprises 6.8 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 9.0 percent of the City's total General Fund revenue. This revenue category increased slightly by \$0.18 million or 1.3 percent, primarily from business license tax revenue which increased by \$0.39 million as a result of the City's continuous effort in collecting such tax from business owners. This increase was offset by decreases in property transfer tax (\$0.24 million) and in parking tax (\$0.21 million).
- License and Permit revenues increased by \$0.28 million or 9.8 percent from the prior year, mainly due to an increase in the number of construction permits issued, as development activity in the New Model Colony rose.

- Intergovernmental revenues decreased by \$3.44 million or 54.7 percent compared to the previous year. This was the result of the receiving full repayment from the State of California regarding the vehicle license fee (VLF) gap loan in the prior fiscal year. The City of Ontario's repayment amounted to \$2.81 million.
- Charges for Services increased by \$4.22 million or 38.8 percent from the previous year. This increase was primarily due to construction related fees associated with the growing number of development activities in the New Model Colony. Charges for Services comprise 9.3 percent of the City's total General Fund revenues.
- Revenues from the use of money and property represent 4.9 percent of total General Fund revenue and experienced a gain of \$4.51 million from the prior year. This increase was attributable to higher investment returns.
- Other revenue, including fines and forfeiture increased 37.0 percent (\$0.76 million) and represents 5.4 percent of total General Fund revenues.

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 2004-05, 2005-06 and 2006-07**



**Expenditures**

For Fiscal Year 2006-07, total General Fund expenditures were \$145.76 million, a slight increase of 0.8 percent from the prior year. Following are key points of General Fund expenditures.

- General Government expenditures were \$18.33 million, a decrease of \$11.11 million from the prior fiscal year. This was primarily a result of the \$17.78 million of contribution made to the Other Post Employment Benefits (OPEB) Fund in the previous fiscal year. For Fiscal Year 2006-07, the contribution to the OPEB Fund was \$7.78 million.
- Public Safety expenditures were \$86.65 million, an increase of 8.8 percent or \$7.02 million compared to the previous year, as a result of increased level of services provided to the community.
- Community Development expenditures of \$20.43 million were \$4.54 million or 28.6 percent higher compared to the prior year due to the growing number of development activities, especially in the New Model Colony.
- Library expenditures were \$3.78 million, a slight decrease of \$0.21 million compared to the previous year. This is mainly attributable to the higher expenditures occurred in the prior year from relocating to the newly remodeled library.
- Public Works expenditures were \$14.21 million, an increase of 7.0 percent or \$0.93 million higher compared to the prior year, mainly due to the growing number of capital projects carried out during the year.
- Debt Service expenditures were \$2.38 million, a slight increase of less than one percent over the previous year.

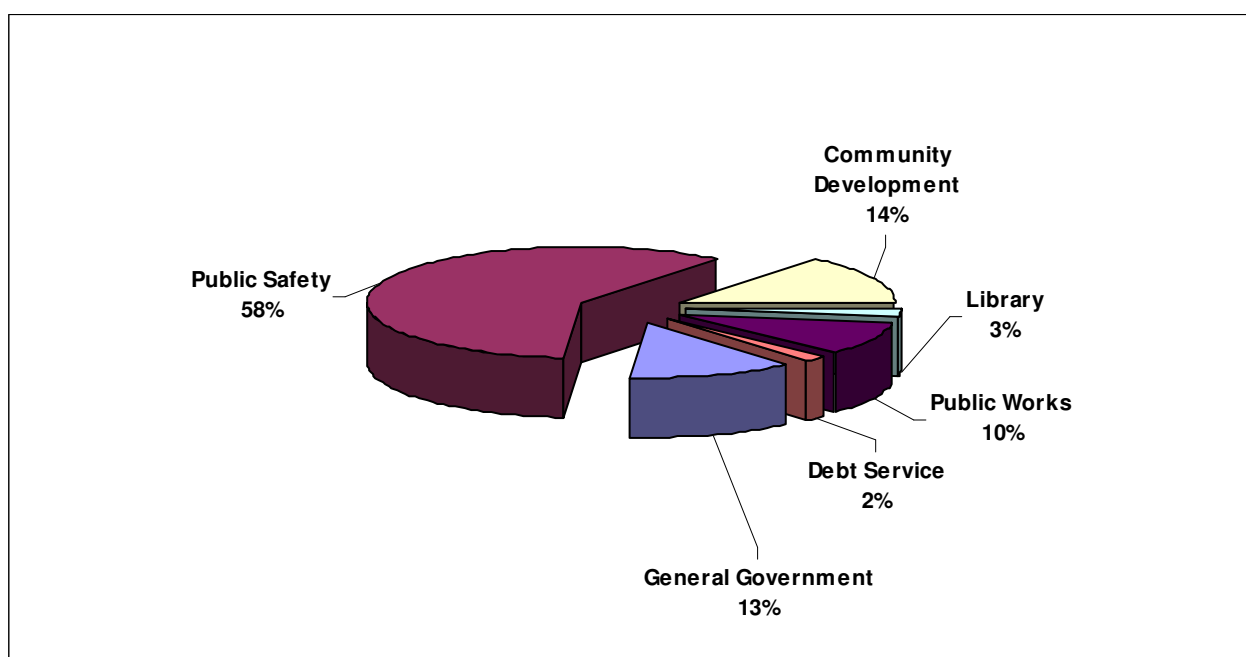
Table 7 on the following page presents General Fund expenditures by category for the past three consecutive fiscal years.

**General Fund Expenditures (Table 7)**  
**Fiscal Years 2004-05, 2005-06 and 2006-07**

	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>% of Total</b>	<b>\$ Increase / (Decrease) to Last Year</b>	<b>% of Increase (Decrease)</b>
<b>General Government</b>	\$ 13,260,743	\$ 29,435,485	\$ 18,327,351	12.6%	\$ (11,108,134)	-37.7%
<b>Public Safety</b>	74,619,164	79,626,310	86,648,360	59.4%	7,022,050	8.8%
<b>Community Development</b>	13,876,531	15,888,074	20,426,401	14.0%	4,538,327	28.6%
<b>Library</b>	2,781,161	3,988,273	3,781,585	2.6%	(206,688)	-5.2%
<b>Public Works</b>	12,106,505	13,280,549	14,214,677	9.8%	934,128	7.0%
<b>Debt Service</b>	2,369,337	2,365,137	2,377,237	1.6%	12,100	0.5%
<b>Totals</b>	<u>\$ 119,013,441</u>	<u>\$ 144,583,828</u>	<u>\$ 145,775,611</u>	<u>100.0%</u>	<u>\$ 1,191,783</u>	<u>0.8%</u>

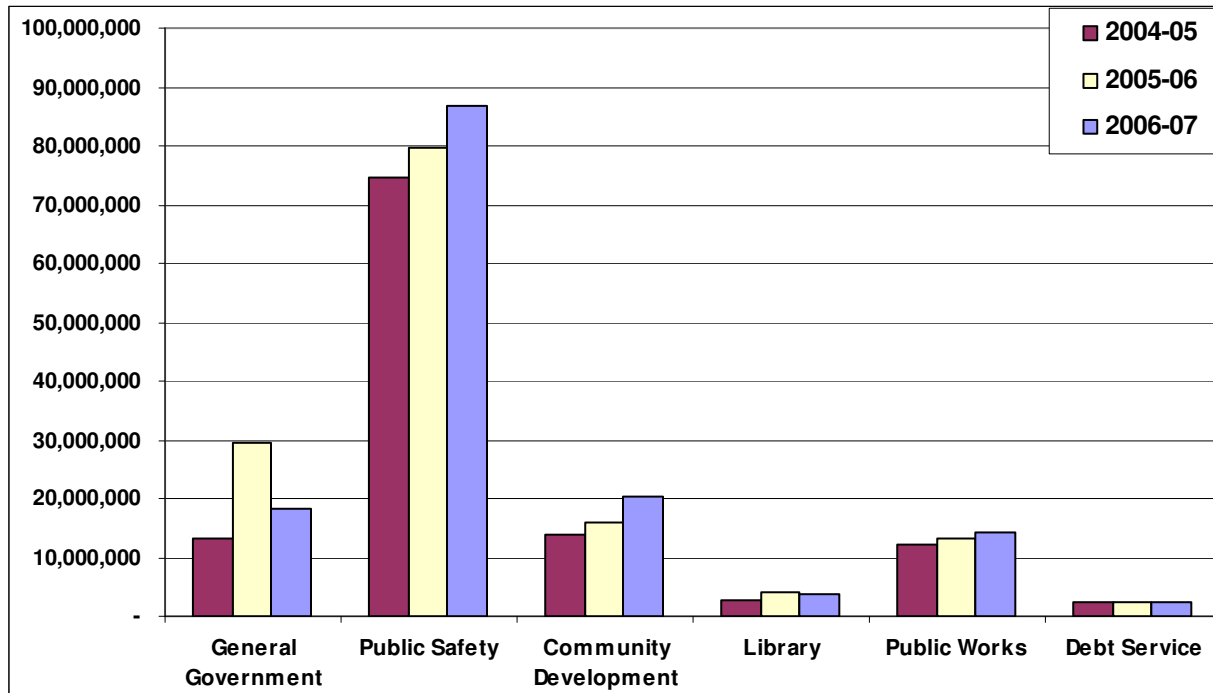
Graph 7 below presents General Fund expenditures by category.

**General Fund Expenditures – Fiscal Year 2006-07 (Graph 7)**



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

**Comparison of General Fund Expenditures (Graph 8)**  
**Fiscal Years 2004-05, 2005-06 and 2006-07**



### 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 \$3.52 million between the original budget of \$250.24 million and the final amended budget of \$253.76 million. The increase was due in part to budget adjustments for Charges for Services of \$0.97 million, Intergovernmental of \$1.37 million, and Transfers from other funds of \$1.88 million. With these adjustments, actual revenues exceeded the final amended budget by \$22.64 million. The increase in actual revenues was primarily due to the City receiving higher than anticipated revenue from sales taxes (\$10.43 million), property taxes (\$5.60 million), other taxes (\$2.69 million), charges for services (\$5.32 million), and use of money and property (\$4.34 million).



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

**Budgetary Comparison for General Fund (Table 8)**  
**Fiscal Year 2006-07**

	Budget Amounts		Actuals	Final Budget Variance Favorable / (Unfavorable)
	Original	Final		
<b>sources (Inflows):</b>				
Taxes	\$ 105,641,519	\$ 105,609,076	\$ 124,600,187	\$ 18,991,111
Licenses and Permits	2,820,000	2,820,000	3,077,713	257,713
Intergovernmental	6,297,573	7,664,463	2,849,284	(4,815,179)
Charges for Services	8,826,098	9,792,766	15,109,757	5,316,991
Use of Money and Property	4,351,817	3,668,846	8,005,959	4,337,113
Fines and Forfeitures	762,500	762,500	1,628,564	866,064
Miscellaneous	6,535,165	6,567,161	7,226,086	658,925
Transfers from Other Funds	24,033,221	25,909,321	22,935,795	(2,973,526)
<b>al Resources</b>	<b>\$ 159,267,893</b>	<b>\$ 162,794,133</b>	<b>\$ 185,433,345</b>	<b>\$ 22,639,212</b>
<b>arges to Appropriations (Outflows):</b>				
General Government	\$ 13,277,350	\$ 11,796,920	\$ 18,327,351	\$ (6,530,431)
Public Safety	87,938,975	88,971,784	86,648,360	2,323,424
Community Development	18,960,139	25,276,015	20,426,401	4,849,614
Library	4,014,068	4,065,382	3,781,585	283,797
Public Works	18,788,227	19,551,110	14,214,677	5,336,433
Debt Service	2,377,237	2,377,237	2,377,237	-
Transfers to Other Funds	11,432,540	48,428,402	40,688,911	7,739,491
<b>al Charges to Appropriations</b>	<b>\$ 156,788,536</b>	<b>\$ 200,466,850</b>	<b>\$ 186,464,522</b>	<b>\$ 14,002,328</b>

**Charges to Appropriations (Outflows)**

The difference between the original budget and the final budget was an increase of \$43.68 million in appropriations. Community development appropriations were increased by \$6.32 million to support for increased number of development related activities and projects. Transfers were increased by \$37.0 million to support for various capital projects (\$31.0 million), an additional contribution to the OPEB Fund (\$3.0 million), and funding of a development revenue reserve (\$3.0 million) to address the timing difference of development revenue and the associated costs.

**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, 2007, is \$816.38 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	
	2007	2006	2007	2006	2007	2006
Land	\$ 35.05	\$ 30.19	\$ 9.43	\$ 7.51	\$ 44.48	\$ 37.70
Structures and Improvements	126.02	105.51	5.77	0.58	131.79	106.09
Furniture and Equipment	6.50	6.95	0.70	0.71	7.20	7.66
Infrastructure	478.03	478.95	81.01	78.78	559.04	557.73
Construction in Progress	60.67	61.10	13.20	12.42	73.87	73.52
<b>Total Net Assets</b>	<b>\$ 706.27</b>	<b>\$ 682.70</b>	<b>\$ 110.11</b>	<b>\$ 100.00</b>	<b>\$ 816.38</b>	<b>\$ 782.70</b>

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 \$9.7 million on street maintenance for the fiscal year ended June 30, 2007 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 2008 is a minimum of \$7.2 million per year. As of June 30, 2007, the City had over 114 million square feet of streets with a carrying amount of approximately \$274.40 million and a replacement cost of approximately \$611.75 million.

The City is also continuously taking actions to arrest the deterioration of other infrastructure assets through short-term maintenance activities. The City expended \$4.6 million on other infrastructure (sidewalks, traffic signals/street lights and catch basins/storm drains) maintenance for the fiscal year ended June 30, 2007. These expenditures delayed deterioration and improved the overall condition through these maintenance efforts. It is estimated that it will cost approximately \$4.9 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 \$142.87 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 decreased \$1.90 million compared to the prior year total of \$144.77 million, primarily due to the payment of principal on the long-term debt.

Table 10 on the next page is a summary of the City's long-term debt for the year ended June 30, 2007.

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

	Governmental Activities			
	2007	2006	Amount Increase / (Decrease)	Percentage Increase (Decrease)
<b>Tax Allocation Bonds</b>	\$ 60.69	\$ 63.13	\$ (2.44)	-3.9%
<b>Revenue Bonds</b>	47.77	48.29	(0.52)	-1.1%
<b>Loans</b>	13.84	14.15	(0.31)	-2.2%
<b>Compensated Absences</b>	9.61	8.56	1.05	12.3%
<b>Claims and Judgments</b>	9.39	8.96	0.43	100.0%
<b>Unamortized Bond Premium</b>	1.57	1.67	(0.10)	-6.0%
	<u>\$ 142.87</u>	<u>\$ 144.76</u>	<u>\$ (1.89)</u>	<u>-1.3%</u>

For more information, please refer to the notes to the 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, 2007, in preparing the budget for fiscal year 2007-08, management gave careful consideration to the possible impact to the State of California's budget would potentially have on the City of Ontario. At this time the State budget situation looks favorable in terms of local impacts. The prospects of State raids on local resources are unlikely. In November 2004, voters approved Proposition 1A which provides constitutional protection for local revenues and prevents greater State takeaways in the future. For Fiscal Year 2007-08, no additional takeaways are anticipated.

Key budget assumptions for forecasting General Fund revenues include the following:

- The City developed its adopted budget predicated upon the State's adoption of a budget that incorporates the key assumptions and components of the Governor's May Budget Revision. If the State's final adopted budget varies significantly from the Governor's proposal, the City will be required to revisit its spending plan and take action as appropriate to mitigate changes in service levels provided to the citizens of Ontario.
- The national and state economies and continued stock market fluctuations will not have a significant adverse impact on the City's revenue stream.

- Sales tax revenue is expected to flatten due to continued slowing of the housing market, which in turn will result in a reduction of consumer spending for the Inland Empire and Ontario. The sales tax revenue projection of \$55.6 million represents a mere 3.4% increase compared to the Fiscal Year 2006-07 Adopted Budget of \$53.75 million.
- Transient occupancy tax revenues will increase slightly by \$140,000 or 1.2% over the City's 2006-07 Adopted Budget, due to a reduction in leisure travel and the opening of competing hotels in adjacent cities.
- Property Tax revenue, after excluding the commensurate increase of approximate \$11.6 million in property tax revenues in lieu of motor vehicle license "back-fill", will increase 11.7% or approximately \$2.2 million over the City's current projection of almost \$18.9 million.
- Ontario Redevelopment Agency will continue the annual reimbursement to the City for the Library, Soccer Complex, and 4<sup>th</sup> Street improvements of \$3.1 million.
- Ontario Redevelopment Agency will continue the annual reimburse to the City for the Allegiance Sales Tax Agreement of \$1,057,000.
- Development related revenues significantly increase by almost 28.1% compared to the 2006-07 Adopted Budget, as a result of the expansion of development activity for both Old Model Colony and New Model Colony. As development continues in the New Model Colony, the City anticipates an even more significant increase in development related revenues.
- The City's revenue and expenditures will not be adversely affected by court decisions, various propositions, initiatives, or other actions beyond the City's control.

The Adopted Operating Budget for Fiscal Year 2007-08 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 2007-08 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.