

INVEST

Ontario

CALIFORNIA



my family



my business



my lifestyle



my future

ONTARIO
SOUTHERN CALIFORNIA'S
NEXT URBAN CENTER

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR FISCAL YEAR ENDED JUNE 30, 2008



City of Ontario, California

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For Fiscal Year Ending June 30, 2008

**Prepared By:
Fiscal Services Department**



CITY OF ONTARIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
INTRODUCTORY SECTION	
Letter of Transmittal.....	v
Certificate of Achievement for Excellence in Financial Reporting.....	xv
Principal Officers	xvi
Organizational Chart.....	xvii
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets	33
Statement of Activities	34
Fund Financial Statements:	
Balance Sheet - Governmental Funds	36
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	38
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	40
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	42
Budgetary Comparison Statement - General Fund	44
Budgetary Comparison Statement – Quiet Home Program	47
Statement of Net Assets - Proprietary Funds	48
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	49
Statement of Cash Flows - Proprietary Funds.....	50
Statement of Fiduciary Net Assets - Fiduciary Funds	51
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	52
Notes to Basic Financial Statements	53

CITY OF ONTARIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
REQUIRED SUPPLEMENTARY INFORMATION	
Modified Approach for City Infrastructure Capital Assets	93
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Balance Sheet - Nonmajor Governmental Funds	98
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	106
Budgetary Comparison Schedules - Special Revenue Funds	
Special Gas Tax	113
Measure I	114
Park Development	115
Community Development	116
Asset Seizure	117
Mobile Source Air Pollution	118
Special Assessment/Fee Districts	119
Dangerous Buildings	120
Facility Maintenance	121
Storm Drain Maintenance	122
Ontario Housing Authority	123
Historic Preservation	124
NMC Public Services	125
Budgetary Comparison Schedules – Capital Projects Funds	
Capital Projects	126
Impact Fees	127
Redevelopment Administration	128
Redevelopment Area #1 – Capital Projects	129
Redevelopment Area #2 – Capital Projects	130
Redevelopment Center City – Capital Projects	131
Redevelopment Cimarron – Capital Projects	132
Redevelopment Guasti – Capital Projects	133
Combined Low/Moderate Housing	134
CFDs	135
Budgetary Comparison Schedules - Debt Service Funds	
Redevelopment Area #1 - Debt Service	136
Redevelopment Area #2 - Debt Service	137
Redevelopment Center City - Debt Service	138
Redevelopment Cimarron - Debt Service	139
Redevelopment Guasti - Debt Service	140

CITY OF ONTARIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES (Continued)	
Combining Statement of Net Assets - Internal Service Funds	141
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Funds	142
Combining Statement of Cash Flows - Internal Service Funds	143
Combining Balance Sheet - All Agency Funds	144
Combining Statement of Changes in Net Assets and Liabilities - All Agency Funds	148
STATISTICAL SECTION.....	153

This page is intentionally blank.

Introductory Section



CITY OF

303 EAST "B" STREET, CIVIC CENTER

ONTARIO



ONTARIO

CALIFORNIA 91764-4105

(909) 395-2000
FAX (909) 395-2070

PAUL S. LEON
MAYOR

JIM W. BOWMAN
MAYOR PRO TEM

ALAN D. WAPNER
SHEILA MAUTZ
DEBRA DORST-PORADA
COUNCIL MEMBERS

GREGORY C. DEVEREAUX
CITY MANAGER

MARY E. WIRTES, MMC
CITY CLERK

JAMES R. MILHISER
TREASURER

December 15, 2008

To the Honorable Mayor, City Council, City Manager, and Citizens of the City of Ontario:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Ontario for the fiscal year ended June 30, 2008. This report provides a broad view of the City's financial activities for the 2007-08 Fiscal Year and its financial position as of June 30, 2008. Although addressed to the elected officials and the citizens of the City, this report has a number of other users. Foremost among these other users are bondholders of the City, financial institutions, credit rating agencies, educational institutions, and other governmental entities. In producing a CAFR, the City of Ontario has chosen to provide financial information that is significantly greater than that which is required under state law.

Responsibility for both the accuracy of the information presented in the CAFR as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the information, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position of the City and the results of its operations; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The management of the City has established a system of internal control that is designed to assure that the assets of the City are safeguarded against loss, theft, or misuse. The system of internal control also assures that the accounting system compiles reliable financial data for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of the costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Ontario's financial statements have been audited by Lance Soll & Lunghard, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Ontario for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Ontario's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Ontario was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Ontario's separately issued Single Audit Report.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of principal officials, and the City's organizational chart. The financial section includes the independent auditor's report on the financial statements and schedules, the Management's Discussion and Analysis (MDA), the basic financial statements, required supplementary information, and combining and individual fund presentations. The statistical section includes selected financial and demographic information, general presented on a multi-year basis. This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis to obtain the most complete assessment of the City's current financial status and its future prospects.

Profile of the Government

Founded as a "Model Colony" in 1881 and one of California's first planned communities, the City of Ontario was incorporated in 1891. Located in western San Bernardino County at the base of the San Gabriel Mountains, the City of Ontario is approximately 35 miles inland from downtown Los Angeles and encompasses nearly 50 square miles. Strategically situated in the heart of Southern California and within the hub of Los Angeles, Orange, San Bernardino and Riverside Counties, Ontario is widely recognized as the "center of it all" and is home to an estimated 173,690 people and approximately 10,000 businesses.

The City of Ontario operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The governing council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the City's manager and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected every two years. The mayor is elected to serve a four-year term. The mayor and the four council members are elected at large.

The City of Ontario is a full-service city with approximately 1,101 full-time employees. Services provided include police and fire protection; development including the construction and maintenance of streets, parks, water and sewer lines, traffic signals and other infrastructure; water, waste water and sanitation services; recreation and community services; and cultural and social programs. In addition to general government activities, the City Council also serves as the Board of Directors of the Ontario Redevelopment Agency, the Ontario Industrial Development Authority, the Ontario Redevelopment Financing Authority and the Ontario Housing Authority. Therefore, these activities have been included as an integral part of the City of Ontario's financial statements. Additional information on these entities can be found in Note 1 in the notes to the financial statements.

The Ontario Municipal Code requires that the City Manager present the Annual Operating Budget to the City Council for approval. The Administrative Services Agency, under the direction of the Administrative Services/Finance Director, is responsible for compiling the estimated revenues and appropriations for the City Manager. Prior to the beginning of the new fiscal year, the City Council adopts the Annual Operating Budget at a public budget workshop.

The development of the Fiscal Year Annual Operating Budget begins in January with the dissemination of the budget preparation guidelines. The guidelines include the policies and procedures to ensure that the preparation of the budget conforms to fiscal policies and guidelines established by the City Council. Before the Agency budget requests are submitted to the City Manager, the Administrative Services staff reviews and analyze all Agency requests. This review includes comparative analysis of historical and current expenditure levels. The City Manager and the Administrative Services staff then hold meetings with each Agency Head to discuss the budget requests and obtain additional information to assist in the assessment of the requests. A proposed budget is then submitted to the City Council for consideration in June. The budget must be approved by the City Council before the start of the new fiscal year: July 1st.

The City's budget policy is that all appropriations lapse at fiscal year end. Outstanding encumbrance balances at fiscal year end require re-approval by the City Council at the First Quarter Budget Report. The City Council may amend the budget at any time during the fiscal year. Budget reports are presented to the City Council and the public on a quarterly basis. They include appropriations adjustments and revised revenue projections as needed. The City Manager may authorize budget transfers between line items, programs and Agencies as long as the total budget has not exceeded the amount approved by City Council. Budgetary changes between funds require City Council approval. The level of budgetary controls is set at the Agency level by fund to ensure compliance with the budget as approved by the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Ontario operates.

Local Economy

The Mayor and City Council have created an exceptional pro-business environment which reinforces the City of Ontario's location and acclaim as "The Next Urban Center in Southern California" and making Ontario one of California's most desirable places to do business. The City's founding concepts of innovation, planned development, community services and family values are clearly evident in the Mayor and City Council's commitment to: maintaining Ontario's leadership role in the Inland Empire and the region, continued investment in the growth and evolution of the area's economy, and reinvestment to provide a balance of jobs, housing, and educational and recreational opportunities for residents in a safe, well-maintained community.

Marketing and promotional campaigns stressing the City's strategic location, transportation system, amenities and workforce have been successful in attracting and retaining businesses in Ontario. To maximize the economic benefits from LA/Ontario International Airport, Ontario Mills Mall, and The Ontario Center, the City must continue to attract high quality business development. Examples of the City's investment in the growth and evolution of the local economy include international trade missions, participation in high level real estate conferences, business visitations, and destination marketing efforts. LA/Ontario International Airport continues to be a strong focal point for the region's economic activity and demand for nearby industrial and office space remains strong. The cost and geographic advantages of Ontario, combined with an educated community workforce, are key to the success of the City's leadership in seizing new opportunities to grow its economy and improve the quality of life for its citizens.

Ontario's transition to urbanization is at the core of the master-planned New Model Colony now taking shape. In the southern part of the City, development of an upscale community has begun in an 8,300-acre former agricultural preserve now known as the New Model Colony. Encompassing 13 square miles, the New Model Colony has been purposefully designed to advance the economic dynamics of the City, and at build-out, will add approximately 31,000 homes and 120,000 new residents to Ontario. Among the numerous features of this master-planned community will be an extensive system of pathways, over 500 acres of parklands, conveniently situated retail centers, health facilities, a high technology business park and primary and secondary schools, including a multi-jurisdictional college campus. In addition, every home in the area will be served by high-speed broadband capability. As critical infrastructure improvements are completed, neighborhoods are beginning to be developed. Edenglen, by Brookfield Homes, has begun to sell the first phase of its upscale community, and additional specific plans are currently under review. Funding for government services and activities within the New Model Colony will largely come from operating and maintenance community facilities districts established to provide ongoing financial support.

The City's strategic location, competitive cost structure, and logistics advantages have made it one of the nation's fastest growing population centers and Southern California's top job generator. Firms needing to locate in California while avoiding its higher costs of doing business are finding Ontario an excellent place to locate. Ontario has become the Inland Empire's principal center for job growth because of its location directly in the path of out-migration firms and people to the Inland Empire from Southern California coastal counties.

The City's population continues to grow steadily, rising from 151,488 in 1999 to an estimated 173,690 in 2008. Its ethnic diversity remains somewhat consistent as in recent years with the Hispanic population making up 68.4% of the total population. Looking further ahead, the City's 8,200 acre New Model Colony planned for upscale residential development will add about 120,000 middle and upper-middle class residents and bring the City's population to approximately 300,000.

Ontario's 2007 per capita taxable sales average of \$36,154 was well above the \$12,359 per capita sales level for San Bernardino County. Ontario's taxable sales continue to rank first in the Inland Empire region with a large number of manufactures and distributors selling directly to retail customers, the Ontario Mills Mall and its adjacent centers, plus several successful automobile franchises. In calendar year ending December 31, 2007, taxable sales reached approximately \$5.58 billion, up 7.6% from the previous year and over 247% as compared to 10 years ago. The largest share of retail sales tax has been automotive sales-new, increasing from \$4.8 million in 1998 to just over \$9 million in 2007 representing a 188% increase.

As the Gateway to Southern California, Ontario provides ideal access to the region, the nation and the world. Located 35 miles inland from Los Angeles at the nexus of two of the most important interstates in the country, Ontario is home to LA-Ontario International Airport (LA/ONT). LA/ONT is one of North America's fastest growing airports with 12 major airlines, 380 daily flights to every major city in the U.S. and providing service to 7.2 million people in 2007. It is expected that LA/ONT will handle more than 30 million passengers by 2025. Heir apparent to Los Angeles International (LAX), LA/ONT is thriving as an air cargo airport. Second only to LAX in Southern California cargo volume, LA/ONT handled 532,865 tons of air cargo in 2007 with the volume expected to reach 2.25 million tons between 2020-2030. The success of the airport translates to economic benefits for the Inland Empire through directly related airport business and generates more than \$10.8 billion in economic impacts each year for the region. LA/ONT was listed as the "Best Alternate Airport in Southern California" by Forbes in 2003.

Steady growth and rapid development adjacent to the airport, along freeway corridors and throughout Ontario reflect the City's distinctive advantages. Due to Ontario's prime location and transportation infrastructure, the City garners national presence as a first class logistics, distribution and cargo center. Trucking and integrated carriers, a rapidly developing network of national and international freight forwarders, and the Union Pacific Railway all service Ontario. With exceptional convenience to major regional, national and international markets, and modern facilities, Ontario has become the place to be for manufacturing, warehousing and distribution. From 1994 to 2005, 310 firms opened new operations or changed locations to expand in the City. Not counting secondary impacts, Ontario's firms indicated that upon opening they would add 27,749 jobs to its economic base.

Ontario is also home to Ontario Mills, Southern California's largest shopping mall and entertainment center. The Mills captures the imaginations of more than 21 million visitors from all over the world each year and is California's No. 1 tourist attraction. Ideally situated, land surrounding Ontario Mills is a hub for retail, service, and restaurant and hotel development. Adjacent to the Mills, The Ontario Center (TOC) is a thriving commercial area with existing office buildings, restaurants and hotels.

The 11,000 seat Citizens Business Bank Arena opened its doors in October 2008. It is the centerpiece of Piemonte at The Ontario Center – an urban, mixed use project with Class A office space, specialty retail, a full-service hotel, entertainment and more than 1,000 urban living components. The Arena, managed by AEG – the company that manages the Staples Center in Los Angeles, will host professional basketball and ice hockey and a variety of other sporting competitions, concerts, family shows, special events, and school and community activities. The venue will be the biggest and most modern arena within the Inland Empire.

Ontario is continuing its transformation into the next urban center in Southern California with the development of several mixed-use projects which are currently underway in the City. They include:

Piemonte at The Ontario Center

Panattoni Development is developing Piemonte, a new mixed-use project that will be the Inland Empire's first pedestrian-oriented, urban village. This project will feature:

- 400,000 square feet of Class-A corporate office space
- 309,280 square feet of retail
- 54,800 square feet of restaurants and services
- 806 units of for-sale residences and 769 units of multi-family residences
- 45,000 square-foot health club
- 200-plus room high-end business/headquarters hotel and restaurant
- 11,000-seat City-owned Citizens Business Bank Arena that opened in October 2008 and will be managed by AEG and feature minor league hockey, concerts and family shows.

Ontario Town Square (Ontario's Euclid Avenue District)

This project is a mixed-use revitalization project integrating multi-family housing and ground floor retail featuring:

- 471 high quality for-sale condominiums (sales started late August 2008)
- Multi-family rental housing units and senior rental housing units
- Access to pool, spa, barbecues and other recreational amenities for residents
- 80,000 square feet of ground floor retail
- A community plaza with two restaurants

To maximize the economic benefits from LA/ONT, Ontario Mills and The Ontario Center, the City partners with leading authorities, agencies, associations and municipalities to raise awareness of Ontario as a growing hub of industry and commerce ideally situated to handle Southern California's future growth. The City actively recruits leading employers and businesses that will invigorate the local economy with higher paying jobs, and maintains a healthy business environment for existing companies, allowing them to grow, prosper and strengthen the City's economic foundation. Examples of the City's investment in the growth and evolution of the City's economy include: international trade resources, workforce development initiatives, destination marketing and the leveraging of relationships with Los Angeles World Airports and L.A. Inc. – The Los Angeles Convention & Visitors Bureau to maximize regional marketing efforts. Programs such as these ensure that the City of Ontario takes a lead role working with local allies in the business community to maintain and build the local economy.

Making the most of the City of Ontario resources for the benefit of the entire community is at the heart of the Mayor and City Council's commitment to business and economic development. This is evident in the continuing investment and reinvestment in necessary infrastructure and amenities to attract higher paying employers such as high-technology and engineering firms. The City's business and economic development strategies are successfully yielding a return on investment to be funneled back into new community facilities, programs and neighborhood improvements that enable Ontario to retain the charm and warmth of a small town while providing big city resources and services. True to the vision of its founding fathers to create and sustain a broadly diverse and balanced city, Ontario is prepared to face its opportunities and challenges with pride, purpose, conviction and commitment as it builds the next urban center.

Long-Term Financial Plan

In addition to managing the City's money in a manner that ensures Ontario is financially stable, the City's long-term goals, efforts and actions include: focusing resources in Ontario's commercial and residential neighborhoods; investing in the City's infrastructure; maintaining the current high level of public safety; providing enhanced recreational, educational and cultural activities; and investing in the growth and evolution of the City's economy.

During the past ten years, the Ontario CARES Program has provided aesthetic improvements to approximately 3,000 homes in the Downtown, South Euclid, Anthony Munoz, Berlyn School, Lincoln School, Mission Boulevard, and Jay Littleton Focus Neighborhoods. The City also provides other neighborhood preservation and affordable housing assistance programs to eligible residents. These programs include low interest rehabilitation loans, financial assistance to first time homebuyers, and financial incentives to developers of affordable housing projects. In addition, the City allocates funds for the Quiet Home Program for sound insulation and property acquisition in the impacted area surrounding the LA-Ontario International Airport (ONT). To improve services throughout the community and core neighborhoods, the City provides continuing funding for senior, youth and teen programs, and ongoing initiatives such as Ontario's Graffiti Removal Task Force.

Ontario's commitment to infrastructure improvements is demonstrated by the City's five-year Capital Improvement Program that includes projects such as:

- \$34,267,500 in water system improvements
- \$ 6,803,600 in street improvements
- \$ 3,892,840 in public facilities improvements
- \$ 4,848,631 in park and landscape improvements
- \$ 1,000,000 in storm drain and sewer improvements, and
- \$ 748,247 in traffic improvements

The City of Ontario's goals with regard to public safety have been accomplished over the years through significant investments in personnel, equipment, and technology. These investments have returned profits and dividends in the form of dramatically decreasing crime rates in Ontario. Over the last decade, crime rate has fallen 32.9% - 2,725 incidents per 100,000 residents in 1998 compared to 1,827 crimes per 100,000 residents for 2007. The City had 835 fewer crimes reported between 1998 and 2007, even though its population increased by approximately 26,223 or 17.9%.

The City continues to build its reserve for the systematic replacement of public safety equipment items such as police helicopters, fire engines, pumpers and trucks, and other city vehicles. As of June 30, 2008, the City had reserved approximately \$30.6 million for replacement of all city vehicles.

To improve the availability of recreational activities the construction on the much anticipated 20-acre Soccer Complex has started. The Soccer Complex will include: two lighted, tournament sized, synthetic turf fields; one natural turf, tournament sized field; two mid-sized, natural turf fields; two smaller sized, natural turf fields, lighting for practice areas; shade structures; concession and maintenance buildings; and restroom facilities. Completion is expected during the current fiscal year. Also, renovation of the Anthony Munoz Community Center Tiny Tot Room expansion has begun. These projects will greatly increase the availability of community facilities for Ontario's children and young adults. With the current projects completed and others underway, the City is greatly enhancing educational, recreational, and cultural opportunities for the entire community.

In this past year, we have seen a dramatic transition from a growth-oriented economy and construction market, to one where the housing market crashed and financial markets are on the brink of collapse. The failure of the sub-prime and Alt-A mortgage markets continue to cripple the overall credit market. The "credit crunch" also continues to make it more difficult and more expensive for both businesses and consumers to borrow funds, resulting in a tightening of lending standards for mortgages which in turn has led to overall housing sales and pricing declines. Contributing to this housing decline is the rapid rise in foreclosures in the Inland Empire. In the Inland Empire, the median price of existing homes sold has dropped from \$404,611 its peak in 2006 to \$237,784 thus far in 2008 – over 41% drop in value in two years. Due to declining real estate prices, the County of San Bernardino's Assessor's Office is reassessing properties and reducing assessed values and taxes.

Along with the downturn in the housing market and the continued financial market crisis, the economy is also suffering job losses every month. The unemployment rate in the Inland Empire has grown from 5.2% to an estimated 9.5% over the past year, with the region losing approximately 22,300 non-farm related jobs. The Institute of Supply Management's (ISM) Index declined from approximately 55 in April 2007 to 38.9 for October 2008 – the lowest it has been since September 1982, reflecting "anemic" economic growth.

Consumer confidence in the economy has reached all time lows. This has resulted in a severe curtail of consumer spending for discretionary goods and services. Taxable sales have been declining and economic experts don't expect the bottom to hit until early 2010. Not only is sales tax revenues weakening, but business travel is diminishing as businesses are cutting back, especially in the areas of travel. For the City of Ontario, this has resulted in reductions in both transit occupancy tax and parking tax revenues.

The State of California predicts a shortfall of \$11.2 billion for the fiscal year 2008-09 and this shortfall is expected grow to \$28 billion by fiscal year 2009-10. The Governor's proposal to curtail the shortfall contains a combination of budget cuts, taxes and an economic stimulus plan – this only two months after the State adopted their budget two months ago. The Governor warns that without any action, the State of California will run out of cash by February 2009. It is apparent that the nation is fully entrenched into a severe recession. How severe and how long will be difficult to predict.

The City of Ontario has, through prudent long-range policy decisions and sound fiscal management, maintained its position as an economic leader in Southern California. It is hoped that Ontario's well-balanced economic base will allow the City to ride out the on-going financial crisis with the least possible impacts to service levels. The City will continue to monitor key economic indicators, sources of revenues, and spending levels as part of its sound conservative fiscal approach.

During the next few years, the City of Ontario will continue to be faced with exciting new developments as well as formidable economic challenges. Through the combined leadership of the City Council and the implementation of its prudent fiscal policies, the City has been able to enhance service levels to the community, invest in capital projects to enhance public facilities and infrastructure, and continue programs to promote its standing as the economic leader in the Inland Empire and a formidable player in California and the nation. The development of the New Model Colony, completion of the soccer complex and a community events center as well as projects currently underway in the Civic Center and The Ontario Center, will provide a mixed retail-housing component as well as enhanced cultural opportunities for residents, and contribute to Ontario's reputation as the place to live, work, and play.

Relevant Financial Policies

Cash Management Policies and Procedures

Cash temporarily idle during the year was invested in U.S. Treasury notes, Federal Agency securities, corporate bonds and the California State Local Agency Investment Fund. At the end of June 30, 2008, maturity of the investments range from 0 days to 5 years, with an average maturity of 2.02 years. The average yield on investments was 3.21%. Increases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk Management

The City of Ontario has an active risk management program in which a reserve is established to meet potential losses. In addition, various risk control techniques, including employee accident training, are used to minimize-accident related losses. The City is self-insured and is a member of the Authority for California Cities' Excess Liability (ACCEL). Additional information on the City of Ontario's risk management activity can be found in the notes to the financial statements.

Pension and Other Post-Employment Benefits

The City of Ontario contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employees defined benefit pension plan for its safety and non-safety personnel. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries.

The City of Ontario also provides post-retirement health care benefits for its retired employees according to the Personnel Rules and Regulations for each of the seven employee groups. As of the end of the current fiscal year there were 416 retired employees receiving these benefits, which are currently financed on a "pay-as-you-go" basis or paying for those benefits in the year used. This method differs from the pre-funding used for most pension benefits where costs are funded while the employees are working and funds are invested until paid to the retirees. The "pay-as-you-go" approach has led to an accumulation of significant financial liabilities pertaining to future retiree health benefits. These liabilities must be quantified and reported under new government accounting rules that come into effect for the City of Ontario in this fiscal year. Recognizing this problem several years ago, the Mayor and City Council established the Unfunded Retiree Health Benefits reserve account in 2001 and have designated funds toward this issue in each of the subsequent years. As of June 30, 2008, the City has reserved approximately \$30 million (with an additional \$8.1 million to be added in Fiscal Year 2008-09 for a total of \$38.1 million set-aside) for future retiree medical costs.

Additional information on the City of Ontario's pension arrangements and post-employment benefits can be found in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Ontario for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This was the twenty-first consecutive year that the City has received this prestigious award. In order to be awarded the annual certificate for excellence, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must also satisfy both generally acceptable accounting principles and applicable legal requirements. We believe our current comprehensive annual financial report conforms to the GFOA Certificate of Achievement Program and are submitting it for review and consideration.

In addition, the City of Ontario received distinguished budget awards from the GFOA and the CSMFO for its Fiscal Year 2007-08 Adopted Operating Budget. This is the ninth consecutive year in which the City has been bestowed these prestigious awards. To receive these awards, the City's budget document met program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Fiscal Services Department and the Administrative Services Administrative Assistant who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor, City Council and the City Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Ontario's finances.

Sincerely,



Grant D. Yee

Administrative Services/Finance Director

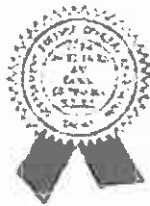
Certificate of Achievement for Excellence in Financial Reporting

Presented to:

City of Ontario
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Charles S. Cox

President

Jeffrey R. Egan

Executive Director

City of Ontario

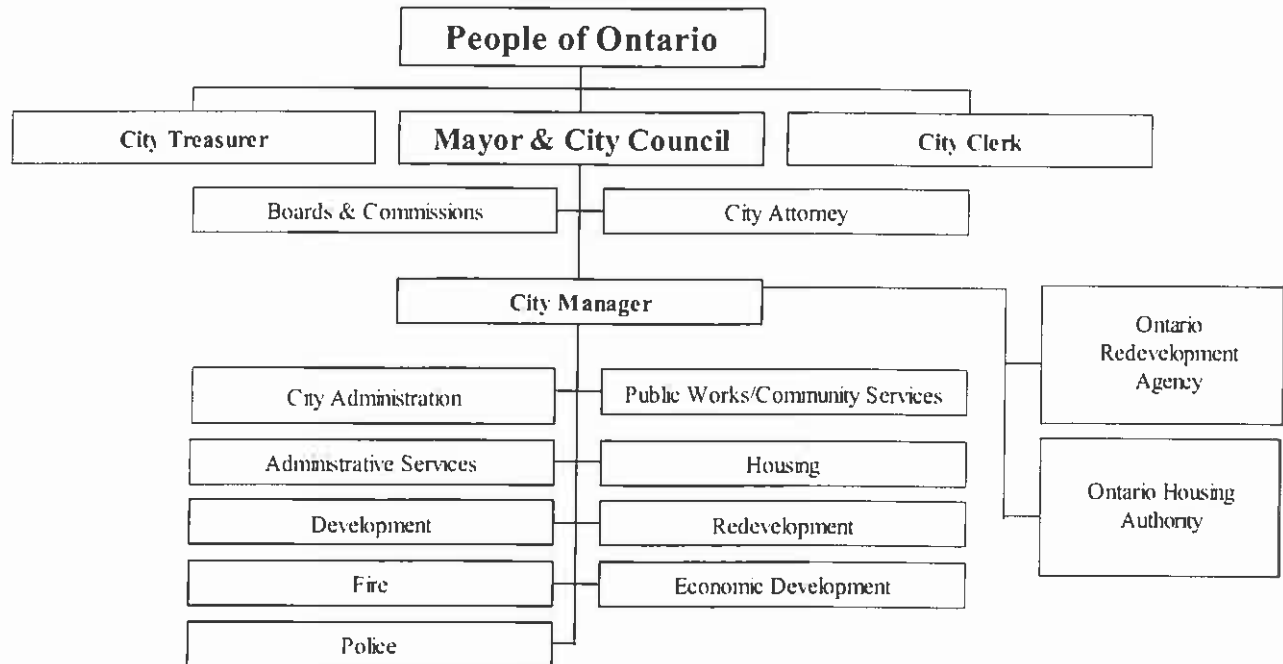
Elected Officials

Mayor.....	Paul S. Leon
Mayor Pro Tem.....	Jim W. Bowman
Council Members.....	Alan D. Wapner
.....	Sheila Mautz
.....	Debra R. Dorst-Porada
City Clerk.....	Mary E. Wirtes
City Treasurer.....	James R. Milhiser

Administration and Executive Management

City Manager/Executive Director of the Redevelopment Agency/ Executive Director of the Housing Authority.....	Gregory C. Devereaux
City Attorney.....	John E. Brown
Deputy City Manager.....	Al C. Boling
Administrative Services/Finance Director.....	Grant D. Yee
Development Director.....	Otto Kroutil
Public Works/Community Services Director.....	Kenneth L. Jeske
Fire Chief.....	Christopher Hughes
Police Chief.....	James F. Doyle
Housing and Neighborhood Revitalization Director	Brent D. Schultz
Economic Development Director	Mary Jane Olhasso
Redevelopment Director	James R. Strodtbeck

CITY OF ONTARIO



This page is intentionally blank.