

Financial Section



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ontario, California, as of and for the year ended June 30, 2009, 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, 2009, and the respective changes in financial position and cash flows where applicable thereof, and the respective budgetary comparison for the General Fund and the Quiet Home Program Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2009, 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 & Lughard, LLP

December 11, 2009

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, 2009. 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 \$1.64 billion and total liabilities were \$295.56 million at June 30, 2009. The assets exceeded liabilities by \$1.35 billion (net assets). Of this amount, \$236.61 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended June 30, 2009, total net assets increased by \$67.61 million before a (\$7.63) million restatement. This increase results from a favorable variance of revenues over expenses. Total revenues from all sources were \$345.69 million and total expenses for all functions/programs were \$278.08 million.
- Of total revenues, program revenues were \$150.66 million and general revenues were \$195.03 million. Program revenues are broken into three categories: Charges for Services, \$109.76 million; Operating Contributions and Grants, \$14.68 million; and Capital Contributions and Grants, \$26.22 million.

Fund Based

- For the fiscal year ended June 30, 2009, the unreserved/undesignated fund balance of the General Fund was \$24.25 million.
- For the General Fund, actual resources (inflows) available for appropriation were \$251.74 million, which was less than the final budget of \$260.18 million by \$8.44 million. Actual charges (outflows) of \$165.25 million were \$10.10 million less than the final budget of \$175.35 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-two individual governmental funds. These funds report financial transactions using the modified accrual accounting method. Information for five out of the thirty-two funds is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. These five funds are considered to be major funds. They are the General Fund, the Quiet Home Program Fund, the Capital Projects Fund, the Impact Fees Fund, and the Redevelopment Project Area No. 1 Debt Service Fund. Data for other governmental funds (non-major) are combined into a single presentation as part of the required supplementary information. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements that follow the notes to the financial statements.

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

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

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

Notes to the Financial Statements

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

Other information

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

GOVERNMENT - WIDE FINANCIAL ANALYSIS

This analysis will focus on the City's net assets (Table 1) and changes in net assets (Table 2) of the governmental and business-type activities for the fiscal year ending June 30, 2009. Management has included comparative data from fiscal year ending June 30, 2008 in its analysis.

Net Assets (Table 1)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 465.47	\$ 520.96	\$ 166.44	\$ 159.71	\$ 631.91	\$ 680.67
Capital Assets	838.81	791.85	173.25	133.48	1,012.06	925.33
Total Assets	1,304.28	1,312.81	339.69	293.19	1,643.97	1,606.00
Long-term Debt Outstanding	186.22	177.97	49.94	50.78	236.16	228.75
Other Liabilities	45.92	77.44	13.48	11.37	59.40	88.81
Total Liabilities	232.14	255.41	63.42	62.15	295.56	317.56
Net Assets:						
Invested in Capital Assets,						
Net of Debt	697.13	646.35	132.55	94.73	829.68	741.08
Restricted	270.09	294.22	12.04	8.37	282.12	302.59
Unrestricted	104.93	116.84	131.68	127.93	236.61	244.77
Total Net Assets	\$ 1,072.15	\$ 1,057.41	\$ 276.27	\$ 231.03	\$ 1,348.41	\$ 1,288.44

The City's Government-wide total net assets were \$1.35 billion, with assets of \$1.64 billion and liabilities of \$295.56 million. The net investment in capital assets of \$829.68 million represents 61.5 percent of the City's total net assets. This is an increase of \$88.60 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 \$282.12 million (20.9 percent of the total net assets) represents resources that are subject to external restrictions in how they may be used. The remaining balance of \$236.61 million or 17.5 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 5.2 percent or \$67.61 million (increase in net assets) before the restatement of (\$7.63) million of prior fiscal year's net assets (Table 2). This gain is mainly attributable to savings in personnel and operating expenditures, and a decrease in expenses related to capital projects, offset by a reduction in total citywide revenue.

The overall cost of all governmental and business-type activities this year was \$278.09 million and was an overall net decrease of \$27.25 million or 8.9 percent compared to the prior year. This is primarily from expenditure reductions in Public Works (\$22.41 million), General Government (\$4.27 million), Community Development (\$4.10 million) and Water (\$1.69 million), netted by cost increases in Public Safety (\$5.73 million). Expenses in Public Works were lower primarily from completion of major public works related projects in the prior year, and savings in personnel and operating costs. The savings in General Government, Community Development and Water were due to reduction in personnel and operating expenditures. Rising personnel and operating costs contributed to Public Safety's increase in expenditures.

Total revenue of all governmental and business-type activities was \$345.69 million for this fiscal year; a reduction of \$53.73 million or 13.5 percent. Program revenues were \$150.66 million and general revenues were \$195.03 million, funding the net difference between program revenues and expenses. The largest single revenue category was Charges for Services, at \$109.76 million, which is *program revenue*. This revenue goes directly against the expenses in recovering the costs of providing those services. Charges for Services revenue decreased by \$13.08 million or 10.7%, primarily the result of the reduction in Community Development revenue by \$27.30 million or 70.0% from the continued slowdown in development activity, and overall increase of \$6.58 million or 7.4% in business-type activities (Water, Sewer and Solid Waste). Property Taxes, which are considered *general revenues*, were the second largest revenue at \$91.08 million. This revenue category experienced a slight increase from the prior year of \$1.77 million or 2.0 percent due to mild gains in the assessed valuations. The third largest revenue source was Sales Taxes, another *general revenue* source, at \$48.92 million. Sales Tax revenue was \$18.16 million less than the prior year; a decrease of 27.1 percent due to reduced business and consumer spending – a fallout from the current dismal economic conditions. The revenue category of Capital Contributions and Grants was the fourth largest revenue category at \$26.22 million. Capital Contributions and Grants decreased by \$13.72 million due to the prior year contribution of \$17.85 million to Water for capital assets.

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

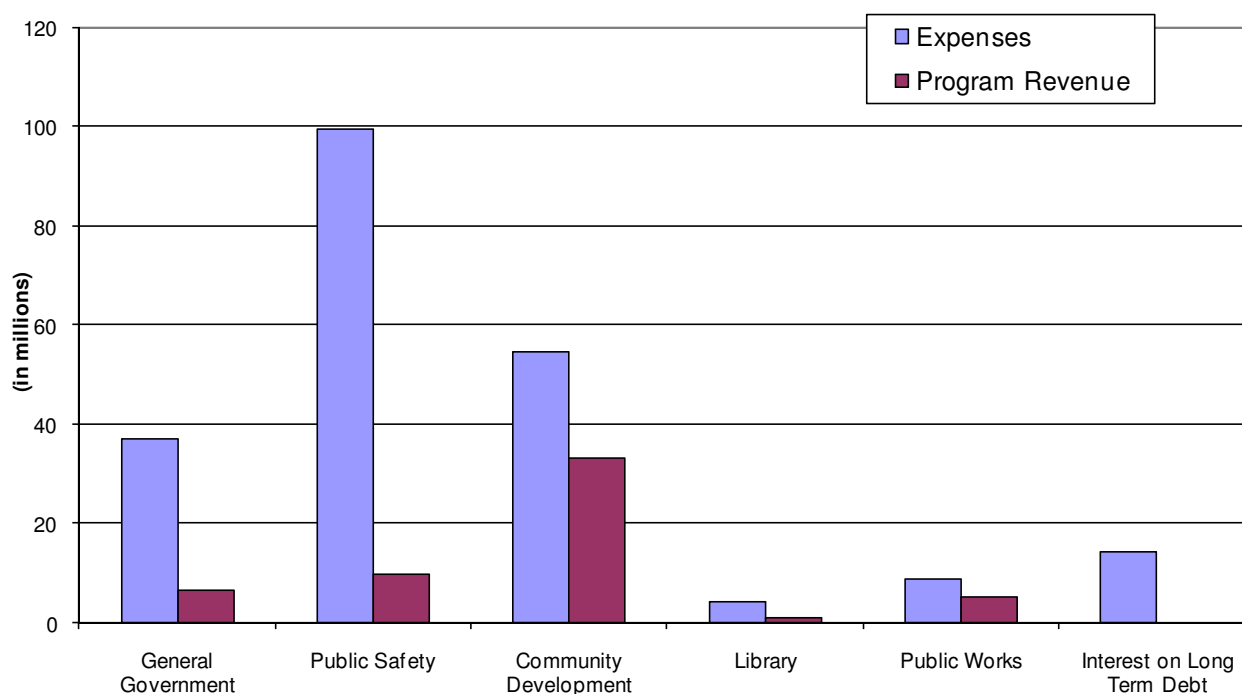
	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for Services	\$ 13.99	\$ 33.66	\$ 95.77	\$ 89.18	\$ 109.76	\$ 122.84
Operating Contributions and Grants	14.63	15.50	0.05	0.26	14.68	15.76
Capital Contributions and Grants	26.22	22.09	-	17.85	26.22	39.94
Sub-total Program Revenues	54.84	71.25	95.82	107.29	150.66	178.54
General Revenues:						
Property Taxes	91.08	89.31	-	-	91.08	89.31
Sales Taxes	48.92	67.08	-	-	48.92	67.08
Business Licenses Taxes	5.55	5.77	-	-	5.55	5.77
Franchise Taxes	3.16	2.70	-	-	3.16	2.70
Transient Occupancy Taxes	9.37	11.02	-	-	9.37	11.02
Other Taxes	4.80	6.33	-	-	4.80	6.33
Motor Vehicle In-Lieu	0.59	0.76	-	-	0.59	0.76
Use of Money and Property	16.87	25.04	4.68	5.25	21.55	30.29
Other	10.01	7.62	-	-	10.01	7.62
Sub-total General Revenues	190.35	215.63	4.68	5.25	195.03	220.88
Total Revenues	\$ 245.19	\$ 286.88	\$ 100.50	\$ 112.54	\$ 345.69	\$ 399.42
Expenses						
General government	\$ 36.95	\$ 41.22	\$ -	\$ -	\$ 36.95	\$ 41.22
Public safety	99.58	93.85	-	-	99.58	93.85
Community development	54.58	58.68	-	-	54.58	58.68
Library	4.22	4.38	-	-	4.22	4.38
Public works	8.69	31.10	-	-	8.69	31.10
Interest on long-term debt	14.15	13.59	-	-	14.15	13.59
Water	-	-	27.86	29.55	27.86	29.55
Sewer	-	-	10.27	10.58	10.27	10.58
Solid Waste	-	-	21.79	22.38	21.79	22.38
Total Expenses	\$ 218.17	\$ 242.82	\$ 59.92	\$ 62.51	\$ 278.09	\$ 305.33
Increase/(Decrease) in Net Assets Before Transfers	\$ 27.02	\$ 44.06	\$ 40.58	\$ 50.03	\$ 67.60	\$ 94.09
Transfers	(4.65)	12.33	4.65	(12.33)	-	-
Increase/(Decrease) in Net Asset	\$ 22.37	\$ 56.39	\$ 45.23	\$ 37.70	\$ 67.60	\$ 94.09

Governmental Activities

Under the governmental activities, the City's *net assets* increased by \$22.37 million. The cost of all governmental activities this year was \$218.17 million or 78.5 percent of the government-wide total expenses and was a decrease of \$24.65 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 \$36.95 million or 16.9 percent of total Governmental Activities expenses. Of this amount, \$6.40 million was funded by program revenues, while the remaining \$30.55 was funded by general revenues. General government expenditures decreased \$4.27 million compared to the previous year, mainly attributable to reduction in personnel and operating costs.

Public Safety expenditures were \$99.58 million or 45.6 percent of the total Governmental Activities expenses. Of this amount, \$9.59 million was funded by program revenues while the remaining \$89.99 million was funded by general revenues. Public safety expenses experienced a gain of \$5.73 million or 6.1 percent from the previous year, primarily the result of growth in personnel and operating costs.

Expenses in *Community Development* were \$54.58 million or 25.0 percent of the total Governmental Activities expenditures. These expenses decreased by \$4.10 million or 7.0 percent compared to the prior year. The reduction in expenditures is due to lower personnel and operating costs. Program revenues relating to the funding of community development activities amounted to \$33.03 million, with the remaining funding (\$21.55 million) was from general revenues. The majority of program revenues resulted from capital contributions and grants (\$20.82) for future development in the City.

The *Library* had expenses of \$4.22 million or 1.9 percent of the total Governmental Activities expenses. Of this amount \$.30 million was funded by program revenues, while the remaining \$3.40 was funded by general revenues.

Public Works expenditures were \$8.69 million or 4.0 percent of the total Governmental Activities expenses. Of this amount, \$5.0 million was funded by program revenues, while the remaining \$3.69 million was funded by general revenues. The Public Works expenses experienced a decrease of \$22.41 million from the prior year, primarily as a result of the completion of public works projects in the previous year. In addition, there were savings in personnel and operating expenditures.

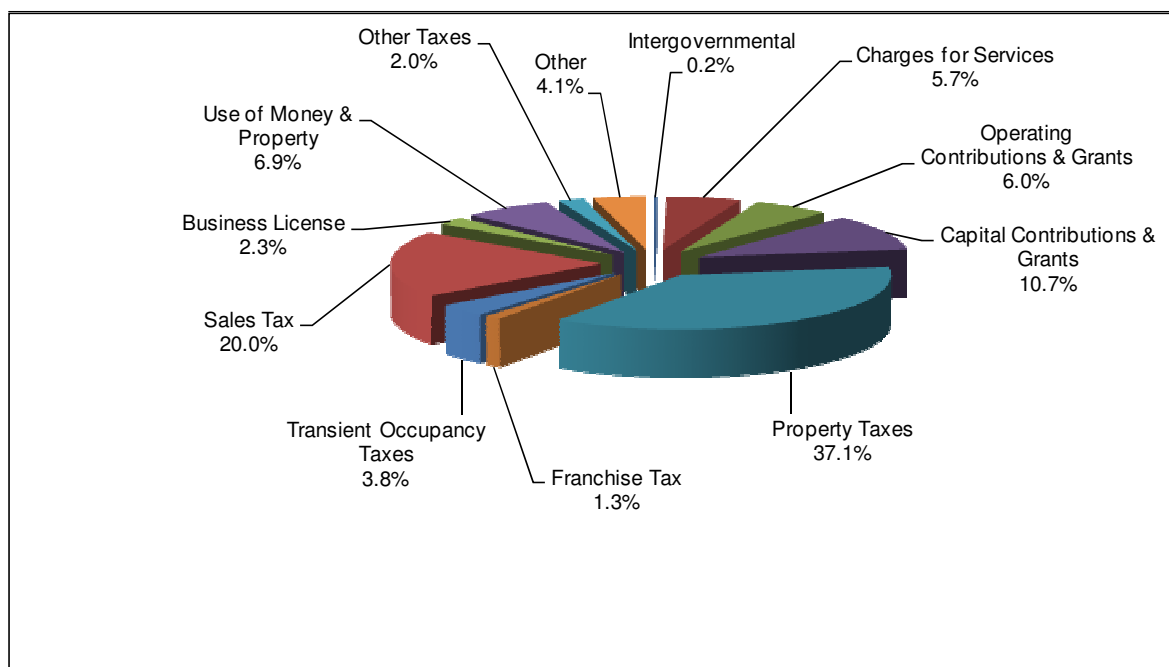
Interest on long-term debt had expenditures of \$14.15 million or 6.5 percent of Governmental Activities and is funded entirely by general revenues.

Graph 2 on the following page presents governmental activities revenue by source. Total revenue (before transfers) for governmental activities was \$245.19 million; a decrease of \$41.78 million or 14.6 percent. The three largest revenue sources under Governmental Activities were the categories of Property Taxes, Sales Taxes, and Use of Money and Property. Property Tax revenue (general revenue) was \$91.08 million or 37.1 percent of total governmental activities revenue. An increase of \$1.78 million or 2.0 percent compared to the previous year due to a slight gain in assessed property valuation. Sales Tax revenue (general revenue) was \$48.92 million or 20.0 percent of total governmental activities revenue. This is a significant decrease of \$18.16 million or 27.1 percent compared to the prior year, resulting from reductions in both consumer and business spending due to the severe current global-wide economic recession. The third largest revenue source was Use of Money and Property (general revenue) at \$16.87 million or 6.9 percent of total governmental activities revenue - a major decrease of \$8.17 million or 32.6 percent from the prior year due to lower investment returns and all time lows of interest rates – both an outcome from the continued dismal economic conditions.

Other General Revenues totaled \$33.48 million and represented 13.7 percent of the total revenues from governmental activities. Program revenues include: Charges for Services of \$13.99 million; Operating Contributions and Grants of \$14.63 million; and Capital Contributions and Grants of \$26.22 million. Together they represent 22.4 percent of the total governmental activities revenue.

Graph 2 below presents revenues by source for Governmental Activities.

Revenues by Source – Governmental Activities (Graph 2)



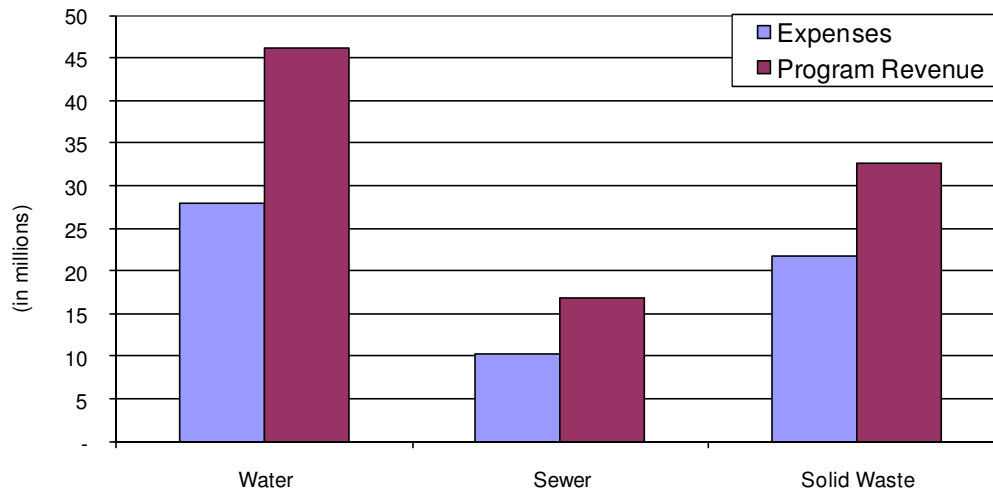
Business-type Activities

Net assets for business-type activities at June 30, 2009 were \$276.26 million, with assets of \$339.69 million and liabilities of \$63.43 million. Unrestricted net assets of \$131.68 million represented 47.7 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 \$132.55 million represented 48.0 percent of the total net assets from business-type activities. The remaining \$12.04 million were restricted for capital projects (\$8.22 million) and debt service (\$3.82 million) respectively. Compared to the prior year, the City's net assets from business-type activities increased by \$45.23 million or 19.6 percent.

Total revenues (excluding transfers) for the City's business-type activities were \$100.50 million, which represented a \$12.04 million or 10.7 percent decrease from the prior year. Program revenues amounted to \$95.82 million or 95.3 percent of total business-type related revenue. This is a reduction of \$11.48 million or 10.7 percent over the prior year, mainly attributable to the combination of a capital contribution of \$17.85 million included in the previous year for completed water projects and an increase of 6.58 million or 7.4% percent as a result of increased rates for water, sewer and solid waste. General revenues for business-type activities were \$4.68 million (Use of Money and Property). Business-type activities incurred \$59.92 million of expenditures for the year. This is a reduction of \$2.60 million or 4.2% percent compared to the previous year due to lower personnel and operating costs.

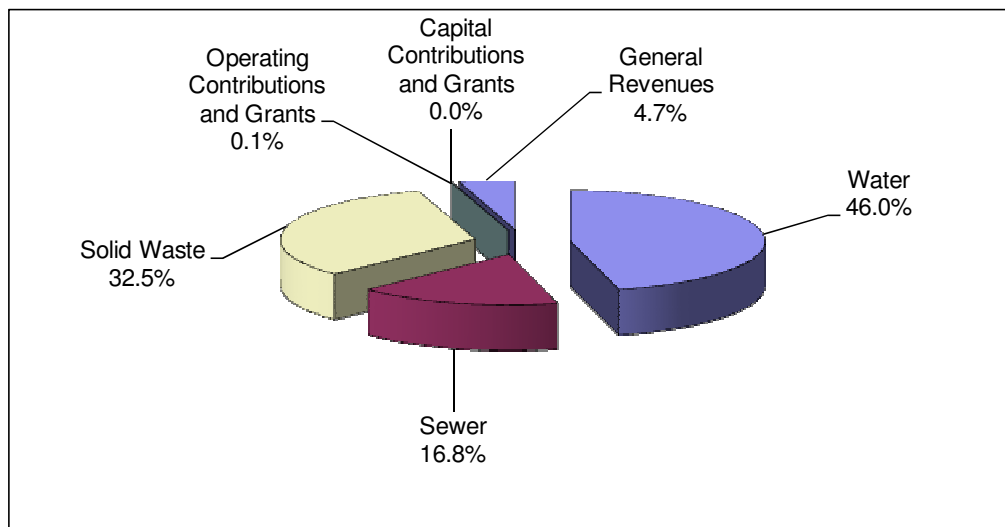
Graph 3 presents the costs of each of the City's business activities and the associated program revenue. Since business-type activities are primarily used when the City charges customers for the services it provides, program revenues (charges for services) should be similar to the costs of these programs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

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



Graph 4 below presents revenues by source for business-type activities. Revenue from Water services is the largest revenue source with \$46.20 million or 46.0 percent of the total revenues from business-type activities. The second largest revenue source was revenue from Solid Waste services at \$32.65 million or 32.5 percent of total business-type activities revenues. *Charges for services account* for \$95.76 million or 95.3 percent of total business-type activities revenues (before transfers), while the remaining 4.7 percent is from *general revenues* (\$4.68 million) and *operating contributions and grants* (\$.05 million).

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



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

Governmental Funds

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

During the current fiscal year, the City had five major governmental funds: General Fund, Quiet Home Program Fund, Capital Projects Fund, Impact Fees Fund, and Redevelopment Agency's Project Area No. 1 Debt Service Fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The General Fund is discussed in depth later in the MD&A. The special revenue fund for the Quiet Home Program accounts for revenues received primarily from federal sources and the Los Angeles World Airports which are designated for specified airport noise mitigation programs, especially property acquisition, land use conversion and the noise insulation of residences. The City's Capital Project Fund accounts for the financial transactions of general capital improvements. The Impact Fee Fund accounts for revenues from developer-paid impact fees for infrastructure construction in the City. The Ontario Redevelopment Agency Project Area No. 1 Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency's Project Area No. 1. Each major fund is discussed in the *Notes to the Financial Statements*.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$356.58 million. Approximately 22.1 percent or \$78.84 million of this total amount constitutes unreserved/undesignated fund balance. The remainder fund balance of \$277.75 million is reserved (\$150.53 million) or designated (\$127.22 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 (\$11.99 million); 2) Prepaid costs and deposits (\$4.11 million); 3) Advances to other funds (\$31.14 million); 4) Reserved for land that was purchased and held for resale (\$95.56 million); 5) Reserved for contracts and notes (\$6.67 million); 6) Reserved for inventory, contractual obligations, and trust and endowment (\$1.07 million) 7) Designated for future expenditures (\$23.20 million); 7) Designated for capital improvement projects (\$68.01 million); 8) Designated for economic uncertainties (\$18.70 million); and 9) Designated for debt service (\$17.30 million).

Governmental Revenues

Revenues of governmental funds for Fiscal Year 2008-09 were \$242.29 million, with a decrease of \$42.28 million or 14.9 percent compared to the previous fiscal year. This decline in government revenue is mainly attributable to a decrease of \$20.18 million or 65.0 percent in Charges for Services as a result of significantly lower development related revenue due to the continued slowdown of development activity from the current dismal economic downturn. In addition, Taxes overall experienced a reduction of \$12.97 million or 7.2 percent compared to the prior year. This is mainly attributable to the combination of decreases in Sales Tax (\$18.16 million), Transient Occupancy Tax (\$1.66 million) and Parking Tax (\$1.38 million), and gains in Other Taxes (\$6.68 million) and Property Tax (\$1.77 million). The current severe economic recession is a major contributing factor for the decreases in tax revenues. The increase in Other Taxes is due to a reclassification in the prior year from Other Taxes to Sales Tax revenue. In addition, Use of Money and Property decreased \$9.49 million or 43.3 percent as a result of lower investment returns and all time lows of interest rates, as the gloomy economic environment continues being experienced worldwide.

Table 3 below presents a summary of governmental fund revenues for the fiscal year ended June 30, 2009, with comparative amounts from the prior year.

Comparison of Major Governmental Revenues (Table 3)
Fiscal Years 2008-09 and 2007-08

	Amount FY 08-09	% of Total Revenues	Amount FY 07-08	% of Total Revenues	\$ Increase / (Decrease)	% Increase / (Decrease)
Property Tax	\$ 91,075,881	37.59%	\$ 89,308,552	31.38%	\$ 1,767,329	1.98%
Sales Tax	48,921,819	20.19%	67,081,615	23.57%	(18,159,796)	-27.07%
Transient Occupancy Tax	9,367,537	3.87%	11,025,406	3.87%	(1,657,869)	-15.04%
Parking Tax	4,059,902	1.68%	5,442,294	1.91%	(1,382,392)	-25.40%
Business Licenses Tax	5,550,779	2.29%	5,767,540	2.03%	(216,761)	-3.76%
Other Taxes	8,176,287	3.37%	1,500,079	0.53%	6,676,208	445.06%
Licenses & Permits	1,344,689	0.55%	2,745,841	0.96%	(1,401,152)	-51.03%
Intergovernmental	33,475,335	13.82%	38,131,871	13.40%	(4,656,536)	-12.21%
Charges for Services	10,850,659	4.48%	31,026,056	10.90%	(20,175,397)	-65.03%
Use of Money & Property	12,406,158	5.12%	21,892,517	7.69%	(9,486,359)	-43.33%
Fines and Forfeitures	1,679,130	0.69%	1,555,938	0.55%	123,192	7.92%
Contribution-Property Owners	3,887,060	1.60%	-	0.00%	3,887,060	100.00%
Other	11,499,201	4.75%	9,093,249	3.20%	2,405,952	26.46%
TOTAL	\$ 242,294,437	100.00%	\$ 284,570,958	100.0%	\$ (42,276,521)	-14.86%

Governmental Expenditures

Operating expenditures for Fiscal Year 2008-09 were \$288.70 million, a reduction of \$51.99 million or 15.3 percent over the prior fiscal year. Of the total decrease, Community Development reflected a reduction of \$32.81 million or 22.4 percent due to lower activity in development related projects, Public Works decreased \$13.10 million or 40.5 percent as a result of the completion of major capital projects in the prior year, and General Government declined \$9.94 million or 27.7 percent due to lower personnel and operating expenditures. Public Safety experienced a growth of \$2.10 million or 2.1 percent as a result of increased personnel and operating expenditures.

Table 4 below presents a summary of governmental fund expenditures for the Fiscal Year ended June 30, 2009 with comparative amounts from the prior year.

Comparison of Major Governmental Expenditures (Table 4)
Fiscal Years 2008-09 and 2007-08

	Amount FY 08-09	% of Total Expenditures	Amount FY 07-08	% of Total Expenditures	\$ Increase / (Decrease)	% Increase / (Decrease)
General Government	\$ 25,940,539	8.99%	\$ 35,885,534	10.53%	\$ (9,944,995)	-27.71%
Public Safety	101,562,349	35.18%	99,459,200	29.19%	2,103,149	2.11%
Community Development	113,840,713	39.43%	146,647,460	43.04%	(32,806,747)	-22.37%
Library	4,063,682	1.41%	4,072,044	1.20%	(8,362)	-0.21%
Public Works	19,227,003	6.66%	32,331,064	9.49%	(13,104,061)	-40.53%
Total Operating Expenditures	264,634,286	91.66%	318,395,302	93.45%	(53,761,016)	-16.88%
Debt Service	24,066,631	8.34%	22,298,782	6.55%	1,767,849	7.93%
TOTAL	<u>\$ 288,700,917</u>	<u>100.00%</u>	<u>\$ 340,694,084</u>	<u>100.0%</u>	<u>\$ (51,993,167)</u>	<u>-15.26%</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 2008-09 were \$95.76 million, while non-operating revenues were \$22.35 million. Operating expenses for fiscal year 2008-09 were \$59.14 million while non-operating expenses were \$2.59 million (debt service interest expense). During the fiscal year, \$12.96 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 2008-09 were \$29.63 million.

Fiduciary Funds

As mentioned earlier, the City uses Fiduciary Funds to account for resources held for the benefit of parties outside the City, in which the City is acting as trustee. The *Statement of Fiduciary Net Assets* reports fifteen activities for which the City has a fiduciary responsibility. These include: the Redevelopment Financing Authority, a JPA formed between the City and the Agency to establish a vehicle to reduce local borrowing costs and promote greater use of new and existing financial instruments; West End Communications Authority, a seven-member JPA that operates and maintains a consolidated 800MHZ communication system designed to serve public safety agencies; the Sanitary Collection Treatment Fund which collects sewer capital assessment fees on behalf of the Inland Empire Utilities Agency; the Other Post Employment Benefits supports the reporting requirements of GASB Statement 43 to separately identify the costs and activities related to employee post-employment benefits other than pensions; and the West End Fire and Emergency Response Commission, a JPA of five local fire departments to establish a hazardous materials response team, an urban search and rescue team and the servicing of joint authority breathing apparatus equipment used for emergency purposes. The remaining ten are assessment/special assessment bond redemption funds used to collect assessments and administer the debt service of the districts.

GENERAL FUND – FUND BALANCE ANALYSIS

The General Fund is the primary operating fund of the City. The fund balance of \$86.50 million as of June 30, 2009 had a reduction of \$5.19 million compared to the prior year. This was the combination of less funding of capital projects by the General Fund, decreases in Undesignated by \$9.20 million and Reserve for Encumbrances by \$2.31 million, as well as an overall increase in total designations by \$2.07 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved/undesignated fund balance and total fund balance to total fund operating expenditures. Unreserved/undesignated fund balance represents 15.6 percent of total General Fund operating expenditures, while total reserved/designated fund balance amounts to 55.7 percent of the same amount.

The total fund balance is represented by three components: the reserved fund balance of \$15.58 million, an increase of \$1.95 million from the prior year; the unreserved/designated fund balance of \$46.67 million, an increase of \$2.07 million compared to the previous year; and unreserved/undesignated fund balance of \$24.25 million, a decrease of \$9.20 million from the prior year. Over the past five years, the growth in fund balance has enabled City Council to designate a total of \$46.67 million for: 1) City facilities improvement (\$5.09 million); 2) Compensated absences (\$12.01 million); 3) Equipment replacement (\$3.43 million); 4) Assessment District maintenance (\$1.52 million); 4) future development related expenditures (\$5.91 million); and 5) Economic uncertainties (\$18.70 million).

Reserved fund balance of \$15.58 million consists of: 1) \$2.14 million for encumbrances; 2) \$12.30 million in advances to the Redevelopment Agency; and 3) \$1.14 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 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09
Fund Balance					
Reserved	\$ 17,815,758	\$ 22,255,872	\$ 19,375,419	\$ 13,625,169	\$ 15,576,453
Designated Unreserved	34,346,266	31,384,441	23,944,065	44,599,841	46,664,841
Undesignated Unreserved	23,903,588	37,329,464	46,619,116	33,456,434	24,254,278
Total Fund Balance	<u>\$ 76,065,612</u>	<u>\$ 90,969,777</u>	<u>\$ 89,938,600</u>	<u>\$ 91,681,444</u>	<u>\$ 86,495,572</u>
Beginning Balance	\$ 83,272,663	\$ 76,065,612	\$ 90,969,777	\$ 89,938,600	\$ 91,681,444
Operating Surplus/(Deficit)	(6,351,292)	13,697,150	(1,031,177)	1,742,844	(5,185,872)
Restatements/Equity Transfers	(855,759)	1,207,015	-	-	-
Ending Balance	<u>\$ 76,065,612</u>	<u>\$ 90,969,777</u>	<u>\$ 89,938,600</u>	<u>\$ 91,681,444</u>	<u>\$ 86,495,572</u>

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

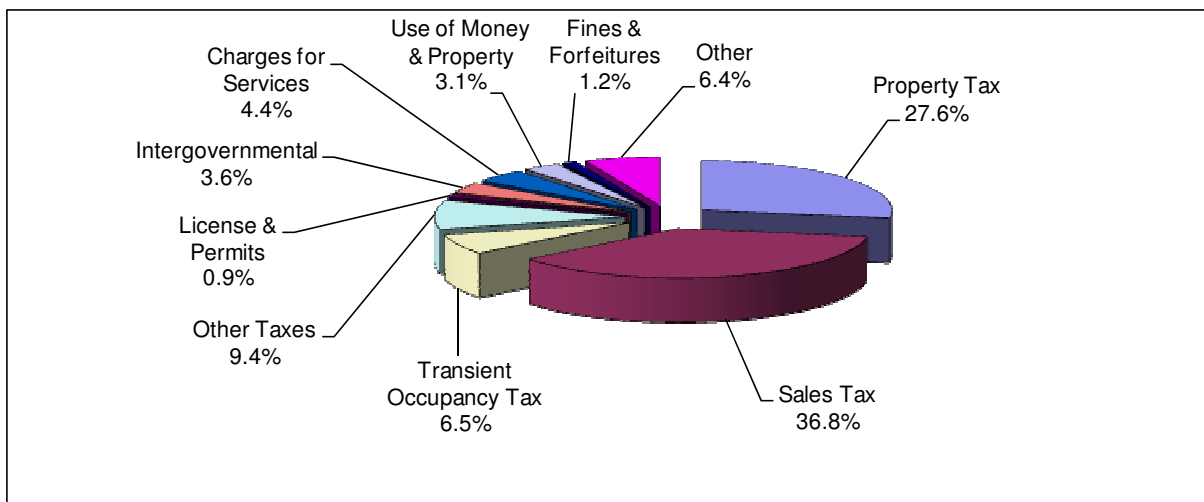
For Fiscal Year 2008-09, General Fund revenues were \$143.02 million, a reduction of \$17.63 million or 11.0 percent. This is primarily due to revenue declines in: Sales Tax (\$11.83 million) due to lower consumer and business spending, an outcome of the current harsh economic downturn; Use of Money and Property (\$3.98 million) from lower investment returns and all time low interest rates; and Charges for Services revenue (\$2.04 million) as a result of the slowdown in development activity from the continued economic crisis.

General Fund Revenues (Table 6)
Fiscal Years 2006-07, 2007-08 and 2008-09

	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>% of Total</u>	<u>\$ Increase / (Decrease) to Last Year</u>	<u>% of Increase (Decrease)</u>
Property Tax	\$ 34,722,414	\$ 37,871,411	\$ 39,490,968	27.6%	\$ 1,619,557	4.3%
Sales Tax	64,180,674	64,410,513	52,577,241	36.8%	(11,833,272)	-18.4%
Transient Occupancy Tax	11,013,014	11,025,406	9,367,537	6.5%	(1,657,869)	-15.0%
Other Taxes	14,684,085	14,467,628	13,508,099	9.4%	(959,529)	-6.6%
License & Permits	3,077,713	2,745,841	1,344,689	0.9%	(1,401,152)	-51.0%
Intergovernmental	2,849,284	3,829,705	5,093,261	3.6%	1,263,556	33.0%
Charges for Services	15,109,757	8,376,923	6,332,707	4.4%	(2,044,216)	-24.4%
Use of Money & Property	8,005,959	8,475,571	4,497,562	3.1%	(3,978,009)	-46.9%
Fines & Forfeitures	1,628,564	1,548,438	1,675,666	1.2%	127,228	8.2%
Other	7,226,086	7,894,599	9,128,164	6.4%	1,233,565	15.6%
Totals	<u>\$ 162,497,550</u>	<u>\$ 160,646,035</u>	<u>\$ 143,015,894</u>	<u>100.0%</u>	<u>\$ (17,630,141)</u>	<u>-11.0%</u>

Graph 5 below illustrates General Fund revenue by source.

General Fund Revenues – Fiscal Year 2008-09 (Graph 5)

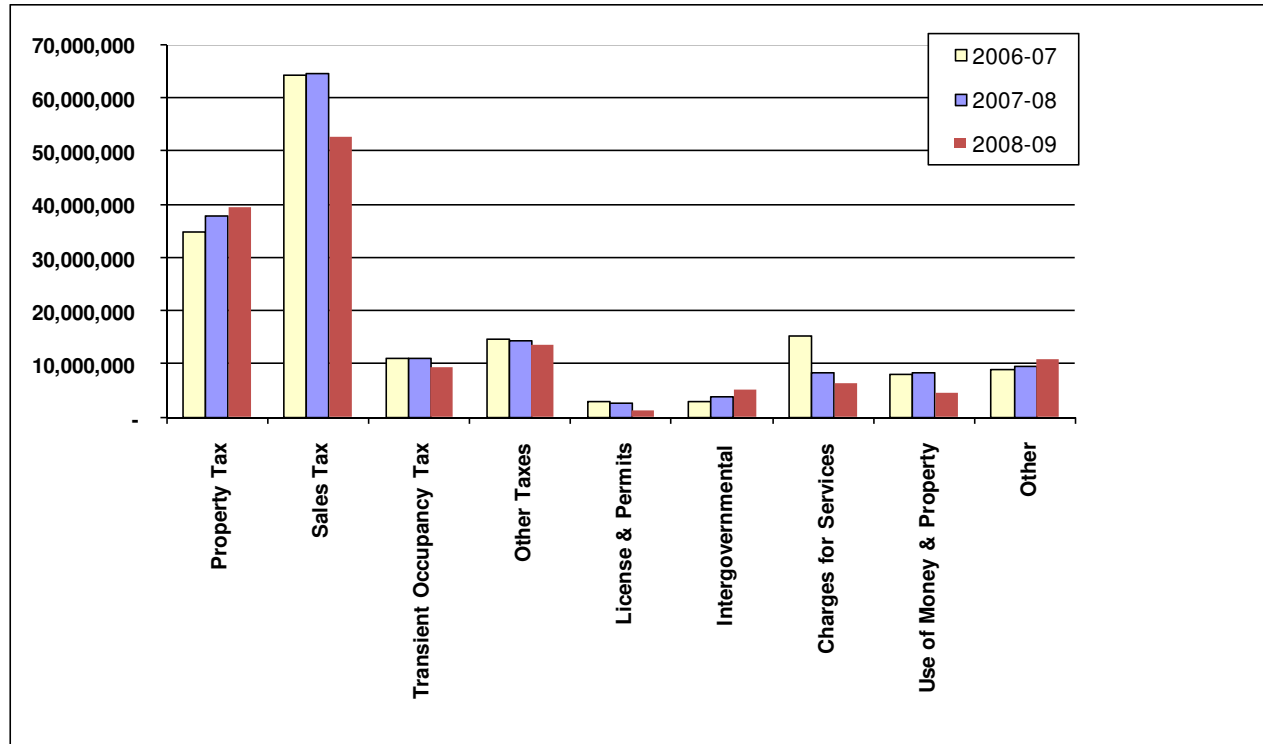


Following is an in-depth analysis of each of the revenue sources.

- Property Tax revenues increased \$1.62 million or 4.3 percent, comprising 27.6 percent of total General Fund revenue. This was due to the overall increase in assessed property valuation.
- Sales Tax revenues experienced a significant decline of \$11.83 million or 18.4 percent from the prior year. Of the total General Fund revenue, 36.8 percent comes from sales taxes. This reduction of revenue is due to lower consumer and business spending as a result of the current severe economic downturn.
- Transient Occupancy taxes also declined by \$1.66 million or 15.0 percent; it comprises 6.5 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 9.4 percent of the City's total General Fund revenue. This revenue category reflected a decrease by \$0.96 million or 6.6 percent. Contributing to this reduction is a decline in Parking Tax revenue (\$1.38 million), which is netted against a gain in Franchise Fee of \$0.46 million.
- License and Permit revenues decreased by \$1.40 million or 51.0 percent from the prior year, mainly due to a decrease in the number of construction permits issued, as development has almost become nonexistent with the current severe economic crisis.
- Intergovernmental revenues increased by \$1.26 million or 33.0 percent compared to the previous year. This is primarily the result of additional governmental grant revenue received during the year.
- Charges for Services decreased by \$2.04 million or 24.4 percent from the previous year. This is due to the decline in construction related fees associated with the severe curtail of development as a result of the current economic recession. Charges for Services comprise 4.4 percent of the City's total General Fund revenues.
- Revenues from the Use of Money and Property represent 3.1 percent of total General Fund revenue and experienced a reduction of \$3.98 million or 46.9 percent from the prior year. This reduction was attributable to lower investment returns and all time low interest rates as a result of the current economic crisis.
- Other revenue, including Fines and Forfeiture, increased 23.8 percent (\$1.36 million) and represents 7.6 percent of total General Fund revenues. This primarily the result of additional administrative overhead charged by the City to the Ontario Redevelopment Agency and the Ontario Housing Authority City to recover expenses incurred in the General Fund for administration.

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

Comparison of General Fund Revenues (Graph 6)
Fiscal Years 2006-07, 2007-08 and 2008-09



Expenditures

For Fiscal Year 2008-09, total General Fund expenditures were \$155.29 million, a minor reduction of \$0.80 million or less than one percent compared to the previous year. Following are key points of General Fund expenditures.

- General Government expenditures were \$10.18 million, a decrease of \$6.80 million or 40.0 percent from the prior fiscal year. This decline is primarily the result of an accounting change regarding the classification of Other Post Employment Benefit obligation (Retiree Medical funding) of \$8.2 million that was previously classified in the General Fund.
- Public Safety expenditures were \$101.02 million, an increase of \$4.46 million or 4.6 percent compared to the previous year. This increase is mainly attributable to the growth in personnel and operating costs.

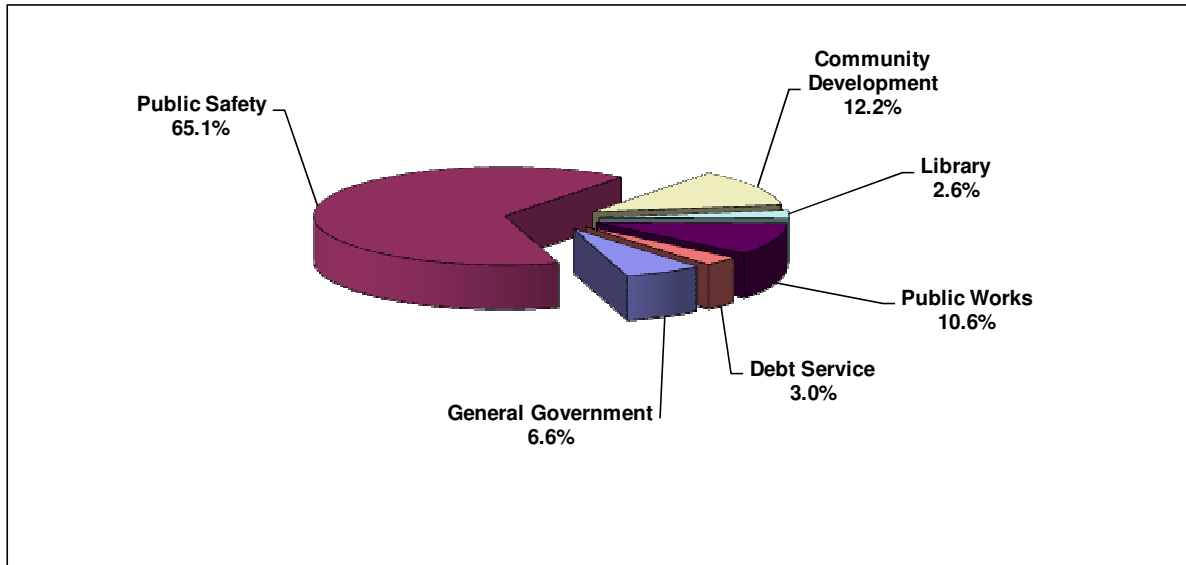
- Community Development expenditures of \$18.93 million were lower by \$1.73 million or 8.4 percent compared to the previous year. This is due to lower personnel and operating costs as a direct result of the continued slowdown of development activity.
- Library expenditures were \$4.06 million; no change from the prior year.
- Public Works expenditures were \$16.4 million, an increase of 10.3 percent or \$1.53 million higher compared to the prior year, mainly due to the increased material and contractual services expenditures.
- Debt Service expenditures were \$4.68 million, an increase of \$1.73 million or 58.7 percent over the previous year. This is primarily due to the additional debt service payments of one full year relating to the long-term debt issued in August of 2007.

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

General Fund Expenditures (Table 7)
Fiscal Years 2006-07, 2007-08 and 2008-09

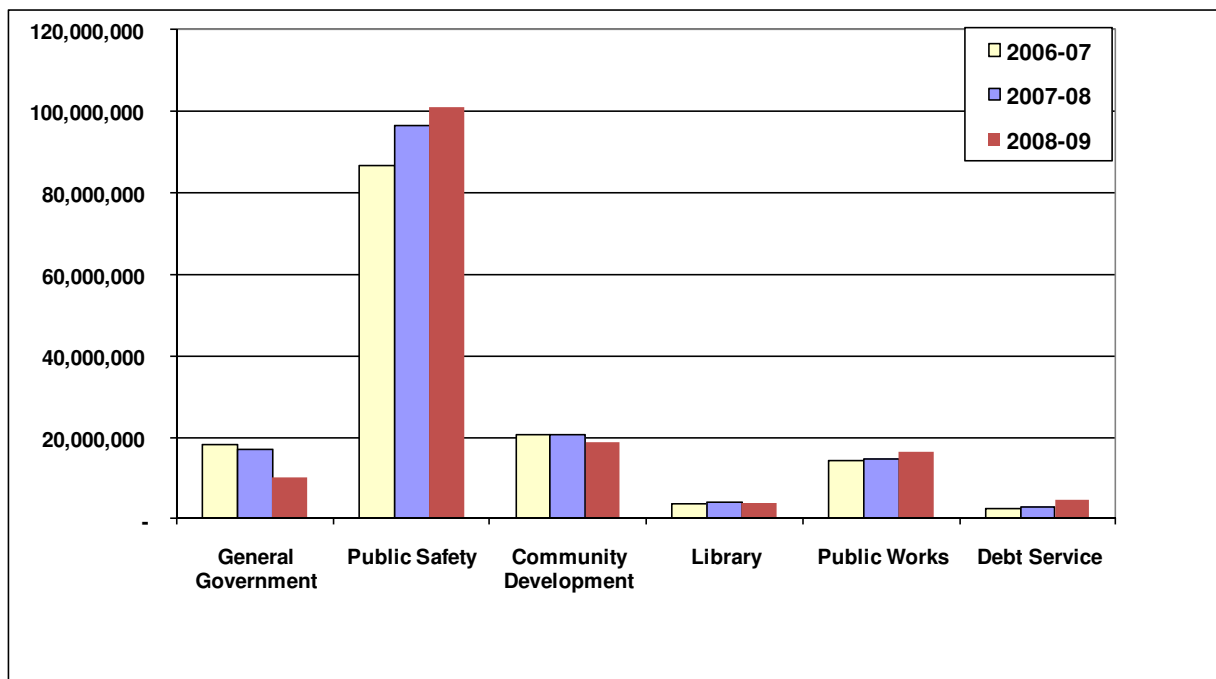
	FY 06-07	FY 07-08	FY 08-09	% of Total	\$ Increase / (Decrease) to Last Year	% of Increase (Decrease)
General Government	\$ 18,327,351	\$ 16,985,019	\$ 10,183,786	6.6%	\$ (6,801,233)	-40.0%
Public Safety	86,648,360	96,559,618	101,021,285	65.1%	4,461,667	4.6%
Community Development	20,426,401	20,659,857	18,933,103	12.2%	(1,726,754)	-8.4%
Library	3,781,585	4,062,996	4,063,682	2.6%	686	0.0%
Public Works	14,214,677	14,869,562	16,399,937	10.6%	1,530,375	10.3%
Debt Service	2,377,237	2,952,186	4,684,889	3.0%	1,732,703	58.7%
Totals	<u>\$ 145,775,611</u>	<u>\$ 156,089,238</u>	<u>\$ 155,286,682</u>	<u>100.0%</u>	<u>\$ (802,556)</u>	<u>-0.5%</u>

Graph 7 on the following page presents General Fund expenditures by category.

General Fund Expenditures – Fiscal Year 2008-09 (Graph 7)

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

Comparison of General Fund Expenditures (Graph 8)
Fiscal Years 2006-07, 2007-08 and 2008-09



QUIET HOME PROGRAM FUND – FUND BALANCE ANALYSIS

The Quiet Home Program Fund accounts for revenues received primarily from federal sources and the Los Angeles World Airports which are designated for specified airport noise mitigation programs, especially property acquisition, land use conversion and the noise insulation of residences. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2009. The fund balance of \$50.93 million as of June 30, 2009 had a gain of \$2.84 million or 5.9 percent compared to the prior year. Total Assets of \$54.57 million experienced a slight growth of \$0.79 million or 1.5 percent. Total Liabilities of \$3.63 million decreased \$2.05 million primarily due to the reduction in Unearned Revenues of \$2.19 million compared to the prior year which higher amount of grant monies that were received but not recognized at the end of the fiscal year.

QUIET HOME PROGRAM FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2008-09, total Quiet Home Program Fund revenues were \$5.80 million, a decrease of \$5.89 million. This is primarily due to the decrease in Intergovernmental revenues of \$5.90 million as a result of timing of when grant revenues are recognized – when they are earned.

Expenditures

For Fiscal Year 2008-09, total Quiet Home Program Fund expenditures were \$2.96 million, a decrease of \$2.80 million or 48.7 percent compared to the prior year. This is primarily the result of lower grant activity experienced in this fiscal year compared to the previous year due to lower grant funding amounts.

CAPITAL PROJECTS FUND – FUND BALANCE ANALYSIS

The Capital Projects Fund accounts for financial transactions of general capital improvements. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2009. The fund balance of \$31.45 million as of June 30, 2009 had a decrease of \$50.18 million or 61.5 percent compared to the prior year. Total Assets were \$44.75 million, a decrease of \$65.33 million or 59.3 percent. Cash and Investments decreased \$45.56 million or 97.4 percent over the previous year. This is primarily due to the completion of significant capital projects in this fiscal year, including the Citizens Business Bank Arena project (a \$150.0 million funded project). Cash and Investments with Fiscal Agents decreased \$14.64 million, as a result the completion and progress on bond funded projects, including a soccer/sports complex, City Hall improvements and such other public facilities as may from time to time be designated by the City. Total Liabilities of \$13.30 million, reflected a reduction of \$15.15 million or 53.3 percent, primarily the result of the decrease of \$18.15 million in the Accounts Payable amount of \$2.88 million. The Capital Project Fund also reflected a decrease of \$60.45 million in the Reserve for Encumbrances. This decrease is a direct result of the prior year carryover of encumbrances relating to the Citizens Business Bank Arena project, which was completed in October 2008.

CAPITAL PROJECTS FUND – REVENUE AND EXPENDITURE ANALYSIS**Revenues**

For Fiscal Year 2008-09, total Capital Projects Fund revenues were \$5.64 million; a slight decline of \$0.97 million. This is the result from the combination of a decrease of \$4.03 million in Use of Money and Property, due to the reduction in the amount of Cash and Investments as projects were being completed, and the increase of \$3.79 million in Intergovernmental revenues received in this fiscal year compared to the previous year.

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Expenditures

For Fiscal Year 2008-09, total Capital Projects Fund expenditures were \$63.26 million, a reduction of \$22.48 million or 26.2 percent compared to the prior year. This decrease was mainly attributable to the completion of capital projects in this fiscal year and the prior year, mainly the Citizens Business Bank Arena project (a \$150.0 million funded project) that was completed in October 2008.

IMPACT FEES – FUND BALANCE ANALYSIS

The Impact Fees Fund accounts for revenues from developer paid impact fees for related infrastructure construction. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2009. The fund balance of \$47.13 million as of June 30, 2009 had a minor growth of \$2.43 million or 5.4 percent compared to the prior year. Total Assets were \$50.32 million; a slight gain of \$0.72 million or 1.5 percent. Total Liabilities of \$3.19 million, reflected a reduction of \$1.71 million or 34.9 percent. This is primarily the result of a decrease in Accounts Payable by \$1.70 million.

IMPACT FEES FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2008-09, total Impact Fees Fund revenues were \$5.28 million, a major decrease of \$15.15 million or 74.2 percent compared to the prior year. This is mainly attributable to the reduction in Charges for Services of \$14.73 million or 83.8 percent from the previous year due to the slowdown in development activity as result of the current severe economic crisis.

Expenditures

For Fiscal Year 2008-09, total Impact Fees Fund expenditures were \$2.85 million, a reduction of \$11.99 million or 80.8 percent compared to the prior year. This decrease is primarily the result of significantly lower project expenditures as a result of the slowdown in development activity due to the current severe economic crisis.

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

The Redevelopment Area #1-Debt Service Fund is an Ontario Redevelopment Agency fund that receives the tax increment for the Redevelopment Project Area #1 that is used to pay bond and other project area debts. It is one of the five major funds included in the City's Comprehensive Annual Financial Report for June 30, 2009. The fund balance of \$17.30 million as of June 30, 2009 reflected an increase of \$7.71 million or 80.4 percent compared to the prior year. Total Assets were \$40.51 million; a gain of \$9.34 million from the previous year which is attributable to the growth in Cash and Investments (\$10.33 million) and the decline in Receivables-Taxes (\$0.85 million). Total Liabilities of \$23.21 million increase \$1.63 million primarily due to the gain of \$0.88 million in Advance from Other Funds. This was the result of additional interest accrued on various City notes but not paid. In addition, Accounts Payable increased by \$0.75 million.

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

For Fiscal Year 2008-09, total Redevelopment Area #1-Debt Service Fund revenues were \$33.91 million; a slight decline of \$0.18 million compared to the prior year. This reduction is mainly attributable to the decline in Use of Money and Property of \$0.46 million or 26.4 percent as a result of lower investment returns and all time low interest rates due to the current severe economic crisis. Combine with the slight increment in tax revenues of \$0.27 million or less than one percent from the previous year, resulting from minimal growth in property assessed valuations in the Redevelopment Project Area #1.

Expenditures

For Fiscal Year 2008-09, total Redevelopment Area #1-Debt Service Fund expenditures were \$18.94 million, an increase of \$1.75 million or 10.2 percent over the previous year. This is primarily the result of a \$0.87 million growth in General Government expenditures due to increased administrative overhead expenditures, a \$0.49 million gain in Pass-through Agreement Payments, and lastly an increase of \$0.38 million in Interest and Fiscal Charges relating to debt service obligations.

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 \$5.30 million between the original budget of \$163.20 million and the final amended budget of \$168.50 million. The increase was due in part to budget adjustments for Intergovernmental \$4.05 million, Taxes of \$1.31 million, Miscellaneous of \$0.90 million, Transfers from Other Funds of \$0.82 million, Charges for Services of \$(0.86) million, and Licenses and Permits of \$(0.92) million. With these adjustments, actual revenues understated the final amended budget by \$8.44 million.

Charges to Appropriations (Outflows)

The difference between the original budget and the final budget was an increase of \$14.24 million in appropriations. Public Safety appropriations were increased by \$2.81 million as a result of anticipated grant related expenditures (\$1.90 million) and carryover of appropriations from the prior year (\$1.75 million), offset by various operating and personnel expenditure cuts. Community Development appropriations were increased by \$2.39 million primarily for carryover of appropriations from the prior year and contractual services related to the development of the general plan and other development related projects. Appropriations for Public Works increased by \$2.18 million; this increment resulted from the carryover of appropriations from the prior year for contractual maintenance services. Transfers were increased by \$7.88 million to provide additional funding for capital improvement projects.

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

Budgetary Comparison for General Fund (Table 8)
Fiscal Year 2008-09

	Budget Amounts		Actuals	Final Budget Variance Favorable / (Unfavorable)
	Original	Final		
Resources (Inflows):				
Taxes	\$ 117,240,000	\$ 118,550,000	\$ 114,943,845	\$ (3,606,155)
Licenses and Permits	2,049,660	1,128,660	1,344,689	216,029
Intergovernmental	4,766,199	8,812,259	5,093,261	(3,718,998)
Charges for Services	6,920,175	6,058,651	6,332,707	274,056
Use of Money and Property	3,537,984	3,547,829	4,497,562	949,733
Fines and Forfeitures	1,130,700	1,130,700	1,675,666	544,966
Miscellaneous	7,569,234	8,464,967	9,128,164	663,197
Transfers from Other Funds	19,989,590	20,810,004	17,046,362	(3,763,642)
Total Resources	<u>\$ 163,203,542</u>	<u>\$ 168,503,070</u>	<u>\$ 160,062,256</u>	<u>\$ (8,440,814)</u>
Charges to Appropriations (Outflows):				
General Government	\$ 11,244,086	\$ 11,304,517	\$ 10,183,786	\$ 1,120,731
Public Safety	100,357,177	103,167,410	101,021,285	2,146,125
Community Development	19,721,265	21,100,155	18,933,103	2,167,052
Library	4,391,949	4,317,621	4,063,682	253,939
Public Works	18,137,396	20,318,208	16,399,937	3,918,271
Debt Service	4,684,889	4,684,889	4,684,889	-
Transfers to Other Funds	2,571,780	10,454,345	9,961,446	492,899
Total Charges to Appropriations	<u>\$ 161,108,542</u>	<u>\$ 175,347,145</u>	<u>\$ 165,248,128</u>	<u>\$ 10,099,017</u>

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, 2009, is \$1,012.06 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 35.76	\$ 33.98	\$ 15.09	\$ 15.09	\$ 50.85	\$ 49.07
Structures and Improvements	132.07	130.33	5.44	5.62	137.51	135.95
Furniture and Equipment	6.84	6.03	0.51	0.64	7.35	6.67
Infrastructure	483.68	477.20	116.04	95.05	599.72	572.25
Construction in Progress	180.46	144.31	36.17	17.08	216.63	161.39
Total Net Assets	\$ 838.81	\$ 791.85	\$ 173.25	\$ 133.48	\$ 1,012.06	\$ 925.33

Additional detail information is provided on Capital Assets in the *Notes to Financial Statements, Note 6*.

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 \$11.34 million on street maintenance for the fiscal year ended June 30, 2009 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 2009 is a minimum of \$4.9 million per year. As of June 30, 2009, the City had over 114 million square feet of streets with a carrying amount of approximately \$288.32 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 \$6.03 million on other infrastructure (sidewalks, traffic signals/street lights and catch basins/storm drains) maintenance for the fiscal year ended June 30, 2009. These expenditures delayed deterioration and improved the overall condition through these maintenance efforts. It is estimated that it will cost approximately \$5.5 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 \$186.22 million in outstanding long-term debt for Governmental Activities. This debt consisted of tax allocation bonds, revenue bonds, loans, compensated absences, claims and judgments, and unamortized bond premiums. Long-term debt increased \$8.25 million compared to the prior year total of \$177.97 million, primarily due to the inclusion of the \$11.73 million obligation for Other Post Employment Benefits (future retiree medical costs).

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

Table 10 below is a summary of the City's long-term debt for the year ended June 30, 2009.

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

	Governmental Activities			
	2009	2008	Amount Increase / (Decrease)	Percentage Increase (Decrease)
Tax Allocation Bonds	\$ 55.14	\$ 58.05	\$ (2.91)	-5.0%
Revenue Bonds	83.78	84.81	(1.03)	-1.2%
Loans	13.18	13.52	(0.34)	-2.5%
Other Post Employment Benef	11.73	-	11.73	100.0%
Claims and Judgments	11.56	11.25	0.31	2.8%
Compensated Absences	9.05	8.44	0.61	7.2%
Unamortized Bond Premium	1.78	1.90	(0.12)	-6.3%
	<u>\$ 186.22</u>	<u>\$ 177.97</u>	<u>\$ 8.25</u>	<u>4.6%</u>

ECONOMIC FACTORS AND OUTLOOK FOR FUTURE YEARS

Although the focus of this Annual Report is the economic condition of the City in the Fiscal Year ended June 30, 2009, in preparing the budget for fiscal year 2009-10, management gave careful consideration to the possible impact to the State of California and the national economies will have on the City's budget. Substantial changes have occurred in the economy in which the City operates, and at this time the effect of these factors on the City's operations and its costs are difficult to predict. Unfortunately, there is no consensus, at any level, as to the depth and length of this current downturn, which presented a challenge to the preparation of the City's adopted budget. The overall approach in the development of the fiscal year 2009-10 budget was to achieve and maintain an appropriate balance of expenditure reductions to address the negative economic impacts on City revenues, while minimizing impacts on the delivery of services, programs and capital projects.

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

- The City developed its adopted budget predicated upon the State's current adopted budget. However, recent State Ballot actions have left the State with a projected \$25 billion deficit for which the State has not yet acted upon. Currently, there are many proposals and speculation as to what actions the State might enact, some of which involve the "taking/borrowing" of revenues from local government, including Ontario, the amounts of which range from \$4.3 million upwards towards possibly \$9.1 million. Nothing has been formalized at the time the City's budget was developed, therefore, any actions taken by the State which impact City's revenues would require the City to revisit its spending plan and take action as appropriate to mitigate such actions.
- The degradation of the national and state economies; job/income loss and unemployment; reduction in median home prices and lowering of property values; loss of consumer confidence; and collapse of the housing, financial, retail, automotive, and commercial real estate sectors are all having adverse impacts on most of the City's revenue streams.
- Sales tax revenues are down 20% off of their peak numbers.
- Transient occupancy tax revenue is down 15% off its highs due to the severe cutback in business and leisure travel, which is also resulting in Parking Tax revenue declines of approximately 25%.
- Residential property values are known to be decreasing, the extent of which is not known as the County Assessor has not provided city-by-city data. Commercial/Industrial property values are also expected to start decreasing, though initially at a slower rate.

- Development related revenues are projected continue downward due to the weakened housing and construction sectors as well as reduced personal income.
- The Ontario Redevelopment Agency will continue the annual reimbursement to the City for the Library and Soccer Complex.
- The City is unaware of any court decisions, propositions, initiatives, or other actions beyond the City's control, which could adversely affect its revenue and expenditures.

The Adopted Operating Budget for Fiscal Year 2009-10 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 2009-10 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.