PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 12, 2013

NEW ISSUE – BOOK-ENTRY ONLY

Rating:
Standard & Poor's: "AA-" (underlying)
"AA-" (AGM insured)
See "RATING."

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2013 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013 Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" with respect to tax consequences relating to the Series 2013 Bonds.

$33,330,000*
ONTARIO PUBLIC FINANCING AUTHORITY
2013 LEASE REVENUE BONDS (CAPITAL PROJECTS)

Dated: Date of Delivery **Due: October 1, as shown on inside cover**

The captioned bonds (the "Series 2013 Bonds") are issued by the Ontario Public Financing Authority (the "Authority") and are payable from base rental payments (the "Base Rental Payments") to be made by the City of Ontario (the "City") for the right to the use of certain real property, consisting of certain real property and improvements of the City (the "Property") pursuant to a Lease Agreement, dated as of September 1, 2013 (the "Lease Agreement"), between the City, as lessee, and the Authority, as lessor. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS." The Series 2013 Bonds will be issued pursuant to an Indenture, dated as of September 1, 2013 (the "Indenture") among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The Series 2013 Bonds are issued to provide funds to (i) to finance various public improvements in the City (collectively, the "2013 Project"), (ii) pay the premium for a municipal bond insurance policy and a debt service reserve fund insurance policy for the Series 2013 Bonds and (iii) pay the costs of issuing the Series 2013 Bonds. See "FINANCING PLAN."

The City has covenanted under the Lease Agreement to make all scheduled Base Rental Payments, to include all such payments as a separate line item in its annual budgets, and to make all the necessary annual appropriations for such Base Rental Payments. The City's obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property. See "RISK FACTORS—Abatement."

The Series 2013 Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2013 Bonds is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2014. Purchasers will not receive certificates representing their interest in the Series 2013 Bonds. Individual purchases will be in principal amounts of $5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2013 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2013 Bonds. See "THE SERIES 2013 BONDS—Book-Entry Only System."

The Authority may issue additional bonds ("Additional Bonds") payable from Base Rental Payments. See "THE SERIES 2013 BONDS – Additional Bonds." The Series 2013 Bonds and any Additional Bonds are collectively referred to as the "Bonds."

The Series 2013 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity as described in this Official Statement. See "THE SERIES 2013 BONDS—Redemption."

The Series 2013 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Series 2013 Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

The scheduled payment of principal of and interest on the Series 2013 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2013 Bonds by ASSURED GUARANTY MUNICIPAL CORP.

ASSURED GUARANTY MUNICIPAL

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Series 2013 Bonds will be sold by a competitive sale to be held on August 20, 2013. The Series 2013 Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by the City Attorney. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as disclosure counsel. It is anticipated that the Series 2013 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about __________, 2013.

Dated: ________, 2013

* Preliminary; subject to change.

$______________
ONTARIO PUBLIC FINANCING AUTHORITY
2013 LEASE REVENUE BONDS (CAPITAL PROJECTS)

MATURITY SCHEDULE
BASE CUSIP†:

Principal Payment Date (October 1)	Principal	Rate	Yield	Price	CUSIP†

C = priced to the optional par call date of ___________.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP® numbers are provided for convenience of reference only. Neither the City, the Authority, the Financial Advisors nor the Underwriter takes any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2013 Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the Series 2013 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series 2013 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement and the information contained in this Official Statement are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described in this Official Statement since the date hereof. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Series 2013 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A "GENERAL AND FINANCIAL INFORMATION ABOUT THE CITY OF ONTARIO" and under the caption "RISK FACTORS."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

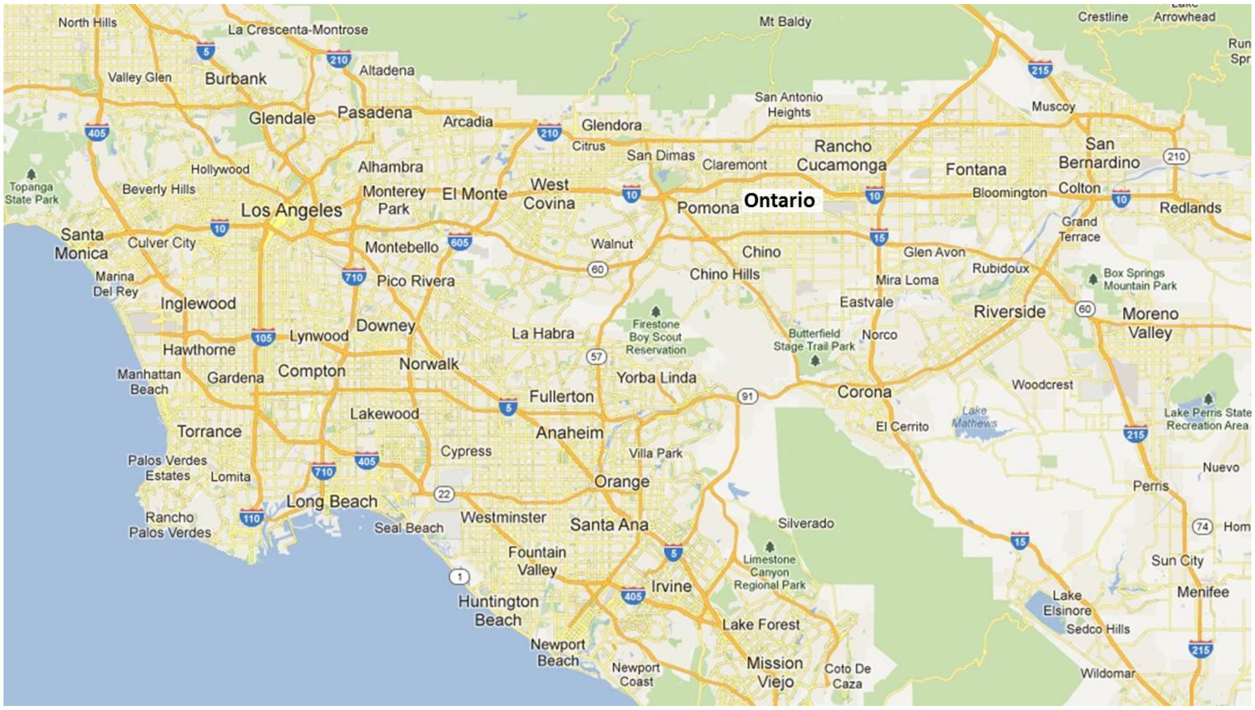
IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE SERIES 2013 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE SERIES 2013 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2013 Bonds.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Series 2013 Bonds or the advisability of investing in the Series 2013 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained in this Official Statement, or omitted from this Official Statement, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "APPENDIX G - Specimen Municipal Bond Insurance Policy."

REGIONAL MAP



CITY OF ONTARIO, CALIFORNIA

CITY COUNCIL

Paul S. Leon, *Mayor*
Jim W. Bowman, *Mayor Pro Tem*
Alan D. Wapner, *Member*
Debra Dorst-Porada, *Member*
Paul Vincent Avila, *Member*

CITY STAFF

Chris Hughes, *City Manager*
Mary E. Wirtes, *City Clerk*
James R. Milhiser, *Treasurer*
Grant D. Yee, *Administrative Services/Financial Director*
John E. Brown, *City Attorney*

SPECIAL SERVICES

Bond Counsel
Stradling Yocca Carlson & Rauth,
A Professional Corporation,
Newport Beach, California

Disclosure Counsel
Jones Hall, a Professional Law Corporation
San Francisco, California

Co-Financial Advisors
CSG Advisors Incorporated
San Francisco, California

Stern Brothers & Co.
Los Angeles, California

Trustee
The Bank of New York Mellon Trust Company, N.A.,
Los Angeles, California

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OFFICIAL STATEMENT

$33,330,000*
ONTARIO PUBLIC FINANCING AUTHORITY
2013 LEASE REVENUE BONDS (CAPITAL PROJECTS)

INTRODUCTION

Series 2013 Bonds. This Official Statement, which includes the cover page and Appendices (the "**Official Statement**"), provides certain information concerning the captioned bonds (the "**Series 2013 Bonds**") issued by the Ontario Public Financing Authority (the "**Authority**").

The Series 2013 Bonds will be issued pursuant to an Indenture, dated as of September 1, 2013 (the "**Indenture**"), among the Authority, the City of Ontario (the "**City**") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**").

The Series 2013 Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("**DTC**"). Interest on the Series 2013 Bonds is payable semiannually on April 1 and October 1 of each year, commencing April 1, 2014.

Purchasers will not receive certificates representing their interest in the Series 2013 Bonds. Individual purchases will be in principal amounts of $5,000 or integral multiples thereof. Principal of and interest on the Series 2013 Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Series 2013 Bonds. See "THE SERIES 2013 BONDS—Book-Entry Only System."

Redemption Prior to Maturity. The Series 2013 Bonds are subject to redemption prior to maturity as described in this Official Statement. See "THE SERIES 2013 BONDS—Redemption."

Financing Purpose. The net proceeds of the sale of the Series 2013 Bonds will be used to (i) finance the costs of certain capital improvements in the City (as described in this Official Statement, the "**2013 Project**"), (ii) pay the premium for a municipal bond insurance policy and a debt service reserve fund insurance policy for the Series 2013 Bonds, and (iii) pay the costs of issuing the Series 2013 Bonds. See "FINANCING PLAN."

Security for the Series 2013 Bonds; Base Rental Payments. The Series 2013 Bonds are equally and ratably payable from base rental payments (the "**Base Rental Payments**") to be made by the City for the right to use certain real property and improvements (the "**Property**") pursuant to a Lease Agreement dated as of September 1, 2013 (the "**Lease Agreement**"), between the City, as lessee, and the Authority, as lessor.

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* Preliminary; subject to change.

Pursuant to a Ground Lease, dated as of September 1, 2013 (the "**Ground Lease**"), the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of September 1, 2013, (the "**Assignment Agreement**"), pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The City covenants under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement), due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor, subject to abatement as described in this Official Statement.

Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's right to use and occupy the Property or any portion thereof. See "RISK FACTORS—Abatement." Abatement of Base Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth in the following sentence, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Series 2013 Bonds. To the extent moneys in any of the funds and accounts established under the Indenture or proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement.

Limited Obligation. THE SERIES 2013 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2013 BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Reserve Fund. A Reserve Fund will be established for the Series 2013 Bonds in an amount equal to the "**Reserve Requirement**" (described in this Official Statement). The Reserve Requirement will be satisfied with a municipal bond debt service reserve insurance policy (the "**Reserve Policy**") issued by Assured Guaranty Municipal Corp ("**AGM**"). See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2013 BONDS - Reserve Fund."

Bond Insurance. The scheduled payment of principal of and interest on the Series 2013 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2013 Bonds by AGM. See "BOND INSURANCE."

Additional Bonds**.** The Authority may issue additional bonds (the "**Additional Bonds**") payable from the Base Rental Payments on a parity basis with the Series 2013 Bonds; the Series 2013 Bonds and any Additional Bonds are collectively referred to in this Official Statement as the "**Bonds**."

Financial Statements. The City's comprehensive annual financial report for the fiscal year ended June 30, 2012 is included as Appendix C and has been audited by Lance Soll & Lunghard LLP, Brea, California (the "**Auditor**"), certified public accountants. See "APPENDIX C – Comprehensive Annual Financial Report of the City for the Fiscal Year Ended June 30, 2012."

Continuing Disclosure. The City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Securities and Exchange Commission Rule 15c2-12 (the "**Rule**") certain annual financial information and operating data and, in a timely manner, notice of certain listed events. See "CONTINUING DISCLOSURE."

Certain Risk Factors*.* Certain events could affect the ability of the City to make the Base Rental Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the Series 2013 Bonds.

Forward-Looking Statements*.* The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for budget discussion for fiscal year 2012-13, is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

Official Statement is a Summary. The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to in this Official Statement, and the description of the Series 2013 Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All capitalized terms used in this Official Statement (unless otherwise defined in this Official Statement) are defined in the Indenture or the Lease Agreement and have the meanings set forth therein. See "APPENDIX B – Summary of the Principal Legal Documents."

FINANCING PLAN

2013 Project*.* A portion of the proceeds of the Series 2013 Bonds will be used to finance public improvements in the City, including the following proposed projects (defined as the "Project" in the Lease Agreement"):

(1) Emergency Operations Center improvements, including approximately 42,000 square feet of tenant improvements to the basement and first floors of the Annex at 200 N. Cherry Ave, as well as miscellaneous improvements remaining from the recent renovation of City Hall.

(2) Ontario Convention Center solar panel project, including integration of a new roof and an approximately 94,000 square foot solar photovoltaic system expected to provide an energy off-set in the amount of 1,532,000 KWh.

(3) Police department solar panel project, including integration of a new un-obstructive roof on the south parking lot and installation of an approximately 121,000 square foot solar photovoltaic system expected to provide an energy off-set in the amount of 1,791,000 KWh.

(4) Fire training center improvements, including construction of new tower and infrastructure improvements for the training center.

(5) Storm drain replacements, including 7,700 linear feet of storm drain system along Francis Avenue from Campus Avenue to West Cucamonga Creek Channel and 4,200 linear feet of storm drain system along Fifth Street from Berlyn Avenue to Cucamonga Avenue, Cucamonga Avenue from Fifth Street to Princeton Street, Princeton Street from Cucamonga Avenue to west Cucamonga Creek Channel

(6) Anthony Munoz Park and Community Center rehabilitation, including demolition of the existing 5,000 square foot community center and children's pool and construction of a new 10,000 square foot ADA compliant and energy efficient community center and fenced community pool area. The community center will consist of classrooms, a tiny tot classroom, offices, senior dance area with wood floors, youth game/activity room, kitchen, restrooms and an ADA compliant community pool with equipment room and restrooms. In addition to the basic structural enhancements, this project may include the purchase of new furniture, a secured play structure with area fencing, computers, exercise equipment and youth game equipment.

The projects financed with proceeds of the Series 2013 Bonds are not part of the Property leased under the Lease Agreement (see "THE PROPERTY" below) and are not security for the Base Rental Payments or the 2013 Bonds.

Estimated Sources and Uses of Funds. The estimated sources and uses of funds with respect to the Series 2013 Bonds are shown below.

Sources	
Principal Amount of Series 2013 Bonds	$
[Plus: Net Original Issue Premium]	
Total Sources	$
Uses	
Construction Fund	
Cost of Issuance Fund[1]	
Total Uses	$

(1) Includes legal fees, rating agency fees, underwriter's discount, financial advisory fees, printing costs, premiums for the Policy and the Reserve Policy and other miscellaneous costs of issuance.

Base Rental Payment Schedule*.* Set forth below is the annual schedule of Base Rental Payments, which corresponds with the schedule of debt service payments on the Series 2013 Bonds (except that (i) the Interest Payment Dates for the Series 2013 Bonds are April 1 and October 1 and (ii) payments of principal on the Series 2013 Bonds are made according to the maturity schedule contained on the inside cover page of this Official Statement):

Lease Payment Date	Series 2013 Principal	Series 2013 Interest	Total Payments
Total	$	$	$

THE SERIES 2013 BONDS

General

The Series 2013 Bonds will be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof. The Series 2013 Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page. Interest on the Series 2013 Bonds will be paid semiannually on April 1 and October 1 (each, an "**Interest Payment Date**") of each year, commencing April 1, 2014.

Interest on the Series 2013 Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Series 2013 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date, (ii) a Series 2013 Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof, or (iii) interest on any Series 2013 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2013 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2013 Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2013 Bonds will be payable in lawful money of the United States upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee. The Series 2013 Bonds will be subject to optional, mandatory sinking fund and extraordinary redemption as set forth in this Official Statement.

Registration, Transfers and Exchanges

The Series 2013 Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of DTC, and will be available to actual purchasers of the Series 2013 Bonds (the "**Beneficial Owners**") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix F) as described in this Official Statement. Beneficial Owners will not be entitled to receive physical delivery of the Series 2013 Bonds. See "THE SERIES 2013 BONDS—Book-Entry Only System."

Redemption

Optional Redemption.* The Series 2013 Bonds maturing on or after October 1, 2024, are subject to optional redemption, prior to their respective stated maturities, as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of $5,000, on or after October 1, 2023, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

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* Preliminary; subject to change.

Mandatory Sinking Fund Redemption. The Series 2013 Bonds with stated maturities on October 1, 20__, are subject to mandatory sinking fund redemption in part (by lot) on each October 1 on and after October 1, 20__, in integral multiples of $5,000 at a Redemption Price equal to the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

Redemption Date (October 1)	Principal Amount To Be Redeemed

* Final Maturity.

Extraordinary Redemption from Condemnation Award or Insurance Proceeds. The Series 2013 Bonds are subject to redemption, in whole or in part, on any date, in denominations of $5,000 or any integral multiple thereof, from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2013 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Series 2013 Bonds, the Trustee will select the Series 2013 Bonds to be redeemed from all Bonds not previously called for redemption (a) with respect to any optional redemption of Bonds, among maturities of Bonds as directed in a Written Request of the Authority, (b) with respect to any redemption from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion will deem appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate $5,000 denominations, and such separate denominations will be treated as separate Bonds that may be separately redeemed.

Notice of Redemption. So long as the Series 2013 Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and will designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Series 2013 Bonds of such maturity or maturities in whole) of the Series 2013 Bonds to be redeemed, and will require that such Bonds be then surrendered at the principal corporate trust office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption.

A redemption notice may state that the redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Series 2013 Bonds so called for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the Series 2013 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Series 2013 Bonds surrendered.

Effect of Notice of Redemption. If a redemption notice has been mailed, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, have been set aside in the Redemption Fund, the Series 2013 Bonds will become due and payable on the redemption date, and, upon presentation and surrender of a Bond at the principal corporate trust office of the Trustee, the Authority will pay the Redemption Price of the Bond, together with interest accrued and unpaid to said date.

If, on the redemption date, moneys for the Redemption Price of all the Series 2013 Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if a notice of redemption has been mailed and not canceled, then, from and after said date, interest on the Series 2013 Bonds to be redeemed will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Series 2013 Bonds so to be redeemed without liability to such Owners for interest thereon.

Book-Entry Only System

General. DTC will act as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2013 Bond will be issued for each maturity of the Series 2013 Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F – Book-Entry Only System."

Transfer and Exchange of Bonds. The following provisions regarding the exchange and transfer of the Series 2013 Bonds apply only during any period in which the Series 2013 Bonds are not subject to DTC's book-entry system. While the Series 2013 Bonds are subject to DTC's book-entry system, their exchange and transfer will be made through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

Any Bond may, in accordance with its terms, be transferred upon the books required to be kept by the Trustee pursuant to the provisions of the Indenture by the Person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and will deliver a new Bond or Bonds of the same Series in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Series 2013 Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be obligated to make any transfer or exchange of Bonds of a Series during the period established by the Trustee for the selection of Bonds of such Series for redemption, or with respect to any Bonds of such Series selected for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS

Pledge of Revenues

The Series 2013 Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in the funds and accounts established under the Indenture. Base Rental Payments will be paid by the City from any and all legally available funds. See "RISK FACTORS" and see "APPENDIX A – General and Financial Information about the City of Ontario" for certain financial and demographic information about the City, including its General Fund. The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

The Authority, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Series 2013 Bond Owners all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that, the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See "—Base Rental Payments" below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on parity with the Series 2013 Bonds. See "APPENDIX B – Summary of the Principal Legal Documents."

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Series 2013 Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture to secure the payment of the principal of, premium, if any, and interest on the Series 2013 Bonds in accordance with their terms, the provisions of the Indenture and the Act. Said pledge constitutes a first lien on such assets.

THE SERIES 2013 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2013 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Additional Bonds

The Authority may issue additional bonds ("**Additional Bonds**") payable from Base Rental Payments on a parity basis with the Series 2013 Bonds. See "APPENDIX B – Summary of the Principal Legal Documents" for a summary of the conditions and procedures for issuance of Additional Bonds.

Base Rental Payments

General. Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than the 5th Business Day next preceding each Interest Payment Date (the "Base Rental Deposit Date"). All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer amounts in the Base Rental Payment Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2013 Bonds.

Base Rental Payment Schedule. Scheduled Base Rental Payments relating to the Series 2013 Bonds are set forth above under the heading "FINANCING PLAN – Base Rental Payment Schedule."

Covenant to Budget and Appropriate. The City covenants in the Lease Agreement to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The City covenants to deliver to the Authority and the Trustee a Certificate of the City stating that its final annual budget includes all Base Rental Payments due in such fiscal year within 10 days after the filing or adoption of the final annual budget. The Lease Agreement declares that these covenants are and will be construed to be duties imposed by law and that it is the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the City's covenants and agreements under the Lease Agreement. See, however, "-Abatement" below.

Limited Obligation. THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Rental Payments

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental Payments, such amounts as will be required for the payment of the following:

(i) All taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein.

(ii) All reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees.

(iii) Insurance premiums for all insurance required pursuant to the Lease Agreement.

(iv) Any amounts with respect to the Lease Agreement or the Series 2013 Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986, as amended.

(v) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture, including but not limited to amounts payable to AGM.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts will be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Abatement

Base Rental Payments and Additional Rental Payments are paid by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments will be subject to abatement proportionately, and the City waives the benefits of Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period will not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the City. See "APPENDIX B – Summary of the Principal Legal Documents."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

In the Lease Agreement, the City represents and warrants that the construction of the Project component consisting of the installation of a solar photovoltaic system on the roof of the City's Police Facility will not result in substantial interference with the City's right to use and occupy any portion of the Police Facility during the construction period.

Substitution and Removal of Property

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there will be no reduction in or abatement of the Base Rental Payments due from the City as a result of such substitution or release. Any such substitution or release will be subject to the following specific conditions precedent:

(a) The City will have delivered a certificate to the Trustee setting forth its findings that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) The City will have obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement.

(c) The City will have provided the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Series 2013 Bonds to be included in gross income for federal income tax purposes.

(d) The City, the Authority and the Trustee will have executed, and the City will have caused to be recorded with the San Bernardino County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease.

(e) The City will have provided notice of such substitution to each rating agency then rating the Series 2013 Bonds.

(f) So long as the Policy is in full force and effect and AGM has not defaulted on its obligations under the Policy, the written consent of AGM must have been received.

See "APPENDIX B – Summary of the Principal Legal Documents."

Action on Default

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. Base Rental Payments may not be accelerated upon a default under the Lease Agreement. See "RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental."

For purposes of certain actions of Bond Owners under the Indenture and the Lease, such as certain consents and amendments and the direction of remedies following default, Series 2013 Bond Owners do not act alone and may not control such matters to the extent such matters are not supported by the requisite number of the Owners of all Bonds and Additional Bonds, if any.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see "APPENDIX B – Summary of the Principal Legal Documents."

Reserve Fund

Pursuant to the Indenture, the Trustee will establish and maintain a Reserve Fund. On the date of issuance of the Series 2013 Bonds, the Authority will deposit the Reserve Policy into the Reserve Fund in satisfaction of its obligation to fund the Reserve Fund in the amount of the Reserve Requirement with respect to the Series 2013 Bonds. On each Interest Payment Date, the Trustee will, from moneys in the Base Rental Payment Fund in the order of priority specified in the Indenture, transfer to the Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement; provided, however, that the Authority may provide for the Reserve Requirement with respect to the Reserve Fund by means other than cash and Permitted Investments as described below.

"**Reserve Requirement**," as defined in the Indenture, means initially: (a) $_____; and thereafter (b) the least of the amount set forth in clause (a), the maximum payments of principal of and interest on the Series 2013 Bonds payable in any fiscal year of the Authority, 125% of the average annual debt service on the Series 2013 Bonds and 10% of the initial principal amount of the Series 2013 Bonds.

The City will repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by AGM and pay interest thereon from the date of payment by AGM at the Late Payment Rate. "**Late Payment Rate**" means the lesser of: (x) the greater of: (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (the "**Prime Rate**") (any change in such Prime Rate to be effective on the date that such change is announced by JPMorgan Chase Bank) plus 3%; and (ii) the then applicable highest rate of interest on the Series 2013 Bonds; and (y) the maximum rate permissible under applicable usury or any other laws applicable to the indebtedness created in the Indenture or similar laws limiting interest rates (including limits on interest rates applicable to obligations of the City). The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JPMorgan Chase Bank ceases to announce its Prime Rate publicly, the Prime Rate will be the publicly announced prime or base lending rate of such national bank as AGM specifies. If the interest provisions relating to the Reserve Policy result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Indenture, then all sums in excess of those lawfully collectible as interest for the period in question will, without further agreement or notice between or by any party hereto, be applied as additional interest for any later periods of time when amounts are outstanding hereunder to the extent that interest otherwise due hereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess will be applied upon principal immediately upon receipt of such moneys by AGM, with the same force and effect as if the Authority or the City had specifically designated such extra sums to be so applied and AGM had agreed to accept such extra payment(s) as additional interest for such later periods. In no event will any agreed-to or actual exaction as consideration for the indebtedness created by the Indenture exceed the limits imposed or provided by the law applicable to the Series 2013 Bonds for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "**Policy Costs**") will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to AGM will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to AGM on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs will be secured by a valid lien on all Rental Payments (subject only to the priority of payment provisions set forth under the Indenture).

All cash and investments in the Reserve Fund, if any, will be transferred to the Base Rental Payment Fund for payment of principal and interest on the Series 2013 Bonds before any drawing may be made on the Reserve Policy or any other credit facility, surety bond, municipal bond insurance policy, unconditional irrevocable letter of credit or any other security device credited to the Reserve Fund in lieu of cash (each a "**Credit Facility**"). Any Credit Facility deposited in the Reserve Fund other than the Reserve Policy must be issued by providers whose long term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, is rated, at the time such security device is issued, "AA-" or better by S&P or "A2" or better by Moody's.

Payment of any Policy Costs will be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund, as directed by the City. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

The prior written consent of AGM is a condition precedent to the deposit of any credit instrument (other than the Reserve Policy) provided in lieu of a cash deposit into the Reserve Fund, if any. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund will be applied solely to the payment of payments of debt service due on the Bonds.

If the City fails to pay any Policy Costs in accordance with the requirements of the Indenture, AGM is entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Lease Agreement, other than: (i) acceleration of the Base Rental Payments; or (ii) remedies which would adversely affect Owners of the Series 2013 Bonds.

For the purpose of determining the amount of cash, if any, in the Reserve Fund, all Permitted Investments credited to the Reserve Fund will be valued at the lower of cost or market value. To the extent of any valuation of Permitted Investments made by the Trustee, notwithstanding anything to the contrary contained in the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and may conclusively rely thereon.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which will include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Series 2013 Bonds. The City has an insurance policy that provides replacement cost coverage. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed $500,000. The City's obligation to maintain the insurance described above (except for rental interruption insurance) may be satisfied by self-insurance, provided that such self-insurance and any self-insured retentions maintained by the City comply with the requirements of the Lease Agreement. See "APPENDIX B – Summary of the Principal Legal Documents."

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental

Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure its obligation to maintain rental interruption insurance.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker's compensation insurance as described in "APPENDIX B – Summary of the Principal Legal Documents."

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2013 Bonds. Such policies will insure the fee interest of the City in the Property, the Authority's leasehold estate in the Property under the Ground Lease, and the City's subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and will provide that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

AGM's Rights Under the Indenture

As long as the Policy is in full force and effect and AGM is not in default of its obligations thereunder, upon the occurrence and continuance of an Event of Default under the Indenture, AGM will be deemed to be the sole holder of the Series 2013 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2013 Bonds are entitled to take pursuant to the Indenture pertaining to: (a) defaults and remedies; and (b) the duties and obligations of the Trustee.

As long as the Policy is in full force and effect and AGM is not in default of its obligations thereunder, the Trustee may not waive any Event of Default without AGM's written consent.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series 2013 Bonds, Assured Guaranty Municipal Corp. ("**AGM**") will issue its Municipal Bond Insurance Policy for the Series 2013 Bonds (the "**Policy**"). The Policy guarantees the scheduled payment of principal of and interest on the Series 2013 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("**AGL**"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA-" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("**S&P**") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("**Moody's**"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 12, 2013, S&P published a report in which it affirmed AGM's "AA-" (stable outlook) financial strength rating. AGM can give no assurance as to any further ratings action that S&P may take.

On January 17, 2013, Moody's issued a press release stating that it had downgraded AGM's insurance financial strength rating to "A2" (stable outlook) from "Aa3." AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013.

Capitalization of AGM

At March 31, 2013, AGM's consolidated policyholders' surplus and contingency reserves were approximately $3,468,362,848 and its total net unearned premium reserve was approximately $1,990,661,506, in each case, in accordance with statutory accounting principles.

For additional information relating to the capitalization of AGM, please see the Current Report on Form 8-K filed by AGL with the Securities and Exchange Commission (the "**SEC**") on July 22, 2013 (excluding the portion thereof "furnished" under Item 7.01 of such Form).

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (filed by AGL with the SEC on March 1, 2013); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (filed by AGL with the SEC on May 10, 2013).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, (excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K) after the filing of the last document referred to above and before the termination of the offering of the Series 2013 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "**AGM Information**") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM or one of its affiliates may purchase a portion of the Series 2013 Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Series 2013 Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Series 2013 Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Series 2013 Bonds or the advisability of investing in the Series 2013 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE”

THE PROPERTY

The Property initially leased under the Lease Agreement consists of the City's police facility, the City's Corporation Yard and the City's Revenue Building. The Authority and the City may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Property in accordance therewith. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS -- Substitution and Removal of Property."

Police Facility. The Police Building was acquired in 2001 and completely renovated by 2003 to accommodate the City's police services. The 177,610 square foot building is outfitted throughout with automatic sprinklers and constructed of masonry and fire resistive material.

Corporation Yard. The City Yard Buildings includes six facilities spread among a 9.24-acre lot located at 1425 S. Bon View. The lot was acquired in 1980. Four buildings constructed of steel frame were renovated for office use in 1980 and two operations facilities -- a truck wash facility and a pump station -- were constructed of masonry. There are no automatic sprinklers at these locations. The office buildings are headquarters for the Community and Public Services Agency and the Municipal Utilities Company. The Community and Public Services Agency provides residents, customers and businesses with educational, recreational, cultural and maintenance services. The Municipal Utilities Company protects the health and welfare of the community by providing cost effective, safe and reliable services such as water, sewer, trash collection and recycling.

Revenue Building. The Revenue Building sits on a 9.6-acre lot along with three warehouses. The lot was acquired in 2007 and the building was completely renovated to accommodate the City's Revenue Services Department. The square footage of the building and warehouses is 215,861. The building is constructed of steel frame and the warehouses are all steel. The buildings and warehouses are outfitted with automatic sprinklers. The Revenue Services Department provides 33,000 utilities customers with customer service, billing, and collection services, provides mailing and printing services to the City, and licenses over 11,000 businesses. The Revenue Building was historically used for industrial purposes and there is a history of soil and groundwater contamination. The California Department of Toxic Substances Control reports that, because some of the contamination was left in place, the site was certified for use by the City subject to land use restrictions preventing use of the building as a residence, a hospital or a school/day-care facility.

THE CITY OF ONTARIO

See "APPENDIX A – General and Financial Information about the City of Ontario" for certain financial and demographic information about the City, including its General Fund.

THE AUTHORITY

The Ontario Public Financing Authority was organized pursuant to the provisions of Article I of Chapter 5 of Division 7 of Title 1 of the State Government Code and a Joint Exercise of Powers Agreement, dated as of June 1, 2013, between the City and the Ontario Housing Authority. The Authority has no financial liability to the Owners of the Series 2013 Bonds with respect to the payment of Base Rental Payments by the City or with respect to the performance by the City of the other agreements and covenants it is required to perform.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2013 Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations that may be relevant to an investment in the Series 2013 Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations — Security for the Series 2013 Bonds

The Series 2013 Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the Series 2013 Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues.

The City has the capacity to enter into other obligations that may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIIIB of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIIIB of the California Constitution."

Abatement

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to, or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Abatement."

In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2013 Bonds, there could be insufficient funds to make payments to Owners in full.

It is not possible to predict the circumstances under which such an abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Series 2013 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2013 Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2013 Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Series 2013 Bond Owners for nonpayment under such circumstances.

Covenant to Budget and Appropriate

Under the Lease Agreement, the City has covenanted to take such actions as are necessary to include the Base Rental Payments and the estimated Additional Rental in its annual budgets and to make the necessary annual appropriations for all Base Rental Payments. Such covenant is deemed to be a duty imposed by law, and it is the duty of the public officials of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable such entity to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenant. Upon execution and delivery of the Series 2013 Bonds, Bond Counsel will render its opinion (substantially in the form of Appendix D) to the effect that, subject to certain limitations and qualifications, the Lease Agreement constitutes a valid and binding obligation of the City.

See, however, "- Abatement" above.

Additional Obligations of the City

The City has outstanding long-term obligations payable from its General Fund. In addition, the City has the capacity to enter into other obligations that may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. If the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. See "APPENDIX A – General and Financial Information about the City of Ontario – Long-term General Fund Obligations."

Eminent Domain

If the Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Property is taken permanently, or if the Property or any part thereof is taken temporarily, under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (2) there will be a partial abatement of Base Rental Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Base Rental Payments, in an amount to be agreed upon by the City and the Authority such that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property. See Appendix B under the caption "LEASE AGREEMENT – EMINENT DOMAIN; PREPAYMENT."

Limited Recourse on Default; No Acceleration of Base Rental Payments

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease Agreement or in the Indenture for a period of 30 days or such additional time as is reasonably required after notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there will be no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor will the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized nature of the Property or any property substituted therefor pursuant to the Lease Agreement and the restrictions on its use, no assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2013 Bonds when due, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2013 Bonds. Any suit for money damages would be subject to limitations on legal remedies against cities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" and "APPENDIX B – Summary of the Principal Legal Documents."

Substitution, Addition and Removal of Property; Additional Bonds

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of or add additional real property to the Property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and summarized below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Substitution and Removal of Property." Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments that are increased from current levels.

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2013 Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See "APPENDIX B – Summary of the Principal Legal Documents."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement will have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period will be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

Articles XIIIC and XIIID of the State Constitution

See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIIIC and XIIID of the State Constitution," for information about certain risks to the City's general fund revenues arising from Articles XIIIC and Article XIIID of the California Constitution.

Natural Calamities

General. The City, like all southern California communities, may be subject to unpredictable seismic activity, fires or floods. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the City. The City is not required to maintain flood insurance or earthquake insurance on the Property. No assurance can be made that the City will procure and maintain any such insurance. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Insurance" above.

Seismic. Southern California is a seismically active area, and the City is in one of the more seismically active portions of southern California. The active faults within close proximity to the City include the San Andreas Fault, the Cucamonga Fault, the Chino-Central Avenue Fault, the San Jacinto Fault, the Sierra Madre Fault, the Whittier Fault, and the Elsinore Fault. Seismic activity from those or other faults represent potential risk for damage to buildings, roads, bridges, and property within the City in the event of an earthquake. As described below, there is potential for ground shaking, liquefaction and seismically induced settlement during the occurrence of a major seismic event.

The City could experience a major earthquake on any one of the active or potentially active faults in the area. City policies seek to ensure that the new structures are built with consideration of the following hazards associated with earthquakes.

Surface Fault Rupture. Surface fault rupture, displacement at the earth's surface resulting from fault movement, is typically observed close to or on the active fault trace. The nearest fault zones to the City are along the Chino Fault, approximately 3 miles southwest of the City; and along the Cucamonga Fault, approximately 4.5 miles north of the City.

Ground Shaking. The City could be affected by strong ground shaking caused by a major earthquake during the next 30 years. Ground shaking can be described in terms of peak acceleration, peak velocity, and displacement of the ground. Areas that are underlain by bedrock tend to experience less ground shaking than those underlain by unconsolidated sediments such as artificial fill. Ground shaking may affect areas hundreds of miles away from the earthquake's epicenter.

Liquefaction and Ground Failure. Liquefaction is the process by which water-saturated soil materials lose strength and fail during strong seismic ground shaking. The shaking causes the pore water pressure in the soil to increase, thus transforming the soil from a solid to a liquid. Liquefaction has been responsible for ground failures during almost all of California's great earthquakes. Some portions of the City are susceptible to liquefaction in the event of a strong earthquake.

Seismically Induced Settlement. Strong ground shaking can cause soils to become more tightly packed and settle due to the collapse of voids and pore spaces. This type of settlement typically occurs in soils that are loose, granular, and cohesionless, and can occur in either wet or dry soils. Unconsolidated young alluvial sediments are especially susceptible to this hazard. Seismically induced settlement can cause damage to structures and buried pipelines. The entire Ontario area is underlain by young, unconsolidated alluvial deposits and artificial fill that may be susceptible to seismically induced settlement.

Earthquake-Induced Landslides. Seismically induced landsliding is typical of upland areas with slopes greater than 25%. Earthquake groundshaking can trigger slope movements such as earth flows and rotational landslides, or dislodge fractured bedrock material resulting in a rockfall.

Flood. Flooding hazards may be considered in two categories: natural flooding and dam inundation. City regulations require future residential development to construct the necessary storm drain infrastructure to convey stormwater from the site into the City's storm drain system. Improvements to the storm drain system consistent with expansion or intensification of urban development is essential to protecting the City from flooding hazards.

Natural Flooding. Natural flooding hazards are those associated with major rainfall events, which result in the flooding of developed areas due to overflows of nearby waterways, or inadequacies in local storm drain facilities. The Flood Insurance Rate Maps of the Federal Emergency Management Agency ("**FEMA**") show that portions of the City are located within the 500-year floodplain or the 100-year floodplain. Based on FEMA floodplain maps, the Police Facility is within the Zone X Flood Area (areas of 0.2% annual chance of flood, areas of 1% annual chance of flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 1% annual chance of flood).

The Corporation Yard and Revenue Building are in areas determined to be outside the 0.2% annual chance floodplain.

With respect to the properties comprising the Property:

- The Police Building is located in Flood Zone X (0.2% annual chance of flooding; area of 1% annual chance of flooding with average depths of less than one foot or with drainage areas less than 1 square mile; and areas protected by levees from 1% annual chance of flooding).

- The City Yard and the Revenue Building are in areas determined to be outside the area subject to a 0.2% annual chance of flooding.

Dam Inundation. Parts of the City are in the dam inundation area for the San Antonio Dam. Dam inundation hazards are those associated with the downstream inundation that would occur given a major structural failure in a nearby reservoir. A major earthquake could potentially cause damage or failure to a dam structure, and cause localized flooding. Although dam failure is unlikely due to current state regulations for design, maintenance, and monitoring of dams, parts of the City are exposed to the hazard of inundation from failure of the San Antonio Dam.

Wildfire. The City is designated a moderate fire hazard zone. Due to the local topography and nearby Cajon Pass, Santa Ana winds pose the greatest fire hazard to the City. Certain undeveloped areas of the City, which have similar characteristics to an urban-wildland interface, have experienced severe fires under high wind conditions. Moreover, the Santa Ana winds pose a continual fire conflagration hazard to any dense area of the City, with an increased risk to older portions of the City.

The City's commercial and industrial facilities increase the possibility of fires involving hazardous materials that could affect nearby residential areas. The City is also surrounded and bisected by major transportation networks and pipeline transfer systems that add further risk. The City works to mitigate the risks of wildfire through prevention services, community outreach, maintenance of fire and emergency services, as well as special rescue services, effective resource allocation and interagency cooperation.

Hazardous Substances

Discovery of hazardous substances on parcels within the City could impact the City's ability to pay debt service with respect to the Series 2013 Bonds.

In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "**CERCLA**" or the "**Superfund Act**" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has any thing to do with creating or handling the hazardous substance.

The effect, therefore, should the Property or any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction in the value of the Property could adversely impact the fair rental value of the Property and potentially result in abatement of the Base Rental Payments. In addition, reduction in the value of property in the City as a whole could reduce property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the ability of the City to make Base Rental Payments. The City is not aware of any property within the City that has been identified as a site requiring remediation under CERCLA or the Superfund Act.

Impact of State Budget

In recent years, the State of California has experienced significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the City has no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. See "APPENDIX A – General and Financial Information about the City of Ontario – State Budget and its Impact on the City" for information about recent State budgets and "- General Fund Budget – Elimination of Redevelopment Agencies" for information about the impact on the City of the recent dissolution of redevelopment agencies.

The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City's ability to pay Base Rental Payments.

Impact of Sales and Use Tax Redirection

As described in "APPENDIX A – General and Financial Information about the City of Ontario," the State has temporarily redirected local sales and use taxes to the State to pay debt service on its "economic recovery" bonds, including 0.25% that would otherwise be available to the City; the State has increased local governments' share of local property tax by a corresponding amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental Payments. First, there may be a timing issue associated with the "backfill" of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, San Bernardino County (the "County") would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City's cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Base Rental Payments, the City may not know the exact amount of revenue available to pay Base Rental Payments

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

The opinions of counsel, including Bond Counsel, delivered in connection with the execution and delivery of the Series 2013 Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Such a plan could be confirmed even over the objections of the Authority or its assignee and the Owners, and without their consent. Additionally, the resulting plan could adjust some or all of the City's financial obligations, including the City's obligation to make Base Rental Payments. The adjustment of similar obligations is currently being litigated in federal court in connection with bankruptcy applications by the cities of San Bernardino and Stockton. The City can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any adjustment plan if it were to file for bankruptcy.

In addition, failure by large property owners to pay property taxes when due may have an adverse impact on revenues available to pay Base Rental Payments.

State Law Limitations on Appropriations

Article XIIIB of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental Payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit. See " CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIIIB of the State Constitution" below.

Change in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, in a manner that could result in a reduction of the City's revenues and therefore a reduction of the funds legally available to the City to make Base Rental Payments. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIIC and Article XIIID of the State Constitution."

Loss of Tax Exemption

As discussed under the heading "TAX MATTERS," the interest on the Series 2013 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2013 Bonds, as a result of acts or omissions of the Authority or the City in violation of its covenants in the Indenture and the Lease Agreement.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the Series 2013 Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the Series 2013 Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2013 Bonds or, if a secondary market exists, that any Series 2013 Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Series 2013 Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Series 2013 Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Series 2013 Bonds or obligations that present similar tax issues as the Series 2013 Bonds.

Possible Insufficiency of Insurance Proceeds

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2013 Bonds when due. In addition, certain risks, such as earthquakes and floods, are not covered by the insurance required under the Lease Agreement. See also "- Natural Calamities" above and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Insurance."

No Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Series 2013 Bonds with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000 to reduce the voting percentage required for the passage of school bonds. Section I(a) of Article XIIIA limits the maximum ad valorem tax on real property to 1% of "full cash value," and provides that such tax will be collected by the counties and apportioned according to State statutes. Section I(b) of Article XIIIA provides that the 1% limitation does not apply to ad valorem taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation implementing Article XIIIA provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of assessed market value.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIB of the California Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIIIB which effectively limits the amount of such revenues those entities are permitted to spend. Article XIIIB, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

For fiscal year 2011-12 the City's appropriations limit was $208,738,802, and its budgeted appropriations subject to limitation in fiscal year 2011-12 were approximately $106,859,530. The City's appropriations limit for fiscal year 2012-13 is $218,471,086, and its budgeted appropriations subject to limitation are $115,113,757. The City's appropriations limit for fiscal year 2013-14 is $231,608,888, and its budgeted appropriations subject to limitation are $122,244,147. The City is subject to and is operating in conformity with Article XIIIB.

Article XIIIC and XIIID of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIIIC and XIIID to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act." Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIIIA and XIIIC of the State Constitution. The amendments to Article XIIIA limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIIIC define "taxes" that are subject to voter approval as "any levy, charge, or exaction of any kind imposed by a local government," with certain exceptions.

Taxes. Article XIIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City ("general taxes") require a majority vote; taxes for specific purposes ("special taxes"), even if deposited in the City's General Fund, require a two-thirds vote.

Property-Related Fees and Charges. Article XIIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Assessments, Fees and Charges. Article XIIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay debt service on the Series 2013 Bonds could be adversely affected.

Burden of Proof. Article XIIIC provides that local government "bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." Similarly, Article XIIID provides that in "any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance" with Article XIIID.

Judicial Interpretation of Proposition 218. The interpretation and application of Articles XIIIC and XIIID will ultimately be determined by the courts with respect to a number of the matters discussed herein, and it is not possible at this time to predict with certainty the outcome of such determination.

Impact on City's General Fund. The approval requirements of Articles XIIIC and XIIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

Proposition 1A

Proposition 1A, proposed by the Legislature in connection with the State's fiscal year 2004-05 Budget, approved by the voters in November 2004 and generally effective in fiscal year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

See "APPENDIX A – General and Financial Information about the City of Ontario – State Budget and its Impact on the City" for information about shifts of local property revenues under Proposition 1A.

Proposition 22

Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State in November 2010. Proposition 22 amended the state Constitution to eliminate or reduce the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. Notwithstanding the passage of Proposition 22, the State successfully dissolved redevelopment agencies. See the discussion of the impact on the City of the redevelopment agency dissolution in Appendix A.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("**Unitary Property**"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Future Initiatives

Articles XIIIA, XIIIB, XIIIC and XIIID and Propositions 1A and 22 were adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

Risks Associated with the Policy and AGM

The Authority will pay the premium for the Policy, which will provide credit enhancement for the Series 2013 Bonds. The Authority will also pay the premium for the Reserve Policy. The Authority can provide no assurances that AGM will be able to make any payments under the Policy or the Reserve Policy if and when required to do so. Any change in the ratings of AGM would impact the price of the Series 2013 Bonds in the secondary market.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series 2013 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013 Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Series 2013 Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Series 2013 Bond (the first price at which a substantial amount of the Series 2013 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013 Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the Owner of the Series 2013 Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Owner of a Series 2013 Bond will increase the Owner's basis in the Series 2013 Bond. In the opinion of Bond Counsel, original issue discount that accrues to the Owner of a Series 2013 Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a Series 2013 Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2013 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "**Code**"); such amortizable bond premium reduces the Series 2013 Bond Owner's basis in the applicable Series 2013 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013 Bond Owner realizing a taxable gain when a Series 2013 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013 Bond to the Owner. Purchasers of the Series 2013 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on the Series 2013 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Series 2013 Bonds to assure that the interest (and original issue discount) on the Series 2013 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013 Bonds. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The Internal Revenue Service (the "**IRS**") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series 2013 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2013 Bonds might be affected as a result of such an audit of the Series 2013 Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2013 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2013 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013 BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE SERIES 2013 BONDS OR THE MARKET VALUE OF THE SERIES 2013 BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES 2013 BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES 2013 BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013 BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE SERIES 2013 BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES 2013 BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Series 2013 Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture, the Lease Agreement and the Tax Certificate relating to the Series 2013 Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Series 2013 Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Series 2013 Bonds is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Series 2013 Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series 2013 Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2013 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2013 Bonds.

The form of Bond Counsel's proposed opinion with respect to the Series 2013 Bonds is attached hereto as Appendix D.

CERTAIN LEGAL MATTERS

The validity of the Series 2013 Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Disclosure Counsel. *Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2013 Bonds.*

Certain legal matters will be passed upon for the City and the Authority by the City Attorney.

CO-FINANCIAL ADVISORS

The City has retained CSG Advisors Incorporated, San Francisco, California, and Stern Brothers & Co., Los Angeles, California, as Co-Financial Advisors for the sale of the Series 2013 Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Co-Financial Advisors will receive compensation contingent upon the issuance of the Series 2013 Bonds.

LITIGATION

General. To the best knowledge of the City, the Authority and the City Attorney, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2013 Bonds, the Lease Agreement or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing. There are a number of lawsuits and claims pending against the City. In the opinion of the City and the City Attorney, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

Airport Litigation. The City of Los Angeles ("**L.A.**") currently owns Ontario International Airport ("**ONT**"). The City Council has made transfer of ONT back to local control a primary objective. The City continues to work with L.A. to find a mutually agreeable solution, but has also submitted an administrative claim citing L.A.'s breach of the terms of a Joint Powers Agreement between the two cities relating to ONT and economic losses resulting from the chronic neglect and mismanagement of ONT. The City does not believe that an unsuccessful outcome of the litigation or the failure to reach agreement with L.A. for the transfer of ONT will adversely impact the City's ability to make Base Rental Payments when due. See Appendix A "General and Financial Information about the City of Ontario – Airport Litigation" for additional information.

UNDERWRITING

The Series 2013 Bonds were sold by competitive sale to ___________ (the "**Underwriter**"). The Underwriter will purchase the Series 2013 Bonds from the Authority at an aggregate purchase price of $__________ (representing the principal amount of the Series 2013 Bonds ($________), plus a net original issue premium of $__________, and less an underwriter's discount of $_______).

The Series 2013 Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2013 Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, is expected to assign the Series 2013 Bonds the ratings of "AA-" set forth on the cover page. Such ratings reflect only the views of such rating agency, and an explanation of the significance of the ratings may be obtained by contacting them at: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the Series 2013 Bonds. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2013 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Series 2013 Bonds to provide annually certain financial information and operating data relating to the Series 2013 Bonds and the City (the "**Annual Report**"), and to provide notices of the occurrence of certain enumerated events. For a complete listing of items of information that will be provided in each Annual Report and further description of the City's undertaking with respect to the Annual Report and certain enumerated events, see "APPENDIX E – Form of Continuing Disclosure Certificate."

The Annual Report is to be provided by the City not later than nine months after the end of the City's fiscal year (which currently would be March 31), commencing with the report for fiscal year 2012-13. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**").

The City and its related governmental entities – specifically those entities (such as the Redevelopment Agency of the City) for whom City staff is responsible for undertaking compliance with continuing disclosure undertakings – have previously entered into numerous disclosure undertakings under the Rule in connection with the issuance of long-term obligations (See "APPENDIX C – Comprehensive Annual Financial Report of the City for the Year Ended June 30, 2012 - Note 7").

The City and its affiliated entities have failed, on a handful of occasions during the past five years, to comply, in all material respects, with these undertakings.

More specifically, during the last five years:

(i) For some outstanding bonds, the City and the former Redevelopment Agency failed to file financial and operating data in some years, and in some years, the City failed to file the financial and operating data on a timely basis.

(ii) For some outstanding bonds, the City and the former Redevelopment Agency failed to file audited financial statements in some years, and in some years, they failed to file the audited financial statements on a timely basis.

(iii) The City and the former Redevelopment Agency did not file material event notices regarding changes to the ratings of certain of their obligations as a result of the downgrades of bond insurance companies that insured their bonds.

(v) The City and the former Redevelopment Agency did not file material event notices regarding certain other rating changes.

Supplemental annual reports, notices of the rating changes and filings to correct all of the known failures by the City and its affiliated entities to comply with their continuing disclosure undertakings were made prior to the date of this Official Statement.

FINANCIAL STATEMENTS OF THE CITY

Included in this Official Statement, as Appendix C, is the audited comprehensive annual financial report of the City for the year ended June 30, 2012, together with the report dated October 14, 2012 of Lance Soll & Lunghard LLP, Brea, California, certified public accountants (the "**Auditor**"). *The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City*.

MISCELLANEOUS

References are made in this Official Statement to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Ground Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the City Clerk at the City, 303 East "B" Street, Ontario, California 91764.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2013 Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

ONTARIO PUBLIC FINANCING AUTHORITY

By: /s/
Treasurer

CITY OF ONTARIO

By: /s/
Administrative Services/Finance Director

APPENDIX A

GENERAL AND FINANCIAL INFORMATION ABOUT THE CITY OF ONTARIO

The City. Ontario (the "**City**") is a city located in southwest San Bernardino County, California, United States, 35 miles east of downtown Los Angeles. Located in the western part of the Inland Empire region, it lies just east of the Los Angeles county line and is part of the Greater Los Angeles Area. As January 1, 2013, the City had a population of 166,866, making it the County's fourth most populous city after San Bernardino, Fontana, and Rancho Cucamonga.

It takes its name from the Ontario Model Colony development established in 1882 by the Canadian engineer George Chaffey and his brothers William Chaffey and Charles Chaffey. They named the settlement after their home province of Ontario, Canada. According to the United States Census Bureau, the City has a total area of 50.0 square miles (129 km).

The County. San Bernardino County (the "**County**") is a county located in the southern portion of the U.S. state of California. As of the January 1, 2012, the County population was 2,075,274. With an area of 20,105 square miles, the County is the largest county in the United States by area (Alaska has boroughs instead). It is larger than each of the nine smallest states, larger than the four smallest states combined, and larger than 71 different sovereign nations.

Located in southeast California, the thinly populated deserts and mountains of this vast county stretch from where the bulk of the county population resides in two Census County Divisions, covering the 450 square miles (1,166 km) south of the San Bernardino Mountains in San Bernardino Valley, to the Nevada border and the Colorado River.

The county seat is San Bernardino. The County is considered part of the Inland Empire region.

City Services and Government

The City provides a full range of services including police and fire protection, construction and maintenance of streets, highways and other infrastructure, water, storm water and wastewater utilities, housing services through its Housing Authority, economic development, transit, parking and recreation, and cultural services, including a municipal golf course.

The City has operated under the council-manager form of government since its incorporation on December 10, 1891. Policy-making and legislative authority are vested in a seven member governing council consisting of the Mayor and four Council Members. The City Council is responsible, among other things, for passing ordinances, adopting the budget, approving nominees to commissions, and hiring the City Manager, City Clerk and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City 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 either two or three Council Members, including the Mayor, elected every two years.

Population

Population figures for the City, the County and the State of California for the years are shown in the following table.

Table A-1
CITY OF ONTARIO, THE COUNTY OF SAN BERNARDINO
AND STATE OF CALIFORNIA
Population Estimates
(as of January 1)

Year	City of Ontario	County of San Bernardino	State of California
1980 (1)	88,820	895,016	23,668,562
1990 (1)	133,179	1,418,380	29,758,213
2000 (1)	158,007	1,710,139	33,873,086
2009	163,309	2,019,432	36,966,713
2010	164,015	2,033,141	37,223,900
2011	164,836	2,046,619	37,427,946
2012	165,790	2,059,699	37,668,804
2013	166,866	2,076,274	37,966,471

(1) 1980, 1990 and 2000 numbers are as of April 1.
Source: California State Department of Finance, Demographic Research Unit.

Employment

The following table lists the major manufacturing and non-manufacturing employers in the City as of June 30, 2012:

Table A-2
CITY OF ONTARIO
Major Employers
(As of June 30, 2012)

Company Name	Category	Employment
Ontario Intl Airport-Ont	Airport	5,000 to 9,999
City of Ontario	Government	1,000 to 4999
Safariland LLC	Security Products	500 to 999
Securitas Security Svc USA	Security Services	500 to 999
Barrett Business Svc Inc	Management Solutions	250 to 499
BBB Industries	Industrial Manufacturers	250 to 499
Cardinal Health	Pharmaceutical Development	250 to 499
Care Fusion	Medical Technology	250 to 499
Classic Containers Inc	Bottle Manufacturer	250 to 499
Crown Toyota	Automotive Dealership	250 to 499
Dave & Buster's	Restaurant	250 to 499
DHE-Dependable Highway Express	Trucking	250 to 499
Doubletree-Ontario	Hotel	250 to 499
Gold Star Foods	Food Distributor	250 to 499
Guard Systems Inc	Security Guards	250 to 499
Las Vegas LA Express Inc	Trucking	250 to 499
Mark Christopher Auto Ctr	Automotive Dealership	250 to 499
New Breed Logistics Inc	Third-party Logistics	250 to 499
Nordstrom	Retail	250 to 499
Oakwood Interiors	Furniture Manufacturer	250 to 499
Radisson	Hotel	250 to 499
Savage BMW	Automotive Dealership	250 to 499
Solar Link Intl Inc	Industrial Equipment and Supplies	250 to 499
Superior Windows & Doors	Aluminum Door and Window Manufacturer	250 to 499

Source: City of Ontario Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

The County's major employers are set forth below in alphabetical order.

Table A-3
COUNTY OF SAN BERNARDINO
Major Employers
(As of July 2013)

Employer Name	Location	Industry
Arrowhead Regional Medical Ctr	Colton	Hospitals
Big Bear Mountain Resorts	Big Bear Lake	Resorts
BNSF Railroad Co	San Bernardino	Railroads
California State-San Brnrdn	San Bernardino	Schools-Universities & Colleges Academic
Colton Joint Unified Schl Dist	Colton	Schools
Del Taco	Ontario	Limited-Service Restaurant
Desert Valley Hospital	Victorville	Hospitals
Environmental Systems Research	Redlands	Computer-Software Developers
FEDEX Ground	Bloomington	Delivery Service
Kaiser Permanente Pathology	Fontana	Hospitals
Loma Linda University Children	Loma Linda	Hospitals
Loma Linda University Med Ctr	Loma Linda	Hospitals
Mountain High Ski Resort	Wrightwood	Skiing Centers & Resorts
Ontario Intl Airport	Ontario	Airports
Redlands Community Hospital	Redlands	Hospitals
San Antonio Community Hospital	Upland	Hospitals
San Bernardino Cnty Schl Supt	San Bernardino	Schools
San Bernardino Community Hosp	San Bernardino	Hospitals
San Bernardino County Sheriff	San Bernardino	Police Departments
San Manuel Band of Mission	San Bernardino	Casinos
San Manuel Indian Bingo/Casino	Highland	Casinos
Snow Summit Mountain Resort	Big Bear Lake	Skiing Centers & Resorts
Transportation Department	San Bernardino	State Government-Transportation Programs
VA Medical Ctr-Loma Linda	Loma Linda	Hospitals
YRC Freight	Bloomington	Trucking-Motor Freight

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2013 2nd Edition.

The City is included in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), which includes Riverside and San Bernardino Counties.

The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 10.2% in June 2013, up from a revised 9.3% in May 2013, and below the year-ago estimate of 12.7%. This compares with an unadjusted unemployment rate of 8.8% for California and 7.8% for the nation during the same period. The unemployment rate was 10.2% in Riverside County, and 10.3% in San Bernardino County.

The following table summarizes the civilian labor force, employment and unemployment in the County for calendar years 2008 through 2012.

Table A-4
RIVERSIDE-SAN BERNARDINO-ONTARIO MSA
Riverside and San Bernardino Counties
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2008	2009	2010	2011	2012
Civilian Labor Force [(1)]	1,776,400	1,775,700	1,799,900	1,795,000	1,805,400
Employment	1,629,800	1,541,900	1,541,700	1,551,500	1,586,800
Unemployment	146,600	233,800	258,200	243,500	218,600
Unemployment Rate	8.3%	13.2%	14.3%	13.6%	12.1%
Wage and Salary Employment [(2)]					
Agriculture	15,900	14,900	15,000	14,800	15,100
Mining and Logging	1,200	1,100	1,000	1,100	1,200
Construction	90,700	67,900	59,700	59,100	61,200
Manufacturing	106,900	88,800	85,100	85,500	86,500
Wholesale Trade	54,100	48,900	48,600	50,600	51,300
Retail Trade	168,600	156,200	155,500	160,500	161,700
Transportation, Warehousing and Utilities	70,200	66,800	66,600	69,900	70,800
Information	14,800	14,100	14,000	11,700	11,600
Financial Activities	46,100	42,500	41,000	40,400	40,800
Professional and Business Services	138,200	125,100	123,400	126,600	126,800
Educational and Health Services	131,800	133,600	133,800	143,100	145,500
Leisure and Hospitality	131,000	123,800	122,800	128,200	129,500
Other Services	40,800	37,300	38,200	40,100	40,400
Federal Government	19,600	20,600	22,700	21,000	20,600
State Government	29,600	29,800	29,300	28,700	28,200
Local Government	181,900	184,900	182,300	175,600	175,700
Total, All Industries [(3)]	1,241,200	1,156,400	1,139,000	1,156,900	1,166,700

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

Budget Process

In accordance with applicable sections of the California Government Code and the City's Municipal Code, an annual budget is adopted by the City Council prior to July 1 of each year. 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 February 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. The City Manager submits a proposed budget 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.

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.

General Fund Budgets

General. The City's general fund budget figures for fiscal year 2011-12, audited actual figures for fiscal year 2011-12 and general fund adopted budget figures for fiscal years 2012-13 and 2013-14 are set forth in the following table. The City's audited Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012 is included as Appendix C to this Official Statement. See Table A-9 below for more detail about historical General Fund revenues.

Table A-5
CITY OF ONTARIO
General Fund Budgets
For Fiscal Years 2011-12 through 2013-14
(Dollars in Millions)

	Adopted Budget 2011-12	Audited Actual 2011-12	Adopted Budget 2012-13	Unaudited Estimated Actual 2012-13	Adopted Budget 2013-14
Revenues:					
Taxes	$108.70	$120.02	$118.15	$133.77	$125.52
Licenses and permits	1.06	1.64	1.38	1.81	1.68
Intergovernmental	2.91	5.63	8.29	3.46	9.18
Charges for services	3.98	8.47	6.01	8.12	7.39
Use of property and money	3.81	15.05 (1)	1.03	1.56	1.13
Fines and forfeitures	0.91	1.20	0.91	1.25	1.12
Miscellaneous	7.72	28.96 (1)	2.30	2.72	2.16
Total revenues	129.09	180.97	138.07	152.69	148.18
Expenditures:					
Current:					
General government	11.74	20.14 (2)	13.51	21.40	14.44
Public safety	103.07	109.85	105.05	106.63	106.61
Community Development	17.73	16.97	25.61	19.39	29.43
Library	4.26	4.05	4.22	4.10	4.30
Public Works	16.74	14.97	17.08	15.87	16.92
Debt service					
Principal retirement and interest charges	4.47	23.68 (1)	3.22	3.22	5.23
Total expenditures	158.01	189.66	168.69	170.61	176.93
Excess (deficiency) of revenues over (under) expenditures	(28.92)	(8.69)	(30.62)	(17.92)	(28.75)
Other financing sources (uses):					
Transfers out	(6.23)	(2.73)	(7.98)	(7.98)	(0.98)
Transfers in (3)	28.37	22.44	33.57	31.07	29.73
Total other financing sources (uses)	22.14	19.71	25.59	23.09	28.75
Net change in fund balance	(6.78)	11.02	(5.03)	5.17	--

(1) Reflects repayment of loans and reimbursement from the City's Redevelopment Agency.
(2) Reflects increase in and full funding of the City's Other Post Employment Benefit Annual Required Contribution.
(3) Primarily reflects Cost Allocation in accordance with Generally Accepted Accounting Principles and closely conforming to the criteria established in the office of Management and Budget Circular A-87.

Source: City of Ontario.

Fiscal Year 2012-13. The General Fund Budget for fiscal year 2012-13 was adopted by the City Council on June 22, 2012. The projected General Fund revenues and transfers in for fiscal year 2012-13 are $183.76 million (approximately $12 million over budget), and projected General Fund expenditures and transfers out for fiscal year 2012-13 are $176.6 million (approximately $2 million over budget). As described below, a portion of the City's Economic Uncertainties Reserves will be used to cover the shortfall. General Fund expenditures are budgeted to increase 2.9% over fiscal year 2011-12, which is partly a result of the shift in expenditure funding from the Redevelopment Agency (see "Elimination of Redevelopment Agency") and contractually required increases in employment contracts. Agencies within the City were asked to hold their operating budgets to "zero growth" for the fourth consecutive year.

In fiscal year 2009-10, the City adopted a "Five-Year Budget Action Plan." As set forth in that plan, the adopted General Fund Budget for fiscal year 2012-13 includes the use of approximately $5.9 million of the City's Economic Uncertainties Reserves to maintain current service levels. The City Council's prior actions to reduce costs and build the Economic Uncertainties Reserves to quickly address the economic downturn have prepared the City to develop budgets over the next few years that are projected to be balanced, while carefully considering any impacts on the delivery of services, programs and capital projects to the community. For more information on City reserves, see "City Fund Balance Policy" below.

Fiscal year 2012-13 represents year four of the Five-Year Budget Action Plan. The continued success of the City's Five-Year Budget Action Plan, however, was contingent upon moderate economic growth returning within the five-year period and no actions by the State to take additional revenues away from local government. The City was ahead of schedule with its Five-Year Budget Action Plan until the State's recent action to eliminate redevelopment agencies as described under "Elimination of Redevelopment Agency" below. It is projected that the elimination of the Redevelopment Agency will negatively impact the City by approximately $5 million a year in lost interest income from City loans, funding of economic development programs, and reimbursement of administrative overhead costs. As a result of this negative fiscal impact, it is projected that the City's Five-Year Budget Action Plan may be extended by two additional years (to fiscal year 2015-16) before the City's structural deficit is eliminated. As a result of better than projected sales tax revenues this past fiscal year and the City's efforts to reduce costs for the past several years, the current balance of approximately $16.5 million in the Economic Uncertainties Reserves is higher than previously estimated and is projected to be sufficient to fund the structural deficit for the next several years. This projection, however, is based upon continued moderate economic growth, no further State "takeaways" and no additional planned increases in the CalPERS' rates.

Fiscal Year 2013-14. The General Fund Budget for fiscal year 2013-14 was adopted by the City Council on June 19, 2013. The budgeted General Fund revenues (including transfers in) and expenditures (including transfers out) for fiscal year 2013-14 are $177.91 million. The budget is balanced without the use of reserves or one-time monies. The budgeted revenues are 7.6% higher than the budgeted revenues for fiscal year 2012-13. The budgeted expenditures are 3.7% higher than fiscal year 2012-13, primarily as a result of debt service on the Series 2013 Bonds; personnel services also increased because of contractual employment contracts, higher rates in health and retirement benefits and added positions needed in anticipation of growth in the New Model Colony.

The City Manager informed the City Council that, based on current economic data, the local economy is showing signs of steady improvements. However, the City Manager also identified several future challenges: (i) significant increases in the City's CalPERS retirement costs in future years, (ii) rising costs of medical benefits and the unfunded liabilities for medical retirement benefits, (iii) decline in traffic at the Ontario International Airport and (iv) the pending issues with the Department of Finance related to the former Ontario Redevelopment Agency and

The City's projected General Fund Unreserved Ending Fund Balance as of June 30, 2014 is approximately $35,297,660 (21.3% of General Fund appropriations). This achieves the City's budget policy guideline of establishing a prudent General Fund balance reserve level of 18% of annual appropriations. The General Fund Unreserved Fund Balance is intended to be used for specific and defined emergency events, such as an earthquake, and to address immediate needs in resources without impacting City services.

Elimination of Redevelopment Agency*.* State legislation enacted as part of the 2011 Budget Act, and upheld by the California Supreme Court (as amended, the "**Dissolution Act**"), resulted in the formal dissolution of redevelopment agencies, including the Redevelopment Agency of the City of Ontario (the "**Redevelopment Agency**"), effective as of February 1, 2012. The City has elected to become the successor agency to the Redevelopment Agency (the "**Successor Agency**"), responsible for winding down the remaining activities of the dissolved Redevelopment Agency. All tax increment that would have been allocated to the Redevelopment Agency is now allocated to a trust fund for the Successor Agency (the "**Redevelopment Trust Fund**"), as established by the County Auditor-Controller under the Dissolution Act. For additional information regarding the transfer of assets of the former Redevelopment Agency to the Redevelopment Trust Fund, see Note 17 in the City's Fiscal Year 2011-12 Comprehensive Annual Financial Report.

The Successor Agency and the State Department of Finance currently disagree about a number of issues relating to the former Redevelopment Agency. Four of those issues could have a material impact on the General Fund because the Department of Finance has the legal authority to withhold sales tax and property tax revenue that would otherwise be allocated to the City.

First, in 2001, the City purchased a series of subordinate tax allocation bonds issued by the Redevelopment Agency, and the Successor Agency redeemed the subordinate tax allocation bonds in January 2013 by making a payment to the City of the outstanding principal of and accrued interest on the subordinate tax allocation bonds in the amount of $17,968,688. The State Department of Finance concluded that the subordinate tax allocation bonds are not enforceable obligations of the Successor Agency, and ordered the City to return the payments to the Successor Agency for distribution to other taxing entities (including the City (approximately 16.7%)). The City would need to repay the Successor Agency from General Fund reserves (which include the disputed payments). Although the subordinate tax allocation bonds may become an enforceable obligation of the Successor Agency after the State Department of Finance has made a finding of completion, as described below, the City can provide no assurances that it will not be obligated to return the payments on the subordinate tax allocation bonds to the Successor Agency. The City has the proceeds of the disputed bond repayment on-hand.

Second, the City used Successor Agency funds to prepay $19,611,973 of lease payments related to the outstanding Ontario Redevelopment Financing Authority 2001 Lease Revenue Bonds (Capital Projects) in reliance on a reimbursement agreement between the City and the Ontario Redevelopment Agency. The State Department of Finance concluded that the reimbursement agreement is not an obligation of the Successor Agency, and ordered the City to return the payments to the Successor Agency for distribution to other taxing entities (including the City (approximately 16.7%)). The City's lease payments to the Ontario Redevelopment Financing Authority were used to redeem a portion of the outstanding 2001 Lease Revenue Bonds, and the City would need to repay the Successor Agency from General Fund reserves. The City believes the reimbursement obligation is an enforceable obligation under the Dissolution Act because it is a written agreement entered into (A) at the time of issuance, but in no event later than December 31, 2010, of bonds issued by the Ontario Redevelopment Financing Authority to third-party bondholders to finance redevelopment projects, and (B) solely for the purpose of securing or repaying those bonds.

Third, the Successor Agency repaid a loan to the City related to an Oaks Middle School project in the amount of $8,954,167. The State Department of Finance concluded that the loan between the Successor Agency and the City is not an enforceable obligation of the Successor Agency, and ordered the City to return the loan repayment to the Successor Agency for distribution to other taxing entities. The City would need to repay the Successor Agency from General Fund reserves (which include the disputed loan payments). Although the Oaks Middle School loan may become an enforceable obligation of the Successor Agency after the State Department of Finance has made a finding of completion, as described below, the City can provide no assurances that it will not be obligated to return the payments on the loan. The City has the proceeds of the disputed loan repayment on-hand.

Fourth, the Successor Agency advanced $1.6 million to the City for the purchase of properties. The City purchased the properties and would need to repay the Successor Agency from General Fund reserves.

The Successor Agency and the State Department of Finance have completed the statutory process in which the Successor Agency has the opportunity to appeal any decisions by the State Department of Finance. As a result, the City's options consist of repaying the Successor Agency or pursuing other legal remedies. As of June 30, 2013, the City had General Fund reserves of $104,596,864 available to make the disputed $48,134,828 of payments to the Successor Agency. If the City elects to pursue legal action against the Department of Finance, there can be no assurance that the court will rule in the City's favor.

As indicated above, the Dissolution Act establishes a procedure by which a successor agency can receive a "finding of completion" from the Department of Finance. Thereafter, upon application by the successor agency and approval by the oversight board, loan agreements entered into between the successor agency and the city, county, or city and county that created by the redevelopment agency will be deemed to be enforceable obligations provided that the oversight board makes a finding that the loan was for legitimate redevelopment purposes. The City believes the subordinate tax allocation bonds and the Oaks Middle School loan should be deemed enforceable obligations following a finding of completion for the Successor Agency.

If the oversight board finds that a loan is an enforceable obligation, the accumulated interest on the remaining principal amount of the loan will be recalculated from origination at the interest rate earned by funds deposited into the Local Agency Investment Fund. The loan shall be repaid to the city, county, or city and county in accordance with a defined schedule over a reasonable term of years at an interest rate not to exceed the interest rate earned by funds deposited into the Local Agency Investment Fund. Loan repayments will not be made prior to the 2013–14 fiscal year. Loan repayments will be the final priority of use for property tax revenue generated in the redevelopment project area. Loan repayments received by the city, county or city and county that formed the redevelopment agency must first be used to retire any outstanding amounts borrowed and owed to the Low and Moderate Income Housing Fund of the former redevelopment agency for purposes of the Supplemental Educational Revenue Augmentation Fund and, thereafter, 20% of any loan repayment must be deducted from the loan repayment amount and transferred to the Low and Moderate Income Housing Asset Fund.

City Fund Balance Policy

The City's Fund Balance Policy, which was approved in June 2011, established the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of the fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Administrative Services/Fiscal Services Department to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Included in the Fund Balance Policy is the 18% Stabilization Plan. This is the goal of the City Council to achieve a minimum of 18% of the annual general fund appropriations, as an "Assigned Fund Balance" in the general fund. This is intended to be used for specific and defined emergency events, such as an earthquake, to address immediate needs in resources without impacting City services and to minimize the potential for disruption of municipal services to its citizens.

This 18% of the General Fund is separate from the General Fund Contingency also established in the Fund Balance Policy. The City's General Fund Contingency consists of amounts formally set aside and/or arrangements to maintain amounts for working capital needs, contingencies and contractual obligations. Committed amounts under General Fund Contingency include: Economic Uncertainties, Compensated Absences, Contractual Obligations, Public Safety Equipment, Communications/Computer Dispatch, City Facilities Projects, and Events Center Capital Equipment.

As of June 30, 2013, the City's General Fund had an estimated Assigned Fund Balance for the stability arrangement of $39.45 million, which is approximately 24% of the General Fund Adopted Budget for fiscal year 2012-13.

As of June 30, 2013, the City had General Fund reserves of approximately $104,596,864 (unaudited).

In addition, the City maintains "Internal Services" reserves that, as of June 30, 2013, totaled approximately $92,645,358 (unaudited). These reserves, which are funded to pay for capital intensive equipment (rolling stock and computer technology acquisition) and specific risks (workers' compensation and general liability claims), are maintained for financial management purposes and are available for any purpose, if necessary. A history of the balances in these Internal Services reserves is set forth below.

Table A-6
CITY OF ONTARIO
Internal Services Reserves
For Fiscal Years 2003-04 through 2011-12 (audited)
and Fiscal Year 2012-13 (unaudited)

Fiscal Year	Self Insurance	Equipment Services	Information Technology	Total
2003-04	$1,883,662	$14,680,713	$3,675,607	$20,239,982
2004-05	10,113,919	$16,296,401	4,368,510	30,778,830
2005-06	11,068,648	$16,240,691	6,175,919	33,485,258
2006-07	13,749,181	$15,062,550	9,703,424	38,515,155
2007-08	16,843,060	$18,005,416	14,440,021	49,288,497
2008-09	19,493,420	$21,716,530	19,753,219	60,963,169
2009-10	22,959,163	$27,972,155	22,847,411	73,778,729
2010-11	25,231,397	$32,910,354	24,794,671	82,936,422
2011-12	26,557,598	$35,337,350	26,304,417	88,199,365
2012-13 (1)	29,062,584	$36,365,313	27,217,462	92,645,358

(1) Fiscal year 2012-13 information is unaudited.
Source: City of Ontario.

State Budget and its Impact on the City

Set forth in the following paragraphs are descriptions of the State budget process, the current State budget situation, and the potential impacts on the City.

The Budget Process. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. Prior to the November 2, 2010 California General Election, the Budget Act required approval by a two-thirds majority vote of each House of the Legislature. On November 2, 2010, California voters passed Proposition 25, which amended this legislative vote requirement to a simple majority. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent Official Statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

- The California State Treasurer Internet home page for the Public Finance Division at www.treasurer.ca.gov/bonds/, under the heading "Bond Sales", posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on local governments in the State.

- The California State Treasurer's Office Internet home page for the Public Finance Division at www.treasurer.ca.gov/bonds/, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Reoffering Circular, which discusses the State budget and its impact on local agencies in the State.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

The State has not entered into any contractual commitment with the City or the owners of the Series 2013 Bonds to provide State budget information to the City or the owners of the Series 2013 Bonds. Although the City believes the State sources of information listed above are reliable, the City assumes no responsibility for the accuracy of the State budget information set forth or referred to herein.

Tax Shifts and Triple Flip. Assembly Bill No. 1755 ("**AB 1755**"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required shift away from the Education Revenue Augmentation Fund ("**ERAF**") to $135 million. Legislation, commonly referred to as the "Triple Flip," was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip", one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction are redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local governments, the legislation then redirects property taxes in the ERAF to local governments. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. The swap of sales taxes for property taxes will terminate once the deficit financing bonds are repaid, which is currently expected to occur by 2016.

2012-13 State Budget. On June 15, 2012, the Legislature passed a $92 billion General Fund State Budget (the "**2012-13 State Budget**") that closed the State's then-remaining $15.7 billion deficit and rebuilt a $1 billion State General Fund reserve.

Tax Increase. The 2012-13 State Budget relied upon the Schools and Local Public Safety Protection Act, a $6.9 billion tax increase approved by California voters at a regular election in November 2012 (**"Proposition 30"**). Proposition 30 enacted temporary increases on high-income earners, raising income taxes by up to three percent on the wealthiest Californians for seven years and increased the state sales tax by one-quarter of one cent for four years, and averted $5.9 billion of planned Trigger Cuts that would have affected public education funding in the State. The 2012-13 State Budget also contains reductions in expenditures from prior years spending totaling $8.1 billion, including reductions caused by elimination of the Healthy Families program and by reforms relating to the CalWORKs, Medi-Cal, Judiciary and Cal Grant programs. The 2012-13 State Budget expects $1.5 billion in savings will be generated as the result of the transfer of cash assets previously held by redevelopment agencies to cities, counties and special districts to fund core public services and to schools to offset State General Fund costs. An additional $1.9 billion in savings will arise due to prepayment of the State's Proposition 98 funding as required by a court settlement. Governor Brown signed the 2012-13 State Budget on June 27, 2012.

Realignment. Also, in 2011, the State legislature made a number of changes to realign certain State program responsibilities and revenues to local government, and primarily counties. In total, the realignment shifted approximately $6 billion in State sales tax revenues, vehicle license fee revenues, and (on a one-time basis) Mental Health Services Fund revenues to local governments to fund various criminal justice, mental health, and social service programs. As part of the 2012-13 State Budget, the State legislature approved a number of changes to the funding structure and programs in the realignment, including without limitation establishing an ongoing funding structure for the programs realigned in 2011.

The complete 2012-13 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The City can take no responsibility for the continued accuracy of this Internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by such reference. The information referred to above should not be relied upon in making an investment decision with respect to the Series 2013 Bonds.

The execution of 2012-13 State Budget may be affected by numerous factors, including but not limited to: (i) national, State and international economic conditions, (ii) litigation risk associated with proposed spending reductions, (iii) failure to generate expected savings as a result of the transfer of cash assets previously held by redevelopment agencies and (iv) other factors, all or any of which could cause the revenue and spending projections made in 2012-13 State Budget to be unattainable. The City cannot predict the impact that the 2012-13 State Budget, or subsequent budgets, will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's 2012-13 State Budget, or the accuracy of its attempts to project and budget for past and future Trigger Cuts that may affect it.

2013-14 Proposed State Budget*.* On January 14, 2013, Governor Brown released a $97.6 billion General Fund Proposed State Budget (the "**2013-14 Proposed Budget**"). The 2013-14 Proposed Budget reflects a significant improvement in the State's finances, due to the economic recovery, prior budgetary restraint, and voters' approval of temporary tax increases. Specifically, the Governor proposes $138.6 billion in General Fund and special fund spending in 2013-14, up 4.5% from fiscal year 2012-13. The administration forecasts that the State's General Fund budgetary balance will be $1 billion at the end of fiscal year 2013-14 under the Governor's plan. The budget contains major proposals in education, including a new formula for funding schools and additional resources for the public university systems, and presents alternatives for implementing the federal health care reform law.

On May 14, 2013, Governor Brown released his 2013-14 May Revision to the 2013-14 Proposed Budget (the "**May Revision**"). The May Revision continues to project a balanced budget with a $1.1 billion reserve , and maintains the fundamentals of the 2013-13 Proposed Budget. The reserve is generated in a large part from temporary Proposition 30 revenues, see "Tax Increase" above. The May Revision reflects changes in revenues from the 2013-14 Proposed Budget primarily because of (i) a downward revision in the short-term economic outlook due to the elimination of the federal 2% payroll tax reduction; (ii) $2.9 billion in additional Proposition 98 funding in the current year driven by higher General Fund revenues; (iii) $467 million in higher Medicare costs; and (iv) reduced borrowing costs for the State.

The May Revision includes an additional $48 million in CalWorks funding to support job growth and an additional $72 million to county probation departments to fund reduction of prison populations. The May Revision includes total funding of $70 billion ($39.9 billion General Fund and $30.1 billion other funds) for K-12 education, and makes minor changes to the Local Control Funding Formula discussed above. The May Revision projects that the debts, deferrals, and budgetary obligations that amounted to $45 billion in 2011 would be reduced to $27 billion in 2013-14 and to below $5 billion by the end of 2016-17.

On June 27, 2013, Governor Brown approved the 2013-14 Budget Act, projecting $97.1 billion in general fund revenues and adopting a $96.3 billion spending plan, the first balanced budget in many years. Temporary revenues provided by the passage of Proposition 30 and spending cuts in the past two years mean that the State's budget is projected to remain balanced for the foreseeable future. The 2013-14 State Budget maintains a $1.1 billion reserve and pays down budgetary deficit, to be reduced from $35 billion to $27 billion in 2013-14 and to below $5 billion by the end of 2016-17. The 2013-14 State Budget overhauls the State's system of K-12 education finance. The 2013-14 State Budget adopts a new allocation formula, known as the Local Control Funding Formula, which moves from a State-controlled system to a locally-controlled system.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay the Base Rental Payments securing the Series 2013 Bonds.

Information about State budgets is regularly available at various State-maintained websites. See: www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and the City takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Financial Statements

The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iii) required supplementary information.

Accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. There are three groups of funds- governmental funds (which include the General Fund), proprietary funds (which include enterprise funds and internal service funds) and fiduciary funds (which are used to account for resources held for the benefit of parties outside the City). As of fiscal year 2011-12, the City maintained 31 governmental funds. Of these, six are major governmental funds: General Fund, Quiet Home Program Fund, Community Development Fund, the Ontario Housing Authority Fund, the Impact Fees Fund, and the Redevelopment Agency's Project Area No. 1 Debt Service Fund. Data for other governmental funds are combined into a single aggregated presentation.

All governmental funds and fiduciary funds use the modified accrual basis of accounting. The proprietary funds use the accrual basis of accounting. The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

Set forth in the following pages are (i) an audited general fund balance sheet for fiscal years 2009-10 through 2011-12 and (ii) an audited statement of revenues, expenditures and changes in fund balances for the City's general fund for the same period as well as an unaudited statement of revenues, expenditures and changes in fund balances for fiscal year 2012-13.

Table A-7
CITY OF ONTARIO
General Fund Balance Sheet
As of June 30 for Fiscal Years 2009-10 through 2011-12

	Audited 2009-10	Audited 2010-11	Audited 2011-12
Assets:			
Cash and investments	$79,984,341	$79,920,914	$103,426,746
Receivables			
Accounts	20,818,894	22,990,511	24,935,205
Accrued interest	909,940	912,001	387,672
Taxes	699,309	422,358	327,134
Contracts and notes	10,000	16,000	12,279
Prepaid costs	139,748	63,300	88,410
Due from other funds	3,139,271	3,922,876	3,214,867
Advances to other funds	12,030,637	12,497,025	--
Advances to Successor Agency	--	--	3,500,000
Inventories	167,885	136,373	129,656
Restricted assets:			
Cash and investments with fiscal agents	275,938	275,938	--
Total Assets	**118,175,963**	**121,157,296**	**136,021,969**
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	3,647,935	3,316,693	2,872,633
Accrued liabilities	3,244,694	4,428,130	6,604,724
Deferred revenues	7,829,536	8,463,967	9,402,346
Unearned revenues	836,235	1,050,645	506,529
Deposits payable	11,601,938	13,295,082	12,461,206
Total Liabilities	**27,160,338**	**30,554,517**	**31,847,438**
Fund Balances (2)**:**			
Nonspendable		12,712,698	3,730,345
Restricted		398,047	403,914
Committed		44,429,493	41,613,880
Assigned		33,062,541	58,426,392
Reserved:			
Reserved for encumbrances	986,555		
Reserved for prepaid costs	139,748		
Reserved for contracts and notes receivables	10,000		
Reserved for advances to other funds	12,030,637		
Reserved for inventory	167,885		
Reserved for contractual obligations	179,302		
Reserved for trust and endowment	754,663		
Unreserved:			
Designated for assessment district maintenance	1,520,280		
Designated for compensated absences	12,245,207		
Designated for City facilities	7,286,580		
Designated for facility maintenance	403,071		
Designated for equipment replacement	659,374		
Designated for communication computers	1,625,897		
Designated for public safety equipment	2,522,985		
Designated for development related expenditures	5,905,000		
Designated for economic uncertainties	18,703,979		
Undesignated	25,874,462		
Total Fund Balances	**91,015,625**	**90,602,779**	**104,174,531**
Total Liabilities and Fund Balances	**$118,175,963**	**$121,157,296**	**$136,021,969**

(1) Line items under "Fund Balances" reclassified beginning in fiscal year 2010-11.
(2) The change in presentation of Fund Balances was required by GASB 54.
Source: City of Ontario Comprehensive Annual Financial Reports.

Table A-8
CITY OF ONTARIO
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2009-10 through 2011-12 (audited) and 2012-13 (unaudited)

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
Revenues:				
Taxes	$110,257,635	$114,701,765	$120,015,168	$133,769,376
Licenses and permits	1,455,692	1,563,722	1,639,061	1,805,153
Intergovernmental	2,662,894	5,748,067	5,633,006	3,464,022
Charges for services	5,798,164	5,685,188	8,471,447	8,124,525
Use of money and property	4,197,393	5,081,092	15,045,740 (1)	1,559,399
Fines and forfeitures	1,301,515	1,313,612	1,198,816	1,249,065
Contributions	1,719,084	--	--	--
Miscellaneous	10,006,376	8,382,003	28,960,198 (1)	2,720,694
Total Revenues	**137,398,753**	**142,475,449**	**180,963,436**	**152,692,234**
Expenditures:				
Current:				
General government (3)	9,990,282	12,812,965	20,135,192 (2)	21,403,602
Public safety	100,588,380	102,656,330	109,848,832	106,626,107
Community development	16,915,964	18,565,618	16,974,140	19,390,415
Library	4,084,426	3,974,567	4,049,363	4,103,549
Public works	14,468,632	14,548,161	14,973,234	15,864,746
Debt service:				
Principal retirement	1,234,747	1,274,573	20,710,000 (1)	2,268,996
Interest and fiscal charges	3,244,270	3,205,003	2,973,914	952,761
Total Expenditures	**150,526,701**	**157,037,217**	**189,664,675**	**170,610,177**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,127,948)	(14,561,768)	(8,701,239)	(17,917,943)
Other Financing Sources (Uses):				
Transfers in	22,528,233	19,311,908	22,444,200 (3)	31,067,585
Transfers out	(5,160,000)	(5,162,986)	(2,726,634)	(7,982,135)
Total Other Financing Sources (Uses)	17,368,233	14,148,922	19,717,566	23,085,450
Net change in fund balance	4,240,285	(412,846)	11,016,327	5,167,507
Fund Balance – Beginning of Year	86,775,340	91,015,625	93,158,204 (1)	104,174,531
Fund Balance – End of Year	**$91,015,625**	**$90,602,779**	**$104,174,531**	**$109,342,038**

(1) Reflects early repayment of loans and reimbursement from the City's Redevelopment Agency.
(2) Reflects increase in and full funding of the City's Other Post Employment Benefit Annual Required Contribution.
(3) Primarily reflects Cost Allocation in accordance with Generally Accepted Accounting Principles and closely conforming to the criteria established in the Office of Management and Budget Circular A-87.

Source: City of Ontario Comprehensive Annual Financial Reports.

Taxes and Other Revenues

Revenues of the General Fund for fiscal year 2011-12 were $180.96 million, which is an increase of $38.49 million or 27.00% compared to fiscal year 2010-11. This increase in government revenue is primarily attributable to the increases in the following categories of revenues: Miscellaneous Revenue due to reimbursement made to the General Fund for the bond redemption regarding the 2001 Lease Revenue Bond (see "Long-Term General Fund Obligations" below and " – General Fund Budget – *Elimination of Redevelopment Agency*" above); Use of Money and Property resulting from various loan repayments; Charges for Services resulting from an increased amount of fees and penalties received for abandoned and distressed properties; and Sales Tax revenue resulting from higher consumer spending in auto sales.

General fund revenues received by the City for the most recent fiscal years are listed in the table below. See Table A-8 for information in footnotes to that table.

Table A-9
CITY OF ONTARIO
Major General Fund Revenues by Source

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	% of Total	$ Increase / (Decrease) to last Year	% of Increase (Decrease)
Property Tax	$ 39,002,655	$ 37,706,348	$ 37,366,303	20.6%	$ (340,045)	-0.9%
Sales Tax	50,932,011	55,755,932	61,362,958	33.9	5,607,026	10.1
Transient Occupancy Tax	8,398,053	8,790,219	9,148,976	5.1	358,757	4.1
Other Taxes	11,924,916	12,449,266	12,136,931	6.7	(312,335)	-2.5
License & Permits	1,455,692	1,563,722	1,639,061	0.9	75,339	4.8
Intergovernmental	2,662,954	5,748,067	5,633,006	3.1	(115,061)	-2.0
Charges for Services	5,798,164	5,685,188	8,471,447	4.7	2,786,259	49.0
Use of Money & Property	4,197,393	5,081,092	15,045,740	8.2	9,964,648	196.1
Fines & Forfeitures	1,301,515	1,313,612	1,198,816	0.7	(114,796)	-8.7
Contributions	1,719,084	--	--	0.0	--	0.0
Miscellaneous	10,006,316	8,382,003	28,960,198	16.0	20,578,195	245.5
Totals	$137,398,753	$142,475,449	$180,963,436	100.0	$38,487,987	27.0

Source: City of Ontario Comprehensive Annual Financial Reports.

Sales and Use Taxes

Sales and use taxes represent the largest source of tax revenue to the City (approximately 33.9% of governmental fund tax revenues in 2011-12). This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State of California. The City expects to receive $65,516,037 in sales tax revenue for fiscal year 2012-13, which would be an increase of approximately $4,153,079 or 6.8% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $63,000,000 in sales tax revenue for fiscal year 2013-14, which would be a decrease of approximately $2,516,037 or a decrease of 3.8% from fiscal year 2012-13 estimated actual sales and use tax revenues.

Sales Tax Rates. The City collects a percentage of taxable sales in the City (minus certain administrative costs imposed by the State Board of Equalization) pursuant to the Bradley-Burns Uniform Local Sales and Use Tax (the "**Sales Tax Law**"), as shown below. As part of the State's 2003-04 Budget, the State Legislature authorized, and the voters of the State approved, a redirection to the State from local jurisdictions (including the City) of sales revenues in the amount of 0.25% of the basic 1.0% local sales tax rate, starting July 1, 2004. The State of California uses such revenues to pay the State's economic recovery bonds. Under the California Economic Recovery Act, which includes legislation commonly referred to as the "Triple Flip", the State redirected certain property taxes in the ERAF to local governments, including the City, to compensate for this redirection of sales taxes on a "dollar for dollar" basis. Under this legislation, along with the guarantees provided by the passage of Proposition 1A in November 2004, the City expects that there will not be any significant fiscal impacts on the City resulting from the "Triple Flip." See also "The State Budget and its Impact on the City – Tax Shifts and Triple Flip" above.

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City's share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

Table A-10
CITY OF ONTARIO
Sales Tax Rates
As of April 1, 2013

Component	Rate
State (General Fund)	3.9375%
State (Fiscal Recovery Fund)	0.2500
State (Local Revenue Fund 1991 Realignment)	0.5000
State (Local Revenue Fund 2011)	1.0625
State (Local Public Safety Fund)	0.5000
State (Education Protection Account)	0.2500
Local (City and County Operations)	0.7500
Local (County Transportation Funds)	0.2500
Total State-Wide Tax Rate	7.5000%
San Bernardino County Transportation Authority	0.5000
Total City of Ontario Tax Rate	8.0000%

Source: California State Board of Equalization.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State of California. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State of California where the use will occur within the State of California. The Sales Tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;

- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's Publication No. 61 entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at http://www.boe.ca.gov/.

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the State Board of Equalization first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, or county are required to be transmitted by the Board of Equalization to such city, city and county, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

History of Taxable Transactions. A summary of historic taxable sales by category within the City for the six most recent calendar years is shown in the following table.

Table A-11
CITY OF ONTARIO
Taxable Sales by Category
(Dollars in thousands)

	2007	2008	2009	2010	2011	2012
Office equipment	$653,295	$675,124	$685,757	$692,228	$764,021	$790,406
Auto sales	1,062,907	885,919	582,338	622,759	732,112	882,210
Service stations/energy sales	625,312	723,602	615,277	588,807	685,861	658,672
Light/heavy industry	567,628	542,308	541,230	511,619	564,152	603,125
General merchandise	498,494	482,982	422,406	411,433	458,344	420,131
Building materials	774,074	577,804	465,555	368,744	388,292	422,640
Health & Government	261,265	282,235	315,470	322,201	309,879	362,715
Apparel stores	274,116	287,888	269,466	309,438	358,461	378,550
Restaurants	343,646	342,979	313,985	285,495	300,089	315,645
Furniture/appliances	302,670	336,952	226,668	205,183	188,634	131,780
Leasing	180,738	167,990	138,673	134,176	125,627	136,115
Other	242,658	341,157	295,532	291,504	179,590	431,190
Total	$5,786,804	$5,646,939	$4,872,355	$4,743,587	$5,055,062	$5,533,179

Source: City of Ontario Comprehensive Annual Financial Reports.

Property Taxes

General. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City.

Property taxes represent the second largest source of tax revenue to the City (approximately 20.6% of governmental fund tax revenues in fiscal year 2011-12). The City expects to receive $45,661,359 in property tax revenue for fiscal year 2012-13, which would be an increase of approximately $8,295,056 or 22.2% from fiscal year 2011-12. This increase is primarily attributed to property tax from the elimination of the City's Redevelopment Agency ($2.3 million) and a one-time settlement from the County for over-collection of administrative collection charges ($4.5 million). To reflect the City's conservative fiscal policy, the City has budgeted to receive $41,250,000 in property tax revenue for fiscal year 2013-14, which would be a decrease of approximately $4,411,359 or a decrease of 9.7% from fiscal year 2012-13 estimated actual. See " – Assessed Valuation" on the following page.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed over 20 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the CPI, whichever was less.

ERAF Shift and Triple Flip Legislation. Certain property taxes have been shifted from local government agencies to schools by the State Legislature for deposit in the ERAF, a shift that has resulted in diversion of City property taxes in certain years since fiscal year 1992-93. See "State Budget and Its Impact on the City – Tax Shifts and Triple Flip" above.

As discussed in "Sales and Use Taxes" above, on March 2, 2004, the State's voters approved a bond initiative known as the "California Economic Recovery Act" which includes provisions known as "Triple Flip" legislation, calling for a diversion of a portion of local governments' share of sales taxes to the State of California, and in return, a redirection of certain property taxes from the ERAF to local government.

Levy and Collection. Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State of California and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Teeter Plan. The City does not participate in an Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. As a result, the property tax revenues received by the City reflect actual collections rather than the amount levied.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" in the body of the Official Statement.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year.

Assessed Valuation History. The following table shows a 10-year history of the City's assessed valuation.

Table A-12
CITY OF ONTARIO
Assessed Value and Estimated Actual Value of Taxable Property
Fiscal Years 2003-04 to 2012-13
(in thousands)

	City				Redevelopment Agency			
Fiscal Year Ended June 30	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Taxable Assessed Value	Total Direct Tax Rate
2004	$7,958,470	$1,361,315	$(117,157)	$9,202,628	$2,369,395	$730,649	$3,100,044	1.0065%
2005	8,571,566	1,372,657	(116,924)	9,827,299	2,529,595	689,338	3,218,934	1.0062
2006	9,452,251	1,494,847	(115,154)	10,831,944	2,827,674	727,732	3,555,406	1.0056
2007	10,576,169	1,410,250	(115,154)	11,871,265	3,217,432	729,945	3,947,377	1.0050
2008	11,750,445	1,663,422	(113,948)	13,299,919	3,716,427	923,354	4,639,781	1.0048
2009	12,374,781	1,906,125	(114,675)	14,166,231	4,063,383	878,794	4,942,177	1.0046
2010	12,109,876	1,914,746	(114,806)	13,909,816	4,211,063	936,974	5,148,037	1.0046
2011	11,736,550	1,854,606	(114,659)	13,476,497	4,260,662	834,052	5,094,714	1.0037
2012	11,883,548	1,792,402	(113,832)	13,562,118	4,021,158	763,987	4,785,145	1.0041
2013	11,951,958	1,788,106	(112,199)	13,627,865	4,000,881	737,106	4,737,897	1.0041

Source: San Bernardino County Auditor-Controller Property Tax Division, Agency Net Valuations, as reported in City of Ontario Comprehensive Annual Financial Report.

Proposition 13 and Proposition 8 Property Value Adjustments. Proposition 13, passed in 1978, established the base year value concept for property tax assessments. Under Proposition 13, the 1975-1976 fiscal year serves as the original base year used in determining the assessment for real property. Thereafter, annual increases to the base year value are limited to the inflation rate, as measured by the California Consumer Price Index, or 2%, whichever is less. A new base year value, however, is established whenever a property, or portion thereof, has had a change in ownership or has been newly constructed.

Proposition 8, enacted in 1978, allows for a temporary reduction in assessed value when a property suffers a "decline-in-value." As of January 1st (lien date) each year, the Assessor must enroll either a property's Proposition 13 value (adjusted annually for inflation by no more than 2%) or its current market value, whichever is less. When the current market value replaces the higher Proposition 13 value, the lower value is commonly referred to as a "Proposition 8 Value." "Proposition 8 values" are temporary and, once enrolled, must be reviewed annually by the assessor until the Proposition 13 adjusted base year value is enrolled.

From 2009 through 2011, the total assessed valuations in the County decreased each year, from a high of approximately $181 billion in 2008 to a low of approximately $161 billion in 2011. In 2012, the County's Assessor's office reviewed approximately 185,000 properties in the County for Proposition 8 property value adjustments; of those 8,458 were located in the City. Of those properties, 26,033 (2,755 in the City) received adjustments totaling $780,618,171 ($95,932,540 in the City). The Assessor noted that while many property owners still lost value in their real property, they were not losing value at the same rate as in the past 3 fiscal years.

Taking into account the Proposition 8 reductions, 2012 total assessed valuation increased 0.8% to approximately $163 billion.

Major Property Taxpayers. The following table shows the principal property taxpayers in the City as determined by their secured assessed valuations in fiscal year 2011-12 and with a comparison to fiscal year 2001-02.

Table A-13
CITY OF ONTARIO
Principal Property Tax Payers

	2012		2002	
Taxpayer	Taxable Assessed Value	Percent of Total City Taxable Assessed Value	Taxable Assessed Value	Percent of Total City Taxable Assessed Value
Pro Logis California I LLC	$265,167,329	1.67%	$104,733,837	0.99%
Ontario Mills Limited Partnership	257,867,806	1.62	206,365,849	1.95
Catellus Operating LP / Catellus Finance I LLC	256,126,726	1.61	--	0.00
Majestic CCC IV, Partners	121,616,735	0.76	120,796,881	1.14
UPS Worldwide Forwarding Inc.	113,466,828	0.71	67,393,174	0.64
Landmark PR I Ontario LLC	87,631,000	0.55	--	0.00
Craig Development Corp.	87,729,209	0.55	--	0.00
ML Casa III LP	85,051,895	0.53	--	0.00
Tishman Speyer Archstone-Smith Terra	80,120,000	0.50	--	0.00
Teachers Insurance & Annuity Association of America	71,960,423	0.45	--	0.00
United Parcel Service Company	--		213,922,218	2.02
Southwest Airlines Company Inc.	--		132,765,902	1.25
MRT Technology, Inc.	--		110,831,630	1.05
Inland Paperboard & Packaging Inc.	--		83,450,471	0.79
Great Spring Waters of America	--		70,793,985	0.67
Coca Cola Company	--		68,286,319	0.64
	$1,426,737,951	8.95%	$1,179,340,266	11.14%

Source: City of Ontario Comprehensive Annual Financial Report.

Other Taxes and Revenues

Transient Occupancy Tax. The City currently levies a transient occupancy tax (TOT) on hotel and motel bills equal to 11.75%. Revenues from transient occupancy taxes can fluctuate greatly and are still down significantly from fiscal year 2007-08 when TOT revenues were approximately $11 million. The rapidly rising cost of airfare, travel cut backs by business and consumers, new hotels constructed in communities surrounding the City and reduced passenger traffic at the Ontario International Airport have all contributed to the reduction in TOT revenues in recent years. In fiscal year 2011-12, TOT revenues were $9,148,976 and comprised 5.1% of the City's total General Fund revenue base. The City expects to receive $9,747,677 in transient occupancy tax revenue for fiscal year 2012-13, which would be an increase of approximately $598,701 or 6.5% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $9,300,000 in transient occupancy tax revenue for fiscal year 2013-14, which would be a decrease of approximately $447,677 or a decrease of 4.6% from fiscal year 2012-13 estimated actual.

***Other Tax Revenues**.* Other tax revenues include Franchise Fees, Business License Taxes, Real Property Transfer Taxes and Parking Taxes, together comprising 6.7% of the City's total General Fund revenue in fiscal year 2011-12.

Franchise Fees. The State Public Utilities Code provides the City with the ability to impose fees on gas, electric, cable television and fiber-optic companies operating within the City. Franchise fees range from 0.5% to 5.0% of gross receipts derived from business activities conducted within City limits. The City received $2,897,780 in franchise fees in fiscal year 2011-12. The City expects to receive $3,037,639 in franchise fees for fiscal year 2012-13, which would be an increase of approximately $139,856 or a decrease of 4.8% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $2,900,000 in franchise fees for fiscal year 2013-14, which would be a decrease of approximately $137,639 or (4.5)% from fiscal year 2012-13 estimated actual.

Business License Tax. Pursuant to City ordinance, the City imposes a business license tax on all businesses operating within the City limits. The amount of business tax is based on either a flat tax or a graduated gross receipt basis. The City received $5,610,738 in business license taxes in fiscal year 2011-12. The City expects to receive $6,079,080 in business tax revenue for fiscal year 2012-13, which would be an increase of approximately $468,342 or 8.3% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $5,800,000 in business license tax revenue for fiscal year 2013-14, which would be a decrease of approximately $279,080 or a decrease of 4.6% from fiscal year 2012-13 estimated actual.

Real Property Transfer Tax. Pursuant to an ordinance adopted by the City Council, a tax at the rate of $0.275 for each $500 or fractional part of the value must be paid when real property in the City is sold or conveyed. All revenue received by the City from this tax is deposited into the City's General Fund. The City received $406,866 in real property transfer taxes in fiscal year 2011-12. The City expects to receive $626,270 in real property transfer tax revenue for fiscal year 2012-13, which would be an increase of approximately $219,404 or 53.9% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $475,000 in real property transfer tax revenue for fiscal year 2013-14, which would be a decrease of approximately $151,270 or a decrease of 24.2% from fiscal year 2012-13 estimated actual.

Parking Tax. Pursuant to the City's Municipal Code, the City levies a tax for the rental of parking spaces within the City. The parking tax is assessed at a rate of $1.75 per vehicle per day or 12.5% of the monthly parking charge. Approximately 80% of parking tax revenues are collected from parking at Ontario International Airport, and the revenues have declined in recent years due in part to declining passenger traffic. The City received $3,221,546 in parking taxes in fiscal year 2011-12. The City expects to receive $3,101,314 in parking tax revenue for fiscal year 2012-13, which would be a decrease of approximately $120,232 or a decrease of 3.7% from fiscal year 2011-12. To reflect the City's conservative fiscal policy, the City has budgeted to receive $2,800,000 in parking tax revenue for fiscal year 2013-14, which would be a decrease of approximately $301,314 or a decrease of 9.7% from fiscal year 2012-13 estimated actual.

***Motor Vehicle In-Lieu Fees**.* Motor vehicle in-lieu fees ("**MVLF**") is a State tax levied annually on the value of motor vehicles registered in the State. Under the State Constitution, MVLF revenues are allocated to cities and counties pursuant to State statute. In fiscal year 2004-05, the MVLF rate was reduced from 2% to 0.65% of the market value of the vehicle, but the State was required to allocate to cities and counties property tax revenues in order to make up the difference in revenues as a result of the MVLF rate reduction from 2% to 0.65%. In June 2011, the State approved Senate Bill 89, which eliminated MVLF revenues, effective July 1, 2011, in order to fund law enforcement grants that previously had been paid by a temporary State Tax. The City received $90,000 of MVLF in fiscal year 2011-12 and did not budget to receive any MVLF in fiscal year 2012-13 or fiscal year 2013-14.

Use of Money and Property*.* In fiscal year 2011-12, the City received an increase of $9.96 million in revenues from use of money or property from the prior year. This increase is attributed to various loan repayments to the City.

Charges for Services*.* Charges for Services accounted for 4.7% of the City's General Fund revenues in Fiscal Year 2011-12. This was an increase of 49% over the previous year due to increased fees and penalties received for abandoned and distressed properties. The City has budgeted to receive $1,754,701 in charges for services in Fiscal Year 2012-13.

The City adopted a Cost Allocation Plan to recover direct and indirect costs incurred by the General Fund in support of departments and projects that provide services to the public ("direct costs") and costs in support of departments and projects that provide services to those inside the City ("indirect costs"). In fiscal year 2011-12, the General Fund recovered $19,812,673 under the Cost Allocation Plan. The City expects to receive $20,465,515 under the Cost Allocation Plan for fiscal year 2012-13, which would be an increase of approximately $652,842 or 3.3% from fiscal year 2011-12. The City has budgeted to receive $22,950,315 from the Cost Allocation Plan for fiscal year 2013-14, which would be an increase of approximately $2,484,800 or 12.1% from fiscal year 2012-13.

Miscellaneous Revenues*.* Miscellaneous revenues account for all other ancillary revenues the City generates and collects with respect to the General Fund. In fiscal year 2011-12, miscellaneous revenues increased by $20.6 million due to reimbursement made to the General Fund for the bond redemption regarding the 2001 Lease Revenue Bond (described under "Long-Term General Fund Obligations" below and " – General Fund Budgets – *Elimination of Redevelopment Agency*" above).

Long-Term General Fund Obligations

Set forth below is a summary of long-term obligations payable from the City's general fund.

2001 Lease Revenue Bonds*.* In December 2001, the Ontario Redevelopment Financing Authority issued revenue bonds in the amount of $31,705,000 to provide funds to finance the cost of acquisition, construction, and installation of certain capital improvements, including public safety, City library, public recreation and redevelopment improvements, facilities and equipment. The 2001 Bonds are dated December 12, 2001, were issued at a premium of $417,024, and are payable from the rental payments to be made by the City for the right to the use of certain property and facilities pursuant to a lease agreement dated November 1, 2001.

In April 2012, the City partially redeemed its 2001 Bonds in the amount of $19,215,000 plus 1% premium in the amount of $192,150. The outstanding 2001 Bonds will mature in August 2018. The outstanding principal amount at June 30, 2013 was $4,610,000. See "– General Fund Budgets – *Elimination of Redevelopment Agency*" above.

2007 Lease Revenue Bonds. In October 2007, the Ontario Redevelopment Financing Authority issued revenue bonds in the amount of $37,535,000 to provide funds to finance the cost of acquisition, construction, and installation of certain capital improvements, including a soccer/sports complex, City Hall Improvements and such other public facilities as may from time to time be designated by the City. The 2007 Bonds are dated October 3, 2007, were issued at a premium of $440,617, mature in 2036, and are payable semiannually on February 1 and August 1 of each year, commencing February 2008, from certain rental payments to be made by the City for the right to the use of properties and facilities pursuant to the 2001 Lease Agreement and First Amendment to the Lease Agreement, dated September 1, 2007. The outstanding principal amount of the bonds was $35,385,000 at June 30, 2013.

Direct and Overlapping Debt Obligations. Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and dated June 30, 2013. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

Table A-14
CITY OF ONTARIO
Statement of Direct and Overlapping Bonded Debt
Dated As of June 30, 2013

2012-13 Assessed Valuation: $18,477,960,760

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	City's Share of Debt 6/30/13
Metropolitan Water District	0.880%	$ 1,452,748
Chaffey Community College District	22.605	37,538,620
Chino Valley Unified School District	5.274	7,134,931
Chaffey Union High School District	39.323	71,687,795
Mountain View School District	99.961	244,874
Ontario-Montclair School District	70.154	35,760,933
Mountain View School District School Facilities Improvement District No. 1	99.957	13,488,643
Mountain View School District Community Facilities District No. 1	100.000	785,000
Mountain View School District Community Facilities District No. 1997-1	100.000	925,000
City of Ontario Community Facilities District No. 5	100.000	4,100,000
City of Ontario Community Facilities District No. 13	100.000	4,355,000
City of Ontario 1915 Act Bonds	100.000	9,900,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$187,373,544
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Bernardino County General Fund Obligations	11.301%	$64,853,614
San Bernardino County Pension Obligations	11.301	58,736,407
San Bernardino County Flood Control District General Fund Obligations	11.301	11,832,712
Chaffey Community College District Certificates of Participation	22.605	2,727,444
Chino Valley Unified School District Certificates of Participation	5.274	1,107,276
Cucamonga School District Certificates of Participation	51.561	5,321,095
City of Ontario General Fund Obligations	**100.000**	**39,995,000**
West Valley Vector Control District Certificates of Participation	31.106	1,024,943
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$185,598,491
OVERLAPPING TAX INCREMENT DEBT:	100.000%	$57,761,946 (1)
COMBINED TOTAL DEBT		$430,733,981 (2)

(1) Excludes accreted interest on capital appreciation bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

Ratios to 2012-13 Assessed Valuation:
Total Overlapping Tax and Assessment Debt .. 1.01%
Total Direct Debt ($39,995,000) 0.22%
Combined Total Debt 2.33%

Ratios to Redevelopment Incremental Valuation ($4,736,783,605):
Total Overlapping Tax Increment Debt 1.22%

Source: California Municipal Statistics, Inc.

Employee Relations

The City had 1,053 authorized full-time positions at the beginning of fiscal year 2013-14, of which 366 were public safety employees, including 230 sworn Police personnel and 136 Fire personnel. The City's employees are represented by 10 bargaining units. Most employees are currently under contracts that expire on June 30, 2016; Police and Fire personnel are under agreements that expire on June 30, 2014.

Risk Management

The City uses a program of self-insurance for workers' compensation, unemployment and general liability claims, and employs a professional risk manager, supplemented by a professional claim administration firm, to minimize losses. The City also participates in the Authority for California Cities Excess Liability ("ACCEL"), a multi-agency joint powers authority, to provide excess insurance coverage for liability coverage. At present, the City will pay all claims up to $500,000 per claim arising from general liability claim actions brought against the City. Amounts in excess of $500,000 per claim are covered by the ACCEL. ACCEL pools catastrophic general liability, automobile liability and public officials errors and omissions losses.

See Note 11 in the City's fiscal year 2011-12 Comprehensive Annual Financial Report (Appendix C) for additional information about the City's risk management practices.

Employee Retirement System

Plan Description. The City contributes to the California Public Employees Retirement System ("**PERS**"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance.

Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2011-12 rate is 12.432% for non-safety employees, 30.963% for police safety employees and 25.883% for fire safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost. For fiscal year 2011-12, the City's contribution of $21,560,743 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method.

The summary of principal assumptions and methods used to determine the annual required contribution is shown below:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 years as of the Valuation Date for the miscellaneous plan, 29 years as of the Valuation Date for the safety police plan, and 32 years as of the Valuation Date for the safety fire plan.
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Table A-15
CITY OF ONTARIO
Contribution Information for PERS

	Three-Year Trend Information for PERS		
Fiscal Year	Required Contribution	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous			
6/30/2010	$6,317,896	100%	$ -
6/30/2011	6,289,356	100	-
6/30/2012	7,761,451	100	-
Police			
6/30/2010	6,650,547	100	-
6/30/2011	6,964,821	100	-
6/30/2012	8,426,590	100	-
Fire			
6/30/2010	4,870,231	100	-
6/30/2011	4,879,212	100	-
6/30/2012	5,372,702	100	-

Funding Status. See below for five-year schedules of funding progress.

Miscellaneous

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL)/ (Excess Assets)	Funded Ratios (AVA)	Funded Ratios Market Value	Annual Covered Payroll	UAAL as a Percentage of Payroll
2007	$165,771,487	$163,824,644	$1,946,843	98.8%	114.4%	$37,924,443	5.1%
2008	180,033,431	177,064,340	2,969,091	98.4	100.2	38,886,034	7.6
2009	204,417,800	186,322,811	18,094,989	91.1	66.6	38,564,865	46.9
2010	215,173,088	195,659,064	19,514,024	90.9	71.3	37,313,466	52.3
2011	228,770,100	206,376,826	22,393,274	90.2	80.2	37,027,003	60.5

Safety Police

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL)/ (Excess Assets)	Funded Ratios (AVA)	Funded Ratios Market Value	Annual Covered Payroll	UAAL as a Percentage of Payroll
2007	$174,282,253	$152,732,932	$21,549,321	87.6%	101.4%	$18,421,754	117.0%
2008	189,484,325	164,288,222	25,196,103	86.7	88.3	19,042,151	132.3
2009	210,275,710	172,800,603	37,475,107	82.2	59.9	19,904,834	188.3
2010	221,709,169	181,238,191	40,470,978	81.7	64.0	19,799,139	204.4
2011	235,842,936	191,213,753	44,629,183	81.1	72.1	20,234,153	220.6

Safety Fire

Valuation Date (June 30)	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (UAAL)/ (Excess Assets)	Funded Ratios (AVA)	Funded Ratios Market Value	Annual Covered Payroll	UAAL as a Percentage of Payroll
2007	$143,592,857	$127,792,224	$15,800,633	89.0%	103.3%	$14,255,962	110.8%
2008	154,067,937	137,008,073	17,059,864	88.9	90.9	14,817,582	115.1
2009	167,257,375	143,894,426	23,362,949	86.0	63.0	15,633,007	149.4
2010	175,336,544	151,577,836	23,758,708	86.4	68.0	15,473,650	153.5
2011	186,793,216	159,943,545	26,849,671	85.6	76.4	15,469,562	173.6

Source: Basic Financial Statements and Supplemental Data (fiscal year 2011-12); CalPERS Actuarial Valuation Report (June 30, 2011).

Recent Changes by CalPERS. On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of CalPERS member state and schools employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans beginning in fiscal year 2012-13 and (ii) the amounts of CalPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS's web site at www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the City may be required to make.

At its April 17, 2013 meeting, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16. The City cannot predict how this change in amortization and smoothing policies will affect its contribution levels.

According to CalPERS, the current amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.
- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.
- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.
- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.
- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to CalPERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.
- Local agencies' plans will experience more rate volatility in normal years, but a much reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.
- There will be greater transparency about the timing and impact of future employer contribution rate changes.

- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, a bill that will enact the California Public Employees' Pension Reform Act of 2013 ("**PEPRA**") and that will also amend various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, and (iii) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA will apply to all public employers *except* the University of California, charter cities and charter counties (except to the extent they contract with CalPERS).

The provisions of PEPRA went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the City, will have a five-year window to negotiate compliance with PEPRA through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of PEPRA on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from PEPRA could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about PEPRA can be accessed through CalPERS's website at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST. *The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current and has not been reviewed by the City and is not incorporated in this Official Statement by reference.*

Other Post-Employment Retirement Benefits

General. In April 2004, the Governmental Accounting Standards Board ("**GASB**") issued Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans. Statement No. 43 establishes uniform financial reporting standards for post-employment healthcare and other nonpension benefits ("**OPEB**") plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 is applicable to the City for the fiscal year ending June 30, 2009.

Subsequently, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time.

As required, the City has adopted GASB 43 and 45 beginning with fiscal year 2007-08.

City Plan Description. The City has established the City of Ontario Retiree Healthcare Plan, a single-employer defined benefit healthcare plan. The plan, which is administered by the City, provides health insurance for its retired employees according to the Personnel Rules and Regulations for each of the seven employee groups. The City pays monthly health insurance benefits subjects to caps that vary by bargaining group. The authority to do so is included annually in the Memorandum of Understanding between the City and each of its employee groups and ultimately passed by Council action.

Funding Policy. The City funds retiree health benefits on a pay as you go basis, paying for retiree benefits from the City's Other Post Employment Benefits agency fund. For fiscal year 2011-2012, the City paid a total of $2,967,790 for retiree health insurance.

The required contribution is based on projected pay-as-you-go financing requirements with additional amount to prefund benefits as determined annually by the City under an actuarial valuation. The City has elected not to transfer assets into an irrevocable trust fund, but has instead set aside contributions to its Other Post Employment Benefits agency fund. For fiscal year 2011-12, the City transferred $17,504,198 to its agency fund.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post employment benefit ("**OPEB**") cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	Fiscal Year Ended 6/30/2012
Annual required contribution	$ 14,524,000
Interest on OPEB obligation	1,409,269
Adjustment to annual required contribution	(1,972,811)
Annual OPEB cost	13,960,458
Contributions made	2,967,790 (1)
Increase (decrease) in net OPEB obligation	10,992,668
Net OPEB obligation - beginning of year	29,668,812
Net OPEB obligation - end of year	$ 40,661,480

(1) Because of GASB 45 reporting guidelines, the City's total OPEB funding contribution of $17,504,198 for fiscal year 2012-13 is not reflected in this table.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011-12 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation	OPEB Agency Fund Contribution
6/30/2010	$ 11,433,475	22.2%	$ 20,623,347	75.8%
6/30/2011	11,804,695	23.4	29,668,812	97.7
6/30/2012	13,960,458	21.3	40,661,480	125.4

Funded Status and Funding Progress. The schedule of funding progress below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The first schedule below, taken from the actuarial report for the plan, does not show any asset value because the City has not established an irrevocable trust for the benefit of its retiree health plan. The following two schedules, prepared by the City, show the value of the assets in the Other Post Employment Benefits agency fund.

Schedule of Funding Progress for OPEB
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2008	$ -	$122,120	$(122,120)	- %	$71,845	170.0%
6/30/2010	-	135,371	(135,371)	-	68,602	197.3
6/30/2012	-	157,012	(157,012)	-	70,513	222.7

Schedules of City's OPEB Agency Fund Progress

Fiscal Year Ended	City's OPEB Agency Fund Contribution	City's OPEB Agency Fund Asset	Funded Ratio
6/30/2008	$8,664,883	$30,036,768	24.6%
6/30/2010	11,539,000	44,863,594	33.1
6/30/2012	17,504,198	71,338,858	45.4
6/30/2013	17,224,000	86,510,435	51.3 (1)

(1) Based on 6/30/2012 actuarial valuation projection.

As of June 30, 2013, the estimated value of the assets in the fund was $86,510,435 and was invested as follows:

Asset	Amount	Percentage
Cash & Investment	$58,108,344	67.2%
Investment in Water Rights	16,647,529	19.2
Investment Air Quality Credits	1,700,000	2.0
Investment in Stored Water	513,959	0.6
Accounts Receivable	2,000	<0.1
Prepaid Expense Misc.	5,810	<0.1
Land & Land Rights	9,532,793	11.0
Total	86,510,435	100.0

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made into the future. The actuarial methods and the assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation as of June 30, 2012 used the Entry Age Normal actuarial cost method. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a general inflation rate of 3.0%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was twenty six years. As of the actuarial valuation date, the City had 989 active participants and 458 retirees receiving benefits.

Investment Policies and Procedures

The City invests its funds in accordance with the City's Statement of Investment Policy (the "**Investment Policy**"), which is subject to annual review and approval by the City Council. The primary goals of the Investment Policy are (a) to assure compliance with all laws governing the investments under the control of the City Treasurer, (b) to protect the principal monies entrusted to the City Treasurer, and (c) to generate the maximum amount of investment income consistent with the parameters established therein. Investment decisions should meet the objectives of safety, liquidity, and performance, with safety of principal being the foremost objective. The performance of the City's investment portfolio is measured on a total return basis. The portfolio's performance will be measured against a benchmark of the Merrill Lynch 1-3 year Treasury Index.

The City's Investment Policy complies with the provisions of the California Government Code, Sections 53600 through 53659 (the authority governing investments for municipal governments in the State) and limits the City to certain investments that are also authorized by State law (Sections 53601 et sec). Inverse floaters, range notes, interest-only strips derived from a pool of mortgages, or any securities that could result in zero interest accrual if held to maturity are all ineligible investments and are specifically prohibited. In addition, the Investment Policy establishes further guidelines.

The City Council reviews monthly investment reports submitted by the City Treasurer. According to the report for the month ended April 30, 2013, the City has invested funds as set forth in the table below, which had an average final maturity of 1.58 years based upon the earlier to occur of maturity or redemption.

Table A-16
CITY OF ONTARIO
Investment Portfolio as of April 30, 2013

Type of Investment	Book Value	Market Value	Percent of Total (1)
Asset Backed Securities	$ 4,999,357.50	$ 5,012,000.00	0.9%
Federal Agencies	145,797,210.00	145,325,345.00	26.8
LAIF	48,632,324.50	48,632,324.50	9.0
Mortgage Backed Securities	3,031,875.090	3,038,880.00	0.5
Municipal Bonds	508,505.00	501,570.00	0.09
Supranational Note	4,786,200.00	4,934,630.00	0.9
US Corporate Notes	80,775,870.00	81,220,246.00	15.0
US Treasury Notes	250,804,789.77	252,911,310.00	46.7
Total:	$539,336,131.77	$541,576,305.50	100.00%

(1) Based on market value.
(2) Amounts may not add to 100.00% because of rounding.
Source: City of Ontario.

Airport Litigation

Ontario International Airport ("**ONT**") provides domestic and limited international air travel. Because of the many manufacturing companies and warehouses in the City, the airport also serves as a major hub for freight, especially for FedEx and UPS. However, ONT has experienced passenger declines totaling more than 40% since 2007 and an 8% additional decline is expected in 2013. Passenger declines have a negative impact on the City's revenue and employment, and revenues from transient occupancy taxes and parking taxes have declined significantly in recent years. See also "Other Taxes and Revenues" above.

The City owned ONT from its construction until 1985, when it was transferred to the City of Los Angeles ("**L.A.**"). The City believes that the long-term success of ONT is critical to Ontario's economy and future, and the City Council has made transfer of ONT back to local control a primary objective in fiscal year 2012-13. The City continues to work with L.A. to find a mutually agreeable solution, but has also taken legal action relating to L.A.'s control over ONT. On April 11, 2013, the City submitted an administrative claim citing L.A.'s breach of the terms of a Joint Powers Agreement (the "**JPA**") between the two cities relating to ONT and economic losses resulting from the chronic neglect and mismanagement of ONT. The claim seeks the termination of the JPA and the transfer of ONT to the Ontario International Airport Authority ("**OIAA**"), among other remedies. The Adopted Budget for fiscal year 2012-13 includes funds to facilitate the City's efforts to transition the management and operation of ONT from L.A. to the proposed OIAA. The City does not believe that an unsuccessful outcome of the litigation or the failure to reach agreement with L.A. for the transfer of ONT to the OIAA will adversely impact the City's ability to make Base Rental Payments when due.

Effective Buying Income

"Effective buying income" ("EBI") is a classification developed exclusively by *Sales & Marketing Management* magazine to distinguish it from other sources reporting income statistics. EBI is defined as "money income" less personal tax and non-tax payments - a number often referred to as "disposable" or "after tax" income. Money income is the aggregate of wages and salaries, net farm and non-farm self employment income, interest, dividends, not rental and royalty income, Social Security and railroad retirement income, other retirement and disability 'income, public assistance income, unemployment compensation, Veterans Administration Payments, alimony and child support, military family allotments, net winnings from gambling and other periodic income. Money income does not include money received from the sale of property (unless the recipient is engaged in the business of selling property); the value of "in-kind" income such as food stamps, public housing subsidies, medical care, employer contributions for persons, etc.; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts. EBI is computed by deducting from money income all personal income taxes (federal, state and local), personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied non-business real estate.

The following table summarizes the total EBI for the City, the County, the State and the United States for the period 2008 through 2012:

Table A-17
COUNTY OF SAN BERNARDINO
Effective Buying Income

Calendar Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2008	City of Ontario	$ 2,447,598	$45,555
	San Bernardino County	34,745,023	45,814
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	City of Ontario	$ 2,484,760	$45,375
	San Bernardino County	34,899,738	45,690
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Ontario	$ 2,289,568	$42,945
	San Bernardino County	32,115,644	43,018
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Ontario	$ 2,278,200	$42,522
	San Bernardino County	32,969,928	42,818
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Ontario	$ 2,390,313	$44,509
	San Bernardino County	34,251,993	43,741
	California	864,088,828	47,307
	United States	6,737,867,730	41,358

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years.

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first quarter of calendar year 2012 in the City were reported to be $1,372,694,000, a 9.26% increase over the total taxable sales of $1,256,388,000 reported during the first quarter of calendar year 2011. Annual figures for calendar year 2012 are not yet available.

Table A-18
CITY OF ONTARIO
Number of Permits and Valuation of Taxable Transactions
($ in Thousands)

	Retail Stores		**Total All Outlets**	
	Number of Permits on August 1	Taxable Transactions	Number of Permits on August 1	Taxable Transactions
2007	2,737	$3,800,293	5,646	$5,642,032
2008	2,915	3,473,717	6,014	5,355,054
2009(1)	3,708	2,881,884	5,711	4,616,829
2010(1)	4,247	3,098,722	6,308	4,846,138
2011(1)	4,344	3,363,827	6,399	5,327,248

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during the first quarter of calendar year 2012 in the County were reported to be $6,956,488,000, a 9.96% increase over the total taxable sales of $6,326,409,000 reported during first quarter of calendar year 2011. Annual figures for calendar year 2012 are not yet available.

Table A-19
COUNTY OF SAN BERNARDINO
Number of Permits and Valuation of Taxable Transactions
($ in Thousands)

	Retail Stores		Total All Outlets	
Calendar Year	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2007	24,407	$21,335,824	47,810	$30,450,731
2008	25,076	19,065,786	48,994	27,777,703
2009 (1)	31,676	16,330,138	45,062	23,652,433
2010 (1)	34,068	17,308,880	47,562	24,687,862
2011 (1)	34,140	18,736,053	47,791	27,322,980

(1) Not comparable to prior years. "Retail" category now includes "Food Services."
Source: State Board of Equalization.

Construction Activity

Building activity for the years 2008 through 2012 in the City is shown in the following table:

Table A-20
CITY OF ONTARIO
Total Building Permit Valuations
($ in Thousands)

	Calendar Year				
	2008	**2009**	**2010**	**2011**	**2012**
Permit Valuation					
Single-family	$1,618,299	$4,377,261	$3,353,591	$4,395,721	$4,876,101
New Multi-family	8,637,901	9,659,234	2,335,534	2,047,541	0
New Commercial	15,050,846	13,686,581	2,893,479	18,896,653	9,977,399
New Industrial	13,391,804	1,362,130	20,165,355	0	22,034,363
Tenant Improvement	35,443,114	19,481,033	26,082,024	39,644,147	25,299,459
Alt/Add. Residential	4,291,175	1,220,903	2,276,955	2,857,592	2,386,226
Other (1)	34,481,336	19,769,667	50,779,739	40,108,572	27,829,226
Total	114,534,476	70,567,726	109,023,943	109,288,458	93,514,199
Units					
Single-family	9	35	30	36	38
New Multi-family	5	6	2	3	0
New Commercial	15	4	8	6	10
New Industrial	18	6	1	0	3
Tenant Improvement	177	126	172	218	209
Alt/Add. Residential	126	59	119	168	172
Other (1)	2,250	2,056	2,784	2,717	2,710
Total	2,600	2,292	3,116	3,148	3,142

(1) "Other" includes permits for things such as commercial and industrial additions, demolition, electric work, grading, mechanical work, patios, plumbing, photovoltaic, re-roofing, storage, water/sewer/storm drain work and swimming pool/spa.
Source: City of Ontario.

Building activity for the years 2008 through 2012 in the County is shown in the following table:

Table A-21
COUNTY OF SAN BERNARDINO
Total Building Permit Valuations
($ in Thousands)

	2008	2009	2010	2011	2012
Permit Valuation					
New Single-family	$383,615	$279,994	$233,404	$232,698	$283,203
New Multi-family	102,257	96,741	61,081	49,011	135,503
Res. Alterations/Additions	86,585	62,859	62,731	99,083	61,998
Total Residential	572,457	439,594	357,216	380,792	480,704
New Commercial	310,848	70,373	39,381	67,147	201,221
New Industrial	92,200	34,028	21,854	50,630	152,048
New Other	100,797	72,128	62,614	6,404	5,096
Com. Alterations/Additions	234,970	156,292	129,150	197,961	219,113
Total Nonresidential	738,816	332,822	252,999	322,142	577,478
New Dwelling Units					
Single Family	1,981	1,441	1,198	1,075	1,214
Multiple Family	1,201	1,054	649	409	596
TOTAL	3,182	2,495	1,847	1,484	1,810

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

The LA/Ontario International Airport provides domestic and limited international air travel. Because of the many manufacturing companies and warehouses in the City, the airport also serves as a major hub for freight, especially for FedEx and UPS. This airport is owned by the City of Los Angeles. The City has made transfer of the Ontario International Airport to local control a primary objective in fiscal year 2012-13. For more information, see "LITIGATION" in the front half of this Official Statement.

Because Ontario is a major hub for passengers and freight, the City is also served by several major freeways. Interstate 10 and the Pomona Freeway (State Route 60) run east-west through the City. Interstate 10 is north of the Ontario airport while the Pomona freeway is south of the airport. Interstate 15 runs in the north-south directions at the eastern side of the City. State Route 83, also known as Euclid Avenue, also runs in the north-south direction at the western side of the City.

Ontario also has a Metrolink station off of Haven Avenue. It connects Ontario with much of the Greater Los Angeles area, Orange County and the San Fernando Valley. Public bus transportation is provided by Omnitrans.

An Amtrak station is located in the City.

Utilities

Water and wastewater services are provided by the City and electricity and gas is provided by the Southern California Edison and Southern California Gas Companies.

Community Facilities/Media

The Citizens Business Bank Arena is a sports arena which opened in late 2008. It is owned by Ontario, but is operated by Anschutz Entertainment Group. It is an 11,000-seat multi-purpose arena, the largest enclosed arena in the Inland Empire.

Health Facilities

The City has one hospital with 224 total bed capacity, a physical rehabilitation hospital with 61 beds, five convalescent hospitals and 111 community clinics.

Education

The City has 25 public elementary schools, six public middle schools and five public high schools under the combined oversight of four school districts. There are also nine private schools throughout the City as well as two private military schools. There are also nine trade schools in the City. The University of La Verne College of Law and Chaffey College Ontario Campus are located in downtown Ontario. National University, Argosy University, Ontario and Chapman University have a satellite campus near the Ontario Mills mall.

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APPENDIX B

SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain definitions and provisions of the Lease Agreement and the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

LEASE AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined in the Lease Agreement will, for all purposes thereof, have the meanings therein specified, which meanings are equally applicable to both the singular and plural forms of any of the terms therein defined. Capitalized terms not otherwise defined therein have the meanings assigned to such terms in the Indenture.

"Additional Bonds" means bonds other than the Series 2013 Bonds issued under the Indenture in accordance with the provisions thereof.

"Additional Rental Payments" means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

"Authority" means the Ontario Public Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California.

"Base Rental Deposit Date" means the fifth Business Day next preceding each Interest Payment Date.

"Base Rental Payments" means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Lease Agreement.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement.

"Bonds" means the Series 2013 Bonds and any Additional Bonds.

"City" means the City of Ontario, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Delivery Date" means _____, 2013.

"Ground Lease" means the Ground Lease, dated as of the date of the Lease Agreement, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with to the provisions thereof and of the Lease Agreement.

"Hazardous Materials" means flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any asbestos containing materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and

Title III, and the regulations promulgated pursuant thereto, and in all other federal, state or local environmental laws and regulations.

"Indenture" means the Indenture, dated as of the date of the Lease Agreement, by and among the Authority, the City and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

"Joint Powers Agreement" means the Joint Exercise of Powers Agreement, dated as of June 1, 2013, by and between the City and the Ontario Housing Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Lease Agreement" means the Lease Agreement, dated as of September 1, 2013, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Net Insurance Proceeds" means any insurance proceeds or condemnation award in excess of $50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

"Permitted Encumbrances" means, with respect to the Property, as of any particular time: (a) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid; (b) the Assignment Agreement; (c) the Lease Agreement; (d) the Ground Lease; (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City; (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing; and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Bonds by the Indenture and the Assignment Agreement and to which the Authority and the City consent in writing.

"Property" means the real property described in the Lease Agreement and the improvements located thereon.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental Payments.

"Rental Period" means the twelve-month period commencing on October 1 of each year during the term of the Lease Agreement; provided that the first Rental Period is the period from ____, 2013 through September 30, 2013.

"Series 2013 Bonds" means the Ontario Public Financing Authority 2013 Lease Revenue Bonds (Capital Projects) issued under the Indenture.

"Termination Date" means ______ 1, 20__, unless extended or sooner terminated as provided in the Lease Agreement.

"Trustee" means the trustee appointed under the Indenture and referred to therein as the Trustee.

LEASE OF PROPERTY; TERM

Lease of Property. (a) The Authority has leased to the City and the City has leased from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, subject to all Permitted Encumbrances. (b) The leasing of the Property by the City to the Authority pursuant to the Ground Lease does not effect or result in a merger of the City's leasehold estate pursuant to the Lease Agreement and its fee estate as lessor under the Ground Lease, and the Authority will continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The leasehold interest granted by the City to the Authority pursuant to the Ground Lease is and will be independent of the Lease Agreement; the Lease Agreement is not an assignment or surrender of the leasehold interest granted to the Authority under the Ground Lease.

Term; Occupancy. The term of the Lease Agreement will commence on the Delivery Date and end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Bonds are not fully paid, or provision therefor made in accordance with the Indenture, or the Indenture is not discharged by its terms, or if the Rental Payments remain due and payable or have been abated at any time and for any reason, or if any amounts payable to the Bond Insurer, including but not limited to Policy Costs, remain due and owing, then the term of the Lease Agreement will be extended until the date upon which: (a) all Bonds are fully paid, or provision therefor made in accordance with the Indenture; or (b) the Indenture is discharged by its terms and all Rental Payments and amounts payable to the Bond Insurer have been paid in full. Notwithstanding the foregoing, the term of the Lease Agreement will in no event be extended more than ten years beyond such Termination Date, such extended date being the "Maximum Lease Term." If prior to the Termination Date, all Bonds are fully paid, or provision therefor made in accordance with the Indenture, the Indenture will be discharged by its terms and all Rental Payments will have been paid in full, and the term of the Lease Agreement will end simultaneously therewith.

RENTAL PAYMENTS

Base Rental Payments.

(a) Subject to the provisions of the Lease Agreement relating to a revision of the Base Rental Payment Schedule, the City will pay to the Authority, as Base Rental Payments (subject to the provisions of the Lease Agreement) the amount at the times specified in the Base Rental Payment Schedule, a portion of which Base Rental Payments constitute principal, and a portion of which constitute interest. Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

(b) If the term of the Lease Agreement has been extended pursuant thereto, the obligation of the City to pay Rental Payments will continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement (as so extended pursuant thereto). Upon such extension, the Base Rental Payments will be established so that they will be sufficient to pay all extended and unpaid Base Rental Payments; provided, however, that the Rental Payments payable in any Rental Period may not exceed the annual fair rental value of the Property.

Additional Rental Payments. The City will also pay, as Additional Rental Payments, such amounts as are required for the payment of the following:

(a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;

(c) insurance premiums for all insurance required pursuant to the Lease Agreement;

(d) any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(e) all other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture, including but not limited to the Policy Costs, Bond Insurer Advances and those amounts described under the caption "INDENTURE—SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Claims upon the Insurance Policy."

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Fair Rental Value. The parties have agreed and determined that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period constitute the total rental for said Rental Period.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement will be paid in lawful money of the United States of America to or upon the order of the Authority at the principal office of the Trustee in Los Angeles, California, or such other place or entity as the Authority or Trustee designate. Each Base Rental Payment will be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which is not paid by the City when due and payable under the terms of the Lease Agreement will bear interest from the date when the same is due thereunder until the same is paid at the rate equal to the highest rate of interest on any of the Outstanding Bonds. Notwithstanding any dispute between the Authority and the City, the City will make all Rental Payments when due without deduction or offset of any kind and may not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to the Lease Agreement on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

MAINTENANCE, ALTERATIONS AND ADDITIONS

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property will be the responsibility of the City, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Rental Payments, the Authority has agreed to provide only the Property.

Additions to Property. Subject to the Lease Agreement, the City and any sublessee will, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee have any interest therein. Such additions, modifications and improvements may not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease Agreement, will be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party repairs and restores any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement prevents the City or any sublessee from purchasing items to be installed pursuant thereto under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest will attach to any part of the Property.

INSURANCE

Commercial General Liability and Property Damage Insurance; Workers' Compensation Insurance.

(a) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of $500,000 for damage to property (subject to a deductible clause of not to exceed $100,000) resulting from a single accident or event. Such commercial general liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided that such self-insurance complies with the provisions of the Lease Agreement. The Net Insurance Proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance have been paid.

(b) The City will maintain or cause to be maintained, throughout the term of the Lease Agreement, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act; provided, however, that the foregoing obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(c) The City will maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to the foregoing provisions may be subject to a deductible in an amount not to exceed $500,000. The foregoing obligations may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement.

(d) The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to the Lease Agreement in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure the foregoing obligation.

(e) The insurance required by the Lease Agreement will be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes thereof.

<u>Title Insurance</u>. The City will provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2013 Bonds. Such policy or policies will insure: (a) the fee interest of the City in the Property; (b) the Authority's ground leasehold estate in the Property under the Ground Lease; and (c) the City's leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances. All Net Insurance Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Indenture. So long as any of the Bonds remain Outstanding, each policy of title insurance obtained pursuant to the Indenture or the Lease Agreement or required thereby must provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Bond Owners.

<u>Additional Insurance Provision</u>; <u>Form of Policies</u>. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement, and will promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies must provide that the Trustee be given 30 days' notice of the expiration thereof or any intended cancellation thereof. The Trustee will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

The City will cause to be delivered to the Trustee on or before August 15 each year, commencing August 15, 2013, a Certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the foregoing requirements. The Trustee is entitled to rely upon said Certificate of the City as to the City's compliance therewith. The Trustee is not responsible for the sufficiency of coverage or amounts of such policies.

<u>Self-Insurance</u>. Insurance provided through a California joint powers authority of which the City is a member or with which the City contracts for insurance will be deemed to be self-insurance for purposes of the Lease Agreement. Any self-insurance maintained by the City pursuant to the Lease Agreement must comply with the following terms: (a) the self-insurance program and any self-insured retentions

maintained by the City are approved in writing by a professionally certified risk manager or by an independent insurance consultant; (b) the self-insurance program includes an actuarially sound claims reserve fund out of which each self-insured claim is paid, the adequacy of each such fund is evaluated on an annual basis by a professionally certified risk manager or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund are remedied in accordance with the recommendation of a professionally certified risk manager or such independent insurance consultant, as applicable; and (c) in the event that the self-insurance program is discontinued, the actuarial soundness of its claims reserve fund, as determined by a professionally certified risk manager or by an independent insurance consultant, will be maintained.

DEFAULTS AND REMEDIES

Defaults and Remedies.

(a) (i) If the City fails: (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement; or (B) to keep, observe or perform any other term, covenant or condition contained therein or in the Indenture to be kept or performed by the City; or (ii) upon the happening of any of the events specified in the Lease Agreement, the City is deemed to be in default thereunder and it is lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant thereto. The City will in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City has failed, for a period of 30 days or such additional time as is reasonably required, to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, has the option to do any of the following:

(1) To terminate the Lease Agreement in the manner therein provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as provided for in clause (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City has agreed to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority has given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City has covenanted and agreed that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination thereof will be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement: (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions thereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property; or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event that the Authority does

not elect to terminate the Lease Agreement in the manner provided for in clause (1) above, the City will remain liable and has agreed to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and has further agreed to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments thereunder, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments therein specified, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City has irrevocably appointed the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City has indemnified and agreed to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City has agreed that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and has further agreed that no acts of the Authority in effecting such re-letting constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement vests in the Authority to be effected in the sole and exclusive manner provided for in clause (1) above. The City has further agreed to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City has waived any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If: (i) the City's interest in the Lease Agreement or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as provided for in the Lease Agreement; or (ii) the City or any assignee files any petition or institutes any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City is appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City makes a general assignment for the benefit of the City's creditors; or (iii) the City abandons or vacates the Property, then the City will be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies set forth in the Lease Agreement, upon the occurrence of an event of default, the Authority and its assignee are entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its city council, officers or employees are enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

Each and all of the remedies given to the Authority under the Lease Agreement or by any law now or later enacted are cumulative and the single or partial exercise of any right, power or privilege thereunder does not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in the Lease Agreement includes, but is not limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly limits the remedies given to the Authority under the Lease Agreement, the Authority nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law.

In the event that the Authority prevails in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City has agreed to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority thereunder.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority has no right upon a default thereunder by the City to accelerate Rental Payments.

(d) Notwithstanding anything to the contrary contained in the Lease Agreement, the termination of the Lease Agreement by the Authority and its assignees on account of a default by the City thereunder will not effect or result in a termination of the Ground Lease.

Waiver. Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will any custom or practice which may grow up between the parties in the course of administering such instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

EMINENT DOMAIN; PREPAYMENT

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) is taken under the power of eminent domain, the term of the Lease Agreement will cease as of the day that possession is so taken. If less than all of the Property is taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the Rental Payments in accordance with the provisions thereof. So long as any Bonds are Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, will be paid to the Trustee and applied to the redemption of Bonds as provided in the Indenture and in the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued. Any such award made after all of the Bonds, and all other amounts due under the Indenture and the Lease Agreement, have been fully paid, will be paid to the Authority and to the City as their respective interests may appear.

Prepayment.

(a) The City may prepay all or a portion of the Base Rental Payments attributable to the Series 2013 Bonds which are payable after October 1, 20__ from any source of available funds, on any date on or after October 1, 20__, by paying: (i) all or a portion, as selected by the City, of the principal components of such Base Rental Payments; and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments attributable to the Series 2013 Bonds by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Indenture sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments pursuant to clause (a) above, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with the Lease Agreement.

(c) If less than all of the Base Rental Payments attributable to the Series 2013 Bonds are prepaid pursuant to the Lease Agreement then, as of the date of such prepayment pursuant to the Lease Agreement, or the date of a deposit pursuant to the Lease Agreement, the principal and interest components of such Base Rental Payments will be recalculated by the City and transmitted to the Trustee in order to take such prepayment into account. The City has agreed that if, following a partial prepayment of such Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City will not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City will not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of the Lease Agreement then, as of the date of such prepayment pursuant thereto and, if applicable, the corresponding provisions thereof relating to the prepayment of Base Rental Payments attributable to Additional Bonds, or deposit pursuant to the Lease Agreement and, if applicable, such corresponding provisions, and payment of all other amounts owed under the Lease Agreement, the term of the Lease Agreement will be terminated.

(e) Prepayments of Base Rental Payments attributable to the Series 2013 Bonds made pursuant to the Lease Agreement will be applied to the redemption of the Series 2013 Bonds as directed by the City and as provided in the Indenture.

COVENANTS

Right of Entry. The Authority and its assignees have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease Agreement, and for all other lawful purposes.

Liens. In the event that the City at any time during the term of the Lease Agreement causes any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City will pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Property and which may be secured by a mechanic's, materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time that the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contestment is in good faith. If any such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City will forthwith pay and discharge said judgment.

Quiet Enjoyment. The parties to the Lease Agreement have mutually covenanted that the City, by keeping and performing the covenants and agreements therein contained, will at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Authority Not Liable. The Authority and its directors, officers, agents and employees are not liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City will, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City has also covenanted and agreed, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from: (a) any condition of the Property and the adjoining sidewalks and passageways; (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to the Lease Agreement; (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property; or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in the Lease Agreement, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority or the Trustee or any director, member, officer or employee thereof by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer employee thereof, has covenanted to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the City thereunder may be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation by law or otherwise. The Property may not be subleased in whole or in part by the City without the prior written consent of the Authority. Any such sublease is subject to all of the following conditions: (a) the Lease Agreement and the obligation of the City to make all Rental Payments thereunder will remain the primary obligation of the City; (b) the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease; (c) no such sublease by the City will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California; (d) any sublease of the Property by the City will explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and (e) the City will furnish the

Authority and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes.

Title to Property. Upon the termination or expiration of the Lease Agreement (other than as provided therein), and the first date upon which the Bonds are no longer Outstanding, all right, title and interest in and to the Property will vest in the City. Upon any such termination or expiration, the Authority will execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Authority's Purpose. The Authority has covenanted that, prior to the discharge of the Lease Agreement and the Bonds, it will not engage in any activities inconsistent with the purposes for which the Authority is organized, as set forth in the Joint Powers Agreement.

Environmental Compliance.

(a) The City will not use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property or conduct lawful activities of the City on the Property and then, only in compliance with all federal, state and local laws and regulations, now or later in effect, with respect to Hazardous Materials, nor will it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee and agent, the storage, transportation, disposal or use of Hazardous Materials or the release or threat of release of Hazardous Materials on, from or beneath the Property or onto any other property excluding, however, those Hazardous Materials in those amounts ordinarily found in the inventory of a municipal government, the use, storage, treatment, transportation and disposal of which is in compliance with all environmental regulations.

(b) The City will comply with, and will cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all environmental regulations, and will keep the Property free and clear of any liens imposed pursuant thereto; provided, however, that notwithstanding that a portion of the foregoing covenant is limited to the City's use of its best efforts, the City will remain solely responsible for ensuring such compliance and such limitation will not diminish or affect in any way the City's environmental compliance obligations as provided in the Lease Agreement. Upon receipt of any notice from any person with regard to the release of Hazardous Materials on, from or beneath the Property, the City will give prompt written notice thereof to the Trustee prior to the expiration of any period in which to respond to such notice under any environmental regulation.

(c) The City will, to the extent permitted by law, defend, indemnify and hold harmless the Trustee, the Bond Insurer, the Series 2013 Bond Owners, their partners, depositors and each of their respective employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees and expenses incurred to enforce the indemnification contained in the foregoing clause), consultants' fees, investigation and laboratory fees, liabilities, settlements, court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to: (i) the disposal, release, threat of release, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property; (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials; (iii) any lawsuit brought or threatened, settlement reached or governmental order relating to Hazardous Materials on, from or beneath the Property; (iv) any violation of environmental regulations or clauses (a) or (b) above by the City or any of its agents, tenants, employees, contractors, licensees, guests, subtenants or invitees; and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that the City is strictly liable under any environmental regulation, its obligation to the Series 2013 Bond Owners and the other indemnitees under the foregoing indemnification will likewise be without regard to fault on its part with respect to the violation of any environmental regulation which results in liability to any indemnitee. The foregoing obligations and liabilities under will survive the payment and satisfaction of all Series 2013 Bonds, and with regard to the Trustee the resignation and removal of the Trustee.

Covenant against Condemnation. The City has covenanted and agreed, to the extent that it may lawfully do so, that so long as any of the Series 2013 Bonds remain Outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Property. The City has further covenanted and agreed, to the extent that it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City should fail or refuse to abide by such covenant and condemns the Property, then the appraised value of the Property will not be less than: (a) if such Series 2013 Bonds are then subject to redemption, the principal and interest components of the Series 2013 Bonds outstanding through the date of their redemption; or (ii) if such Series 2013 Bonds are not then subject to redemption, the amount necessary to defease such Series 2013 Bonds to the first available redemption date in accordance with the Indenture.

NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE

No Consequential Damages. In no event will the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the City's use of the Property.

Use of the Property. The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the City has agreed to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The City has the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release will be borne by the City. Notwithstanding any substitution or release of Property pursuant to the Lease Agreement, there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release of any portion of the Property is subject to the following specific conditions, which have been made conditions precedent to such substitution or release:

(a) The City has delivered a certificate to the Trustee setting forth its findings that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City has obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements described in the Lease Agreement;

(c) the City has provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee have executed, and the City has caused to be recorded with the San Bernardino County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease;

(e) the City has provided notice of such substitution to each rating agency then rating the Bonds; and

(f) so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, the written consent of the Bond Insurer has been received.

MISCELLANEOUS

Law Governing. THE LEASE AGREEMENT WILL BE GOVERNED EXCLUSIVELY BY THE PROVISIONS THEREOF AND BY THE LAWS OF THE STATE OF CALIFORNIA AS THE SAME FROM TIME TO TIME EXIST.

Validity and Severability. If for any reason the Lease Agreement is held by a court of competent jurisdiction to be void, voidable or unenforceable by the Authority or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City thereunder, including the covenant to pay Rental Payments, is unenforceable for the full term thereof; then and in such event the Lease Agreement is and will be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, will remain in full force and effect.

Net-Net-Net Lease. The Lease Agreement will be deemed and construed to be a "net-net-net lease" and the City has agreed that the Rental Payments will be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

Taxes. The City will pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City or any sublessee may, at the City's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee notify the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee will promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Amendments.

(a) The Lease Agreement and the Ground Lease may be amended and the rights and obligations of the Authority and the City thereunder may be amended at any time by an amendment thereto which will become binding upon execution and delivery by the Authority and the City, but only with the prior written consent of the Owners of a majority of the principal amount of the Bonds then Outstanding pursuant to the Indenture, together with the written consent of the Bond Insurer, so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, provided that no such amendment may: (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Bond so affected; or (ii) reduce the percentage of the principal amount of the Bonds the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease.

(b) The Lease Agreement and the Ground Lease and the rights and obligations of the Authority and the City thereunder may also be amended at any time by an amendment thereto which will become binding upon execution by the Authority and the City, without the written consents of any Owners, but (except as to subpart (v) below in the case of Additional Bonds issued for refunding purposes) with the written consent of the Bond Insurer, so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder,but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred therein on the Authority or the City, and which in either case will not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent therewith, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest on the Bonds;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement;

(v) to provide for the issuance of Additional Bonds in accordance with the Indenture; or

(vi) to make such other changes therein or modifications thereto as the Authority or the City may deem desirable or necessary, and which do not materially adversely affect the interests of the Owners, as evidenced by an Opinion of Bond Counsel.

Assignment. The City and the Authority have acknowledged the assignment of the Lease Agreement (except for the Authority's obligations and its rights to give consents or approvals thereunder), and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement. To the extent that the Lease Agreement confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Lease Agreement, the Trustee has been explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

INDENTURE

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture will for all purposes thereof and of any amendment thereof or supplement thereto and of the Bonds and of any certificate, opinion, request or other document mentioned therein have the meanings defined therein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined therein. Capitalized terms not otherwise defined in the Indenture have the meanings assigned to such terms in the Lease Agreement.

"Additional Bonds" means Bonds other than the Series 2013 Bonds issued under the Indenture in accordance with the provisions thereof.

"Act" means the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code.

"Additional Rental Payments" means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

"Assignment Agreement" means the Assignment Agreement, dated as of the date of the Indenture, by and between the Authority and the Trustee.

"Authority" means the Ontario Public Financing Authority, a joint exercise of powers entity organized and existing under and by virtue of the laws of the State of California.

"Authorized Authority Representative" means the Chair, Vice Chair, Executive Director, Treasurer and Secretary of the Authority, or any other person authorized by the Board of Commissioners of the Authority to act on behalf of the Authority under or with respect to the Indenture.

"Authorized City Representative" means the Mayor of the City, the Mayor Pro Tem of the City, the City Manager of the City, the Administrative Services/Finance Director of the City or the City Clerk, or any other person authorized by the City Council of the City to act on behalf of the City under or with respect to the Indenture.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Indenture.

"Base Rental Payments" means all amounts payable to the Authority by the City as Base Rental Payments pursuant to the Lease Agreement.

"Beneficial Owner" means, whenever used with respect to a Book-Entry Bond, the person whose name is recorded as the beneficial owner of such Book-Entry Bond or a portion of such Book Entry Bond by a Participant on the records of such Participant or such person's subrogee.

"Bond Insurer" means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

"Bond Insurer Advances" has the meaning set forth under the caption "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Claims upon the Insurance Policy."

"Bond Insurer Reimbursement Amounts" has the meaning set forth under the caption "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Claims upon the Insurance Policy."

"Bond Insurer's Fiscal Agent" has the meaning set forth under the caption "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Claims upon the Insurance Policy."

"Bonds" means the Series 2013 Bonds and any Additional Bonds issued under the Indenture.

"Book-Entry Bonds" means the Bonds of a Series registered in the name of the nominee of DTC, or any successor securities depository for such Series of Bonds, as the registered owner thereof pursuant to the terms and provisions of the Indenture.

"Business Day" means a day which is not: (a) a Saturday, Sunday or legal holiday; (b) a day on which banking institutions in the State of California, or in any state in which the Office of the Trustee is located, are required or authorized by law (including executive order) to close; or (c) a day on which the New York Stock Exchange is closed.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to a Series of Book-Entry Bonds.

"City" means the City of Ontario, a municipal corporation and general law city duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"Closing Date" means ______, 2013.

"Code" means the Internal Revenue Code of 1986, as amended.

"Construction Fund" means the fund by that name established in accordance with the Indenture.

"Continuing Disclosure Certificate" means the Continuing Disclosure Certificate, dated as of the date of the Indenture, executed by the City, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"DTC" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for any Series of Book-Entry Bonds, including any such successor appointed pursuant to the Indenture.

"Federal Securities" means: (a) non-callable direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America, provided that such securities are eligible for defeasance under the then-existing criteria of S&P.

"Ground Lease" means the Ground Lease, dated as of the date of the Indenture, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

"Indenture" means the Indenture, dated as of September 1, 2013, by and among the City, the Authority and the Trustee, as originally executed and as it may be amended or supplemented from time to time by any Supplemental Indenture.

"Information Services" means the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website; and, in accordance with then current guidelines of the

Securities and Exchange Commission, such other services providing information with respect to called bonds as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Insurance Policy" means Municipal Bond Insurance Policy No. _____ issued by the Bond Insurer guaranteeing the scheduled payment of principal and interest on the Series 2013 Bonds when due.

"Interest Fund" means the fund by that name established in accordance with the Indenture.

"Interest Payment Date" means April 1 and October 1 of each year, commencing on ____ 1, 20__.

"Late Payment Rate" has the meaning set forth under the caption "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Reserve Fund."

"Lease Agreement" means the Lease Agreement, dated as of the date of the Indenture, by and between the City and the Authority, as originally executed and as it may be from time to time amended in accordance with the provisions thereof.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation no longer performs the function of a securities rating agency for any reason, the term "Moody's" will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Net Insurance Proceeds Fund" means the fund by that name established in accordance with the Indenture.

"Office of the Trustee" means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Authority and the City by the Trustee in writing, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term means the office or the agency of the Trustee at which, at any particular time, its corporate trust agency is conducted as specified to the Authority and the City by the Trustee in writing.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Authority or the City and which written opinion is satisfactory to the Trustee.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" means, with respect to a Bond, the Person in whose name such Bond is registered on the Registration Books.

"Participant" means any entity which is recognized as a participant by DTC in the book-entry system of maintaining records with respect to Book-Entry Bonds.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Permitted Investments" means any of the following to the extent then permitted by the general laws of the State of California (provided that the Trustee is entitled to rely upon any investment directions from the City and Authority as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

(1) (a) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"); (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated (collectively "United States Obligations"). These include, but are not necessarily limited to: U.S. Treasury obligations: all direct or fully guaranteed obligations; Farmers Home Administration: certificates of beneficial ownership; General Services Administration: participation certificates; U.S. Maritime Administration: guaranteed Title XI financing; Small Business Administration: guaranteed participation certificates and guaranteed pool certificates; Government National Mortgage Association (GNMA): GNMA-guaranteed mortgage-backed securities and GNMA-guaranteed participation certificates; U.S. Department of Housing & Urban Development: local authority bonds; and Washington Metropolitan Area Transit Authority: guaranteed transit bonds.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America: Federal Home Loan Mortgage Corporation (FHLMC): participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) and senior debt obligations: Farm Credit Banks (formerly Federal Land Banks, Federal intermediate Credit Banks and Banks for Cooperatives): consolidated systemwide bonds and notes; Federal Home Loan Banks (FHL Banks): consolidated debt obligations; Federal National Mortgage Association (FNMA): senior debt obligations; mortgage-backed securities (excluded are stripped mortgages securities which are purchased at prices exceeding their principal amounts); Financing Corporation (FICO): debt obligations; Resolution Funding Corporation (REFCORP): debt obligations.

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 180 days) of any bank, including the Trustee and its affiliates, the short-term obligations of which are rated "A-1+" or better by S&P and "P-1" or better by Moody's.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks, including the Trustee and its affiliates, which have capital and surplus of at least $5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's at the time of purchase.

(7) Money market funds rated "AAm" or "AAm-G" or better by S&P and "Aa2" or better by Moody's, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered; (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are

separate from the fees received from such funds; and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

(8) Repurchase agreements: (a) With any domestic bank the long term debt of which is rated "AA" or better by S&P and "Aa" by Moody's (so long as an opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") and that such bank is subject to FIRREA), or any foreign bank rated at least "AA" by S&P and "Aaa" by Moody's or "AA" by S & P and at least "Aa2" by Moody's; provided that the term of such repurchase agreement is for one year or less; and (b) With: (i) any broker-dealer with "retail customers" which has, or the parent company of which has, long-term debt rated at least "AA" by S&P and "Aa2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corp. (SIPC); provided that: A. The market value of the collateral is maintained for United States Treasury Obligations, at the levels shown below under "Collateral Levels for United States Treasury Obligations"; B. Failure to maintain the requisite collateral percentage will require the City or the Trustee to liquidate the collateral; C. The Trustee, the City or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books); D. The repurchase agreement states, and an opinion of counsel is rendered to the effect, that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the foregoing means that the Holder of the Collateral is in possession); E. The transferor represents that the collateral is free and clear of any third-party liens or claims; F. An opinion is rendered that the repurchase agreement is a "repurchase agreement" as defined in the United States Bankruptcy Code; G. There is or will be a written agreement governing every repurchase transaction; H. The City represents that it has no knowledge of any fraud involved in the repurchase transaction; and I. The City and the Trustee receive an opinion of counsel (which opinion is addressed to the City and the Trustee) that such repurchase agreement is legal, valid and binding and enforceable against the provider in accordance with its terms.

(9) State Obligations: (a) Direct general obligations of any state of the United States or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A2" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (b) Direct, general short-term obligations of any state agency or subdivision described in clause (a) above and rated "A-1+" by S&P and "Prime-1" by Moody's; (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in clause (a) above and rated "AA" or better by S&P and "Aa2" or better by Moody's.

(10) Local Agency Investment Fund.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt of the guarantor, or in the case of a monoline financial guaranty insurance company the claims paying ability of the guarantor, is rated at least "AA" by S&P and "Aa2" by Moody's; provided, that prior written notice of an investment in the investment agreement is provided to S&P and, provided, further, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds; (b) the invested funds are available for withdrawal without penalty or premium, at any time for purposes identified in the Indenture other than acquisition of alternative investment property upon not more than seven days prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Trustee or the City to give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement states that it is the unconditional and general obligation of, and is not

subordinated to any other obligation of, the provider thereof; (d) a guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified under the Indenture; (e) the Trustee and the City receive the opinion of domestic counsel (which opinion is addressed to the City) that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable); (f) the investment agreement provides that if during its term: (A) the provider's or the guarantor's rating by either Moody's or S&P is withdrawn or suspended or falls below "AA" or "Aa2", respectively, or, with respect to a foreign bank, below the ratings of such provider at the delivery date of the investment agreement, the provider must, at the direction of the City or the Trustee (acting at the direction of the City) within 10 days of receipt of such direction, either: (1) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee, the City or a Holder of the Collateral, United States Treasury Obligations which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (2) repay the principal of and accrued but unpaid interest on the investment (the choice of (1) or (2) above will be that of the City or Trustee (acting at the direction of the City), as appropriate); and (B) the provider's or the guarantor's rating by either Moody's or S&P is withdrawn or suspended or falls below "A" or "A2," or, with respect to a foreign bank, below "AA" or "Aa2" by S&P or Moody's, as appropriate, the provider must, at the direction of the City or the Trustee (acting at the direction of the City), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee; (g) the investment agreement states, and an opinion of counsel is rendered to the effect, that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the foregoing means that the Trustee is in possession); and (h) the investment agreement must provide that if during its term: (A) the provider defaults in its payment obligations, the provider's obligation under the investment agreement will, at the direction of the City or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate; and (B) the provider becomes insolvent, does not pay its debts as they become due, is declared or petitions to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be repaid to the City or Trustee, as appropriate.

(12) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements: (a) the municipal obligations are: (i) not subject to redemption prior to maturity; or (ii) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification"); (d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; and (e) no substitution of a United States Treasury Obligation will be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and (f) the cash or the United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

Collateral Levels For United States Treasury Obligations

Remaining Maturity

Frequency of Valuation	***1 year or less***	***5 years or less***	***10 years or less***	***15 years or less***	***30 years or less***
Daily	102	105	106	108	114
Weekly	103	111	112	114	120
Monthly	105	117	120	125	133
Quarterly	107	120	130	133	140

Further Requirements: (a) On each valuation date, the City, or the custodian who confirms to the City and the Trustee, will value the market value (exclusive of accrued interest) of the collateral, which market value will be an amount equal to the requisite collateral percentage times the principal amount of the investment (including unpaid accrued interest thereon) that is being secured; (b) in the event that the collateral level is below its collateral percentage on a valuation date, such percentage will be restored within the following restoration periods: one Business Day for daily valuations, two Business Days for weekly and monthly valuations, and one month for quarterly valuations (the use of different restoration periods affect the requisite collateral percentage), (c) the City or the Trustee (acting at the direction of the City) terminates the repurchase agreement or the investment agreement, as the case may be, upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the collateral, liquidate the collateral.

The Trustee has no responsibility to monitor the ratings of Permitted Investments after the initial purchase of such Permitted Investments.

"Person" means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Policy Costs" has the meaning set forth under the caption "SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS—Reserve Fund."

"Principal Fund" means the fund by that name established in accordance with the Indenture.

"Project Costs" means all costs of acquiring, constructing and installing the Project, including, but not limited to: (a) all costs which the Authority or the City are required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the Project; (b) all costs which the Authority or the City are required to pay a contractor or any other person for the acquisition, construction and installation of the Project; (c) obligations of the Authority or the City incurred for services (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction and installation of the Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the Project prior to or after delivery of the Bonds; (d) the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project, including administrative expenses under the Lease Agreement and the Indenture relating to the acquisition, construction and installation of the Project; and (e) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the Project.

"Rebate Fund" means the fund by that name established in accordance with the Indenture.

"Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means the fifteenth day of the month next preceding an Interest Payment Date, whether or not such day is a Business Day.

"Redemption Fund" means the fund by that name established in accordance with the Indenture.

"Redemption Price" means the aggregate amount of principal of and premium, if any, on the Bonds upon the redemption thereof pursuant to the Indenture.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental Payments.

"Rental Period" means the period from the Closing Date through _____, 2013 and, thereafter, the twelve-month period commencing on October 1 of each year during the term of the Lease Agreement.

"Representation Letter" means the Letter of Representations from the Authority to DTC, or any successor securities depository for any Series of Book-Entry Bonds, in which the Authority makes certain representations with respect to issues of its securities for deposit by DTC or such successor depository.

"Reserve Fund" means the fund by that name established in accordance with the Indenture.

"Reserve Policy" means Municipal Bond Debt Service Reserve Insurance Policy No. _________ issued by the Bond Insurer on the date of issuance of the Series 2013 Bonds.

"Reserve Requirement" means initially: (a) $_____; and thereafter (b) the least of the amount set forth in clause (a), the maximum payments of principal of and interest on the Bonds payable in any fiscal year of the Authority, 125% of the average annual debt service on the Bonds or 10% of the initial principal amount of the Bonds.

"S&P" means Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns, except that if such entity no longer performs the functions of a securities rating agency for any reason, the term "S&P" will be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

"Securities Depositories" means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

"Series" means the Series 2013 Bonds executed, authenticated and delivered on the Closing Date and identified pursuant to the Indenture and any Additional Bonds issued pursuant to a Supplemental Indenture and identified as a separate Series of Bonds.

"Series 2013 Bonds" means the Ontario Public Financing Authority 2013 Lease Revenue Refunding Bonds (Capital Projects) issued under the Indenture.

"Supplemental Indenture" means any supplemental indenture amendatory of or supplemental to the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

"Tax Certificate" means the Tax Certificate executed by the Authority and the City at the time of issuance of the Series 2013 Bonds relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, or any successor thereto as Trustee thereunder, appointed as provided therein.

"Written Certificate of the Authority" and "Written Request of the Authority" mean, respectively, a written certificate or written request signed in the name of the Authority by an Authorized Authority Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

"Written Certificate of the City" and "Written Request of the City" mean, respectively, a written certificate or written request signed in the name of the City by an Authorized City Representative. Any such certificate or request may, but need, not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument.

Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, the Indenture will be deemed to be and will constitute a contract among the Authority, the City, the Trustee and the Owners from time to time of all Bonds authorized, executed, issued and delivered thereunder and then Outstanding to secure the full and final payment of the principal of, premium, if any, and interest on all Bonds which may from time to time be authorized, executed, issued and delivered thereunder, subject to the agreements, conditions, covenants and provisions contained therein; and all agreements and covenants set forth therein to be performed by or on behalf of the Authority or the City are for the equal and proportionate benefit, protection and security of all Owners of the Bonds without distinction, preference or priority as to security or otherwise of any Bonds over any other Bonds by reason of the number or date thereof or the time of authorization, sale, execution, issuance or delivery thereof or for any cause whatsoever, except as expressly provided therein.

THE BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the Bonds, which will be open to inspection during regular business hours and upon reasonable notice by the City; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as provided in the Indenture.

Temporary Bonds. The Bonds of a Series may be issued in temporary form exchangeable for definitive Bonds of such Series when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, will be of such authorized denominations as may be determined by the Authority, will be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond will be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds of a Series it will execute and deliver definitive Bonds of such Series as promptly thereafter as practicable, and thereupon the temporary Bonds of such Series may be surrendered, for cancellation, at the Office of the Trustee and the Trustee will authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of such Series in Authorized Denominations. Until so exchanged, the temporary Bonds of such Series are entitled to the same benefits under the Indenture as definitive Bonds of such Series authenticated and delivered thereunder.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and delivered to, or in accordance with the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor and Series in lieu of and in replacement for the Bond so lost, destroyed or stolen (or if any such Bond has matured or has been selected for redemption, instead of issuing a replacement Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each replacement Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee. Any Bond of a Series issued under the provisions of the Indenture in lieu of any Bond of such Series alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other Bonds of such Series secured by the Indenture.

Book-Entry Bonds.

(a) Prior to the issuance of a Series of Bonds, the Authority may provide that such Series of Bonds will initially be issued as Book-Entry Bonds and, in such event, the Bonds of such Series for each maturity will be in the form of a separate single fully registered Bond (which may be typewritten). The Series 2013 Bonds will initially be issued as Book-Entry Bonds.

Except as provided in the Indenture, the registered Owner of all of the Book-Entry Bonds will be Cede & Co., as nominee of DTC. Notwithstanding anything to the contrary contained in the Indenture, payment of interest with respect to any Book-Entry Bond registered as of each Record Date in the name of Cede & Co. will be made by wire transfer of same-day funds to the account of Cede & Co. on the Interest Payment Date at the address indicated on the Record Date for Cede & Co. in the Registration Books or as otherwise provided in the Representation Letter.

(b) The Trustee and the Authority may treat DTC (or its nominee) as the sole and exclusive Owner of Book-Entry Bonds registered in its name for the purposes of payment of the principal, premium, if any, or interest with respect to Book-Entry Bonds, selecting Book-Entry Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, registering the transfer of Book-Entry Bonds, obtaining any consent or other action to be taken by Owners of Book-Entry Bonds and for all other purposes whatsoever, and neither the Trustee nor the Authority will be affected by any notice to the contrary. Neither the Trustee nor the Authority have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in Book-Entry Bonds under or through DTC or any Participant, or any other person which is not shown on the Registration Books as being an Owner, with respect to the accuracy of any records maintained by DTC or any Participant, the payment by DTC or any Participant of any amount in respect of the principal, premium, if any, or interest with respect to Book-Entry Bonds, any notice which is permitted or required to be given to Owners of Book-Entry Bonds under the Indenture, the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of Book-Entry Bonds, or any consent given or other action taken by DTC as Owner of Book-Entry Bonds. The Trustee will pay all principal, premium, if any and interest with respect to Book-Entry Bonds, only to DTC, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal, premium, if any, and interest with respect to the Book-Entry Bonds to the extent of the sum or sums so paid. Except under the conditions of the Indenture, no person other than DTC will receive an executed Book-Entry Bond for each separate stated maturity. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Indenture with respect to record dates, the term "Cede & Co." in the Indenture will refer to such new nominee of DTC.

(c) In the event that: (i) DTC, including any successor as securities depository for a Series of Bonds, determines not to continue to act as securities depository for such Series of Bonds; or (ii) the Authority determines that the incumbent securities depository will no longer so act, and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the book-entry system with the incumbent securities depository for such Series of Bonds. If the Authority determines to replace the incumbent securities depository for such Series of Bonds with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate fully registered Bond of such Series for the aggregate outstanding principal amount of Bonds of such Series of each maturity, registered in the name of such successor or substitute qualified securities depository, or its nominee, or make such other arrangement acceptable to the Authority, the Trustee and the successor securities depository for the Bonds of such Series as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified successor securities depository for such Series of Bonds to replace the incumbent securities depository, then the Bonds of such Series will no longer be restricted to being registered in the Registration Books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository for such Series of Bonds, or its nominee, designate. In such event the Authority will execute, and deliver to the Trustee, a sufficient quantity of Bonds of such Series to carry out the transfers and exchanges provided in the Indenture. All such Bonds of such Series will be in fully registered form in Authorized Denominations.

(d) Notwithstanding any other provision of the Indenture to the contrary, so long as any Book-Entry Bond is registered in the name of DTC, or its nominee, all payments with respect to the principal, premium, if any, and interest with respect to such Book-Entry Bond and all notices with respect to such Book-Entry Bond will be made and given, respectively, as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Owners of Book-Entry Bonds pursuant to the Indenture by the Authority, the City or the Trustee with respect to any consent or other action to be taken by Owners, the Authority, the City or the Trustee, as the case may be, will establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Construction Fund.

(a) The Trustee will establish and maintain a separate fund designated the "Construction Fund." On the Closing Date there will be deposited in the Construction Fund the amount specified in the Indenture.

(b) The moneys in the Construction Fund will be used and withdrawn by the Trustee from time to time to pay the Project Costs upon submission of a Written Request of the City stating: (i) the Person to whom payment is to be made; (ii) the amount to be paid; (iii) the purpose for which the obligation was incurred; (iv) that such payment constitutes a Project Cost and is a proper charge against the Construction Fund; and (v) that such amounts have not been the subject of a prior disbursement from the Construction Fund, in each case together with a statement or invoice for each amount requested thereunder.

(c) Upon the filing of a Written Certificate of the City stating that the Project has been completed and that all Project Costs have been paid, the Trustee will transfer and apply the amount, if any, remaining in the Construction Fund: (x) if such amount is equal to or greater than $50,000, to the Redemption Fund to be used to optionally redeem Bonds, provided that the amount so transferred does not exceed the amount required to provide for the redemption of all Outstanding Bonds; and (y) if such amount is less than $50,000, to the Base Rental Payment Fund to be used for the purposes thereof.

Conditions for the Issuance of Additional Bonds. The Authority may at any time issue one or more Series of Additional Bonds (in addition to the Series 2013 Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with all other Bonds theretofore issued under the Indenture, but only subject to the following conditions, which have been made conditions precedent to the issuance of such Additional Bonds:

(a) The issuance of such Additional Bonds has been authorized under and pursuant to the Indenture and has been provided for by a Supplemental Indenture which specifies the following: (1) the application of the proceeds of the sale of such Additional Bonds; (2) the principal amount and designation of such Series of Additional Bonds and the denomination or denominations of the Additional Bonds; (3) the date, the maturity date or dates, the interest payment dates and the dates on which mandatory sinking fund redemptions, if any, are to be made for such Additional Bonds; provided, however, that: (i) the serial Bonds of such Series of Additional Bonds will be payable as to principal annually on October 1 of each year in which principal falls due, and the term Bonds of such Series of Additional Bonds have annual mandatory sinking fund redemptions on October 1; (ii) the Additional Bonds will be payable as to interest semiannually on April 1 and October 1 of each year, except that the first installment of interest may be payable on either April 1 or October 1 and will be for a period of not longer than twelve months and the interest will be payable thereafter semiannually on April 1 and October 1; (iii) all Additional Bonds of a Series of like maturity will be identical in all respects, except as to number or denomination; and (iv) serial maturities of serial Bonds or mandatory sinking fund redemptions for term Bonds, or any combination thereof, will be established to provide for the redemption or payment of such Additional Bonds on or before their respective maturity dates; (4) the redemption premiums and terms, if any, for such Additional Bonds; (5) the form of such Additional Bonds; (6) upon the issuance of such Additional Bonds, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement, taking into account the issuance of the Additional Bonds; and (7) such other provisions that are appropriate or necessary and are not inconsistent with the provisions of the Indenture;

(b) The Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(c) The City is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, in the Lease Agreement and in the Ground Lease required to be observed or performed by it;

(d) The Ground Lease has been amended, to the extent necessary, and the Lease Agreement has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith (evidence of the satisfaction of such condition will be made by a Written Certificate of the City); and

(f) So long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, the written consent of the Bond Insurer has been received prior to the issuance of Additional Bonds not issued for refunding purposes.

Nothing contained in the Indenture limits the issuance of any bonds or other obligations payable from Base Rental Payments if, after the issuance and delivery of such bonds or other obligations, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Indenture, Additional Bonds may not be issued: (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists, unless such default will be cured upon such issuance; and (2) unless the Reserve Policy in the full amount of the Reserve Requirement has been deposited in the Reserve Fund, in either case unless otherwise permitted by the Bond Insurer.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, such Additional Bonds will be executed by the Authority for issuance under the Indenture and will be delivered to the Trustee and thereupon swill be authenticated and delivered by the Trustee, but only upon receipt by the Trustee of the following:

(a) Certified copies of the Supplemental Indenture authorizing the issuance of such Additional Bonds, the amendment to the Lease Agreement required by the Indenture and the amendment to the Ground Lease, if any, required by the Indenture, together with satisfactory evidence that such amendment to the Lease Agreement and such amendment to the Ground Lease, if any, have been duly recorded;

(b) A Written Request of the Authority as to the delivery of such Additional Bonds;

(c) An opinion of Bond Counsel substantially to the effect that: (i) the Indenture (including all Supplemental Indentures), the Lease Agreement (including the amendment thereto required by the Indenture) and the Ground Lease (including any amendment thereto required by the Indenture) have been duly authorized, executed and delivered by, and constitute the valid and binding obligations of, the Authority and the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); (ii) such Additional Bonds constitute valid and binding special obligations of the Authority payable solely from Base Rental Payments as provided in the Indenture and are enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and by the application of equitable principles and by the exercise of judicial discretion in appropriate cases and subject to the limitations on legal remedies against political subdivisions in the State of California); and (iii) the issuance of such Additional Bonds, in and of itself, will not adversely affect the exclusion of interest on the Bonds Outstanding prior to the issuance of such Additional Bonds from gross income for federal income tax purposes;

(d) a Written Certificate of the Authority that the requirements of the Indenture have been met;

(e) a Written Certificate of the City that the requirements of the Indenture and the Lease Agreement have been met, and a Written Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Bonds, and to the use of proceeds received therefrom; and

(f) Such further documents as are required by the provisions of the Indenture or by the provisions of the Supplemental Indenture authorizing the issuance of such Additional Bonds.

Additional Bonds. So long as any of the Bonds remain Outstanding, the Authority will not issue any Additional Bonds or obligations payable from the Base Rental Payments, except pursuant to the Indenture.

SECURITY FOR BONDS; FLOW OF FUNDS; INVESTMENTS

Pledge; Special Obligations. All obligations of the Authority under the Indenture are special obligations of the Authority, payable solely from Rental Payments and the other assets pledged therefor thereunder; provided, however, that all obligations of the Authority under the Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor thereunder. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds.

Flow of Funds.

(a) The Trustee will establish and maintain separate funds designated the "Base Rental Payment Fund," the "Interest Fund," the "Principal Fund," the "Redemption Fund," the "Reserve Fund" and the "Net Insurance Proceeds Fund." All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

(b) The Trustee will transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Indenture, to the following respective funds:

(i) Interest Fund. On the Business Day immediately preceding each Interest Payment Date, the Trustee will transfer from the Base Rental Payment Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.

(ii) Principal Fund. On the Business Day immediately preceding each October 1, commencing October 1, 20__, the Trustee will transfer from the Base Rental Payment Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal amount of the Bonds due on such October 1 either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

(iii) Redemption Fund. The Trustee, on the redemption date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, will deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee will deposit in the Redemption Fund any amounts required to be deposited therein pursuant to the Indenture. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Series 2013 Bonds redeemed pursuant to the provisions of the Indenture and Additional Bonds redeemed pursuant to the corresponding provisions of the Supplemental Indenture pursuant to which such Additional Bonds are issued.

(iv) Reserve Fund. On each Interest Payment Date, the Trustee will, from the remaining moneys in the Base Rental Payment Fund, thereafter transfer to the Reserve Fund that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement; provided, however, that the Authority may provide for the Reserve Requirement with respect to the Reserve Fund by means other than cash and Permitted Investments pursuant to the Indenture, and the deposit of the Reserve Policy will for all purposes of the Indenture be deemed to satisfy the Authority's and the City's obligation to fund the Reserve Fund in the amount of the Reserve Requirement with respect to the Series 2013 Bonds.

(v) Surplus. Moneys on deposit in the Base Rental Payment Fund not necessary to make any of the payments required above may be expended by the Authority at any time: (a) to pay Policy Costs and Bond Insurer Reimbursement Amounts, provided that: (i) the Rental Payments are not in abatement pursuant to the Lease Agreement; and (ii) the amount of Rental Payments due in each year does not exceed the annual fair rental value of the Property (and if the amount of Rental Payments due in any year exceeds the annual fair rental value of the Property, the payment of Policy Costs in such year will not exceed fair rental value and Policy Costs in excess thereof will be paid in subsequent years in accordance with the Reserve Fund provisions of the Indenture); and thereafter (b) for any purpose permitted by law as directed by the Authority.

(c) Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has commenced repairs of the Property, the Trustee will transfer moneys from the Redemption Fund at the times and in the manner required by the Indenture if and to the extent there are insufficient funds in the Base Rental Payment Fund to make such transfers. Upon receipt of a Written Certificate of the City pursuant to the Lease Agreement that the City has completed repairs of the Property and will recommence to make Base Rental Payments or that the City has determined not to make such repairs and made the certifications required pursuant to the Lease Agreement, the Trustee will transfer any funds remaining on deposit in the Redemption Fund to the City for any lawful use.

Application of Net Insurance Proceeds. If the Property or any portion thereof is damaged or destroyed, subject to the further requirements of the Indenture, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Indenture.

The Net Insurance Proceeds (other than Net Insurance Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof will as soon as possible be deposited with the Trustee and be held by the Trustee in the Net Insurance Proceeds Fund and made available for and, to the extent necessary, will be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City will, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City will deposit with the Trustee the full amount of any insurance deductible to be credited to the Net Insurance Proceeds Fund.

In the event of any damage to or destruction of the Property caused by one of the perils covered by the insurance required by the Lease Agreement which would result in an abatement of rental payments or any portion thereof pursuant thereto, then the City will apply the Net Insurance Proceeds, together with other legally available funds that the City elects to contribute, to the repair, reconstruction or replacement of the damaged or destroyed portions of the Property; provided, however, that the City is not required to repair or replace any portion of the Property pursuant to the Indenture if such Net Insurance Proceeds, together with any other amounts held under the Indenture and any other legally available funds made available by the City at its election, are sufficient to prepay: (i) all of the Outstanding Bonds; or (ii) a portion of the Outstanding Bonds such that the resulting Base Rental Payments under the Indenture in any Rental Period following such partial prepayment are sufficient to pay in such Rental Period the principal of and interest on all Bonds to remain Outstanding immediately after such partial redemption. If the City is not required to replace or repair the Property, or the affected portion thereof, or to use such amounts to redeem Bonds, in each case as set forth in the Indenture, then such proceeds will, if there is first delivered to the Trustee a Written Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain received in respect to the Property will be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property will be applied and disbursed by the Trustee as follows: (a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds will be remitted to the City and used for any lawful purpose thereof; or (b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Rental Payments payable by the City under the Lease Agreement, then the Trustee will immediately deposit such proceeds in the Redemption Fund and such proceeds will be applied to the redemption of Bonds in the manner provided in the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Rebate Fund. (a) The Trustee will establish and maintain a special fund designated the "Rebate Fund." There will be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the Authority. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Bonds pursuant to the Indenture or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Rebate Fund will be governed exclusively by the Indenture and by the Tax Certificate (which is incorporated in the Indenture by reference). The Trustee will be deemed conclusively to have complied with such provisions if it follows the written directions of the Authority, and has no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate. The Trustee may conclusively rely upon the Authority's determinations, calculations and certifications required by the Tax Certificate. The Trustee has no responsibility to independently make any calculation or determination or to review the Authority's calculations. (b) Any funds remaining in the Rebate Fund after payment in full of all of the Bonds and after payment of any amounts described in the Indenture will be withdrawn by the Trustee and remitted to the Authority.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture and held by the Trustee will be invested by the Trustee solely in Permitted Investments, as directed in writing by the Authority. Moneys in all funds and accounts held by the Trustee will be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture; provided, however, that such Permitted Investments may be redeemed at par so as to be available on each Interest Payment Date. Absent timely written direction from the Authority, the Trustee will hold any funds held by it uninvested.

Subject to the provisions of the Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture will be retained in such fund or account.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture will be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued by the Trustee at the fair market value thereof, such valuation to be performed not less frequently than semiannually on or before each Interest Payment Date. In determining fair market value, the Trustee may use and rely conclusively on any generally recognized securities pricing service available to it (including brokers and dealers in securities).

The Trustee may act as principal or agent in the making or disposing of any investment. Upon the Written Request of the Authority, the Trustee will sell or present for redemption any Permitted Investments so purchased whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee will not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For purposes of investment, the Trustee may commingle moneys in any of the funds and accounts established under the Indenture.

The Trustee may make any investments under the Indenture through the bond or investment department or trust investment department of the entity acting as Trustee thereunder, or those of such entity's parent or any affiliate, and such entity, or its parent or affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services.

The entity acting as Trustee under the Indenture, or any of its affiliates, may act as sponsor, advisor or manager in connection with any investments made by the Trustee thereunder and such entity, or its affiliate, as applicable, is entitled to its normal, customary and reasonable compensation for such services.

The Authority and the City have acknowledged that, to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the City the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the Authority and the City have specifically waived receipt of such confirmations to the extent permitted by law.

Reserve Fund. The Trustee will establish and hold in trust the Reserve Fund. There will be maintained in the Reserve Fund the Reserve Policy in an amount equal to the Reserve Requirement, which will satisfy for all purposes the Authority's and the City's obligation to fund the Reserve Fund in the amount of the Reserve Requirement with respect to the Series 2013 Bonds. Notwithstanding anything to the contrary set forth in the Indenture, the following provisions govern the Reserve Fund.

(a) The City will repay any draws under the Reserve Policy and pay all related reasonable expenses incurred by the Bond Insurer and pay interest thereon from the date of payment by the Bond Insurer at the Late Payment Rate. "Late Payment Rate" means the lesser of: (x) the greater of: (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (the "Prime Rate") (any change in such Prime Rate to be effective on the date that such change is announced by JPMorgan Chase Bank) plus 3%; and (ii) the then applicable highest rate of interest on the Series 2013 Bonds; and (y) the maximum rate permissible under applicable usury or any other laws applicable to the indebtedness created in the Indenture or similar laws limiting interest rates (including limits on interest rates applicable to obligations of the City). The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event that JPMorgan Chase Bank ceases to announce its Prime Rate publicly, the Prime Rate will be the publicly announced prime or base lending rate of such national bank as the Bond Insurer specifies. If the interest provisions relating to the Reserve Policy result in an effective rate of interest which, for any period, exceeds the limit of the usury or any other laws applicable to the indebtedness created in the Indenture, then all sums in excess of those lawfully collectible as interest for the period in question will, without further agreement or notice between or by any party to the Indenture, be applied as additional interest for any later periods of time when amounts are outstanding thereunder to the extent that interest otherwise due thereunder for such periods plus such additional interest would not exceed the limit of the usury or such other laws, and any excess will be applied upon principal immediately upon receipt of such moneys by the Bond Insurer, with the same force and effect as if the Authority or the City had specifically designated such extra sums to be so applied and the Bond Insurer had agreed to accept such extra payment(s) as additional interest for such later periods. In no event will any agreed-to or actual exaction as consideration for the indebtedness created by the Indenture exceed the limits imposed or provided by the law applicable to the Series 2013 Bonds for the use or detention of money or for forbearance in seeking its collection.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") will commence in the first month following each draw, and each such monthly payment will be in an amount at least equal to 1/12th of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Bond Insurer will be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Bond Insurer on account of principal due, the coverage under the Reserve Policy will be increased by a like amount, subject to the terms of the Reserve Policy. The obligation to pay Policy Costs will be secured by a valid lien on all Rental Payments (subject only to the priority of payment provisions set forth under the Indenture).

All cash and investments in the Reserve Fund, if any, will be transferred to the Base Rental Payment Fund for payment of principal and interest on the Series 2013 Bonds before any drawing may be made on the Reserve Policy or any other credit facility, surety bond, municipal bond insurance policy, unconditional irrevocable letter of credit or any other security device, in each case issued by providers credited to the Reserve Fund in lieu of cash (each, a "Credit Facility"). Any Credit Facility deposited in the Reserve Fund other than the Reserve Policy will be issued by providers whose long term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, is rated, at the time such security device is issued, "AA-" or better by S&P or "A2" or better by Moody's. Payment of any Policy Costs will be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Reserve Policy) on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities will be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund as directed by the City. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

The prior written consent of the Bond Insurer is a condition precedent to the deposit of any credit instrument (other than the Reserve Policy) provided in lieu of a cash deposit into the Reserve Fund, if any. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund will be applied solely to the payment of payments of debt service due on the Bonds.

(b) If the City fails to pay any Policy Costs in accordance with the requirements of the Indenture, the Bond Insurer is entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Lease Agreement, other than: (i) acceleration of the Base Rental Payments; or (ii) remedies which would adversely affect Owners of the Series 2013 Bonds.

(c) The Indenture may not be discharged until all Policy Costs owing to the Bond Insurer have been paid in full. The City's obligation to pay such amounts will expressly survive payment in full of the Series 2013 Bonds.

(d) The Trustee will ascertain the necessity for a claim upon the Reserve Policy in accordance with the provisions of the Indenture and provide notice to the Bond Insurer in accordance with the terms of the Reserve Policy at least five Business Days prior to each date upon which interest or principal is due on the Series 2013 Bonds. Where deposits are required to be made by the City with the Trustee to the Base Rental Payment Fund more often than semiannually, the Trustee will be instructed to give notice to the Bond Insurer of any failure of the City to make timely payment in full of such deposits within two Business Days of the date due.

(e) For the purpose of determining the amount of cash, if any, in the Reserve Fund, all Permitted Investments credited to the Reserve Fund will be valued at the lower of cost or market value. To the extent of any valuation of Permitted Investments made by the Trustee, notwithstanding anything to the contrary contained in the Indenture, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and may conclusively rely thereon.

Claims Upon the Insurance Policy. If, on the third Business Day prior to the related scheduled Interest Payment Date there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal and interest on the Series 2013 Bonds due on such Interest Payment Date, the Trustee will give notice to the Bond Insurer and to its designated agent (if any) (the "Bond Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Interest Payment Date, there continues to be a deficiency in the amount available to pay the principal and interest on the Series 2013 Bonds due on such Interest Payment Date, the Trustee will make a claim under the Insurance Policy and give notice to the Bond Insurer and the Bond Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2013 Bonds and the amount required to pay principal of the Series 2013 Bonds, confirmed in writing to the Bond Insurer and the Bond Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

The Trustee will designate any portion of payment of principal of the Series 2013 Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2013 Bonds registered to the then current Series 2013 Bond Owner, whether DTC or its nominee or otherwise, and will issue a replacement Series 2013 Bond to the Bond Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2013 Bond will have no effect on the amount of principal or interest payable by the Authority on any Series 2013 Bond or the subrogation rights of the Bond Insurer.

The Trustee will keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account (as such term is defined below) and the allocation of such funds to payment of interest and principal on any Series 2013 Bond. The Bond Insurer has the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee will establish a separate special purpose trust account for the benefit of Series 2013 Bond Owners referred to in the Indenture as the "Policy Payments Account" and over which the Trustee will have exclusive control and sole right of withdrawal. The Trustee will receive any amount paid under the Insurance Policy in trust on behalf of Series 2013 Bond Owners and deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts will be disbursed by the Trustee to Series 2013 Bond Owners in the same manner as principal and interest payments are to be made on the Series 2013 Bonds under the Indenture. It is not necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything in the Indenture to the contrary, the City agrees to pay to the Bond Insurer: (i) a sum equal to the total of all amounts paid by the Bond Insurer under the Insurance Policy (the "Bond Insurer Advances"); and (ii) interest on such Bond Insurer Advances from the date paid by the Bond Insurer until payment thereof in full, payable to the Bond Insurer at the Late Payment Rate per annum (collectively, the "Bond Insurer Reimbursement Amounts"). The Late Payment Rate will be computed on the basis of the actual number of days elapsed over a year of 360 days. The City has covenanted and agreed that the Bond Insurer Reimbursement Amounts are secured by a lien on and pledge of the moneys on deposit with the Trustee and payable from such moneys on a parity with the pledge thereof to the payment of the Rental Payments, which secure the Series 2013 Bonds, and subject to abatement as described in the Lease Agreement on a parity with the Rental Payments.

Funds held in the Policy Payments Account may not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following an Interest Payment Date will promptly be remitted to the Bond Insurer.

The Bond Insurer will, to the extent that it makes any payment of principal or interest on the Series 2013 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy. Each obligation of the City to the Bond Insurer under the Indenture or the Lease Agreement will survive the discharge or termination thereof.

The Bond Insurer is entitled to pay principal or interest with respect on the Series 2013 Bonds that become Due for Payment but are unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy), whether or not the Bond Insurer has received a Notice of Nonpayment (as such term is defined in the Insurance Policy) or a claim upon the Insurance Policy.

Subject to the Indenture, the City will pay or reimburse the Bond Insurer, as Additional Rental Payments, any and all charges, fees, costs and expenses that the Bond Insurer may reasonably pay or incur in connection with: (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture or the Lease Agreement; (ii) the pursuit of any remedies under the Indenture or the Lease Agreement or otherwise afforded by law or equity; (iii) any amendment, waiver or other action with respect to, or related to the Indenture or the Lease Agreement, whether or not executed or completed; or (iv) any litigation or other dispute in connection with the Indenture or the Lease Agreement or the transactions contemplated thereby, other than costs resulting from the failure of the Bond Insurer to honor its obligations under the Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or the Lease Agreement.

COVENANTS

Compliance with Agreements. The Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and the Authority and the City will not suffer or permit any default by them to occur thereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms thereof required to be complied with, kept, observed and performed by them.

Compliance with Ground Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or later imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or later acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges are maintained and preserved and do not become abandoned, forfeited or in any manner impaired.

Other Liens. The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the City ten days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may, but is in no event obligated to, defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee will not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability thereunder and to perform such agreements and covenants.

So long as any Bonds are Outstanding, none of the Trustee, the Authority or the City will create or suffer to be created any pledge of or lien the amounts on deposit in any of the funds or accounts created under the Indenture, other than the pledge and lien thereof. The Authority, the City and the Trustee will not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Indenture and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee (which request the Trustee is not required to make), take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or later developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee harmless from all cost, damage, expense or loss, including attorneys' fees and expenses, which it or the Owners may incur by reason of any such cloud, defect, action, suit or other proceeding.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries are made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records will be available for inspection by the Authority and the City at reasonable hours and under reasonable conditions.

Recordation and Filing. The City will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants.

(a) Neither the Authority nor the City will take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on any tax-exempt Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority and the City will comply with the requirements of the Tax Certificate, which is incorporated in the Indenture as if fully set forth therein. The foregoing covenant will survive payment in full or defeasance of the Bonds.

(b) In the event that at any time the Authority is of the opinion that for purposes of the Indenture it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established thereunder, the Authority will so instruct the

Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of the Indenture, if the Authority provides to the Trustee an Opinion of Counsel to the effect that any specified action required under the Indenture is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and of the Tax Certificate, and the covenants under the Indenture will be deemed to be modified to that extent.

Continuing Disclosure. The City will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not constitute an event of default under the Indenture; provided, however, that the Trustee may (and, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction therefor, will) or any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon it by the Indenture or by the Assignment Agreement, the Ground Lease or the Lease Agreement and to preserve the priority of the pledge of the Rental Payments under applicable law.

DEFAULT AND LIMITATIONS OF LIABILITY

Action on Default. If an event of default (within the meaning of the Lease Agreement) happens, then such event of default will constitute an event of default under the Indenture. The Trustee will give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City. In each and every case during the continuance of an event of default, the Trustee may and, at the direction of the Owners of not less than a majority of the aggregate principal amount of Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction therefor, will, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the Authority under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

Other Remedies of the Trustee. Subject to the provisions of the Indenture, the Trustee has the right: (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or the City or any member, director, officer or employee thereof, and to compel the Authority or the City or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or (c) by suit in equity upon the happening of any event of default under the Indenture to require the Authority and the City to account as the trustee of an express trust.

Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often the Trustee deems expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Authority and the City will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Indenture, no remedy conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy is cumulative and in addition to every other remedy given under the Indenture or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, will not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Authority to the Owners. Except as expressly provided in the Indenture, the Authority has no any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability by the City to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or the Indenture, the City has no obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability of the Trustee to the Owners. Except as expressly provided in the Indenture, the Trustee has no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them contained in the Lease Agreement, the Ground Lease or the Indenture.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, together with all other funds held under the Indenture (except funds in the Rebate Fund): (a) to the payment of all amounts due the Trustee under the Indenture; (b) to the payment of all amounts then due for interest on the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest on such Bonds due and payable; and (c) to the payment of all amounts then due for principal of the Bonds, in respect of which, or for the benefit of which, money has been collected (other than Bonds which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal of such Bonds due and payable.

Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under the Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Bond has any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or Trustee, or for any other remedy thereunder, unless: (a) such Owner has previously given written notice to the Trustee of a continuing event of default; (b) the Owners of not less than 25% of the aggregate principal amount of Bonds then Outstanding have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee thereunder; (c) such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate principal amount of Bonds then Outstanding; it being understood and intended that no one or more Owners has any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all the Owners.

Bond Insurer's Rights. Anything in the Indenture and in the Lease Agreement to the contrary notwithstanding, so long as the Insurance Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, upon the occurrence and continuance of an Event of Default, the Bond Insurer will be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Series 2013 Bonds are entitled to take pursuant to the Indenture pertaining to: (a) defaults and remedies; and (b) the duties and obligations of the Trustee.

So long as the Insurance Policy is in full force and effect and the Bond Insurer is not in default of its obligations thereunder, the Trustee may not waive any Event of Default without the Bond Insurer's written consent.

THE TRUSTEE

Employment of the Trustee. The Authority has appointed and employed the Trustee to receive, deposit and disburse the Base Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the Indenture, all in the manner provided therein and subject to the conditions and terms thereof. By executing and delivering the Indenture, the Trustee has accepted the appointment and employment referred to therein and accepts the rights and obligations of the Trustee provided therein, subject to the conditions and terms thereof. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations may be read into the

Indenture against the Trustee. In case an event of default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. The Trustee has covenanted and agreed that it will not encumber the Property.

Duties, Removal and Resignation of the Trustee. The Authority may, by an instrument in writing, remove the Trustee initially a party to the Indenture and any successor thereto unless an event of default has occurred and then is continuing, and will remove the Trustee initially a party the Indenture and any successor thereto if at any time: (a) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal amount of Bonds at the time Outstanding (or their attorneys duly authorized in writing); or (b) the Trustee ceases to be eligible in accordance with the following sentence, and will appoint a successor Trustee. The Trustee and any successor Trustee must be a banking corporation or association or trust company having (or if such banking corporation or association or trust company is a member of a bank holding company, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authorities. If such banking corporation or association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such bank, association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority and the City and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the Registration Books. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the Authority does not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the Authority, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee.

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of the Indenture, ipso facto, will be and become successor trustee under the Indenture and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

Compensation of the Trustee. The City will from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Indenture and reimburse the Trustee for all its reasonable advances and expenditures (which will not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees) under the Indenture, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations thereunder. The Trustee may take whatever legal actions are lawfully available to it directly against the Authority or the City.

The City will, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, costs, claims or expenses, including those of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Indenture, under the Lease Agreement, or in connection with any document or transaction contemplated thereunder, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its misconduct. The duty of the City to indemnify the Trustee will survive the termination and discharge of the Indenture and the earlier removal or resignation of the Trustee.

No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture or in the exercise of any of its rights or powers thereunder.

Upon an Event of Default, and only upon an Event of Default, the Trustee will have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Protection of the Trustee. The Trustee will be protected and will incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it in good faith believes to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee is under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners of the Bonds pursuant thereto, unless such Owners have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith.

The Trustee is not responsible for the sufficiency of the Bonds or the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in any preliminary or final official statement relating to the Bonds, or of the title to the Property.

Whenever in the administration of its rights and obligations under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the City or a Written Certificate of the Authority, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority or the City, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the City as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Indenture and perform any rights and obligations required of it thereunder by or through agents, attorneys or receivers, and is entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Indenture, and the Trustee is not answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any such attorney, agent or receiver, the Trustee will in a commercially reasonable manner pursue all remedies of the Trustee against such agent, attorney or receiver. The Trustee is not liable for any error of judgment made by it in good faith unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee will not be answerable for the exercise of any trusts or powers under the Indenture or for anything whatsoever in connection with the funds established under the Indenture, except only for its own willful misconduct, negligence or breach of an obligation thereunder.

The Trustee will not be deemed to have knowledge of an event of default unless it has actual knowledge thereof.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the City is a party and which, in the opinion of the Trustee and its counsel, affects the Bonds or the security therefor, and will do so if requested in writing by the Owners of at least 5% of the aggregate principal amount of Bonds then Outstanding, provided that the Trustee has no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

The Trustee's rights to immunities and protection from liability under the Indenture and its rights to payment of its fees and expenses will survive its resignation or removal and final payment or defeasance of the Bonds.

All indemnifications and releases from liability granted in the Indenture to the Trustee will extend to the directors, officers, employees and agents of the Trustee.

The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty, and the Trustee will not be answerable for other than its negligence or willful default. The Trustee has no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds. The Trustee is not accountable for the use or application by the Borrower of any of the Bonds or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture or for the use and application of money received by any paying agent.

The Trustee has agreed to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Trustee has received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or the City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions will be deemed controlling. The Trustee is not liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding that such instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City have agreed to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

In acting or omitting to act pursuant to the Lease Agreement or Ground Lease, the Trustee is entitled to all of the rights, immunities and indemnities accorded to it under the Indenture and the Lease Agreement.

MODIFICATION OR AMENDMENTS

Modifications and Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority, the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, together with the written consent of the Bond Insurer, so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, which have been filed with the Trustee. No such modification or amendment may: (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or the rate of interest thereon, or extend the time of payment, without the consent of the Owner of each Bond so affected; or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment; or (iii) permit the creation of any lien on the Base Rental Payments and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Base Rental Payments and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, the City, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority, the City and the Trustee may enter into without the consent of any Bond Owners, but (except as to subpart (iii) below in the case of Additional Bonds issued for refunding purposes) with the written consent of the Bond Insurer, so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority or the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the City;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture;

(iii) to provide for the issuance of one or more Series of Additional Bonds, and to provide the terms and conditions under which such Series of Additional Bonds may be issued, subject to and in accordance with the provisions of the Indenture;

(iv) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(v) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable from gross income for purposes of federal income taxation by the United States of America; and

(vi) in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners under the Indenture, in the opinion of Bond Counsel filed with the Authority, the City and the Trustee.

(c) Promptly after the execution by the Authority, the City and the Trustee of any Supplemental Indenture, the Trustee will mail a notice (the form of which will be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(d) No Supplemental Indenture may modify any of the rights or obligations of the Trustee without its prior written consent.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the City, the Trustee and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Authority so determines will, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand of the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee a suitable notation will be made on such Bonds. If the Supplemental Indenture so provides, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand of the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same interest rate and maturity.

Amendment of Particular Bonds. The provisions of the Indenture do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Owner.

DEFEASANCE

Discharge of Indenture. If the Authority pays or causes to be paid or there is otherwise paid to the Owners of all Outstanding Bonds the principal thereof and the interest and premium, if any, thereon at the times and in the manner stipulated in the Indenture and the Bonds, then the Owners of such Bonds will cease to be entitled to the pledge of the Base Rental Payments and the other assets as provided therein, and all agreements, covenants and other obligations of the Authority and the City to the Owners of such Bonds thereunder will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the City all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of and interest and premium, if any, on such Bonds.

Subject to the provisions of the above paragraph, when any of the Bonds have been paid and if, at the time of such payment, the Authority and the City have kept, performed and observed all of the covenants and promises in such Bonds and in the Indenture required or contemplated to be kept, performed and observed by them on or prior to that time, then the Indenture will be considered to have been discharged in respect of such Bonds and such Bonds will cease to be entitled to the lien of the Indenture and such lien and all covenants, agreements and other obligations of the Authority and the City under the Indenture will cease, terminate become void and be completely discharged as to such Bonds.

Notwithstanding the satisfaction and discharge of the Indenture or the discharge thereof in respect of any Bonds, those provisions thereof relating to the maturity of the Bonds, interest payments and dates thereof, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, and the duties of the Trustee in connection with all of the foregoing, will remain in effect and be binding upon the Trustee and the Owners of the Bonds and the Trustee will continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal of and interest and premium, if any, on the Bonds, to pay to the Owners of Bonds the funds so held by the Trustee as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the discharge thereof in respect of any Bonds, those provisions thereof relating to the compensation and indemnity of the Trustee will remain in effect and be binding upon the Trustee, the City and the Authority.

Notwithstanding the foregoing, so long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, the Indenture will not cease, terminate and become void or be discharged unless there has been delivered to the Bond Insurer: (1) a report of a nationally recognized independent certified public accountant or such other accountant as is acceptable to the Bond Insurer verifying the sufficiency of the escrow, if any, established to pay the Series 2013 Bonds in full on the maturity or redemption date ("Verification"); (2) an escrow deposit agreement (which is acceptable in form and substance to the Bond Insurer); (3) an opinion of nationally recognized bond counsel to the effect that the Series 2013 Bonds are no longer "Outstanding" under the Indenture; and (4) a certificate of discharge of the Trustee with respect to the Series 2013 Bonds; each Verification and defeasance opinion must be acceptable in form and substance, and addressed, to the Authority, the Trustee and the Bond Insurer. The Bond Insurer will be provided with final drafts of the above referenced documentation not less than five Business Days prior to the funding of the escrow. Series 2013 Bonds will be deemed "Outstanding" under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

Amounts paid by the Bond Insurer under the Insurance Policy will not be deemed paid for purposes of the Indenture and the Series 2013 Bonds relating to such payments will remain Outstanding and continue to be due and owing until paid by the City in accordance with the Indenture. The Indenture will not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full or duly provided for.

<u>Bonds Deemed To Have Been Paid</u>. If moneys have been set aside and held by the Trustee for the payment or redemption of any Bonds and the interest thereon at the maturity or redemption date thereof, such Bonds will be deemed to have been paid within the meaning and with the effect provided in the Indenture. Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Indenture if: (a) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority has given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, said notice to be given in accordance with the Indenture; (b) there has been deposited with the Trustee either: (i) money in an amount which is sufficient; or (ii) Federal Securities that are not subject to redemption other than at the option of the holder thereof, the interest on and principal of which when paid will provide money which, together with the money, if any deposited with the Trustee at the same time, will, as verified by an independent certified public accountant, be sufficient to pay when due the interest to become due

on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and premium, if any, on such Bonds; and (c) in the event that such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority has given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the owners of such Bonds that the deposit required by clause (b) above has been made with the Trustee and that such Bonds, are deemed to have been paid in accordance with the Indenture and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and premium, if any, on such Bonds.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, to the extent permitted by law, any moneys held by the Trustee in trust for the payment of the principal of, or premium or interest on, any Bonds and remaining unclaimed for two years after the date of deposit of such moneys, will be repaid to the Authority (without liability for interest) free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first mail, by first class mail postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Benefits of Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Authority, the City, the Trustee and the Owners any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term required therein to be observed or performed by or on behalf of the Authority or the City is for the sole and exclusive benefit of the Trustee and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Authority, the City or the Trustee, or any officer thereof, is named or referred to in the Indenture, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the City or the Trustee, or such officer, and all agreements, conditions, covenants and terms required by the Indenture to be observed or performed by or on behalf of the Authority, the City or the Trustee, or any officer thereof, will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bonds and the amount, payment date, number and date of owning the same may be proved by the Registration Books. Any declaration, request or other instrument in writing of the Owner of any Bond will bind all future Owners of such Bond with respect to anything done or suffered to be done by the Authority, the City or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Indenture to the contrary, no member, officer or employee of the Authority or the City is individually or personally liable for the payment of any moneys, including without limitation, the principal of or interest on the Bonds, but nothing contained therein relieves any member, officer or employee of the City or the Authority from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Indenture.

Destruction of Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee may, in lieu of such cancellation and delivery, destroy such Bonds.

Funds and Accounts. Any fund or account required to be established and maintained in the Indenture by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts will at an times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners.

The Trustee may commingle any of the moneys held by it under the Indenture for investment purposes only; provided, however, that the Trustee will account separately for the moneys in each fund or account established pursuant thereto. The Trustee may establish such funds and accounts as it deems necessary or appropriate to perform its obligations under the Indenture.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Indenture to be observed or performed by or on the part of the Authority, the City or the Trustee are contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms will be null and void to the extent contrary to law and will be deemed separable from the remaining agreements, conditions, covenants and terms thereof and will in no way affect the validity thereof or of the Bonds, and the Owners will retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority, the City and the Trustee have declared that they would have executed the Indenture, and each and every Article, Section, paragraph, subsection, sentence, clause and phrase thereof and would have authorized the execution and delivery of the Bonds pursuant thereto irrespective of the fact that any one or more Articles, Sections, paragraphs, subsections, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are actually known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded and deemed not to be Outstanding for the purpose of any such determination; except that, in determining whether the Trustee is protected in relying upon any such demand, request, direction, consent or waiver of an Owner, only Bonds which the Trustee actually knows to be owned or held by or for the account of the Authority or the City, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City, will be disregarded unless all Bonds are so owned or held, in which case such Bonds will be considered Outstanding for the purpose of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such Bonds and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel is full protection to the Trustee. Upon request of the Trustee, the Authority and the City will specify in a Written Certificate of the City and Authority those Bonds disqualified pursuant to the Indenture and the Trustee may conclusively rely on such Certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Payment on Non-Business Days. In the event that any payment is required to be made under the Indenture on a day which is not a Business Day, such payment is made on the next succeeding Business Day with the same effect as if made on such non-Business Day.

California Law. The Indenture will be construed and governed in accordance with the laws of the State of California.

Notice to Rating Agencies. The Trustee will provide S&P, if the Bonds are then rated by S&P, and Moody's, if the Bonds are then rated by Moody's, with prompt notice of any substitution or release of property pursuant to the Lease Agreement.

Bond Insurer as Third Party Beneficiary; Notices to Bond Insurer. The Bond Insurer is explicitly recognized as and will be deemed to be a Series 2013 Bond Owner entitled to all notices provided to Series 2013 Bond Owners and a third party beneficiary of the Indenture.

The rights granted to the Bond Insurer under the Indenture and the Lease Agreement to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and will not be construed or deemed to be taken for the benefit, or on behalf, of the Series 2013 Bond Owners, and such action does not evidence any position of the Bond Insurer, affirmative or negative, as to whether the consent of the Series 2013 Bond Owners or any other person is required in addition to the consent of the Bond Insurer.

So long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, the Bond Insurer will be provided with the following information by the City, the Authority or the Trustee, as the case may be:

(i) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than: (1) withdrawals of amounts in excess of the Reserve Requirement; and (2) withdrawals in connection with a refunding of the Series 2013 Bonds;

(ii) Notice of any default known to the Trustee, the City or the Authority within five Business Days after knowledge thereof;

(iii) Prior notice of the advance refunding or redemption of any of the Series 2013 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iv) Notice of the resignation or removal of the Trustee and the appointment of, and acceptance of duties by, any successor thereto;

(v) Notice of the commencement of any proceeding by or against the City or the Authority commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vi) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal or interest on the Series 2013 Bonds;

(vii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Indenture or the Lease Agreement;

(viii) All reports, notices and correspondence to be delivered to Series 2013 Bond Owners under the terms of the Indenture and the Lease Agreement; and

(ix) The audited financial statements of the City for each Fiscal Year by March 15 of each year after the end of each Fiscal Year, together with a certification of the City that it is not aware of any default or Event of Default under the Lease Agreement, and the City's annual budget within 30 days after the adoption thereof.

The Bond Insurer has the right to receive such additional information as it may reasonably request.

The City and the Authority will permit the Bond Insurer to discuss the affairs, finances and accounts of the City and the Authority or any information that the Bond Insurer may reasonably request regarding the security for the Series 2013 Bonds with appropriate officers of the City and the Authority and will use commercially reasonable efforts to enable the Bond Insurer to have access to the facilities, books and records of the City and the Authority on any Business Day upon reasonable prior notice.

The Trustee will notify the Bond Insurer of any failure of the City or the Authority to provide notices, certificates and other information under the Indenture or under the Lease Agreement.

In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Series 2013 Bonds or the rights of the Series 2013 Bond Owners, the Trustee will consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

So long as the Insurance Policy is in full force and effect and the Bond Insurer has not defaulted on its obligations thereunder, no contract may be entered into or any action taken by the Authority by which the rights of the Bond Insurer or security for or sources of payment of the Series 2013 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Bond Insurer.

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APPENDIX C

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF ONTARIO
FOR THE YEAR ENDED JUNE 30, 2012

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CITY OF ONTARIO, CALIFORNIA

CREATING OPPORTUNITY
BUILDING VALUE

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2012

City of Ontario, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ending June 30, 2012

Prepared By:
Fiscal Services Department

CITY OF ONTARIO CALIF.

SCHOOLS & CHURCHES

BUSINESS & AGRICULTURE

BALANCED COMMUNITY

INCORPORATED 1891

CITY OF ONTARIO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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Introductory Section

CITY OF ONTARIO
303 EAST "B" STREET, CIVIC CENTER ONTARIO CALIFORNIA 91764-4105
(909) 395-2000
FAX (909) 395-2070

December 17, 2012

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, 2012. This report provides a broad view of the City's financial activities for the 2011-12 Fiscal Year and its financial position as of June 30, 2012. 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, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence

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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, 2012, 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.

This letter of transmittal should be read in conjunction with the Management's Discussion and Analysis (MD&A) included in this report on page 3 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 164,836 people and approximately 8,000 businesses. Ontario is advantageously positioned with unique, convenient access to the major I-10, I-210, I-15 and Route 60 freeway systems as well as the Ontario International Airport (ONT).

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 1,044 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 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. Additional information regarding the City's general budget policies can be found in Note 2 in the notes to the financial statements.

Economic Condition and Outlook

Today, Ontario is referred to by the Southern California Association of Governments as the "Next Urban Center in Southern California" and the urban core of the Inland Empire. The City's founding concepts of innovation, planned development, community service and family values are clearly evident in the Mayor and City's 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.*"

In the southern part of the City, development of an upscale community has begun in an 8,200-acre former agricultural preserve now know as the New Model Colony. This significant area 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. As critical infrastructure improvements are completed, neighborhoods are beginning to be developed.

Ontario also provides companies with strategic global access with the Ontario International Airport (ONT). The airport is currently home to UPS' Western Regional hub and its third party logistics operation, and Federal Express' Inland Empire operations. ONT served over 4 million people in 2011.

The success of the airport translates to economic benefits for the Inland Empire through directly related airport business and generates far reaching economic impacts for the region.

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. City records show that Ontario is home to nearly 8,000 businesses which account for approximately 108,000 jobs.

The local economy is showing signs of improvement, as evidence by the decline in the unemployment rate and stronger gains reported in sales tax revenues. The unemployment rate for the City of Ontario continues to decline with a rate of 11.8 percent in September 2012, down from 13.7 percent reported a year ago. Sales Tax revenues for the second quarter of 2012 reported gains of approximately 6 percent compared to the same period in 2011. The Consumer Confidence Index for the month of October 2012 is at 72.2. The jump back up to the 70s in October indicates that consumers are more optimistic on the short term outlook, expecting businesses, job market, and income to improve. The housing market has improved, with the median price of existing single-family homes for September 2012 at $198,270, which was 16.2 percent higher than a year ago. This improvement in housing is due to the Federal Reserve's action to lower mortgage interest rates to the 3 percent range.

Although the economy is improving, there are still concerns regarding the continued progress. The decline of the Ontario International Airport is of the upmost concern for the City. Over the last three years the Airport has lost over 35 percent of passenger traffic, which equates to a loss of approximately $500 million dollars of economic impact and 9,200 local jobs. The transfer of the Ontario Airport management decisions to local control is in the best interest for the region to regain its status as an economic engine for the Inland Empire and to ensure there is sufficient airport capacity in the long-range for Southern California.

In addition to the decline at the Ontario International Airport, the local economy faces other serious headwinds and challenges ahead. If the Federal Government cannot reach an agreement to raise the debt ceiling and balance the budget, automatic budget cuts will begin. In addition, higher tax rates will result from the Bush tax cuts expiring and the end of the payroll tax holiday for Social Security. This "fiscal cliff" may negatively impact the U.S. economy in the first half of 2013. Due to inflationary pressures, weak job growth, reduced government stimulus and spending, and the ongoing financial crisis in the Europe, the economic recovery over the past year may be unsustainable and stall in the forthcoming months. Also, if mortgage rates start to rise, then the housing recovery that is just beginning may stall. The continuation of the economic recovery will be dependent upon the actions of the Federal Reserve to keep rates low and the Federal Government ability to balance their budget while promoting job growth in the private sector.

The California State Public Employees Retirement System (CalPERS) is considerably underfunded, primarily due to lowered projected earning rates combined with significant investment losses incurred during the Great Recession. All of this has contributed to dramatic increases to the City's CalPERS contribution rates. Prior to the actuarial rate change in March 2012 from 7.75 percent to 7.50 percent, CalPERS has estimated rates for Safety Police, Safety Fire, and Miscellaneous Plans to increase to 33.3, 27.4, and 13.9 percent respectively by Fiscal Year 2016-17. CalPERS estimated that the lowered discount rate will increase the City's CalPERS contribution rates by an additional 2.0 percent for the

Miscellaneous plan and 3.0 percent for the Safety plans. These rates are dependent upon CalPERS earning a 7.50 percent return on their investments in the future. For 2012, CalPERS investments earned only 1.0 percent as its stock portfolio underperformed – significantly less than the 7.50 percent rate CalPERS relies on for its actuarial assumptions.

Although the City is currently on schedule with its Five-Year Budget Action Plan, there still remains a General Fund structural deficit. This deficit is expected to continue through the end of Fiscal Year 2012-13 due to higher CalPERS costs, lower property tax revenues, and slower economic recovery than originally anticipated. Therefore, the City will continue to maintain its conservative fiscal approach and consider the need to take further actions in the future to reduce costs should economic growth slow or decline beyond current expectations.

The City continues to reflect the City council's commitment to foster steady, controlled growth and to provide the highest level of service to the community within the City's fiscal constraints. With the City Council's leadership and their prudent fiscal policies, the City's longer-term fiscal health will further solidify its standing as the economic leader in the Inland Empire and a formidable player in California and the nation.

Making the most of Ontario's 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 itself as 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.

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

- $7,862,500 in public facilities improvements
- $6,800,000 in storm drain improvements
- $6,424,594 in street and traffic improvements
- $3,113,000 in park and landscape improvements, and
- $2,600,000 in water improvements

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 project 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

Fund Balance Policy

The City's Fund Balance Policy, which was approved in June 2011, established the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of the fund balance will help ensure that there will be adequate financial resources to protect the City against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Administrative Services/Fiscal Services Department to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Included in the Fund Balance Policy is the 18 Percent Stabilization Plan. This is the goal of the City Council to achieve a minimum of 18 percent of the annual general fund appropriations, as Assigned Fund Balance in the general fund. This is intended to be used for specific and defined emergency events, such as an earthquake, to address immediate needs in resources without impacting City services and to minimize the potential for disruption of municipal services to its citizens. As of June 30, 2012, the City's General Fund had an assigned fund balance for the stability arrangement of $35.1 million, which is approximately 22 percent of the General Fund Adopted Budget for Fiscal Year 2012-13.

This 18 percent of the General Fund is separate from the General Fund Contingency also established in the Fund Balance Policy. The City's General Fund Contingency consists of amounts formally set aside and/or arrangements to maintain amounts for working capital needs, contingencies and contractual obligations. Committed amounts under General Fund Contingency include: Economic Uncertainties, Compensated Absences, Contractual Obligations, Public Safety Equipment, Communications/Computer Dispatch, City Facilities, and Events Center Capital Equipment.

Major Initiatives

Complete Community

Ontario is building a "Complete Community" that provides sustainable places to live, work and play. Ontario is evolving into an urban landscape of activity centers – complete with a full range of educational opportunities and health care providers, high paying jobs, a diverse mix of housing and rich in cultural and recreational amenities.

Ontario's Urban Lifestyle Project includes the New Model Colony – the 8,200 acre master planned development where new homes and commercial space are artfully woven into unique communities where families can gather at clubhouses, parks and retail centers.

Service to the Community

The City Manager continued to emphasize the importance of service to the community by implementing "We Think Ontario," an employee orientation program that lays out the City's business strategy and approach to serving the community. In addition, the "Approach to Public Service" was developed this past year and is currently being implemented citywide through each City agency. This "Approach to Public Service" emphasizes that City employees "choose public service to make a positive impact on the community". The three principles behind this approach are the following:

- Be Committed to the Community – Whatever job you do, do it well!
- Achieve Excellence Through Teamwork – Take ownership of your job and support other team members.
- Do the Right Thing the Right Way – Focus on what is important and never compromise integrity.

Ontario International Airport

In order to address the decline of air traffic at Ontario International Airport, the City commissioned a study and initiated discussions with the City of Los Angeles regarding the transfer of operational control of Ontario International Airport to a Local airport authority, including the City of Ontario. Support for air traffic regionalization and Ontario's efforts have been received from various Southern California cities, San Bernardino County and transportation authorities, as well as bi-partisan State and Federal legislators. A recent report prepared by a City of Los Angeles official recommends that the City of Los Angeles should continue negotiating with government officials from the Inland Empire to determine if there is a way to transfer control of the airport to them. In addition, the recently formed Ontario International Airport Authority was tasked with the goal of acquiring the airport from the City of Los Angeles. An interactive website was created to keep the public informed of the status of these negotiations and the progress made.

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, 2011. This was the twenty-fifth 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 2011-12 Adopted Operating Budget. This is the thirteenth 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 Senior 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, 2011

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

City of Ontario

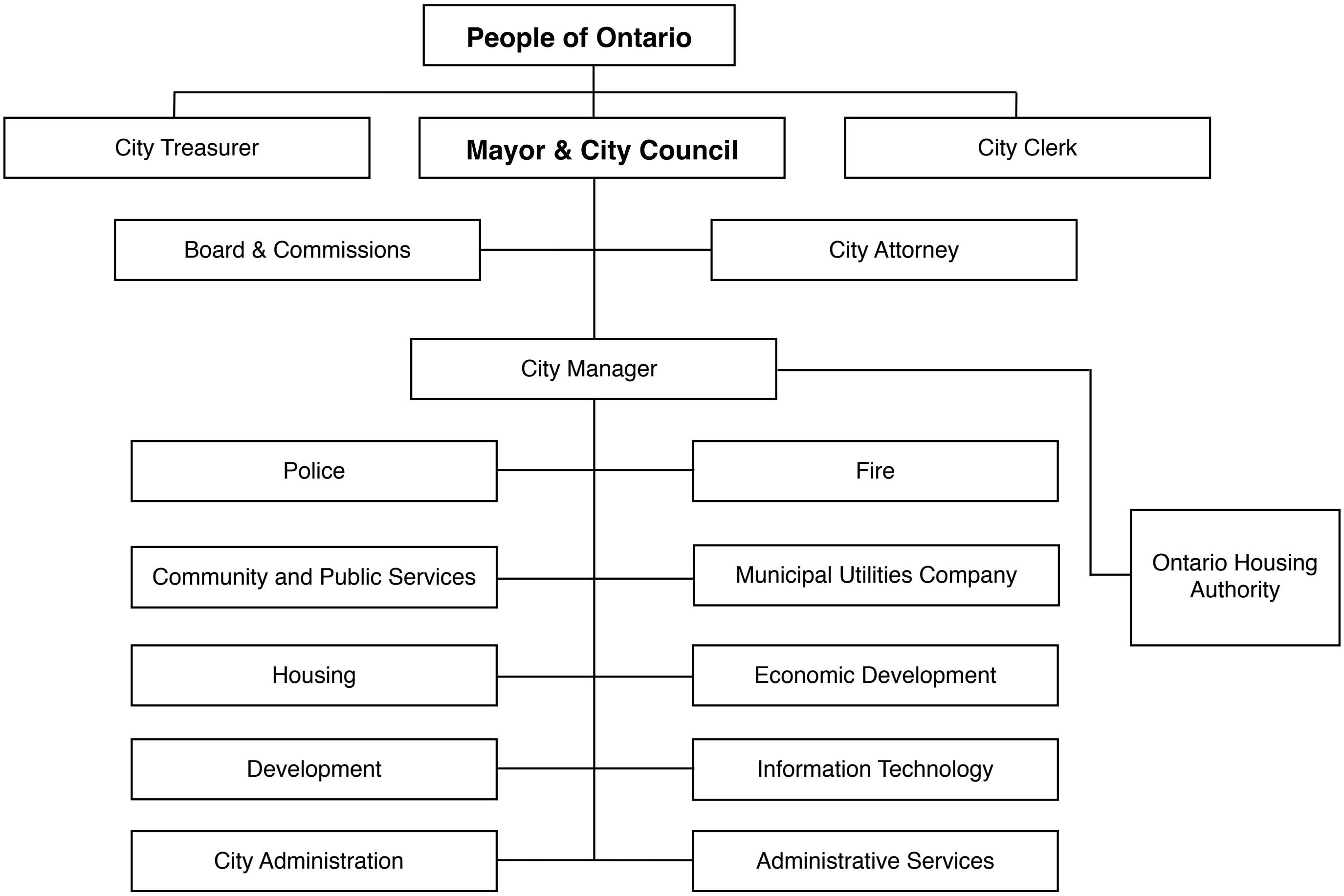
Elected Officials

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

Administration and Executive Management

City Manager/Executive Director of the Housing Authority ....Chris Hughes
Deputy City Manager ....Al C. Boling
City Attorney ....John E. Brown
Police Chief ....Eric V. Hopley
Fire Chief..Floyd E. Clark
Community & Public Services Director...Mark Chase
Utilities General Manager ....Scott Burton
Housing and Neighborhood Revitalization Director ....Brent D. Schultz
Economic Development Director..John P. Andrews
Development Director ....Otto Kroutil
Information Technology Director...Elliott Ellsworth
Administrative Services/Finance Director ....Grant D. Yee

City of Ontario



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Financial Section

LSL
CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
  A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

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, 2012, 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, 2012, and the respective changes in financial position and cash flows where applicable thereof, and the respective budgetary comparison for the General Fund, the Quiet Home Program Fund, the Community Development Fund, and the Ontario Housing Authority Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 18 – "Successor Agency Trust for Assets of Former Redevelopment Agency". The note provides information on the dissolution of the Redevelopment Agency and the new formed Successor Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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.

LSL
CERTIFIED PUBLIC ACCOUNTANTS

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the modified approach for the City's infrastructure assets as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The accompanying introductory section, the combining and individual fund statements, budgetary schedules, statistical tables and AB 1600 Development Impact Fee annual report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections and the AB 1600 Development Impact Fee annual report have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Lance, Soll & Lunghard, LLP

Brea, California
December 14, 2012

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, 2012. 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 $1.74 billion and total liabilities were $205.23 million at June 30, 2012. The assets exceeded liabilities by $1.53 billion (net assets). Of this amount, $351.61 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- For the year ended June 30, 2012, total net assets increased by $108.09 million. This increase was due to an extraordinary gain in net assets resulting from the dissolution of the Ontario Redevelopment Agency for $72.76 million as well as a favorable variance of revenues over expenses of $35.33 million. Total revenues from all sources were $428.29 million and total expenses for all functions/programs were $320.21 million.
- Of total revenues, program revenues were $185.15 million and general revenues were $170.38 million (excluding a $72.76 million extraordinary gain resulting from the dissolution of the Ontario Redevelopment Agency). Program revenues are broken into three categories: Charges for Services, $122.47 million; Operating Contributions and Grants, $15.60 million; and Capital Contributions and Grants, $47.08 million.

Fund Based

- For the fiscal year ended June 30, 2012, the assigned fund balance of the General Fund was $58.43 million. The assigned portion of $35.11 million represents the City Council's goal to achieve a minimum of 18 percent of the annual general fund appropriations (stabilization policy).
- For the General Fund, actual resources (inflows) available for appropriation were $296.57 million, which was more than the final budget of $257.40 million by $39.16 million. Actual charges (outflows) of $192.39 million were $19.32 million more than the final budget of $173.07 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 (which was dissolved as of January 31, 2012 through the California Supreme Court decision on Assembly Bill 1X 26; for additional details regarding the dissolution of the Ontario Redevelopment Agency, please refer to Note 17 in the Notes to Basic Financial Statements), the Ontario Housing Authority, the Industrial Development Authority and the Ontario Redevelopment Financing Authority are known as *Blended Component Units*. Although legally separate, these component units function for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

Fund Financial Statements

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

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

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

The City maintains thirty-one individual governmental funds. These funds report financial transactions using the modified accrual accounting method. Information for six out of the thirty-one funds is presented separately in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances. These six funds are considered to be major funds. They are the General Fund, the Quiet Home Program Fund, the Community Development Fund, the Ontario Housing Authority 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 additional 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, 2012. Management has included comparative data from fiscal year ending June 30, 2011 in its analysis.

Net Assets (Table 1)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	$ 450.66	$ 474.22	$ 239.36	$ 216.55	$ 690.03	$ 690.78
Capital Assets	863.37	858.21	185.62	183.37	1,048.99	1,041.58
Total Assets	**1,314.03**	**1,332.43**	**424.99**	**399.92**	**1,739.02**	**1,732.35**
Long-term Debt Outstanding	108.00	200.25	46.62	47.79	154.62	248.04
Other Liabilities	40.26	49.20	10.34	9.41	50.61	58.61
Total Liabilities	**148.26**	**249.45**	**56.97**	**57.20**	**205.23**	**306.65**
Net Assets:						
Invested in Capital Assets,						
Net of Debt	821.63	704.22	140.01	136.61	961.64	840.83
Restricted	216.27	243.02	4.27	4.19	220.54	247.20
Unrestricted	127.86	135.74	223.74	201.92	351.59	337.66
Total Net Assets	**$ 1,165.77**	**$ 1,082.98**	**$ 368.02**	**$ 342.72**	**$ 1,533.79**	**$ 1,425.70**

The City's Government-wide total net assets were $1.53 billion, with assets of $1.74 billion and liabilities of $205.23 million. The net investment in capital assets of $961.64 million represents 62.7 percent of the City's total net assets. This is an increase of $120.81 million from the previous year. Investment in capital assets (e.g., infrastructure, land, structures and improvements, furniture and equipment) for this purpose is reduced by any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are **not** available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the City's net assets of $220.54 million (14.4 percent of the total net assets) represents resources that are subject to external restrictions in how they may be used. The remaining balance of $351.59 million or 22.9 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 2.5 percent or $35.32 million (increase in net assets) before the extraordinary gain on dissolution of the Ontario Redevelopment Agency of $72.76 million (see Table 2 on the following page). This increase is attributable to the favorable variance of total revenues over total expenditures, especially for business-type activities – a growth in net assets of $25.30 million.

The overall cost of all governmental and business-type activities this year was $320.21 million and was an overall net increase of $14.50 million or 4.7 percent compared to the prior year. This is primarily the result of rising employee pension and health-care costs, and commodity price increases on various materials and supplies.

Total revenue of all governmental and business-type activities was $355.53 million for this fiscal year; an increase of $14.65 million or 4.3 percent. Program revenues were $185.15 million and general revenues were $170.38 million, funding the net difference between program revenues and expenses. The largest single revenue category was Charges for Services, at $122.47 million, which is *program revenue*. This revenue goes directly against the expenses in recovering the costs of providing those services. Charges for Services revenue rose by $9.23 million or 8.2 percent, mainly due to an increase of $7.77 million or 59.7 percent in governmental activities due to a positive growth in development related revenue. Property Taxes, which are considered *general revenues,* were the second largest revenue at $66.73 million. This revenue category experienced a decrease from the prior year of $21.30 million or 24.2 percent primarily due to the dissolution of the Ontario Redevelopment Agency on January 31, 2012; the main revenue stream of the former Agency were property taxes. The third largest revenue source was Sales Taxes, another *general revenue* source, at $61.36 million. Sales Tax revenue increased $4.97 million or 8.8 percent than the prior year mainly attributed to higher consumer spending in auto sales. The revenue category of Capital Contributions and Grants was the fourth largest revenue category at $47.08 million. Capital Contributions and Grants increased by $28.23 million or 150 percent primarily due to reimbursement to the General Fund for the bond redemption regarding the 2001 Lease Revenue Bond; additional revenues from Measure I Local Stimulus Program for various street improvement projects; and increased grant reimbursements relating to the Quiet Home Program.

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

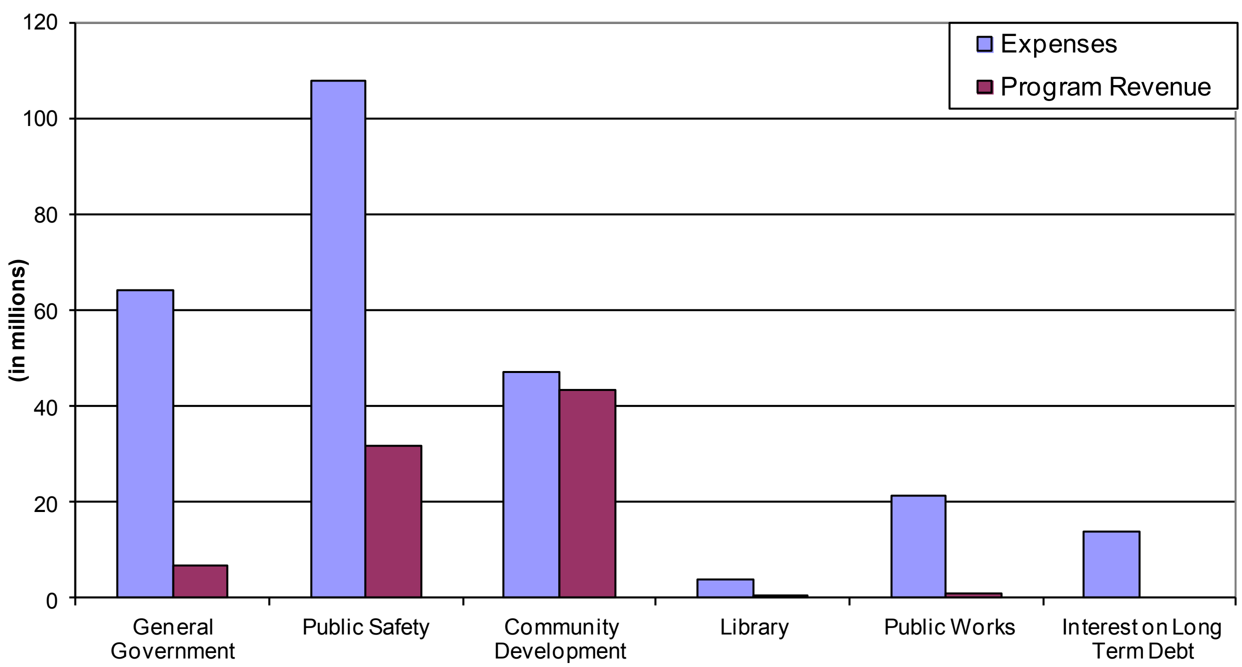
	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	$ 20.79	$ 13.02	$ 101.67	$ 100.23	$ 122.47	$ 113.24
Operating Contributions and Grants	15.31	15.61	0.29	6.34	15.60	21.94
Capital Contributions and Grants	47.08	18.85	-	-	47.08	18.85
Sub-total Program Revenues	83.19	47.47	101.96	106.57	185.15	154.04
General Revenues:						
Property Taxes	66.73	88.03	-	-	66.73	88.03
Sales Taxes	61.36	56.39	-	-	61.36	56.39
Business Licenses Taxes	5.61	5.50	-	-	5.61	5.50
Franchise Taxes	2.90	2.88	-	-	2.90	2.88
Transient Occupancy Taxes	9.15	8.79	-	-	9.15	8.79
Other Taxes	4.57	4.07	-	-	4.57	4.07
Motor Vehicle In-Lieu	0.09	0.88	-	-	0.09	0.88
Use of Money and Property	10.08	10.27	3.47	2.61	13.56	12.88
Other	6.41	7.40	0.01	0.01	6.42	7.41
Sub-total General Revenues	166.90	184.22	3.48	2.62	170.38	186.84
Total Revenues	**$ 250.09**	**$ 231.69**	**$ 105.44**	**$ 109.19**	**$ 355.53**	**$ 340.88**
Expenses						
General government	$ 64.33	$ 56.95	$ -	$ -	$ 64.33	$ 56.95
Public safety	107.85	103.47	-	-	107.85	103.47
Community development	47.09	39.89	-	-	47.09	39.89
Library	3.76	4.36	-	-	3.76	4.36
Public works	21.37	23.17	-	-	21.37	23.17
Interest on long-term debt	13.74	14.51	-	-	13.74	14.51
Water	-	-	28.99	31.05	28.99	31.05
Sewer	-	-	11.77	11.01	11.77	11.01
Solid Waste	-	-	21.31	21.30	21.31	21.30
Total Expenses	**$ 258.14**	**$ 242.36**	**$ 62.06**	**$ 63.36**	**$ 320.21**	**$ 305.71**
Increase/(Decrease) in Net Assets Before Transfers and Extraordinary Items	**$ (8.06)**	**$ (10.67)**	**$ 43.38**	**$ 45.83**	**$ 35.32**	**$ 35.16**
Transfers	18.08	15.67	(18.08)	(15.67)	-	-
Extraordinary Gain on Dissolution of Redevelopment Agency	72.76	-	-	-	72.76	-
Increase/(Decrease) in Net Assets	**$ 82.79**	**$ 5.01**	**$ 25.30**	**$ 30.16**	**$ 108.09**	**$ 35.16**

Governmental Activities

Under the governmental activities, the City's *net assets* increased by $82.79 million from the prior year primarily due to an extraordinary gain of $72.76 million resulting from the dissolution of the Ontario Redevelopment Agency. The cost of all governmental activities this year was $258.14 million or 80.6 percent of the government-wide total expenses and was an increase of $15.78 million or 6.5 percent.

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 $64.33 million or 24.9 percent of total Governmental Activities expenses. Of this amount, $6.81 million was funded by program revenues, while the remaining $57.52 million was funded by general revenues. General Government expenditures increased $7.38 million or 13.0 percent as a result of increased employee pension and retiree health care costs.

Public Safety expenditures were $107.85 million or 41.8 percent of the total Governmental Activities expenses. Of this amount, $31.75 million was funded by program revenues while the remaining $76.10 million was funded by general revenues. Public safety expenses increased $4.38 million or 4.2 percent compared to the previous year due to rising employee pension and health care costs, and increased public safety grant funded expenditures, including the Federal Emergency Management Agency-American Recovery and Reinvestment Act.

Expenses in *Community Development* were $47.09 million or 18.2 percent of the total Governmental Activities expenditures. These expenses increased by $7.20 million or 18.0 percent higher compared to the prior year. This increase in expenditures is mainly due to an adjustment in funding support by the Redevelopment Agency to the Ontario Housing Authority. Program revenues relating to the funding of community development activities amounted to $43.62 million, with the remaining funding of $3.47 million from general revenues. The majority of program revenues resulted from capital contributions and grants ($22.76 million) for future development in the City.

The *Library* had expenses of $3.76 million or 1.5 percent of the total Governmental Activities expenses. Of this amount $0.22 million was funded by program revenues, while the remaining $3.54 was funded by general revenues. Expenditures for Library remained relatively level, with only a minimal decrease of $0.6 million.

Public Works expenditures were $21.37 million or 8.3 percent of the total Governmental Activities expenses. Of this amount, $0.78 million was funded by program revenues, while the remaining $20.59 million was funded by general revenues. The decline in Public Works expenditures of $1.80 million is due to the completion of major capital projects, including the Veterans' Memorial Park funded in the prior fiscal year.

Interest on long-term debt had expenditures of $13.74 million or 5.3 percent of Governmental Activities and is funded entirely by general revenues.

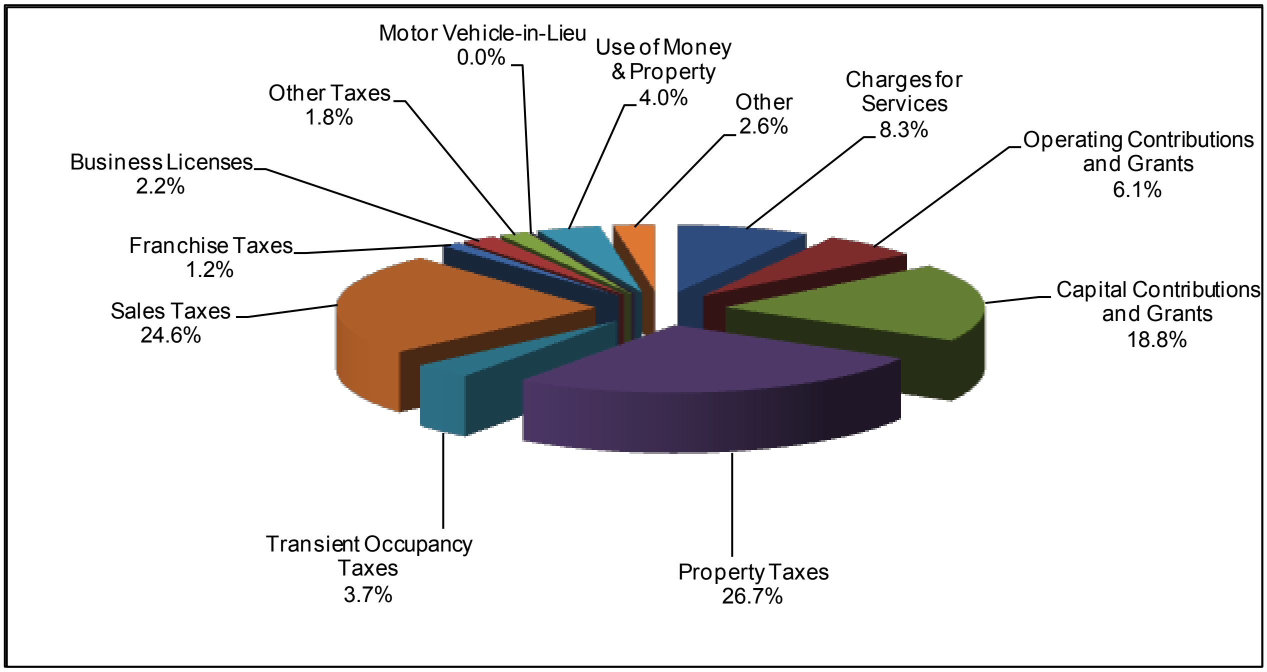
Graph 2 on the following page presents governmental activities revenue by source. Total revenue for governmental activities was $250.09 million; an increase of $18.40 million or 7.9 percent. The three largest revenue sources under Governmental Activities were the categories of Property Taxes, Sales Taxes, and Capital Contributions and Grants.

Property Tax revenue (general revenue) was $66.73 million or 26.7 percent of total governmental activities revenue. A decrease of $21.30 million or 24.2 percent compared to the previous year as a result of the dissolution of the Ontario Redevelopment Agency wherein property tax is the primary revenue source. Sales Tax revenue (general revenue) was $61.36 million or 24.6 percent of total governmental activities revenue. Sales Tax revenue increased by $4.97 million or 8.8 percent compared to the prior year mainly attributed to higher consumer spending in auto sales. The third largest revenue source was Capital Contributions and Grants (program revenue) at $47.08 million or 18.8 percent of total governmental activities revenue. An increase of $28.23 million or 149.8 percent from the prior year due to reimbursement to the General Fund for the bond redemption regarding the 2001 Lease Revenue Bond; additional revenues from Measure I Local Stimulus Program for various street improvement projects; and increased grant reimbursements relating to the Quiet Home Program

Other General Revenues totaled $38.81 million and represents 15.5 percent of the total revenues from governmental activities. The remaining Program Revenues include: Charges for Services of $20.79 million and Operating Contributions and Grants of $15.31 million. Together they represent 14.4 percent of the total governmental activities revenue.

Graph 2 below presents revenues by source for Governmental Activities.

Revenues by Source – Governmental Activities (Graph 2)



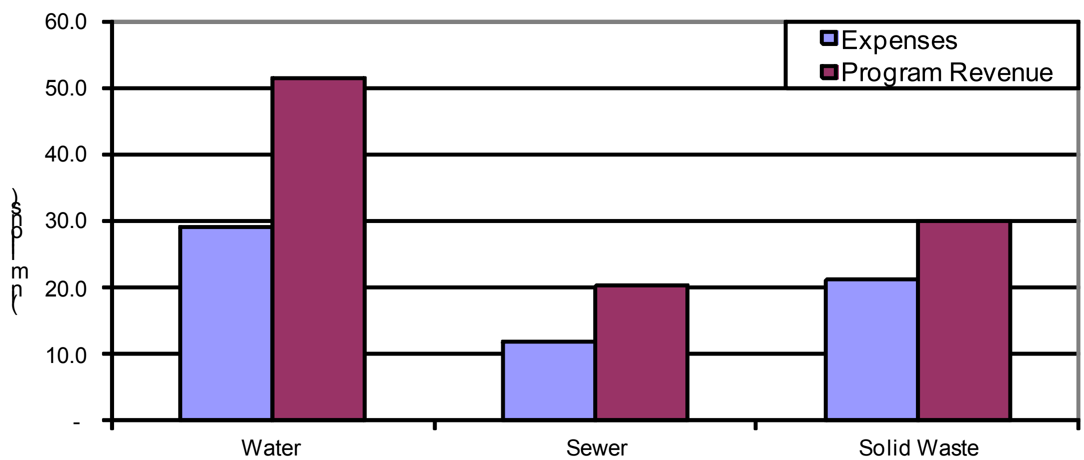
Business-type Activities

Net assets for business-type activities at June 30, 2012 were $368.02 million, with assets of $424.99 million and liabilities of $56.97 million. Unrestricted net assets of $223.74 million represented 60.8 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 $140.01 million represented 38.04 percent of the total net assets from business-type activities. The remaining $4.27 million was restricted for debt service. Compared to the prior year, the City's net assets from business-type activities increased by $25.30 million.

Total revenues (excluding transfers) for the City's business-type activities were $105.44 million, which represented a $3.75 million or 3.4 percent increase from the prior year. Program revenues amounted to $101.96 million or 96.7 percent of total business-type related revenue. Program revenues declined by $4.60 million or 4.3 percent as a result of one time receipt in the prior year of grant revenue for Proposition 50, Public Water System project. General revenues for business-type activities were $3.48 million (Use of Money and Property of $3.47 million). This was an increase of $0.86 million or 33 percent primarily due to a capital gain relating to a sale of an investment. Business-type activities incurred $62.06 million of expenditures for the year. This is a decline of $1.29 million or 2.0 percent compared to the previous year.

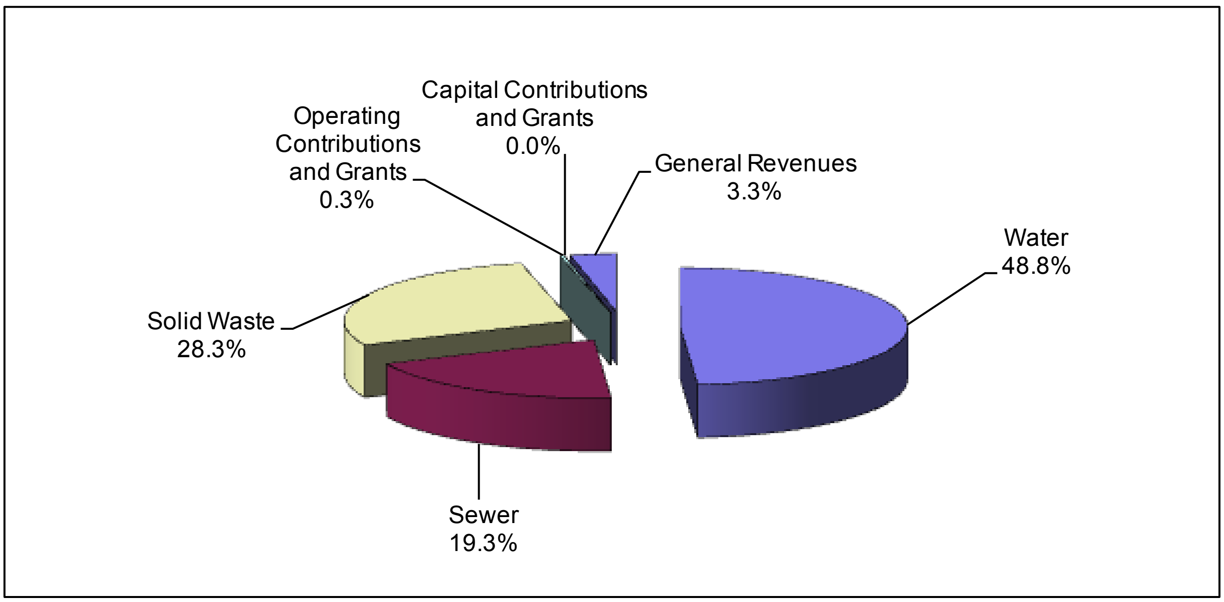
Graph 3 presents the costs of each of the City's business activities and the associated program revenue. Since business-type activities are primarily used when the City charges customers for the services it provides, program revenues (charges for services) should be similar to the costs of these programs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

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



Graph 4 presents revenues by source for business-type activities. *Charges for services account* for $101.67 million or 96.4 percent of total business-type activities revenues (before transfers), while the remaining 3.6 percent is from *operating contributions and grants* ($0.29 million) and *general revenues* ($3.48 million). Revenue from Water services is the largest revenue source with $51.43 million or 48.8 percent of the total revenues from business-type activities; it had a minimal increase of $0.26 million or less than one percent compared to the prior year. The second largest revenue source was revenue from Solid Waste services at $29.8 million or 28.3 percent of total business-type activities revenues. Solid Waste services revenue decreased $0.95 million or 3.1 percent from the previous year due to reduction in commercial refuse activity – an outcome from the continued economic downturn.

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, *unassigned 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 six major governmental funds: General Fund, Quiet Home Program Fund, Community Development Fund, the Ontario Housing Authority Fund, the Impact Fees Fund, and the 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 property acquisition, land use conversion and the noise insulation of residences within the airport noise impact area. The special revenue fund for the Community Development Fund accounts for the Community Development Block Grant, HOME Grant, and Neighborhood Stabilization Program. These grants account for the financial transactions as prescribed by the Federal Housing and Urban Development. The special revenue fund for the Ontario Housing Authority Fund accounts for low and moderate housing set aside funds to implement various programs and projects to assist in affordable housing. The capital projects fund for the Impact Fees Fund accounts for developer-paid impact fees for infrastructure construction. 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. The Redevelopment Agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X 26; please see Note 17 in the Notes to the Financial Statements section for additional information regarding the dissolution. 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 $319.67 million. Approximately 19.1 percent or $61.09 million of this total amount constitutes assigned/unassigned fund balance. The remainder fund balance of $258.58 million is nonspendable ($109.09 million), restricted ($53.59 million), and committed ($95.90 million).

Comprising the nonspendable fund balance are: 1) Inventory, prepaid costs, and deposits ($0.40 million); 2) Land that was purchased and held for resale ($92.20 million); 3) Contracts and notes ($6.87 million); and 4) Advances to other funds ($9.62 million). For the restricted fund balance (external enforceable limitations on usage), they are the following: 1) endowment and trusts ($0.40 million); 2) community development and bond improvement projects ($28.23 million); 3) public safety ($2.60 million); 4) public services ($3.32 million); 5) air quality control activities ($0.96 million); and 6) low and moderate income housing activities ($18.07 million). Items included in the committed fund balance (self-imposed limitations on usage) are as follows: 1) City facilities, infrastructure and capital replacement ($53.51 million); 2) economic uncertainties ($19.10 million); 3) compensated absences ($12.85 million); 4) for capital projects ($8.46 million); and 5) affordable housing ($1.42 million); and 6) future obligations ($0.56 million).

Governmental Revenues

Revenues of governmental funds for Fiscal Year 2011-12 were $256.10 million, with an increase of $26.99 million or 11.78 percent compared to the previous fiscal year. This increase in government revenue is primarily attributable to the increases in the following categories of revenues: Miscellaneous Revenue ($21.34 million or 244.1 percent), due to reimbursement made to the General Fund for the bond redemption regarding the 2001 Lease Revenue Bond, reimbursements to the Capital Projects Fund for the Bon View Park and Fire Station No. 5, as well as increased administrative overhead revenue; Use of money and property ($9.09 million or 105.57 percent), due to various loan repayments; Charges for Services ($7.57 million or 74.81 percent), from positive growth on development related revenues; and Intergovernmental ($4.96 million or 15.2 percent) due to additional revenues from Measure I Local Stimulus Program; and Sales Tax ($4.97 million or 8.8 percent) resulting from higher consumer spending in auto sales. These revenue increases were offset by a revenue decline in Property Tax ($21.30 million or 24.2 percent), resulting from the dissolution of the Ontario Redevelopment Agency.

Table 3 below presents a summary of governmental fund revenues for the fiscal year ended June 30, 2012, with comparative amounts from the prior year.

Comparison of Major Governmental Revenues (Table 3)
Fiscal Years 2011-12 and 2010-11

	Amount FY 11-12	% of Total Revenues	Amount FY 10-11	% of Total Revenues	$ Increase / (Decrease)	% Increase / (Decrease)
Property Tax	$ 66,733,840	26.06%	$ 88,030,394	38.42%	$ (21,296,554)	-24.19%
Sales Tax	61,362,958	23.96%	56,390,363	24.61%	4,972,595	8.82%
Transient Occupancy Tax	9,148,976	3.57%	8,790,219	3.84%	358,757	4.08%
Parking Tax	3,221,546	1.26%	3,479,707	1.52%	(258,161)	-7.42%
Business Licenses Tax	5,610,738	2.19%	5,496,576	2.40%	114,162	2.08%
Other Taxes	3,966,746	1.55%	3,484,408	1.52%	482,338	13.84%
Licenses & Permits	1,639,061	0.64%	1,563,722	0.68%	75,339	4.82%
Intergovernmental	37,725,923	14.73%	32,763,572	14.30%	4,962,351	15.15%
Charges for Services	17,697,037	6.91%	10,123,695	4.42%	7,573,342	74.81%
Use of Money & Property	17,707,695	6.91%	8,614,113	3.76%	9,093,582	105.57%
Fines and Forfeitures	1,202,716	0.47%	1,318,369	0.58%	(115,653)	-8.77%
Contributions	-	0.00%	314,000	0.14%	(314,000)	-100.00%
Miscellaneous	30,081,850	11.75%	8,741,044	3.82%	21,340,806	244.14%
TOTAL	$ 256,099,086	100.00%	$ 229,110,182	100.00%	$ 26,988,904	11.78%

Governmental Expenditures

Total expenditures for Fiscal Year 2011-12 were $284.79 million, an increase of $31.57 million or 12.47 percent over the prior fiscal year. Included in this increase are: Debt Service ($19.22 or 76.9 percent), due to bond redemption of the 2001 Lease Revenue Bond; General Government ($18.20 million or 54.8 percent), due rising employee pension and health care costs; Public Works ($4.48 million or 27.7 percent), resulting from capital improvement projects for the Old and New Model Colonies, specifically the North Milliken Grade Separation project; and Public Safety $7.66 million or 7.4 percent due rising employee pension and health care costs, as well as the purchase of SWAT and HazMat vehicles, police helicopter, and renovation of Fire Station No. 5 . Decrease in Community Development ($18.07 million or 25.2 percent), is mainly attributed to the completion of the City Hall Renovation in the prior year.

Table 4 below presents a summary of governmental fund expenditures for the Fiscal Year ended June 30, 2012 with comparative amounts from the prior year.

Comparison of Major Governmental Expenditures (Table 4)
Fiscal Years 2011-12 and 2010-11

	Amount FY 11-12	% of Total Expenditures	Amount FY 10-11	% of Total Expenditures	$ Increase / (Decrease)	% Increase/ (Decrease)
General Government	$ 51,424,202	18.06%	$ 33,220,115	13.12%	$ 18,204,087	54.80%
Public Safety	110,958,962	38.96%	103,296,429	40.79%	7,662,533	7.42%
Community Development	53,503,162	18.79%	71,571,514	28.26%	(18,068,352)	-25.25%
Library	4,049,363	1.42%	3,974,567	1.57%	74,796	1.88%
Public Works	20,642,548	7.25%	16,164,629	6.38%	4,477,919	27.70%
Total Operating Expenditures	240,578,237	84.48%	228,227,254	90.13%	12,350,983	5.41%
Debt Service	44,207,731	15.52%	24,988,874	9.87%	19,218,857	76.91%
TOTAL	$ 284,785,968	100.00%	$ 253,216,128	100.0%	$ 31,569,840	12.47%

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 2011-12 were $105.73 million, while non-operating revenues were $3.76 million. Operating expenses for fiscal year 2011-12 were $60.97 million while non-operating expenses were $6.48 million (debt service interest expense and loss on joint venture). During the fiscal year, the net amount transferred out to the City's Governmental Funds was $18.08 million to support for the various governmental activities.

The City also has three internal service funds to allocate costs of the City's information systems, equipment services and risk management operations to the various departments. The interdepartmental charges for service (revenues) in fiscal year 2011-12 were $28.50 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; 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; and the Private Purpose Trust Fund for the Successor Agency of the Former Redevelopment Agency, which was formed upon dissolution of the Ontario Redevelopment Agency. The successor agency is subject to the control of newly established oversight board and can only pay enforceable obligations in existence at the date of dissolution. Furthermore, it will hold the remaining assets of the former Redevelopment Agency until they are distributed to other units of state and local government. 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 $104.17 million as of June 30, 2012 had an increase of $11.02 million, including a restatement of $2.56 million. It increased 15.98 percent compared to the prior year, this was primarily due to the reimbursement agreement payments and various loan repayments. As a measure of the General Fund's liquidity, it may be useful to compare both assigned/unassigned fund balance and total fund balance to total fund operating expenditures. Assigned/unassigned fund balance represents 30.8 percent of total General Fund operating expenditures, while the total nonspendable, restricted, and committed fund balance amounts to 24.1 percent of the same amount.

Total fund balance of the General Fund consists of 4 components: (1) Nonspendable fund balance of $3.73 million, which represents $3.5 million in advances to other funds, $0.13 million in inventory, and $0.10 in prepaid and notes and loans; (2) Restricted fund balance of $0.40, which represents endowment and trust; (3) Committed fund balance of $41.61 million which represents City facilities, economic uncertainties of $23.7 million, compensated absences of $12.85 million, infrastructure and capital replacement of $4.51 million, and future obligations of $0.55 million; and (4) Assigned fund balance of $58.43 million, which represents stability arrangement of $35.11 million, contractual obligations of $18.97 million, continuing appropriations of $2.39 million and maintenance trust and equipment replacement of $1.96 million.

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions in the Fiscal Year 2010-11. For additional details of the City's General Fund fund balance, please refer to Note 8 in the Notes to the Basic Financial Statements.

GENERAL FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

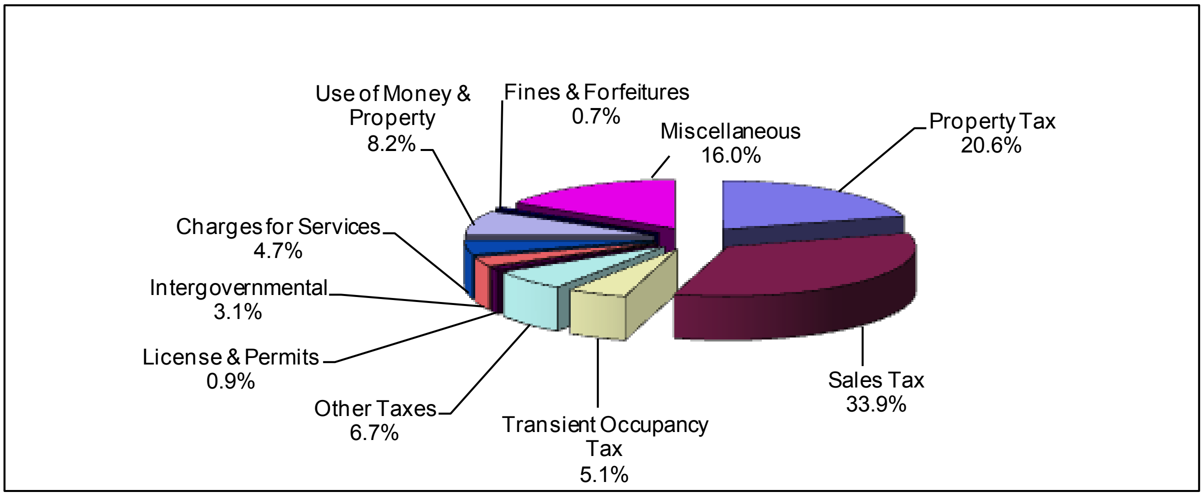
For Fiscal Year 2011-12, General Fund revenues were $180.96 million, a growth of $38.49 million or 27.0 percent. This is primarily due to increase in: Miscellaneous revenue ($20.58 million) due to the reimbursement for the bond redemption regarding the 2001 Lease Revenue Bond; Use of Money and Property ($9.96 million) resulting from various loan repayments; Sales Tax ($5.61 million) resulting from higher consumer spending in auto sales; Charges for Service ($2.79 million) due to increased amount of fees and penalties received for abandoned and distressed properties.

General Fund Revenues (Table 5)
Fiscal Years 2009-10, 2010-11 and 2011-12

	FY 09-10	FY 10-11	FY 11-12	% of Total	$ Increase / (Decrease) to Last Year	% of Increase (Decrease)
Property Tax	$ 39,002,655	$ 37,706,348	$ 37,366,303	20.6%	$ (340,045)	-0.9%
Sales Tax	50,932,011	55,755,932	61,362,958	33.9%	5,607,026	10.1%
Transient Occupancy Tax	8,398,053	8,790,219	9,148,976	5.1%	358,757	4.1%
Other Taxes	11,924,916	12,449,266	12,136,931	6.7%	(312,335)	-2.5%
License & Permits	1,455,692	1,563,722	1,639,061	0.9%	75,339	4.8%
Intergovernmental	2,662,954	5,748,067	5,633,006	3.1%	(115,061)	-2.0%
Charges for Services	5,798,164	5,685,188	8,471,447	4.7%	2,786,259	49.0%
Use of Money & Property	4,197,393	5,081,092	15,045,740	8.2%	9,964,648	196.1%
Fines & Forfeitures	1,301,515	1,313,612	1,198,816	0.7%	(114,796)	-8.7%
Contributions	1,719,084	-	-	0.0%	-	0.0%
Miscellaneous	10,006,316	8,382,003	28,960,198	16.0%	20,578,195	245.5%
Totals	$ 137,398,753	$ 142,475,449	$ 180,963,436	100.0%	$ 38,487,987	27.0%

Graph 5 below illustrates General Fund revenue by source.

General Fund Revenues – Fiscal Year 2011-12 (Graph 5)



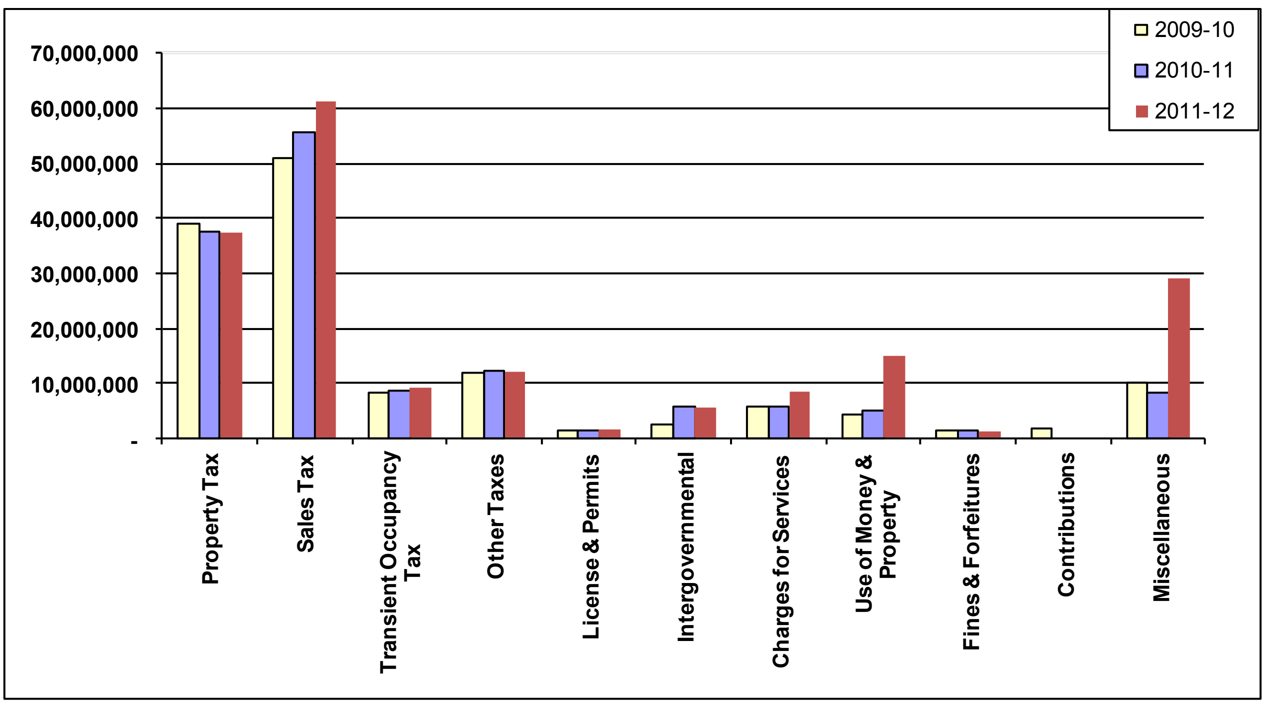
Following is an in-depth analysis of each of the revenue sources.

- Property Tax revenues slightly decreased $0.3 million or less than one percent, comprising 20.6 percent of total General Fund revenue. This was due to decrease in the City's assessed property valuation as a result of the continued sluggish real estate market.
- Sales Tax revenues experienced an increase of $5.60 million or 10.1 percent from the prior year. Of the total General Fund revenue, 33.9 percent comes from sales taxes. This gain revenue is due to increase in consumer and business spending compared to prior year.
- Transient Occupancy taxes (TOT) also increased by $0.36 million or 4.1 percent; it comprises 5.1 percent of the City's total General Fund revenue base.
- Other tax revenues include Franchise Fee, Business License Tax, Property Transfer Tax and Parking Tax, comprising 6.7 percent of the City's total General Fund revenue. This revenue category reflected a decrease by $0.31 million or 2.5 percent. Contributing to this loss are decreases in Property Transfer Tax revenue of $0.18 million and Parking Tax of $0.26 million.
- License and Permit revenues experienced a slight increase of $0.08 million or 4.8 percent from the prior year.
- Intergovernmental revenues decreased by $0.12 million or 2.0 percent compared to the previous year, due to decreased governmental grant revenue received during the year.
- Charges for Services increased by $2.79 million or 49.0 percent from the previous year. This is due to the increased amount of fees and penalties received from abandoned and distressed properties. Charges for Services comprise 4.7 percent of the City's total General Fund revenues.

- Revenues from the Use of Money and Property represent 8.2 percent of total General Fund revenue and experienced an increase of $9.96 million or 196.1 percent from the prior year. This increase is attributed to various loan repayments to the City.
- Fines and Forfeiture decreased 8.7 percent ($0.11 million) and represents 0.7 percent of total General Fund revenues.
- Miscellaneous revenue increased 245.5 percent ($20.6 million). This is mainly attributable to the reimbursement for the bond redemption regarding the 2001 Lease Revenue Bond.

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 2009-10, 2010-11 and 2011-12



Expenditures

For Fiscal Year 2011-12, total General Fund expenditures were $189.66 million, an increase of $32.63 million or 20.8 percent compared to the previous year. Following are key points of General Fund expenditures.

- General Government expenditures were $20.14 million, an increase of $7.32 million or 57.1 percent from the prior fiscal year. This increase is due to additional General Fund contribution to fully fund the current year's annual required contribution for the Other Post Employment Benefit Fund, as well as additional expenses related to the Ontario International Airport transition services.
- Public Safety expenditures were $109.85 million, an increase of $7.19 million or 7 percent compared to the previous year. This increase is due to purchase of SWAT and HazMat vehicles, police helicopter, and renovation of Fire Station No. 5.
- Community Development expenditures of $16.97 million were lower by $1.59 million or 8.6 percent compared to the previous year. This is due the construction of Veteran's Memorial Park from prior year.
- Library expenditures were $4.05 million, an increase of $0.07 or 1.9 percent from the prior fiscal year as a result of increased retirement and health benefit costs.
- Public Works expenditures were $14.97 million, a minor increase of $0.43 or 2.9 percent compared to the previous fiscal year.
- Debt Service expenditures were $23.68 million, an increase of $19.20 million due to the bond redemption regarding the 2001 Lease Revenue Bond.

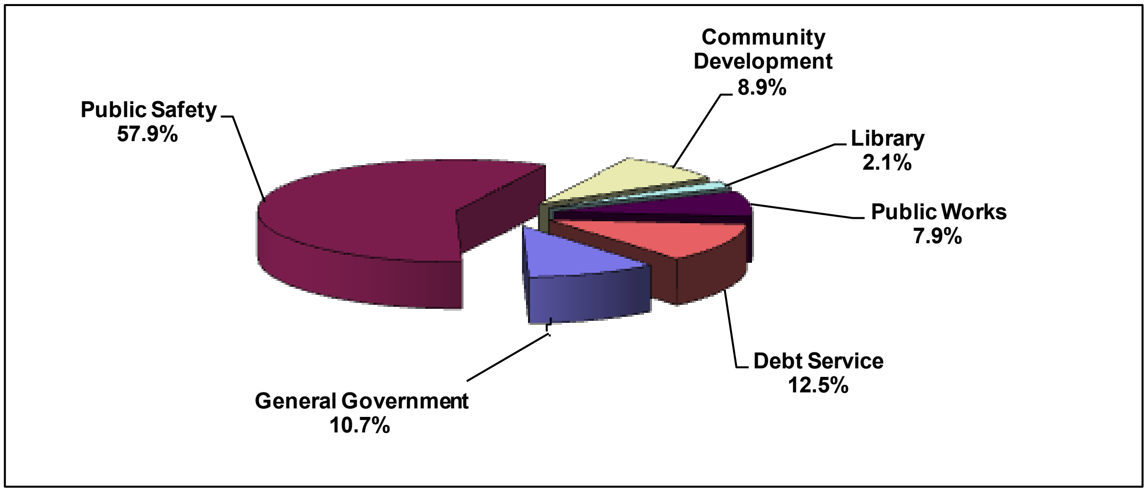
Table 6 below presents General Fund expenditures by category for the past three consecutive fiscal years.

General Fund Expenditures (Table 6)
Fiscal Years 2009-10, 2010-11 and 2011-12

	FY 09-10	FY 10-11	FY 11-12	% of Total	$ Increase / (Decrease) to Last Year	% of Increase (Decrease)
General Government	$ 9,990,282	$ 12,812,965	$ 20,135,192	10.7%	$ 7,322,227	57.1%
Public Safety	100,588,380	102,656,330	109,848,832	57.9%	7,192,502	7.0%
Community Development	16,915,964	18,565,618	16,974,140	8.9%	(1,591,478)	-8.6%
Library	4,084,426	3,974,567	4,049,363	2.1%	74,796	1.9%
Public Works	14,468,632	14,548,161	14,973,234	7.9%	425,073	2.9%
Debt Service	4,479,017	4,479,576	23,683,914	12.5%	19,204,338	428.7%
Totals	$ 150,526,701	$ 157,037,217	$ 189,664,675	100.0%	$ 32,627,458	20.8%

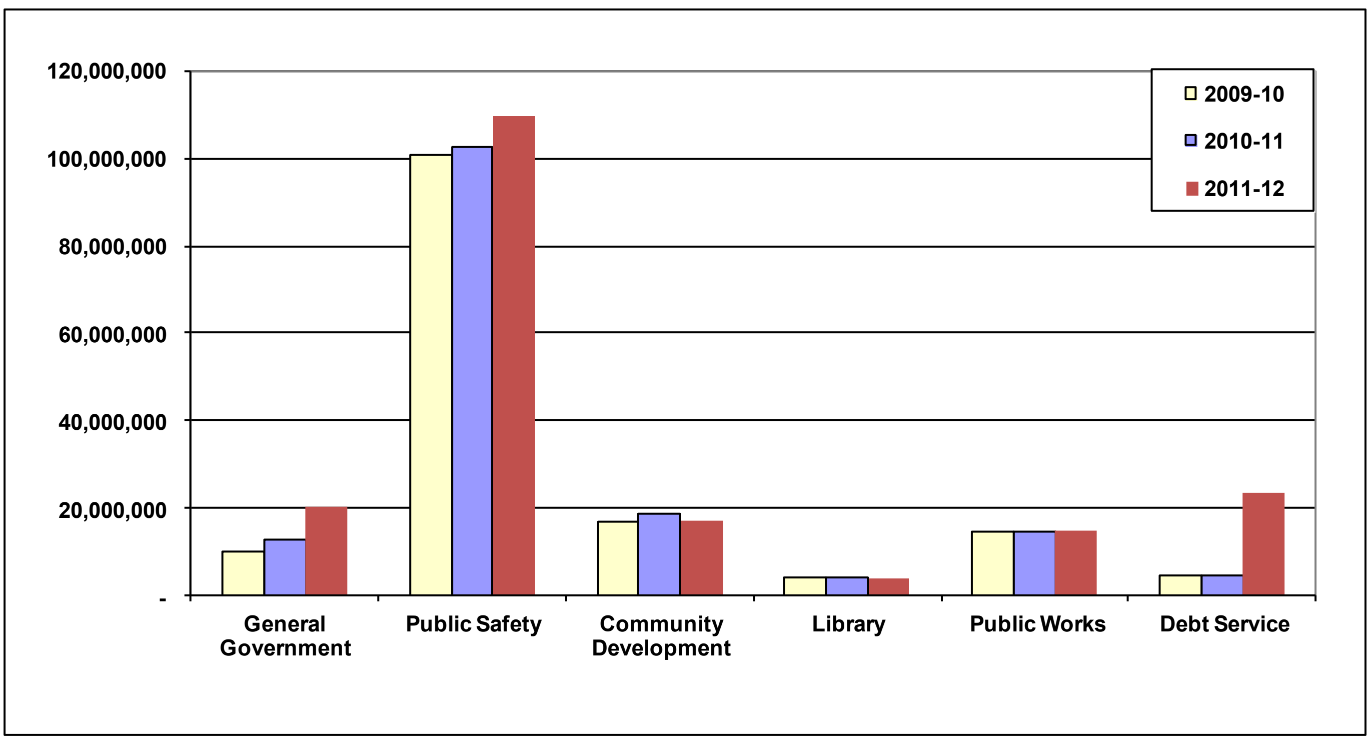
Graph 7 below presents General Fund expenditures by category.

General Fund Expenditures – Fiscal Year 2011-12 (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 2009-10, 2010-11 and 2011-12



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 six major funds included in the City's Comprehensive Annual Financial Report for June 30, 2012. The fund balance of $56.92 million as of June 30, 2012 had a gain of $2.63 million or 4.9 percent compared to the prior year. Total Assets of $59.13 million experienced an increase of $1.76 million or 3.1 percent due to increases in Accounts Receivables by $1.02 million and Land Held for Resale by $1.16 million. Total Liabilities of $2.20 decreased by $0.87 million, this is due to decrease in Unearned Revenue of $1.41 million, and partially offset by an increase in Accounts Payable of $0.53 million from prior year.

QUIET HOME PROGRAM FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2011-12, total Quiet Home Program Fund revenues were $8.68 million, an increase of $2.70 million. This is primarily due to the increase in Intergovernmental revenues of $2.68 million as a result of increased grant revenue from federal sources and Los Angeles World Airports.

Expenditures

For Fiscal Year 2011-12, total Quiet Home Program Fund expenditures were $6.04 million, an increase of $1.75 million compared to the prior year. This is primarily the result of increased activity in noise insulation projects and property acquisition due to increased grant funding.

COMMUNITY DEVELOPMENT FUND – FUND BALANCE ANALYSIS

The Community Development Fund accounts for the Community Development Block Grant, HOME Grant, and Neighborhood Stabilization Program. These grants account for the financial transactions as prescribed by the Federal Housing and Urban Development. It is one of the six major funds included in the City's Comprehensive Annual Financial Report for June 30, 2012. The fund balance of $6.46 million as of June 30, 2012 had an increase of $1.87 million or 40.7 percent compared to the prior year. Total Assets were $16.70 million, a growth of $0.92 million or 5.8 percent. This is primarily the result of increase in Advances to Other Funds by $1.91 million to fund the acquisition and rehabilitation of Vesta and Hollowell properties. Total Liabilities of $10.24 million, reflected a decrease of $0.95 million or 8.5 percent, due to the combination of decreases in Accounts Payable of $0.28 million, Due to Other Funds of $0.36 million, decrease in Due to Other Governments of $0.18 and a decrease in Accrued Liabilities of $0.05 million.

COMMUNITY DEVELOPMENT FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2011-12, total Community Development Fund revenues were $4.48 million or $1.18 million less compared to prior year at $5.66 million. This is primarily due to reduction on grant funding from Community Development Block Grant and HOME Grant.

Expenditures

For Fiscal Year 2011-12, total Community Development Fund expenditures were $2.46 million, a decrease of $2.78 million or 48.0 percent compared to the prior year. This decrease was mainly attributable to fewer projects due to reduction in grant funding.

ONTARIO HOUSING AUTHORITY FUND – FUND BALANCE ANALYSIS

Due to the California Supreme Court decision regarding Assembly Bill 1X 26, redevelopment agencies in the State of California has been dissolved as of January 31, 2012. As a result, the Ontario Housing Authority was designated by the City to receive all housing assets of the low and moderate housing set aside function. It is one of the six major funds included in the City's Comprehensive Annual Financial Report for June 30, 2012. The fund balance of $42.93 million compared to last fiscal year fund balance of $9.52 million was attributed to an extraordinary gain of $29.38 because of the transfer of net assets from the former Redevelopment Agency Low-Moderate Income Housing Fund. Total Assets were increased from $18.50 million to $52.67 million or 184.7 percent due to increase in Cash and Investments by $24.36 million, increase in Contracts and Notes Receivable by $6.72 million and increase of $3.03 million in Land Held for Resale. Total Liabilities increased from $8.98 million to $9.74 million mainly due to increase in Advances from Other Funds by $1.30 million.

ONTARIO HOUSING AUTHORITY FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2011-12, total Ontario Housing Authority Fund revenues were $6.02 million, an increase of $1.52 million or 33.7 percent compared to the prior year. This is attributable to an adjustment to the Housing Set Aside contribution to the Ontario Housing Authority.

Expenditures

For Fiscal Year 2011-12, total Ontario Housing Authority Fund expenditures were $3.94 million, a slight increase of $0.39 million or 10.8 percent compared to the prior year. This is primarily due to the acquisition of Vesta and Hollowell properties.

IMPACT FEES FUND – FUND BALANCE ANALYSIS

The Impact Fees Fund accounts for developer-paid impact fees for infrastructure construction. It is one of the six major funds included in the City's Comprehensive Annual Financial Report for June 30, 2012. The fund balance of $44.40 million as of June 30, 2012 reflected an increase of $1.83 million or 4.3 percent compared to the prior year. Total Assets were $51.17 million; a gain of $5.19 million from the previous year which is attributable to the increase in Cash and Investments of $5.13 million. Total Liabilities of $6.77 million increased $3.36 million primarily due to the growth in Accounts Payable by the same amount, this due to existing project for North Milliken Avenue Grade Separation.

IMPACT FEES FUND – REVENUE AND EXPENDITURE ANALYSIS

Revenues

For Fiscal Year 2011-12, total Impact Fees Fund revenues were $7.25 million; a growth of $5.20 million compared to the prior year. This is mainly attributable to growth in Old Model Colony Street and Storm Drain impact fees, particularly the development related to the Kaiser Permanente Hospital.

Expenditures

For Fiscal Year 2011-12, total Impact Fees Fund expenditures were $5.42 million, an increase of $3.27 million or 152.0 percent over the previous year. This is primarily the result of the ongoing North Milliken Avenue Grade Separation project.

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

Due to the California Supreme Court decision regarding Assembly Bill 1X 26, redevelopment agencies in the State of California has been dissolved as of January 31, 2012. The City has elected to become the Successor Agency responsible for winding down the remaining activities of the dissolved Redevelopment Agency. As a result, assets and liabilities of the former Redevelopment Area #1 – Debt Service Fund has been transferred to the Successor Agency.

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

Revenues

For Fiscal Year 2011-12, total Redevelopment Area #1-Debt Service Fund revenues were $18.19 million; a decline of $13.36 million compared to the prior year since property tax revenue received were for the period of 7 months (July to January) which the Redevelopment Agency was still active.

Expenditures

For Fiscal Year 2011-12, total Redevelopment Area #1-Debt Service Fund expenditures for its last seven months of existence were $28.25 million compared to $23.84 million, an increase of $4.41 million from the previous year. This is primarily due to the bond redemption relating to the 2001 Lease Revenue Bond.

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 $6.78 million between the original budget of $157.46 million and the final amended budget of $164.24 million. The increase was due in part to budget adjustments for Intergovernmental ($5.87 million), Taxes ($2.50 million), and Charges for Services ($2.77 million). With these adjustments, along with additional collections in Taxes ($8.82 million), and Use of Money and property ($13.68 million), actual revenues overstated the final amended budget by $39.16 million.

Charges to Appropriations (Outflows)

The difference between the original budget and the final budget was an increase of $8.82 million in appropriations. Public Safety appropriations were increased by $8.97 million primarily as a result of anticipated grant related expenditures for the purchase of SWAT and HazMat vehicle, police helicopter, and renovation of Fire Station No. 5. Community Development appropriations were increased by $1.03 million primarily for carryover of appropriations from the prior year and contractual services related to the development related projects.

Table 7 on the following page is a comparison of actual inflow and outflow with the final budget.

Budgetary Comparison for General Fund (Table 7)
Fiscal Year 2011-12
(in millions)

	Budget Amounts				Final Budget Variance Favorable /
	Original	Final	Variance	Actuals	(Unfavorable)
Resources (Inflows):					
Taxes	$ 108.70	$ 111.20	$ (2.50)	$ 120.02	$ 8.82
Licenses and Permits	1.06	1.31	(0.25)	1.64	0.33
Intergovernmental	2.91	8.78	(5.87)	5.63	(3.15)
Charges for Services	3.98	6.74	(2.77)	8.47	1.73
Use of Money and Property	3.81	1.36	2.45	15.05	13.68
Fines and Forfeitures	0.91	1.11	(0.20)	1.20	0.09
Miscellaneous	7.72	7.74	(0.02)	28.96	21.22
Transfers from Other Funds	28.37	25.99	2.38	22.44	(3.55)
Total Resources	$ 157.46	$ 164.24	$ (6.78)	$ 203.41	$ 39.16
Charges to Appropriations (Outflows):					
General Government	$ 11.74	$ 12.36	$ (0.62)	$ 20.14	$ (7.78)
Public Safety	103.07	112.04	(8.97)	109.85	2.19
Community Development	17.73	18.76	(1.03)	16.97	1.78
Library	4.26	4.28	(0.01)	4.05	0.23
Public Works	16.74	16.92	(0.18)	14.97	1.95
Debt Service	4.47	4.47	-	23.68	(19.22)
Transfers to Other Funds	6.23	4.25	1.98	2.73	1.52
Total Charges to Appropriations	$ 164.25	$ 173.07	$ (8.82)	$ 192.39	$ (19.32)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets (Table 8) for its governmental and business-type activities as of June 30, 2012, is $1,048.99 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 8)
(net of depreciation)
(in millions)

	Governmental Activities		Business-Type Activities		Government-Wide Totals	
	2012	2011	2012	2011	2012	2011
Land	$ 42.88	$ 40.05	$ 14.59	$ 14.59	$ 57.47	$ 54.64
Structures and Improvements	281.70	279.04	7.50	7.80	289.20	286.83
Furniture and Equipment	5.92	5.49	0.13	0.22	6.05	5.71
Infrastructure	478.64	481.68	141.94	126.05	620.58	607.73
Construction in Progress	54.24	51.95	21.47	34.72	75.70	86.67
Total Net Assets	**$ 863.37**	**$ 858.21**	**$ 185.62**	**$ 183.37**	**$ 1,048.99**	**$ 1,041.58**

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

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

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

- The City documents that eligible infrastructure capital assets are being preserved approximately at or above the established disclosed assessment.

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

The City expended $9.18 million on street maintenance for the fiscal year ended June 30, 2012 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 2012 is a minimum of $5.90 million per year. As of June 30, 2012, the City had approximately 114 million square feet of streets with a carrying amount of approximately $297.02 million and a replacement cost of approximately $330.81 million.

The City is also continuously taking actions to arrest the deterioration of other infrastructure assets through short-term maintenance activities. The City expended $5.27 million on other infrastructure (sidewalks, traffic signals/street lights and catch basins/storm drains) maintenance for the fiscal year ended June 30, 2012. These expenditures delayed deterioration and improved the overall condition through these maintenance efforts. It is estimated that it will cost approximately $5.85 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 $108.00 million in outstanding long-term debt for Governmental Activities. This debt consisted of revenue bonds, post employment benefits obligation, compensated absences, claims and judgments, and unamortized bond premiums. Long-term debt decreased $92.25 million compared to the prior year total of $200.25 million, due to the transfer of 1993 and 1994 Tax Allocation Bonds, 2002 Revenue Bonds and Fannie Mae Loan from the Redevelopment Agency Fund (Governmental Fund) to the Successor Agency Trust Fund (Fiduciary Fund) as a result of the dissolution of the Redevelopment Agency. More detail information is provided on long-term debt activity in the *Notes to the Financial Statements, Note 7.*

Table 9 below is a summary of the City's long-term debt for the year ended June 30, 2012.

Long-Term Debt (Table 9)
(in millions)

	Governmental Activities			
	2012	2011	Amount Increase / (Decrease)	Percentage Increase (Decrease)
Tax Allocation Bonds	$ -	$ 48.97	$ (48.97)	-100.0%
Revenue Bonds	41.29	82.16	(40.88)	-49.8%
Loans	-	12.45	(12.45)	-100.0%
Other Post Employment Benefits	40.66	29.67	10.99	37.1%
Claims and Judgments	15.72	15.72	-	0.0%
Compensated Absences	9.89	9.74	0.15	1.5%
Unamortized Bond Premium	0.45	1.55	(1.10)	-71.0%
	$ 108.00	$ 200.25	$ (92.25)	-46.1%

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.

Basic Financial Statements

CITY OF ONTARIO

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	$ 309,563,293	$ 149,990,513	$ 459,553,806
Receivables:			
Accounts	30,714,645	12,340,273	43,054,918
Taxes	341,350	-	341,350
Notes and loans	18,607,994	-	18,607,994
Accrued interest	785,615	363,236	1,148,851
Internal balances	(18,178,648)	18,178,648	-
Prepaid costs	134,690	7,485	142,175
Deposits	173,674	-	173,674
Inventories	627,045	19,101,841	19,728,886
Deferred charges	1,170,994	551,194	1,722,188
Advances to Successor Agency	3,500,000	-	3,500,000
Land held for resale	92,202,800	-	92,202,800
Other investments	-	201,750	201,750
Investment in joint venture	-	32,190,026	32,190,026
Restricted assets:			
Cash and investments	6,023,352	2,171,699	8,195,051
Cash with fiscal agent	4,995,081	4,267,828	9,262,909
Capital assets not being depreciated	394,129,662	36,055,520	430,185,182
Capital assets, net of depreciation	469,238,234	149,567,155	618,805,389
Total Assets	**1,314,029,781**	**424,987,168**	**1,739,016,949**
Liabilities:			
Accounts payable	11,419,940	5,375,892	16,795,832
Accrued liabilities	8,113,619	534,789	8,648,408
Accrued interest	806,888	-	806,888
Unearned revenue	1,922,283	136,403	2,058,686
Deposits payable	12,793,666	4,296,573	17,090,239
Due to other governments	3,605,265	-	3,605,265
Advances from Successor Agency	1,600,000	-	1,600,000
Noncurrent liabilities:			
Due within one year	3,934,000	1,226,000	5,160,000
Due in more than one year	104,066,365	45,398,307	149,464,672
Total Liabilities	**148,262,026**	**56,967,964**	**205,229,990**
Net Assets:			
Invested in capital assets, net of related debt	821,632,336	140,007,920	961,640,256
Restricted for:			
Community development projects	66,033,149	-	66,033,149
Public safety	48,017,073	-	48,017,073
Public works	68,983,878	-	68,983,878
Capital projects	33,236,666	-	33,236,666
Debt service	-	4,267,828	4,267,828
Unrestricted	127,864,653	223,743,456	351,608,109
Total Net Assets	**$ 1,165,767,755**	**$ 368,019,204**	**$ 1,533,786,959**

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	$ 64,330,936	$ 294,873	$ 6,515,656	$ -
Public safety	107,848,353	4,077,684	4,010,134	23,661,067
Community development	47,088,876	16,231,379	4,635,838	22,757,318
Library	3,764,564	143,055	76,636	-
Public works	21,371,492	47,931	73,272	662,100
Interest on long-term debt	13,740,250	-	-	-
Total Governmental Activities	**258,144,471**	**20,794,922**	**15,311,536**	**47,080,485**
Business-Type Activities:				
Water	28,986,963	51,434,727	-	-
Sewer	11,766,599	20,410,854	-	-
Solid Waste	21,309,485	29,825,989	290,724	-
Total Business-Type Activities	**62,063,047**	**101,671,570**	**290,724**	**-**
Total Primary Government	**$ 320,207,518**	**$ 122,466,492**	**$ 15,602,260**	**$ 47,080,485**

General Revenues:
Taxes:
Property taxes, levied for general purpose
Transient occupancy taxes
Sales taxes
Franchise taxes
Business licenses taxes
Other taxes
Motor vehicle in lieu - unrestricted
Use of money and property
Other
Extraordinary gain on dissolution of redevelopment agency (Note 18)
Transfers

Total General Revenues, Extraordinary Items and Transfers

Change in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (57,520,407)	$ -	$ (57,520,407)
(76,099,468)	-	(76,099,468)
(3,464,341)	-	(3,464,341)
(3,544,873)	-	(3,544,873)
(20,588,189)	-	(20,588,189)
(13,740,250)	-	(13,740,250)
(174,957,528)	**-**	**(174,957,528)**
-	22,447,764	22,447,764
-	8,644,255	8,644,255
-	8,807,228	8,807,228
-	**39,899,247**	**39,899,247**
(174,957,528)	**39,899,247**	**(135,058,281)**
66,733,840	-	66,733,840
9,148,976	-	9,148,976
61,362,958	-	61,362,958
2,897,780	-	2,897,780
5,610,738	-	5,610,738
4,566,791	-	4,566,791
89,471	-	89,471
10,082,524	3,474,268	13,556,792
6,407,829	7,791	6,415,620
72,762,201	-	72,762,201
18,081,326	(18,081,326)	-
257,744,434	**(14,599,267)**	**243,145,167**
82,786,906	25,299,980	108,086,886
1,082,980,849	342,719,224	1,425,700,073
$ 1,165,767,755	**$ 368,019,204**	**$ 1,533,786,959**

See Notes to Financial Statements

CITY OF ONTARIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

		Special Revenue Funds		
	General	Quiet Home Program	Community Development	Ontario Housing Authority
Assets:				
Cash and investments	$ 103,426,746	$ 2,136,416	$ -	$ 24,546,153
Receivables:				
Accounts	24,935,205	1,842,633	1,993,238	971
Accrued interest	387,672	-	-	55,149
Taxes	327,134	-	-	-
Contracts and notes	12,279	-	8,527,170	10,068,545
Prepaid costs	88,410	-	-	1,696
Deposits with others	-	-	5,000	-
Due from other funds	3,214,867	-	-	-
Inventories	129,656	-	-	-
Advances to other funds	-	-	6,122,938	-
Advances to Successor Agency	3,500,000	-	-	-
Land held for resale	-	55,146,898	51,050	18,000,551
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ 136,021,969**	**$ 59,125,947**	**$ 16,699,396**	**$ 52,673,065**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ 2,872,633	$ 1,015,661	$ 40,502	$ 61,312
Accrued liabilities	6,604,724	19,826	3,459	36,337
Deferred revenues	9,402,346	-	4,921,904	3,270,729
Unearned revenues	506,529	1,165,754	-	250,000
Deposits payable	12,461,206	-	-	2,895
Due to other governments	-	-	3,605,265	-
Due to other funds	-	-	1,665,180	-
Advances from other funds	-	-	-	6,122,938
Advances from Successor Agency	-	-	-	-
Total Liabilities	**31,847,438**	**2,201,241**	**10,236,310**	**9,744,211**
Fund Balances:				
Nonspendable	3,730,345	55,146,898	6,178,988	24,855,725
Restricted	403,914	1,777,808	284,098	18,073,129
Committed	41,613,880	-	-	-
Assigned	58,426,392	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	**104,174,531**	**56,924,706**	**6,463,086**	**42,928,854**
Total Liabilities and Fund Balances	**$ 136,021,969**	**$ 59,125,947**	**$ 16,699,396**	**$ 52,673,065**

CITY OF ONTARIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Capital Projects Fund	Debt Service Fund		
	Impact Fees	Redevelopment Area #1	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and investments	$ 50,338,129	$ -	$ 40,916,484	$ 221,363,928
Receivables:				
Accounts	-	-	1,863,595	30,635,642
Accrued interest	112,471	-	79,457	634,749
Taxes	-	-	14,216	341,350
Contracts and notes	-	-	-	18,607,994
Prepaid costs	-	-	7,257	97,363
Deposits with others	-	-	168,674	173,674
Due from other funds	-	-	-	3,214,867
Inventories	-	-	-	129,656
Advances to other funds	-	-	-	6,122,938
Advances to Successor Agency	-	-	-	3,500,000
Land held for resale	-	-	19,004,301	92,202,800
Restricted assets:			-	
Cash and investments	723,670	-	5,299,682	6,023,352
Cash and investments with fiscal agents	-	-	4,995,081	4,995,081
Total Assets	**$ 51,174,270**	**$ -**	**$ 72,348,747**	**$ 388,043,394**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ 3,697,004	$ -	$ 3,001,719	$ 10,688,831
Accrued liabilities	-	-	1,225,218	7,889,564
Deferred revenues	-	-	166,258	17,761,237
Unearned revenues	-	-	-	1,922,283
Deposits payable	-	-	329,565	12,793,666
Due to other governments	-	-	-	3,605,265
Due to other funds	302,792	-	1,246,895	3,214,867
Advances from other funds	2,770,000	-	-	8,892,938
Advances from Successor Agency	-	-	1,600,000	1,600,000
Total Liabilities	**6,769,796**	**-**	**7,569,655**	**68,368,651**
Fund Balances:				
Nonspendable	-	-	19,180,232	109,092,188
Restricted	-	-	33,052,866	53,591,815
Committed	44,404,474	-	9,881,988	95,900,342
Assigned	-	-	2,664,225	61,090,617
Unassigned	-	-	(219)	(219)
Total Fund Balances	**44,404,474**	**-**	**64,779,092**	**319,674,743**
Total Liabilities and Fund Balances	**$ 51,174,270**	**$ -**	**$ 72,348,747**	**$ 388,043,394**

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CITY OF ONTARIO

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Fund balances of governmental funds		$ 319,674,743
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity		
Capital assets	$ 969,706,552	
Accumulated depreciation	(123,046,101)	846,660,451
Long-term debt and compensated absences have not been included in the governmental fund activity:		
Lease Revenue bonds		(41,285,000)
Bond premium to be amortized		(450,560)
Compensated absences		(9,436,135)
Bond issuance cost is an expenditure in the governmental funds, but it is a deferred charge in the statement of net assets		1,170,994
Governmental funds report all OPEB contributions as expenditures, however in the Statement of Net Assets any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.		(40,661,480)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds		(806,888)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.		17,761,237
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net assets.		73,140,393
Net assets of governmental activities		**$ 1,165,767,755**

CITY OF ONTARIO

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

		Special Revenue Funds		
	General	Quiet Home Program	Community Development	Ontario Housing Authority
Revenues:				
Taxes	$ 120,015,168	$ -	$ -	$ -
Licenses and permits	1,639,061	-	-	-
Intergovernmental	5,633,006	8,661,688	4,091,987	5,431,753
Charges for services	8,471,447	-	-	-
Use of money and property	15,045,740	13,928	391,782	539,949
Fines and forfeitures	1,198,816	-	-	-
Miscellaneous	28,960,198	-	-	44,954
Total Revenues	**180,963,436**	**8,675,616**	**4,483,769**	**6,016,656**
Expenditures:				
Current:				
General government	20,135,192	-	-	-
Public safety	109,848,832	-	223,982	-
Community development	16,974,140	6,041,146	2,054,229	3,906,248
Library	4,049,363	-	-	-
Public works	14,973,234	-	183,614	-
Debt service:				
Principal retirement	20,710,000	-	-	-
Interest and fiscal charges	2,973,914	-	-	33,478
Pass-through agreement payments	-	-	-	-
Total Expenditures	**189,664,675**	**6,041,146**	**2,461,825**	**3,939,726**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,701,239)	2,634,470	2,021,944	2,076,930
Other Financing Sources (Uses):				
Transfers out	(2,726,634)	-	(153,451)	(435,815)
Transfers in	22,444,200	-	-	2,386,489
Total Other Financing Sources (Uses)	**19,717,566**	**-**	**(153,451)**	**1,950,674**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	-	-	-	29,377,711
Net Change in Fund Balances	$ 11,016,327	$ 2,634,470	$ 1,868,493	$ 33,405,315
Fund Balances:				
Beginning of year, as previously reported	$ 90,602,779	$ 54,290,236	$ 4,594,593	$ 9,523,539
Restatements	2,555,425	-	-	-
Beginning of year, as restated	93,158,204	54,290,236	4,594,593	9,523,539
Net Change in Fund Balances	11,016,327	2,634,470	1,868,493	33,405,315
End of year	**$ 104,174,531**	**$ 56,924,706**	**$ 6,463,086**	**$ 42,928,854**

See Notes to Financial Statements

CITY OF ONTARIO

STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Capital Projects Fund	Debt Service Fund		
	Impact Fees	Redevelopment Area #1	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ -	$ 18,491,085	$ 11,538,551	$ 150,044,804
Licenses and permits	-	-	-	1,639,061
Intergovernmental	-	-	13,907,489	37,725,923
Charges for services	6,634,941	-	2,590,649	17,697,037
Use of money and property	616,210	(302,724)	1,402,810	17,707,695
Fines and forfeitures	-	-	3,900	1,202,716
Miscellaneous	-	-	1,076,698	30,081,850
Total Revenues	**7,251,151**	**18,188,361**	**30,520,097**	**256,099,086**
Expenditures:				
Current:				
General government	-	17,006,845	14,282,165	51,424,202
Public safety	-	-	886,148	110,958,962
Community development	935,139	-	23,592,260	53,503,162
Library	-	-	-	4,049,363
Public works	4,485,323	-	1,000,377	20,642,548
Debt service:				
Principal retirement	-	3,504,400	1,040,623	25,255,023
Interest and fiscal charges	-	5,862,300	7,448,859	16,318,551
Pass-through agreement payments	-	1,879,651	754,506	2,634,157
Total Expenditures	**5,420,462**	**28,253,196**	**49,004,938**	**284,785,968**
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,830,689	(10,064,835)	(18,484,841)	(28,686,882)
Other Financing Sources (Uses):				
Transfers out	-	(11,953,804)	(34,392,146)	(49,661,850)
Transfers in	-	4,430,814	39,231,673	68,493,176
Total Other Financing Sources (Uses)	**-**	**(7,522,990)**	**4,839,527**	**18,831,326**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	**-**	9,695,931	(44,299,501)	(5,225,859)
Net Change in Fund Balances	$ 1,830,689	$ (7,891,894)	$ (57,944,815)	$ (15,081,415)
Fund Balances:				
Beginning of year, as previously reported	$ 42,573,785	$ 7,891,894	$ 125,279,332	$ 334,756,158
Restatements	-	-	(2,555,425)	-
Beginning of year, as restated	42,573,785	7,891,894	122,723,907	334,756,158
Net Change in Fund Balances	1,830,689	(7,891,894)	(57,944,815)	(15,081,415)
End of year	**$ 44,404,474**	**$ -**	**$ 64,779,092**	**$ 319,674,743**

See Notes to Financial Statements

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CITY OF ONTARIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds		$ (15,081,415)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period		
Capital outlay	$ 20,629,670	
Depreciation	(15,015,249)	5,614,421
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Whereas, issuance of long-term debt is a current financial resource in the governmental funds, but the issuance increase long-term debt in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and deferral on loss of refunding when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Long-term debt repayments:		
Tax allocation bonds	4,149,400	
Lease Revenue bonds	20,710,000	
Loans payable	395,623	
Increased in accreted interest on capital appreciation bonds	(857,277)	
Bond premium amortization	256,487	24,654,233
Debt issuance costs are expenditures in governmental funds, but these costs are capitalized on the statement of net assets		(90,699)
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.		3,269,790
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		(144,878)
Governmental funds report all contributions in relation to the annual required contribution (ARC) for Other Post Employment Benefits (OPEB) as expenditures, however, in the Statement of Activities only the ARC is an expense.		(10,992,668)
Revenues reported as deferred revenue in the governmental funds and recognized in the Statement of Activities. These are included in the intergovernmental revenues in the governmental fund activity.		(6,845,831)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.		4,415,893
Extraordinary gains and losses relating to capital assets and long term liabilities transferred to the Successor Agency are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.		
Long-term liabilities	78,735,677	
Unamortized bond issuance costs	(747,617)	77,988,060
Change in net assets of governmental activities		**$ 82,786,906**

See Notes to Financial Statements

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1, as restated	$ 93,158,204	$ 93,158,204	$ 93,158,204	$ -
Resources (Inflows):				
Taxes	108,700,000	111,200,000	120,015,168	8,815,168
Licenses and permits	1,063,000	1,313,000	1,639,061	326,061
Intergovernmental	2,910,546	8,783,126	5,633,006	(3,150,120)
Charges for services	3,979,124	6,744,124	8,471,447	1,727,323
Use of money and property	3,811,570	1,361,570	15,045,740	13,684,170
Fines and forfeitures	911,000	1,111,000	1,198,816	87,816
Miscellaneous	7,717,570	7,741,505	28,960,198	21,218,693
Transfers in	28,371,925	25,989,288	22,444,200	(3,545,088)
Amounts Available for Appropriation	**250,622,939**	**257,401,817**	**296,565,840**	**39,164,023**
Charges to Appropriation (Outflow):				
General government				
City council	320,162	320,162	290,766	29,396
Planning commissioners	30,905	30,905	22,032	8,873
City treasurer/city clerk	88,788	88,788	74,679	14,109
Records management	770,557	770,557	733,465	37,092
City attorney	389,900	595,487	577,716	17,771
City manager	483,430	483,430	481,626	1,804
General government	1,070,142	1,472,733	9,749,525	(8,276,792)
AS administration	480,242	484,387	449,400	34,987
Fiscal services	1,483,702	1,481,871	1,434,368	47,503
Management services	1,280,102	1,280,102	1,527,471	(247,369)
Billing and collection	2,902,118	2,907,785	2,720,306	187,479
Business license	297,052	297,052	291,115	5,937
Central services	307,806	307,806	264,469	43,337
Employee select. and compliance	1,291,630	1,291,630	1,150,659	140,971
Benefits administration	283,161	283,161	265,669	17,492
City administration	220,329	220,329	230,025	(9,696)
RDA administration & economic development	43,775	43,775	(128,099)	171,874
Public safety				
Police administration	1,068,201	1,068,447	729,923	338,524
Command management	347,813	347,813	351,580	(3,767)
Traffic support services	3,476,422	3,476,422	3,513,528	(37,106)
COPS/Multi enforcement team	4,544,022	4,544,022	4,481,360	62,662
Storefront - Ontario Mills	2,346,345	2,346,345	2,371,295	(24,950)
Patrol	24,350,700	24,232,545	24,699,253	(466,708)
Extra duty - other	368,000	368,000	464,837	(96,837)
Special Operations Bureau Management	300,072	300,072	310,119	(10,047)
Canine	937,427	938,427	1,029,722	(91,295)
Air support	2,503,643	6,045,496	5,887,522	157,974
Crime analysis	292,068	292,068	282,913	9,155
Personnel recruitment	472,920	472,920	496,203	(23,283)
Record processing	1,417,396	1,417,396	1,244,683	172,713
Communications	5,592,855	5,595,979	4,858,082	737,897
Crime prevention	419,487	419,487	340,023	79,464
Personnel traininig	1,078,783	1,078,783	982,681	96,102
Police investigation management	296,328	296,328	310,377	(14,049)
Detective division	6,578,469	6,578,469	6,834,236	(255,767)
Narcotics	4,048,739	4,048,739	4,299,626	(250,887)
ID/evidence	1,572,920	1,572,920	1,529,214	43,706

See Notes to Financial Statements

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2012 (Continued)

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Public safety (continued)				
Fire administration	612,904	617,404	683,132	(65,728)
Fire prevention bureau	2,121,408	2,146,408	1,949,915	196,493
Emergency services	29,242,840	29,242,840	29,809,112	(566,272)
Personnel traininig and development	764,033	772,333	778,510	(6,177)
E.M.S technical services	1,053,411	1,053,411	970,474	82,937
Disaster management	250,818	250,818	240,527	10,291
Operations support services	1,752,015	1,752,015	1,595,133	156,882
Code enforcement	2,265,270	2,143,811	2,705,462	(561,651)
SWAT	297,678	307,766	292,748	15,018
Office of the police chief	1,589,499	1,589,499	1,703,705	(114,206)
Police projects	918,408	4,154,326	2,376,428	1,777,898
Fire projects	185,794	2,565,520	1,726,509	839,011
Community development				
Community and public services admin.	737,824	747,299	744,353	2,946
Sports/fitness	415,928	417,001	401,756	15,245
Special events/facility rental	316,952	354,061	255,286	98,775
Community programs	1,269,860	1,292,849	1,295,230	(2,381)
Development administration	797,170	754,170	740,164	14,006
Planning administration	486,320	486,320	463,954	22,366
Planning - current	1,419,405	1,802,380	1,655,633	146,747
Advance long range planning	789,237	926,364	738,625	187,739
Building administration	360,712	360,712	351,130	9,582
Building inspection	1,867,363	1,867,363	1,746,408	120,955
Engineering administration	253,307	253,307	234,233	19,074
Land development	1,506,394	1,716,485	1,498,756	217,729
Traffic signal/street lighting	1,868,745	1,872,013	1,653,306	218,707
Traffic management	120,978	121,609	111,295	10,314
Field services	201,795	203,967	192,067	11,900
Museum	449,703	463,803	435,298	28,505
Community outreach	1,813,926	1,843,926	1,749,727	94,199
Public facilities	151,204	-	-	-
Senior services	442,110	456,610	434,657	21,953
Youth/teen services	761,441	780,976	734,582	46,394
Museum projects	95,668	128,066	46,345	81,721
CIP design administration	20,555	20,555	508	20,047
Planning projects	943,670	1,241,944	883,756	358,188
Temp Homeless Services	-	-	20,274	(20,274)
Municipal Utility projects	-	1,211	1,211	-
Community & public services projects	500	3,155	-	3,155
Traffic	640,818	640,818	585,586	55,232
Library				
Library administration	645,726	645,726	573,467	72,259
Library support services	490,435	490,435	480,390	10,045
Main library	2,536,052	2,519,758	2,418,683	101,075
Branch library	534,383	520,835	504,432	16,403
Library projects	57,133	99,252	72,391	26,861
Public works				
Municipal utilities admin.	361,454	361,454	328,473	32,981
Roadway maintenance	1,461,114	1,461,114	965,490	495,624
Paint and striping	400,846	400,846	359,029	41,817
Sidewalk	1,393,161	1,393,161	1,284,205	108,956

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Public works (continued)				
Street lighting maintenance	437,070	439,487	423,418	16,069
Sign repair and construction	356,949	356,949	329,253	27,696
Parks and maintenance supervision	693,843	708,644	683,307	25,337
Park maintenance	3,055,102	3,069,620	2,756,738	312,882
Parkway tree trimming	856,450	963,853	964,860	(1,007)
Public ground maintenance	2,398,947	2,330,147	2,027,462	302,685
Civic center ground maintenance	110,387	142,387	86,157	56,230
Civic center building maintenance	1,739,338	1,739,338	1,521,295	218,043
Public works building maintenance	543,600	543,600	535,831	7,769
Park building maintenance	965,074	965,074	891,046	74,028
Police facility building maintenance	982,831	982,831	842,257	140,574
Community events	38,646	38,646	21,024	17,622
Graffiti	446,453	446,453	436,945	9,508
Facility maintenance	499,100	577,845	516,444	61,401
Debt service:				
Principal retirement	1,495,000	1,495,000	20,710,000	(19,215,000)
Interest and fiscal charges	2,973,914	2,973,914	2,973,914	-
Transfers out	6,231,482	4,248,521	2,726,634	1,521,887
Total Charges to Appropriations	**164,246,564**	**173,068,643**	**192,391,309**	**(19,322,666)**
Budgetary Fund Balance, June 30	**$ 86,376,375**	**$ 84,333,174**	**$ 104,174,531**	**$ 19,841,357**

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
QUIET HOME PROGRAM
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 54,290,236	$ 54,290,236	$ 54,290,236	$ -
Resources (Inflows):				
Intergovernmental	13,175,000	20,618,980	8,661,688	(11,957,292)
Use of money and property	6,000	6,000	13,928	7,928
Amounts Available for Appropriation	**67,471,236**	**74,915,216**	**62,965,852**	**(11,949,364)**
Charges to Appropriation (Outflow):				
Community development	13,181,000	20,624,980	6,041,146	14,583,834
Total Charges to Appropriation	**13,181,000**	**20,624,980**	**6,041,146**	**14,583,834**
Budgetary Fund Balance, June 30	**$ 54,290,236**	**$ 54,290,236**	**$ 56,924,706**	**$ 2,634,470**

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
COMMUNITY DEVELOPMENT
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 4,594,593	$ 4,594,593	$ 4,594,593	$ -
Resources (Inflows):				
Intergovernmental	6,454,435	6,919,762	4,091,987	(2,827,775)
Use of money and property	-	-	391,782	391,782
Amounts Available for Appropriation	**11,049,028**	**11,514,355**	**9,078,362**	**(2,435,993)**
Charges to Appropriation (Outflow):				
Public safety	223,982	223,982	223,982	-
Community development	6,077,002	6,358,629	2,054,229	4,304,400
Public works	-	183,700	183,614	86
Transfers out	153,451	153,451	153,451	-
Total Charges to Appropriation	**6,454,435**	**6,919,762**	**2,615,276**	**4,304,486**
Budgetary Fund Balance, June 30	**$ 4,594,593**	**$ 4,594,593**	**$ 6,463,086**	**$ 1,868,493**

CITY OF ONTARIO

BUDGETARY COMPARISON STATEMENT
ONTARIO HOUSING AUTHORITY
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 9,523,539	$ 9,523,539	$ 9,523,539	$ -
Resources (Inflows):				
Intergovernmental	23,663,188	23,302,125	5,431,753	(17,870,372)
Use of money and property	-	-	539,949	539,949
Contributions	-	764,167	-	(764,167)
Miscellaneous	-	-	44,954	44,954
Other debts issued	1,482,313	586,439	-	(586,439)
Transfers in	-	-	2,386,489	2,386,489
Extraordinary gain on dissolution of redevelopment agency	-	-	29,377,711	(29,377,711)
Amounts Available for Appropriation	**34,669,040**	**34,176,270**	**47,304,395**	**(45,627,297)**
Charges to Appropriation (Outflow):				
Community development	25,112,001	24,619,231	3,906,248	20,712,983
Debt service:				
Interest and fiscal charges	33,500	33,500	33,478	22
Transfers out	-	-	435,815	(435,815)
Total Charges to Appropriation	**25,145,501**	**24,652,731**	**4,375,541**	**20,277,190**
Budgetary Fund Balance, June 30	**$ 9,523,539**	**$ 9,523,539**	**$ 42,928,854**	**$ (25,350,107)**

See Notes to Financial Statements

CITY OF ONTARIO

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water	**Sewer**	**Solid Waste**	**Total**	
Assets:					
Current:					
Cash and investments	$ 79,352,887	$ 33,094,077	$ 37,543,549	$ 149,990,513	$ 88,199,365
Receivables:					
Accounts	7,257,659	2,026,740	3,055,874	12,340,273	79,003
Accrued interest	193,596	81,639	88,001	363,236	150,866
Prepaid costs	4,794	538	2,153	7,485	37,327
Inventories	18,975,834	126,007	-	19,101,841	497,389
Restricted:					
Cash and investments	2,002,469	169,230	-	2,171,699	-
Cash with fiscal agent	4,267,828	-	-	4,267,828	-
Total Current Assets	**112,055,067**	**35,498,231**	**40,689,577**	**188,242,875**	**88,963,950**
Noncurrent:					
Advances to other funds	-	-	2,770,000	2,770,000	-
Deferred Charges	551,194	-	-	551,194	-
Investment in joint venture	32,190,026	-	-	32,190,026	-
Other investments	201,750	-	-	201,750	-
Capital assets - net of accumulated depreciation	143,892,400	36,333,812	5,396,463	185,622,675	16,707,445
Total Noncurrent Assets	**176,835,370**	**36,333,812**	**8,166,463**	**221,335,645**	**16,707,445**
Total Assets	**$288,890,437**	**$ 71,832,043**	**$ 48,856,040**	**$ 409,578,520**	**$ 105,671,395**
Liabilities and Net Assets:					
Liabilities:					
Current:					
Accounts payable	$ 2,580,148	$ 1,563,133	$ 1,232,611	$ 5,375,892	$ 731,109
Accrued liabilities	187,834	80,854	266,101	534,789	224,055
Unearned revenues	-	-	136,403	136,403	-
Deposits payable	3,386,247	-	910,326	4,296,573	-
Accrued compensated absences	32,000	15,000	34,000	81,000	36,000
Accrued claims and judgments	-	-	-	-	2,512,000
Bonds, notes, and capital leases	1,145,000	-	-	1,145,000	-
Total Current Liabilities	**7,331,229**	**1,658,987**	**2,579,441**	**11,569,657**	**3,503,164**
Noncurrent:					
Accrued compensated absences	365,119	170,402	393,031	928,552	414,190
Accrued claims and judgments	-	-	-	-	13,205,000
Bonds, notes, and capital leases	44,469,755	-	-	44,469,755	-
Total Noncurrent Liabilities	**44,834,874**	**170,402**	**393,031**	**45,398,307**	**13,619,190**
Total Liabilities	**52,166,103**	**1,829,389**	**2,972,472**	**56,967,964**	**17,122,354**
Net Assets:					
Invested in capital assets	-	36,333,812	5,396,463	41,730,275	16,707,445
Invested in capital assets, net of related debt	98,277,645	-	-	98,277,645	-
Restricted for debt service	4,267,828	-	-	4,267,828	-
Unrestricted	134,178,861	33,668,842	40,487,105	208,334,808	71,841,596
Total Net Assets	**236,724,334**	**70,002,654**	**45,883,568**	**352,610,556**	**88,549,041**
Total Liabilities and Net Assets	**$288,890,437**	**$ 71,832,043**	**$ 48,856,040**	**$ 409,578,520**	**$ 105,671,395**

Reconciliation of Net Assets to the Statement of Net Assets

Net Assets per Statement of Net Assets - Proprietary Funds	$ 352,610,556
Prior years' accumulated adjustment to reflect the consolidation of internal service funds activities related to the enterprise funds	14,066,526
Current years' adjustments to reflect the consolidation of internal service activities related to enterprise funds	1,342,122
Net Assets per Statement of Net Assets	$ 368,019,204

See Notes to Financial Statements

CITY OF ONTARIO

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water	Sewer	Solid Waste	Total	
Operating Revenues:					
Sales and service charges	$ 51,875,704	$ 18,790,698	$ 28,922,493	$ 99,588,895	$ 28,421,706
Interdepartmental charges	1,293,606	56,402	409,808	1,759,816	-
Miscellaneous	2,312,701	1,571,543	493,690	4,377,934	78,842
Total Operating Revenues	**55,482,011**	**20,418,643**	**29,825,991**	**105,726,645**	**28,500,548**
Operating Expenses:					
Administration and general	3,272,824	1,335,530	659,857	5,268,211	8,776,089
Source of supply	8,786,573	-	-	8,786,573	6,666,762
Pumping	4,055,606	-	-	4,055,606	-
Transmission/collection	6,608,377	1,895,261	21,481,429	29,985,067	-
Treatment	-	7,771,242	-	7,771,242	-
Claims expense	-	-	-	-	3,955,538
Depreciation expense	4,091,095	882,648	127,822	5,101,565	3,428,739
Total Operating Expenses	**26,814,475**	**11,884,681**	**22,269,108**	**60,968,264**	**22,827,128**
Operating Income (Loss)	28,667,536	8,533,962	7,556,883	44,758,381	5,673,420
Nonoperating Revenues (Expenses):					
Interest revenue	2,473,084	486,465	514,719	3,474,268	834,595
Interest expense	(2,436,905)	-	-	(2,436,905)	-
Grant revenue	-	-	290,724	290,724	-
Loss on joint venture	(4,047,284)	-	-	(4,047,284)	-
Total Nonoperating Revenues (Expenses)	**(4,011,105)**	**486,465**	**805,443**	**(2,719,197)**	**834,595**
Income (Loss) Before Transfers	24,656,431	9,020,427	8,362,326	42,039,184	6,508,015
Transfers in	-	-	-	-	90,000
Transfers out	(8,614,670)	(4,187,001)	(5,279,655)	(18,081,326)	(840,000)
Changes in Net Assets	16,041,761	4,833,426	3,082,671	23,957,858	5,758,015
Net Assets:					
Beginning of year	220,682,573	65,169,228	42,800,897	328,652,698	82,791,026
End of Fiscal Year	**$ 236,724,334**	**$ 70,002,654**	**$ 45,883,568**	**$ 352,610,556**	**$ 88,549,041**

Reconciliation of Changes in Net Assets to the Statement of Activities:

Changes in Net Assets, per the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	$ 23,957,858
Adjustment to reflect the consolidation of current fiscal year internal service funds activities related to enterprise funds	1,342,122
Changes in Net Assets of Business-Type Activities per Statement of Activities	$ 25,299,980

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds				
	Water	Sewer	Solid Waste	Total	Governmental Activities- Internal Service Funds
Cash Flows from Operating Activities:					
Cash received from customers and users	$ 57,105,989	$ 20,529,643	$ 30,403,802	$ 108,039,434	$ 28,678,604
Cash paid to suppliers for goods and services	(21,285,294)	(9,454,762)	(21,536,375)	(52,276,431)	(11,795,586)
Cash paid to employees for services	(3,256,140)	(1,311,910)	(676,853)	(5,244,903)	(8,747,740)
Net Cash Provided (Used) by Operating Activities	**32,564,555**	**9,762,971**	**8,190,574**	**50,518,100**	**8,135,278**
Cash Flows from Non-Capital Financing Activities:					
Cash transfers in	-	-	-	-	90,000
Cash transfers out	(8,614,670)	(4,187,001)	(5,279,655)	(18,081,326)	(840,000)
Grant subsidy	-	-	373,589	373,589	-
Net Cash Provided (Used) by Non-Capital Financing Activities	**(8,614,670)**	**(4,187,001)**	**(4,906,066)**	**(17,707,737)**	**(750,000)**
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of capital assets	(6,898,172)	(266,883)	(189,668)	(7,354,723)	(2,975,132)
Principal paid on capital debt	(1,100,000)	-	-	(1,100,000)	-
Interest paid on capital debt	(2,457,929)	-	-	(2,457,929)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	**(10,456,101)**	**(266,883)**	**(189,668)**	**(10,912,652)**	**(2,975,132)**
Cash Flows from Investing Activities:					
Interest received	2,483,565	482,441	519,872	3,485,878	-
Investment on joint ventures	(4,047,284)	-	-	(4,047,284)	852,797
Net Cash Provided (Used) by Investing Activities	**(1,563,719)**	**482,441**	**519,872**	**(561,406)**	**852,797**
Net Increase (Decrease) in Cash and Cash Equivalents	**11,930,065**	**5,791,528**	**3,614,712**	**21,336,305**	**5,262,943**
Cash and Cash Equivalents at Beginning of Year	73,693,119	27,471,779	33,928,837	135,093,735	82,936,422
Cash and Cash Equivalents at End of Year	**$ 85,623,184**	**$ 33,263,307**	**$ 37,543,549**	**$ 156,430,040**	**$ 88,199,365**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss)	$ 28,667,536	$ 8,533,962	$ 7,556,883	$ 44,758,381	$ 5,673,420
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:					
Depreciation	4,091,095	882,648	127,822	5,101,565	3,428,739
(Increase) decrease in accounts receivable	1,329,745	111,000	567,251	2,007,996	178,056
(Increase) decrease in prepaid expense	387	504	(1,055)	(164)	(23,953)
(Increase) decrease in inventories	(6,223,511)	(438)	-	(6,223,949)	(59,636)
(Increase) decrease in investment in joint venture	4,047,285	-	-	4,047,285	-
Increase (decrease) in accounts payable	341,101	211,675	(53,891)	498,885	(1,089,697)
Increase (decrease) in accrued liabilities	15,049	11,604	17,112	43,765	24,889
Increase (decrease) in deposits payable	294,233	-	10,560	304,793	-
Increase (decrease) in compensated absences	1,635	12,016	(34,108)	(20,457)	3,460
Total Adjustments	**3,897,019**	**1,229,009**	**633,691**	**5,759,719**	**2,461,858**
Net Cash Provided (Used) by Operating Activities	**$ 32,564,555**	**$ 9,762,971**	**$ 8,190,574**	**$ 50,518,100**	**$ 8,135,278**
Non-Cash Investing, Capital, and Financing Activities:					
Amortization of deferred cost	$ (23,965)	$ -	$ -	$ (23,965)	$ -
Amortization of bond premium	44,989	-	-	44,989	-

See Notes to Financial Statements

CITY OF ONTARIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Funds	Private-Purpose Trust Fund Successor Agency of the Former RDA
Assets:		
Cash and investments	$ 60,836,421	$ 11,485,044
Receivables:		
Accounts	9,183	390
Taxes	8,649	-
Notes and loans	-	35,000
Accrued interest	116,251	11,491
Prepaid costs	17,449	11,219
Deposits	5,332	-
Advances to City	-	1,600,000
Land held for resale	-	302,124
Deferred charges	-	721,877
Other investments	237,554,767	-
Restricted assets:		
Cash and investments	-	2,414,563
Cash and investments with fiscal agents	4,038,801	3,279,644
Total Assets	**$ 302,586,853**	**19,861,352**
Liabilities:		
Accounts payable	$ 587,165	$ 5,067,332
Accrued liabilities	-	34,818
Accrued interest	-	2,839,885
Deposits payable	-	172,500
Due to other governments	222,407,232	-
Advances from City	-	3,500,000
Due to bondholders	8,254,060	-
Available for other post employment benefits	71,338,396	-
Long-term liabilities:		
Due in one year	-	4,515,632
Due in more than one year	-	74,796,924
Total Liabilities	**$ 302,586,853**	**90,927,091**
Net Assets:		
Held in trust for other purposes		(71,065,739)
Total Net Assets		**$ (71,065,739)**

See Notes to Financial Statements

CITY OF ONTARIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2012

	Private-Purpose Trust Fund Successor Agency of the Former RDA
Additions:	
Taxes	$ 13,796,564
Interest and change in fair value of investments	1,345
Total Additions	**13,797,909**
Deductions:	
Administrative expenses	3,140,003
Contractual services	5,518,941
Interest expense	3,442,503
Total Deductions	**12,101,447**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	**(72,762,201)**
Changes in Net Assets	**(71,065,739)**
Net Assets - Beginning of the Year	-
Net Assets - End of the Year	**$ (71,065,739)**

See Notes to Financial Statements

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

a. Description of Entity

The reporting entity is a municipal corporation governed by an elected mayor and a four-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Ontario, California (the City) and its component units, entities for which the City is considered financially accountable. Blended component units, although legally separate entities are, in substance, part of the Government's operation, so data from these units are combined herein. The following criteria were used in the determination of blended units:

1. The members of the City Council also act as the governing body of the Industrial Development Authority, the Ontario Redevelopment Financing Authority and the Ontario Housing Authority.

2. The Authorities are managed by employees of the City. A portion of the City's salary and overhead expenses are billed to the Ontario Housing Authority each year.

The City of Ontario was incorporated December 10, 1891, under the general laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities.

Blended Component Units

The Ontario Redevelopment Agency (the Agency) was activated November 1, 1977, pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Development Law." The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse arising from poor and inadequate planning, inadequate street layout and street access, lack of open space, landscaping and other improvements and facilities necessary to establish and maintain the economic growth of the City. The Redevelopment Agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X 26. See Note 18 for more information on the dissolution.

The Industrial Development Authority was established August 18, 1981, pursuant to the California Industrial Development Financing Act (AB74). The law authorizes limited issuance of small-issue industrial development bonds to assist private industry. The sole function of the Authority is to review and approve the issuance of bonds to finance eligible projects.

Note 1: Summary of Significant Accounting Policies (Continued)

The Ontario Redevelopment Financing Authority was established November 5, 1991, pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7 of Title 1 of the California Government Code in order to jointly exercise powers of the Agency and the City, and to establish a vehicle to reduce local borrowing costs and promote greater use of existing and new financial instruments.

The Ontario Housing Authority was established on December 2, 1997. The primary purpose of the Authority is to assist property owners in rejuvenating and improving substandard housing conditions within the City.

Since the governing body of the Agency and the Authorities are the same, their data has been blended into that of the financial reporting entity. Complete financial statements for the Authorities can be obtained by writing to:

City of Ontario
Fiscal Services Department
303 East "B" Street
Ontario, CA 91764

Other governmental agencies providing services either to the City in its entirety or to a portion thereof are:

State of California	County of San Bernardino
Metropolitan Water District	Inland Empire Utilities Agency
Ontario-Upland Treatment Plant Authority	Riverside City Community College District
Chino Valley Unified School District	Jurupa Unified School District
Chaffey Joint Union High School District	Cucamonga School District
Upland School District	Monte Vista County Water District
Cucamonga Valley Water District	

Financial data for joint ventures that do not meet the criteria for inclusion within the reporting entity have been reported in the footnotes (see Note 12).

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and other items not properly included among program revenues are reported instead as general revenues.

Note 1: Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. Once it has been determined whether a fund is to measure changes in total economic resources or changes in current financial resources, the next issue to be addressed is the timing of the recognition of transactions and events. The technical term that describes the criteria governing the timing of the recognition of transactions and events is "basis of accounting."

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for sales taxes and grant revenue where the government considers revenue to be available if collected within 90 days and 180 days respectively of the end of current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City's fiduciary funds consist of agency funds and a private purpose trust fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust fund funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Note 1: Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

- 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 Quiet Home Program Fund accounts for the Federal Aviation Administration grant funds used for residential sound insulation of dwellings located in the airport noise impact area.

- The Community Development Fund accounts for the Community Development Block Grant, HOME Grant, and Neighborhood Stabilization Program. These grants accounts for the financial transactions as prescribed by the Federal Housing and Urban Development.

- The Ontario Housing Authority Fund accounts for low and moderate housing set aside funds to implement various programs and projects to assist in affordable housing.

- The Impact Fees Fund accounts for revenues from developer-paid impact fees for infrastructure construction.

- The Ontario Redevelopment Agency Project Area #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 #1. The Redevelopment Agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X 26. See Note 16 for more information.

The City reports the following major proprietary funds:

- The Water Enterprise Fund accounts for the operation and maintenance of the City's water distribution system.

- The Sewer Enterprise Fund accounts for the financial transactions of the City's waste water collection system.

- The Solid Waste Enterprise Fund accounts for the collection and disposal of solid waste from industrial, commercial and residential users throughout the Ontario area.

Additionally, the City reports the following fund types:

- Internal Service Funds account for financial transactions related to repair, replacement and maintenance of City-owned equipment, the City's self-insurance programs, and the City's general information systems and telecommunications hardware and software. These services are provided to other departments or agencies of the City on a cost reimbursement basis.

Note 1: Summary of Significant Accounting Policies (Continued)

- Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds account for assets held for specific uses that are not part of the City's operating activities; specifically, monies held by the City as an agent for property owners with special assessments and monies collected from individuals, private organization or other government who have made special deposits with the City for various purposes.

- Private-purpose trust funds are used to accounts for the assets and liabilities of the former redevelopment agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former redevelopment agency are paid in full and assets have been liquidated.

Private-sector standards of accounting and financial reporting issued prior to December 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds and of the Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprises Funds and Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 1: Summary of Significant Accounting Policies (Continued)

d. Assets, Liabilities and Net Assets or Equity

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are shown as both unrestricted and restricted cash and investments.

Investments are reported at fair value, which is the quoted market price at June 30, 2012. The City's policy is generally to hold investments until maturity or until market values equal or exceed cost. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Functional Classifications

Expenditures of the Governmental Funds are classified by function. Functional classifications are defined as follows:

- General Government includes legislative activities, which have a primary objective of providing legal and policy guidelines for the City. Also included in this classification are those activities that provide management or support services across more than one functional area.

- Public Safety includes those activities that involve the protection of people and property.

- Community Development includes those activities that involve the enhancing of the general quality of life.

- Library includes those activities that involve the community library system.

- Public Works includes those activities that involve the maintenance and improvement of City streets, roads and parks.

- Debt Service includes those activities that account for the payment of long-term debt principal, interest and fiscal charges.

Note 1: Summary of Significant Accounting Policies (Continued)

Inventories, Prepaid Items and Land Held for Resale

All inventories are valued at cost using the first-in/first-out (FIFO) method, except for water stock inventory which is valued at market value at the end of the fiscal year. Inventories in the Internal Service Funds consist of expendable supplies held for consumption, whereas in the Enterprise Funds, it represents water stock in the water utility fund and expendable supplies held for consumption in both water utility and sewer utility funds. Inventory costs are recorded as expenditure when used.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the purchases method.

Land purchased for resale is capitalized as inventory at acquisition costs or net realizable value if lower.

Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, sidewalks and similar items) and intangible assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets and infrastructure are defined by the City as assets with an initial, individual cost of more than $5,000 and $50,000 respectively (amount not rounded) and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The Governmental Accounting Standards Board (GASB) issued Statement No. 34, which requires the inclusion of infrastructure capital assets in local government's basic financial statements. The City defines infrastructure as long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets (non-infrastructure assets). Infrastructure assets are normally stationary in nature and are of value only to the government entity. They are basic physical assets that allow the government entity to function. Examples include street systems, water purification and distribution systems, sewer collection and treatment systems, parks and recreation lands and improvement systems, storm water conveyance systems, bridges, tunnels, dams and buildings combined with the site

Note 1: Summary of Significant Accounting Policies (Continued)

amenities such as parking and landscaped areas used by the government entity in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into concrete and asphalt pavements, concrete curb and gutters, sidewalks, medians, street lights, traffic control devices (signs, signals and pavement markings), landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

In accordance with GASB Statement No. 34, the City has elected the Modified Approach for reporting its pavement system. In 1999, the City commissioned a physical condition assessment of the streets, which was completed and dated July 15, 1999. These streets, primarily asphalt concrete, were defined as all physical features associated with the operation of motorized vehicles that exist within the limits of right of way. This condition assessment will be performed every three years. Each street was assigned a physical condition on 17 potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned to each street and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned the physical characteristics of a new street.

The following conditions were defined: excellent condition was assigned to those segments with a rating between 86 to 100, very good condition was assigned a rating between 71 to 85, good condition was assigned a rating between 56 to 70, fair condition was assigned a rating between 41 to 55, poor condition was assigned with a rating between 26 to 40, very poor condition was assigned with a rating between 11 to 25, and a failed condition was assigned to those segments with a rating between 0 to 10.

The City's policy, relative to maintaining the street assets, is to maintain the existing weighted average rate of "Good", which is a PCI index range between 56 and 70. This rating allows minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds.

A detailed description of the modified approach for the City's infrastructure capital assets can be found in the Required Supplementary Information section.

For all other capital assets, structures and improvements, furniture and equipment, infrastructure and intangible assets, the City has elected to use the Basic Approach as defined by GASB Statement No. 34. Accordingly, these capital assets are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Structures and improvements	20 - 99
Furniture and equipment	5 - 25
Intangible assets – software	5
Infrastructure	20 - 99

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. City employees receive from 10 to 25 days vacation each year, depending on the length of service. All vacation pay is accrued when incurred in the government-wide financial statements and in the proprietary funds financial statements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the City is bound to honor constraints on the specific purposes for which amounts can be spent.

Nonspendable fund balance (inherently nonspendable)
Restricted fund balance (externally enforceable limitations on use)
Committed fund balance (self-imposed limitations on use)
Assigned fund balance (limitation resulting from intended use)
Unassigned fund balance (residual net resources)

The City Council, as the City's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as adoption of an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use through the same type of formal action taken to establish the commitment. City Council action to commit fund balance needs to occur within the fiscal reporting period; however the amount can be determined subsequently.

Note 1: Summary of Significant Accounting Policies (Continued)

Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. Pursuant to the City's fund balance policy established by the City Council by resolution, it has delegated the authority to assign amounts to be used for specific purposes to the City Manager or Finance Director for the purpose of reporting these amounts on the annual financial statements.

Pursuant to the City's fund balance policy, the City Council's goal is to achieve a minimum of 18% of the annual General Fund appropriation, as Assigned Fund Balance in the General Fund. This is intended to be used for specific and defined emergency events.

The City consider restricted fund balance to have been spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

Property Tax Revenue

Property tax revenue is recognized on the basis of the National Council of Government Accounting (NCGA) Interpretation No. 3, (adopted by GASB) that is, in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The County of San Bernardino collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy is made July 1, and covers the fiscal period July 1 to June 30.

All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent if unpaid on August 31.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. General Budget Policies

1. The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.

2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. All amendments made during the year are included in the budgetary amounts reported herein. The "appropriated budget" covers all City expenditures, including capital improvement projects carried forward

Note 2: Stewardship, Compliance and Accountability (Continued)

from the prior year, which is re-appropriated each year. Actual expenditures may not exceed budgeted appropriations at the fund level, which is the legal level of control. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

3. Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Appropriations that are encumbered lapse at year-end and then are added to the following year budgeted appropriations.

4. Budgets for the General, Special Revenue, Capital Projects and Debt Service Funds are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items. Budget comparisons are not presented for the Proprietary Funds, as the City is not legally required to adopt a budget for these type funds.

5. Capital projects are budgeted through the Capital Projects Fund. Appropriations for capital projects authorized, but not constructed or completed during the year, are re-appropriated in the following year's budget.

6. Under Article XIII-B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset by a deficit in the following year. For the fiscal year ended June 30, 2012, based on calculations by City staff, proceeds of taxes did not exceed appropriations.

   Further, Section 5 of Article XIII-B allows the City to designate a portion of fund balance for general contingencies to be used for any purpose. On August 10, 1996, the City Council passed Resolution 96-073 setting aside all unappropriated fund balances in the General Fund as a contingency fund.

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

As of June 30, 2012, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	$ 320,581,726
Business-type activities	156,430,040
Fiduciary funds	82,054,473
Total Cash and Investments	$ 559,066,239

Note 3: Cash and Investments (Continued)

The City of Ontario follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on monthly cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Deposits

At June 30, 2012, the carrying amount of the City's deposits was $4,950,995 and the bank balance was $4,174,295. The $776,700 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110% of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are insured by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the City maintains cash deposits that are temporary covered by this provision.

Investments

Under provision of the City's investment policy, and in accordance with the California Government Code, the following investments are authorized:

- United States Treasury Bills, Notes and Bonds
- Banker's Acceptances with a maturity not to exceed 180 days

Note 3: Cash and Investments (Continued)

- Commercial paper rated “A1” by Standard and Poor’s and “P1” by Moody’s Investor Services, and issued by a domestic corporation having assets in excess of $500 million and having an “A” or better rating on its long-term debentures as provided by Moody’s or Standard and Poor’s
- Negotiable Certificates of Deposits with a nationally or state chartered bank
- Repurchase Agreements with primary dealer of the Federal Reserve Bank of New York, which the City has entered into a master repurchase agreement
- Local Agency Investment Fund
- Time Deposits
- Medium-Term Notes of a maximum of five years maturity issued by corporations organized and operating within the United States with a minimum rating of “A” by both Moody’s and Standard & Poor’s and in excess of $500 million in shareholder equity
- United States Government Agency’s Mortgage pass-through security with a maximum five-year maturity and rated “AAA” by both Moody’s and Standard and Poor’s
- Obligations issued by various agencies of the Federal Government including, but not limited to, the Federal Farm Credit Bank System, the Federal Home Loan Bank System, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association as well as such agencies or enterprises which may be created. There is no percentage limitation on the dollar amount which can be invested in Agency issues in total, no more than 20% of the cost value of the portfolio may be invested in the securities of any one issuer.
- The City’s policy reflects California State Government Code very closely while being even more restrictive in terms of allocations and maturities. For example, State Code allows a 30% allocation to corporate medium-term notes and puts no limitation on individual allocation. Ontario’s policy requires that no more than 3% of the fund be invested in any one corporate name and that no more than half of the 30% allocation be invested in securities with rating lower than AA.

Investment Authorized by Debt Agreements

The above investments do not address investment of debt proceeds held by a bond trustee. Investments of debt proceeds held by a bond trustee are governed by provisions of debt agreements, rather than the general provisions of the California Government Code or the City’s investment policy.

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer’s Office audits the fund annually. The fair value of the position in the investment pool is the same as the value of the pool shares.

Note 3: Cash and Investments (Continued)

GASB Statement No. 31

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Credit Risk

As of June 30, 2012, the City's investment in medium-term notes consisted of investments with various corporations and were rated “A2” to “Aaa” by Moody’s and “A-” to “AA” by Standard & Poor’s. Investment in government agencies issued by the Federal National Mortgage Association, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation and the Federal Farm Credit Banks were rated “Aaa” by Moody’s and “AA+” by Standard & Poor’s.

All securities were investment grade and were legal under State and City law. Investments in U.S. Treasury securities are not considered to have credit risk; therefore, their credit quality is not disclosed. As of June 30, 2012, the City's investments in external investment pools and money market mutual funds are unrated.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2012, none of the City’s deposits or investments was exposed to custodial credit risk.

Concentration of Credit Risk

The City is in compliance with restrictions imposed by its investment policy, which limits certain types of investments. In accordance with GASB Statement No. 40, if the City has invested more than 5% of its investments in any one issuer, then a separate disclosure is needed. Investments in Federal National Mortgage Association (FNMA) and Federal Farm Credit Bank represented 16% and 9%, respectively of the City cash and investment at June 30, 2012, and are considered exposed to credit risk.

Investments guaranteed by the U.S. government and investments in mutual funds and external investment pools are excluded from this requirement.

Note 3: Cash and Investments (Continued)

Interest Rate Risk

The City's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's investment policy states that weighted average of the City's portfolio will be limited to two and a half years. The only exception to these maturity limits shall be the investment of the gross proceeds of tax-exempt bonds. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2012, the City had the following investments and original maturities:

	Remaining Investment Maturities					
	6 months or less	6 months to 1 year	1 to 3 years	3 to 5 years	More than 5 years	Fair Value
Investments:						
US Treasury	$ 10,003,910	$ 35,086,535	$ 152,745,994	$ 61,194,540	$ -	$ 259,030,979
Federal Government Agency	23,044,143	20,466,870	105,519,675	3,031,860	-	152,062,548
Medium-Term Corporate Notes	10,108,570	10,351,135	30,864,195	17,569,132	-	68,893,032
Money Market Funds	10,986,462	-	-	-	-	10,986,462
Local Agency Investment Fund	46,560,869	-	-	-	-	46,560,869
Total Cash Investments	100,703,954	65,904,540	289,129,864	81,795,532	-	537,533,890
Investments with Fiscal Agents:						
Money Market Funds	15,595,744	-	-	-	-	15,595,744
Medium-Term Corporate Notes	-	-	-	-	985,610	985,610
Total Investments with Fiscal Agent	15,595,744	-	-	-	985,610	16,581,354
Total Investments	$ 116,299,698	$ 65,904,540	$ 289,129,864	$ 81,795,532	$ 985,610	$ 554,115,244

Note 4: Contracts and Notes Receivable

Contracts and notes receivable as of June 30, 2012, totaled $18,607,994 and were recorded as follows:

General Fund	$ 12,279
Community Development	8,527,170
Ontario Housing Authority	10,068,545
Total Contracts and Notes Receivable	$ 18,607,994

The City provides loans to City police officers to assist them to acquire personal residence within the City or to reduce an existing loan on an officer’s residence within the City. The loans are non-interest bearing until maturity and thereafter interest shall be 7% per annum. The outstanding balance at June 30, 2012 was:	$ 12,279
In order to assist those individuals and families who are the most in need, the Ontario Housing Department provides loans to low and moderate income residents for the acquisition and rehabilitation of single-family homes, condominiums or townhouses located within the Ontario HUD Revitalization Target Area. The balance at June 30, 2012 was:	2,561,762

Note 4: Contracts and Notes Receivable (Continued)

On June 7, 1994, the Ontario Redevelopment Agency's Combined Low and Moderate Housing Fund loaned $43,000 to a developer to finance the purchase of low and moderate income property located outside of redevelopment project areas. The note is non-interest bearing and was due in full on March 7, 1995. A new note was negotiated on November 11, 1996, and will mature on October 31, 2026. The receivable balance at June 30, 2012 was:	$43,000 *
On June 7, 1994, the Ontario Redevelopment Agency's Combined Low and Moderate Housing Fund loaned $39,000 to a developer to finance the purchase of low and moderate income property located outside of redevelopment project areas. The note is non-interest bearing and was due in full on March 7, 1995. A new note was negotiated on November 8, 1996, and will mature on October 31, 2026. The receivable balance at June 30, 2012 was:	39,000 *
On March 16, 1993, the Ontario Redevelopment Agency accepted a note receivable of $112,000 from a developer as consideration for housing located outside of the redevelopment areas. The note is non-interest bearing and is due and payable upon the sale or transfer of property. The unpaid principal balance at June 30, 2012 was:	89,005 *
On October 4, 1994, the Redevelopment Agency loaned a developer, Cichon, $135,030 to finance the cost of rehabilitation and construction of a low and moderate income residence located in the Center City Project Area. On December 5, 1995, the Agency loaned an additional $4,647, bringing the total amount to $139,677. During the fiscal year ended June 30, 2000, the Agency advanced an additional $254. The note is a 25-year amortized loan and bears interest at 5% annually. The receivable balance at June 30, 2012 was:	84,920 *
On May 29, 1997, the Ontario Redevelopment Agency agreed to loan up to $2,656,200 to Ontario Housing Investors, L.P. to finance development of residential improvements to the Ground Lease premises as defined in a disposition and development agreement dated March 19, 1996. The note bears interest at the rate of 3% per annum. The note is due and payable either: (a) on the first day of the first full calendar month following the date of the last disbursement of the agency loan proceeds, or (b) on the first day of the 15th full calendar month following the date of recordation of the Agency Loan Deed and Trust in the Official Records of the county. The receivable balance at June 30, 2012 was:	4,682,022 *
On May 23 2011, the Ontario Redevelopment Agency loaned $20,940 under the OPEN House Loan Program. The note is non-interest bearing and is due and payable upon the sale or transfer of property. The unpaid principal balance at June 30, 2012 was:	20,940 *

* As a result of the dissolution of the Redevelopment Agency, the note receivable was transferred from the former Redevelopment Agency to the Ontario Housing Authority.

Note 4: Contracts and Notes Receivable (Continued)

Pursuant to the disposition and development agreement dated August 12, 2003, between the Ontario Redevelopment Agency and the Ontario Senior Housing, Inc., the Agency accepted a promissory note for the principal amount of $950,000. This promissory note bears a rate of 0% per annum and is secured by a deed of trust. The receivable balance at June 30, 2012 was:	$950,000 *
The City uses Community Development Block Grant (CDBG) and HOME funds in a custodial capacity to provide housing rehabilitation loans and grants to eligible applicants. The City makes deferred loans to low and moderate income families based on income and residency guidelines. These loans have been secured by a note and deed of trust. The deferred loan is due and payable when the title of the property changes. The balance at June 30, 2012 was:	3,605,265
Pursuant to the disposition and development agreement between the Ontario Redevelopment Agency and D Street Senior Housing, Inc., the Agency approved a gap loan in the amount of $1,276,909 to provide new housing development opportunities to address regional needs. The Agency gap loan is a zero percent residual receipts note that will be paid from available cash flow over the term of the affordable covenant period of the project. The receivable balance at June 30, 2012 was:	1,200,909 *
Pursuant to the disposition and development agreement between the Ontario Housing Authority and Ontario Senior Housing Partners, LP, the Agency approved a gap loan in the amount of $5,155,500 to provide new housing development opportunities to address regional needs. The Agency gap loan will have a 55 year term with an interest rate of 1% simple interest. The loan will be paid back utilizing 85% of the residual cash flow. Any remaining balance at the end of the 55 year term is due and payable. The receivable balance at June 30, 2012 was:	5,017,383
On June 23, 2011, the Ontario Redevelopment Agency's Combined Low and Moderate Housing Fund loaned $40,180 to assist first time homebuyers. During the current year, the Agency loaned an additional $259,477. The note bears interest at the rate of 1% per annum. The note is due and payable either: (a) thirty (30) years from the Date of Recordation; (b) upon sale, transfer, lease, or encumbrance of all or any interest in the Property without Lender’s prior written consent, except for a transfer permitted under written circumstances; (c) the maturity date, or full repayment, of any debt that is secured by a lien on the Property that is a senior to the lien of the Deed of Trust; or (d) upon Borrower’s failure to occupy the Property as Borrower’s principal place of residence during the first five (5) years after the Date of Recordation. The receivable balance at June 30, 2012 was:	301,509 *
Total Contracts and Notes	$18,607,994

* As a result of the dissolution of the Redevelopment Agency, the note receivable was transferred from the former Redevelopment Agency to the Ontario Housing Authority.

Note 5: Capital Assets

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure in the government-wide financial statements. The City elected to use the "modified approach" as defined by GASB Statement No. 34 for its infrastructure street pavement system. As a result, no accumulated depreciation or depreciation expense has been recorded for this system. A more detailed discussion of the "modified approach" is presented in the Required Supplementary Information section of this report. All other capital assets including other infrastructure systems were reported using the basic approach, whereby accumulated depreciation and depreciation expense has been recorded. The following table presents summary information on the governmental activity infrastructure assets for the fiscal year ending June 30, 2012:

	Infrastructure		
	Historical Cost	Accumulated Depreciation	Net Cost at June 30, 2012
Governmental Activities:			
Modified Approach:			
Streets pavement system	$ 297,018,892	$ -	$ 297,018,892
Basic Approach:			
Curbs	47,803,528	10,855,385	36,948,143
Storm drains and gutters	25,960,596	5,532,698	20,427,898
Sidewalks and handicap ramps	38,300,860	8,493,338	29,807,522
Bridges	104,800,705	22,574,758	82,225,947
Traffic signals/street lighting	15,205,229	2,993,328	12,211,901
	$ 529,089,810	$ 50,449,507	$ 478,640,303

Note 5: Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	$ 40,045,778	$ 2,829,560	$ -	$ -	$ 42,875,338
Infrastructure - pavement system	296,013,615	-	-	1,005,277	297,018,892
Construction in progress	51,954,097	11,327,335	-	(9,046,000)	54,235,432
Total Capital Assets, Not Being Depreciated	388,013,490	14,156,895	-	(8,040,723)	394,129,662
Capital assets, being depreciated:					
Infrastructure - other systems	230,343,160	-	-	1,727,758	232,070,918
Structures and improvements	348,344,948	7,522,874	(1,471,518)	6,312,965	360,709,269
Furniture and equipment	26,093,489	1,941,711	(206,474)	-	27,828,726
Total Capital Assets, Being Depreciated	604,781,597	9,464,585	(1,677,992)	8,040,723	620,608,913
Less accumulated depreciation:					
Infrastructure - other systems	44,677,824	5,771,683	-	-	50,449,507
Structures and improvements	69,305,461	11,168,041	(1,465,126)	-	79,008,376
Furniture and equipment	20,604,720	1,504,264	(196,188)	-	21,912,796
Total Accumulated Depreciation	134,588,005	18,443,988	(1,661,314)	-	151,370,679
Total Capital Assets, Being Depreciated, Net	470,193,592	(8,979,403)	(16,678)	8,040,723	469,238,234
Governmental Activities Capital Assets, Net	$ 858,207,082	$ 5,177,492	$ (16,678)	$ -	$ 863,367,896

Note 5: Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital assets, not being depreciated:					
Land	$ 14,589,988	$ -	$ -	$ -	$ 14,589,988
Construction-in-progress	34,715,671	7,011,539	-	(20,261,678)	21,465,532
Total Capital Assets, Not Being Depreciated	49,305,659	7,011,539	-	(20,261,678)	36,055,520
Capital assets, being depreciated:					
Structures and improvements	9,241,939	-	-	-	9,241,939
Furniture and equipment	2,250,948	-	(16,367)	-	2,234,581
Infrastructure	196,576,896	343,184	-	20,261,678	217,181,758
Total Capital Assets, Being Depreciated	208,069,783	343,184	(16,367)	20,261,678	228,658,278
Less accumulated depreciation:					
Structures and improvements	1,446,552	296,760	-	-	1,743,312
Furniture and equipment	2,031,386	86,902	(16,367)	-	2,101,921
Infrastructure	70,527,987	4,717,903	-	-	75,245,890
Total Accumulated Depreciation	74,005,925	5,101,565	(16,367)	-	79,091,123
Total Capital Assets, Being Depreciated, Net	134,063,858	(4,758,381)	-	20,261,678	149,567,155
Business-Type Activities Capital Assets, Net	$ 183,369,517	$ 2,253,158	$ -	$ -	$ 185,622,675

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	$ 968,991
Public safety	1,417,358
Community development	7,191,118
Library	302,758
Public works	5,135,024
Equipment Services	3,045,034
Information Technology	383,705
	$ 18,443,988
Business-Type Activities:	
Water	$ 4,091,095
Sewer	882,648
Solid waste	127,822
	$ 5,101,565

Note 6: Interfund Receivable, Payable and Transfers

The composition of interfund balances as of June 30, 2012 is as follows:

Due To/From Other Funds

	Due to Other Funds			
Due from Other Funds	Community Development Fund	Impact Fees Fund	Nonmajor Governmental Funds	Total
General Fund	$ 1,665,180	$ 302,792	$ 1,246,895	$ 3,214,867
Total	$ 1,665,180	$ 302,792	$ 1,246,895	$ 3,214,867

The interfund balances at June 30, 2012 were the results of routine interfund transactions not cleared prior to the end of the fiscal year.

Advances To/From Other Funds

	Advances from Other Funds		
Advances to Other Funds	Ontario Housing Authority Fund	Impact Fees Fund	Total
Community Development Fund	$ 6,122,938	$ -	$ 6,122,938
Solid Waste	-	2,770,000	2,770,000
Total	$ 6,122,938	$ 2,770,000	$ 8,892,938

The Solid Waste fund loaned $2,770,000 to the Impact Fees fund for the OPD facility construction.

During prior years and the current year, the Community Development Fund has loaned $6,122,938 to the Ontario Housing Authority for the acquisition, relocation and rehabilitation of various properties.

Interfund Transfers

	Transfers Out									
Transfers In:	General Fund	Community Development	Ontario Housing Authority	Redevelopment Area #1 - Debt Service Fund	Water	Sewer	Solid Waste	Internal Service Funds	Nonmajor Governmental Funds	Total
General Fund	$ -	$ 153,451	$ -	$ -	$ 8,594,670	$ 4,167,001	$ 5,229,655	$ 840,000	$ 3,459,423	$ 22,444,200
Ontario Housing Authority	-	-	-	-	-	-	-	-	2,386,489	2,386,489
Redevelopment Area #1 - Debt Service Fund	-	-	-	-	-	-	-	-	4,430,814	4,430,814
Internal Service Funds	-	-	-	-	20,000	20,000	50,000	-	-	90,000
Nonmajor Governmental Funds	2,726,634	-	435,815	11,953,804	-	-	-	-	24,115,420	39,231,673
Total	$ 2,726,634	$ 153,451	$ 435,815	$ 11,953,804	$ 8,614,670	$ 4,187,001	$ 5,279,655	$ 840,000	$ 34,392,146	$ 68,583,176

Note 6: Interfund Receivable, Payable and Transfers (Continued)

The General Fund transferred $2,726,634 to Nonmajor Governmental Funds to fund the City's pavement management program and various parks and public facility capital improvement projects.

The Community Development Fund transferred $153,451 to the General Fund for the cost of departmental overhead.

The Ontario Housing Authority transferred land held for resale in the amount of $435,815 to the Capital Projects Fund.

The Redevelopment Area #1 – Debt Service Fund transferred a total of $11,953,804 to Nonmajor Governmental Funds, of which $5,000,000 was for capital project funding, $4,019,804 for payment of the ERAF loan and $2,934,000 for the payment of advances.

The Water, Sewer and Solid Waste Funds transferred $8,594,670, $4,167,001 and $5,229,655, respectively to the General Fund to cover the cost of operations. In addition, the Water, Sewer and Solid Waste Funds transferred a combined total of $90,000 to the Internal Service Funds to cover computer replacement and upgrades.

Note 7: Long-Term Debt

a. Long-Term Debt - Governmental Activities

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2012:

	Balance July 1, 2011	Accreted Interest	Additions	Deletions	Transfers to Successor Agency *	Balance June 30, 2012	Due Within One Year
Tax Allocation Bonds	$ 48,965,100	$ -	$ -	$ 225,200	$ 48,739,900	$ -	$ -
Revenue Bonds	82,160,522	857,277	-	24,634,200	17,098,599	41,285,000	1,290,000
Loans Payable	12,448,782	-	-	395,623	12,053,159	-	-
Other Post Employment Benefits Obligation	29,668,812	-	13,960,458	2,967,790	-	40,661,480	-
Claims and Judgments	15,717,000	-	2,511,840	2,511,840	-	15,717,000	2,512,000
Compensated Absences	9,737,987	-	248,982	100,644	-	9,886,325	132,000
Total	$ 198,698,203	$ 857,277	$ 16,721,280	$ 30,835,297	$ 77,891,658	107,549,805	$ 3,934,000
					Unamortized Bond Premium	450,560	
						$ 108,000,365	

* As a result of the dissolution of the Redevelopment Agency, indebtedness of the former Redevelopment Agency was transferred to the Successor Agency. See Note 20 for disclosure of indebtedness.

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Note 7: Long-Term Debt (Continued)

Revenue Bonds

2001 Lease Revenue Bonds

In August 2001, the Ontario Redevelopment Financing Authority issued revenue bonds in the amount of $31,705,000 to provide funds to finance the cost of acquisition, construction, and installation of certain capital improvements, including public safety, City library, public recreation and redevelopment improvements, facilities and equipment. The bonds dated August 1, 2001, and issued at a premium of $417,024 are payable from the rental payments to be made by the City of Ontario for the right to the use of certain property and facilities pursuant to a lease agreement dated November 1, 2001.

On April 2012, The City partially redeemed its bonds in the amount of $19,215,000 plus 1% premium in the amount of $192,150. The bonds will mature in August 2018. The balance at June 30, 2012, including the unamortized bond premium of $83,383, amounted to $5,563,383.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, including interest, are as follows:

	2001 Lease Revenue Bonds	
	Principal	Interest
2012-2013	$ 870,000	$ 248,318
2013-2014	910,000	211,373
2014-2015	950,000	170,888
2015-2016	1,000,000	122,013
2016-2017	1,055,000	65,500
2017-2018	695,000	54,731
Total	$ 5,480,000	$ 872,823

2007 Lease Revenue Bonds

In August 2007, the Ontario Redevelopment Financing Authority issued revenue bonds in the amount of $37,535,000 to provide funds to finance the cost of acquisition, construction, and installation of certain capital improvements, including a soccer/sports complex, City Hall Improvements and such other public facilities as may from time to time be designated by the City. The bonds dated August 1, 2007, and issued at a premium of $440,617 mature in 2036, and are payable semiannually on February 1 and August 1 of each year, commencing February 2008, from certain rental payments to be made by the City for the right to the use of properties and facilities pursuant to the 2001 Lease Agreement and First Amendment to the Lease Agreement, dated September 1, 2007. The balance at June 30, 2012, including the unamortized bond premium of $367,177, amounted to $36,172,177. The annual requirements to amortize the outstanding bond indebtedness as of June 30, including interest, are as follows:

Note 7: Long-Term Debt (Continued)

	2007 Lease Revenue Bonds	
	Principal	Interest
2012 - 2013	$ 420,000	$ 1,683,440
2013 - 2014	440,000	1,665,140
2014 - 2015	460,000	1,644,890
2015 - 2016	480,000	1,623,740
2016 - 2017	500,000	1,601,690
2017 - 2022	2,890,000	7,601,638
2022 - 2027	3,690,000	6,785,663
2027 - 2032	8,800,000	5,594,435
2032 - 2037	18,125,000	2,120,213
Total	$ 35,805,000	$ 30,320,849

Other Post Employment Benefits Obligation

The City's policies relating to other post employment benefits are described in Note 10 of the Notes to Financial Statements. The liability will be paid in future years by the Other Post Employment Benefits agency fund.

Claims and Judgments

The City's liability regarding self-insurance is described in Note 11 of the Notes to Financial Statements. The liability will be paid in future years from the Self Insurance Fund.

Compensated Absences

The City's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. For the governmental activities, the liability will be paid in future years by the General Fund.

b. Long-Term Debt - Business-Type Activities

The following is a summary of changes in Proprietary Fund long-term debt for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
2004 COP - Water System Improvement Project	$ 45,680,000	$ -	$ 1,100,000	$ 44,580,000	$ 1,145,000
Compensated Absences	1,030,009	13,651	34,108	1,009,552	81,000
Total	$ 46,710,009	$ 13,651	$ 1,134,108	45,589,552	$ 1,226,000
			Unamortized Bond Premium	1,034,755	
				$ 46,624,307	

Note 7: Long-Term Debt (Continued)

Certificates of Participation

2004 Certificates of Participation

In July 2004, the City issued certificates of participation, 2004 Water System Improvement Project, to finance and refinance certain water facilities of the City. The certificates dated July 15, 2006, were issued at a premium of $1,394,670 and consist of $30,285,000 serial certificates maturing in principal amount of $850,000 to $2,190,000 bearing interest ranging from 3.00% to 5.25% and $22,035,000 term certificates bearing interest at 5%. Interest is paid semi-annually each year commencing January 1, 2006, until final maturity on July 1, 2034.

The certificates represent proportionate undivided interests in certain installment payments and interest thereon, to be made by the City pursuant to an installment sale agreement dated July 1, 2004. The installment payments and interest thereon are secured by a pledge of net revenues of the City's water system. Total principal and interest remaining on the debt is $75,005,966 with annual debt service requirements as indicated below. For the current year, the pledge revenue from the City's water system was $51,755,917 and the debt service obligation on the bonds was $3,409,913. The balance at June 30, 2012, including the unamortized bond premium of $1,034,755, amounted to $45,614,755. The annual principal requirements to amortize the 2004 COP outstanding as of June 30, 2012, are as follows:

	2004 COP - Water System Improvement Project	
	Principal	Interest
2012 - 2013	$ 1,145,000	$ 2,265,913
2013 - 2014	1,200,000	2,208,663
2014 - 2015	1,260,000	2,148,663
2015 - 2016	1,325,000	2,085,663
2016 - 2017	1,390,000	2,019,413
2017 - 2022	8,090,000	8,957,763
2022 - 2027	10,445,000	6,603,638
2027 - 2032	13,390,000	3,657,250
2032 - 2037	6,335,000	479,000
Total	$ 44,580,000	$ 30,425,966

Compensated Absences

The City's policies relating to compensated absences are described in Note 1 of the Notes to Financial Statements. For the business-type activities, the liability will be paid in future years from the Proprietary Funds.

Note 7: Long-Term Debt (Continued)

c. Special Assessment Bonds

The City has entered into a number of Special Assessment Bond programs. The City of Ontario is not obligated in any manner for the Special Assessment Bonds as the bonds are secured by unpaid assessments against the property owners. Accordingly, the City is only acting as an agent for the property owners/bondholders in collecting and forwarding the special assessments. Special Assessment Bonds payable at June 30, 2012, totaled $19,990,000. This amount is not reported in the City's financial statements. The construction phase is reported in the Capital Projects Funds. Likewise, amounts recorded in the Agency Funds represent only debt service activities, i.e., collection from property owners and payment to bondholders.

d. Other Bond and Loan Programs

The City has entered into a number of bond programs to provide low-interest financing for various residential and industrial developments within the City. Although the City has arranged these financing programs, these debts are not payable from any revenues or assets of the City. Neither the faith or credit, nor the taxing power of the City, or any political subdivision of the City is pledged to repay the indebtedness. Generally, the bondholders may look only to assets held by trustees for security on the indebtedness. Accordingly, since these debts do not constitute an obligation of the City, they are not reflected in the accompanying financial statements.

Note 7: Long-Term Debt (Continued)

The Bond programs are as follows:

	Interest % Rate	Date Issued	Date Series Matures	Outstanding Balance at June 30, 2012
Multi-Family Mortgage Revenue Bonds:				
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Seasons at Gateway Plaza 1996 Series A	5.60 - 6.50	1996	2026	$ 1,200,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Seasons at Gateway Plaza 1996 Series B	Variable	1996	2026	740,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Woodside Senior III Apts 2004 Series A	6.25	2004	2034	2,448,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Waverly Place Apts 2004 Series B	6.25	2004	2034	7,047,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Waterford Court Apts 2005 Series A	6.25	2005	2035	6,165,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Woodside Senior II Apts 2004 Series C	6.25	2004	2034	1,513,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Cambridge Square Apts 2004 Series D	6.25	2004	2034	6,087,000
Ontario Redevelopment Agency Multi-Family Mortgage Revenue Bonds, Park Center Project 2005 Refunding	Variable	2005	2035	23,500,000
Total				$ 48,700,000

IV. OTHER INFORMATION

Note 8: Fund Balances

a. Governmental Fund Balance Classifications

Fund balances in governmental funds at June 30, 2012 have been classified as follows:

	Governmental Funds					
	General	Quiet Home Program	Community Development	Ontario Housing Authority	Impact Fees	Other Governmental Funds
Fund Balances:						
Nonspendable						
Inventory	$ 129,656	$ -	$ -	$ -	$ -	$ -
Prepaid costs	88,410	-	-	1,696	-	7,257
Deposits	-	-	5,000	-	-	168,674
Land held for resale	-	55,146,898	51,050	18,000,551	-	19,004,301
Notes and loans	12,279	-	-	6,853,478	-	-
Advances to other funds	3,500,000	-	6,122,938	-	-	-
Total Nonspendable	3,730,345	55,146,898	6,178,988	24,855,725	-	19,180,232
Restricted						
Endowment/Trust	403,914	-	-	-	-	-
Community development projects	-	1,777,808	284,098	-	-	24,430,890
Public safety	-	-	-	-	-	284,248
Police narcotics	-	-	-	-	-	2,320,495
AQMD activities	-	-	-	-	-	958,967
Low and moderate activities	-	-	-	18,073,129	-	-
Public services	-	-	-	-	-	3,319,589
Bond improvement projects	-	-	-	-	-	1,738,677
Total Restricted	403,914	1,777,808	284,098	18,073,129	-	33,052,866
Committed						
Museum board	65,000	-	-	-	-	-
Affordable housing	-	-	-	-	-	1,421,885
City facilities project	4,599,076	-	-	-	-	-
Public safety equipment	1,934,235	-	-	-	-	-
Communications/computer dispatch	1,925,897	-	-	-	-	-
Compensated absences	12,845,207	-	-	-	-	-
Capital Projects	-	-	-	-	-	8,460,103
Contractual obligations	179,302	-	-	-	-	-
Economic uncertainties	19,103,582	-	-	-	-	-
City infrastructure	-	-	-	-	44,404,474	-
Events center capital equipment	650,000	-	-	-	-	-
Ontario motor speedway	311,581	-	-	-	-	-
Total Committed	41,613,880	-	-	-	44,404,474	9,881,988
Assigned						
Equipment replacement	434,374	-	-	-	-	-
Continuing appropriations	2,391,784	-	-	-	-	2,664,225
Stability arrangement	35,111,918	-	-	-	-	-
Contractual obligations	18,968,036	-	-	-	-	-
Maintenance trust	1,520,280	-	-	-	-	-
Total Assigned	58,426,392	-	-	-	-	2,664,225
Unassigned	-	-	-	-	-	(219)
Total Fund Balances	**$104,174,531**	**$ 56,924,706**	**$ 6,463,086**	**$ 42,928,854**	**$ 44,404,474**	**$ 64,779,092**

Note 9: City Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description

The City of Ontario contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office located at 400 P Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 12.432% for non-safety employees, 30.963% for police safety employees and 25.883% for fire safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Required Contribution

For 2012, the City's contribution of $21,560,743 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method.

The summary of principal assumptions and methods used to determine the annual required contribution is shown below:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 years as of the Valuation Date for the miscellaneous plan, 29 years as of the Valuation Date for the safety police plan, and 32 years as of the Valuation Date for the safety fire plan.
Asset Valuation Method	15-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Note 9: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30 year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Three-Year Trend Information for PERS

Fiscal Year	Required Contribution	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous			
6/30/2010	$ 6,317,896	100%	$ -
6/30/2011	6,289,356	100%	-
6/30/2012	7,761,451	100%	-
Police			
6/30/2010	6,650,547	100%	-
6/30/2011	6,964,821	100%	-
6/30/2012	8,426,590	100%	-
Fire			
6/30/2010	4,870,231	100%	-
6/30/2011	4,879,212	100%	-
6/30/2012	5,372,702	100%	-

Schedule of Funding Progress for PERS
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/09:						
Miscellaneous	$ 186,323	$ 204,418	$ (18,095)	91.1 %	$ 38,565	46.9 %
Police	172,801	210,276	(37,475)	82.2	19,905	188.3
Fire	143,894	167,257	(23,363)	86.0	15,633	149.4
Total	$ 503,018	$ 581,951	$ (78,933)	86.4 %	$ 74,103	106.5 %
6/30/10:						
Miscellaneous	$ 195,659	$ 215,173	$ (19,514)	90.9 %	$ 37,313	52.3 %
Police	181,238	221,709	(40,471)	81.7	19,799	204.4
Fire	151,578	175,337	(23,759)	86.4	15,474	153.5
Total	$ 528,475	$ 612,219	$ (83,744)	86.3 %	$ 72,586	115.4 %
6/30/11:						
Miscellaneous	$ 206,377	$ 228,770	$ (22,393)	90.2 %	$ 37,027	60.5 %
Police	191,214	235,843	(44,629)	81.1	20,234	220.6
Fire	159,944	186,793	(26,849)	85.6	15,470	173.6
Total	$ 557,535	$ 651,406	$ (93,871)	85.6 %	$ 72,731	129.1 %

Note 10: Other Post Employment Benefits

Plan Description

The City has established the City of Ontario Retiree Healthcare Plan, a single-employer defined benefit healthcare plan. The plan, which is administered by the City, provides health insurance for its retired employees according to the Personnel Rules and Regulations for each of the seven employee groups. The City pays monthly health insurance benefits subjects to caps which vary by bargaining group. The authority to do so is included annually in the Memorandum of Understanding between the City and each of its employee groups and ultimately passed by Council action.

Funding Policy

The City funds retiree health benefits on a pay as you go basis, paying for retiree benefits from the City's Other Post Employment Benefits agency fund. For fiscal year 2011-2012, the City paid a total of $2,967,790 for retiree health insurance.

The required contribution is based on projected pay-as-you-go financing requirements with additional amount to prefund benefits as determined annually by the City under an actuarial valuation. The City has elected not to transfer assets into an irrevocable trust fund, but set aside contribution to its Other Post Employment Benefits agency fund. For fiscal year 2011-2012, the City transferred $17,504,198 to its agency fund.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	Fiscal Year Ended 6/30/2012
Annual required contribution	$ 14,524,000
Interest on OPEB obligation	1,409,269
Adjustment to annual required contribution	(1,972,811)
Annual OPEB cost	13,960,458
Contributions made	2,967,790
Increase (decrease) in net OPEB obligation	10,992,668
Net OPEB obligation - beginning of year	29,668,812
Net OPEB obligation - end of year	$ 40,661,480

Note 10: Other Post Employment Benefits (Continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011-12 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 11,433,475	22.2%	$ 20,623,347
6/30/2011	11,804,695	23.4%	29,668,812
6/30/2012	13,960,458	21.3%	40,661,480

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This is the latest information available.

Schedule of Funding Progress for OPEB
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2008	$ -	$ 122,120	$ (122,120)	- %	$ 71,845	170.0 %
6/30/2010	-	135,371	(135,371)	- %	68,602	197.3 %
6/30/2012	-	157,012	(157,012)	- %	70,513	222.7 %

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 10: Other Post Employment Benefits (Continued)

The actuarial valuation as of June 30, 2012 used the Entry Age Normal actuarial cost method. The actuarial assumptions included a 4.25% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and a general inflation rate of 3.0%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was twenty six years. As of the actuarial valuation date, the City had 989 active participants and 458 retirees receiving benefits.

Note 11: Self-Insurance Program

On December 22, 1974, the City initiated a program of self-insurance for workers' compensation liability claims. The City will pay all claims up to $500,000 per claim; amounts in excess of $500,000 are covered through an outside insurance carrier.

On January 1, 1975, the City initiated a program of self-insurance for unemployment liability claims. By this action, the City will pay all claims based on the individual reimbursement account method, as provided by the State of California.

On April 6, 1979, the City initiated a program of self-insurance for general liability claims. At present, the City will pay all claims up to $500,000 per claim arising from general liability claim actions brought against the City. Amounts in excess of $500,000 per claim are covered by the Authority for California Cities Excess Liability (ACCEL).

ACCEL is organized under a joint powers agreement pursuant to the California Government Code. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. ACCEL pools catastrophic general liability, automobile liability and public officials errors and omissions losses. The City purchased $19,500,000 coverage in excess of the $500,000 pool effective July 1, 2001.

The City has not experienced a significant reduction in insurance coverage from coverage in the prior year. Additionally, the amount of settlements has not exceeded budgeted coverage for each of the past three fiscal years.

The City has entered into contracts with third-party administrators who supervise the general liability, disability and unemployment insurance programs. When it is probable that a claims liability has been incurred and the amount of the loss can be reasonably estimated through historical trends and calculation of incurred but not reported claims (IBNR), the City accrues the estimated liability in an internal service fund for expected claims and judgments.

The following is a summary of the changes in the claims liability over the past two fiscal years:

Fiscal Year	Beginning Balance	Changes in Estimates	Claim Payments	Ending Balance
2010-2011	$ 13,436,086	$ 7,130,401	$ 4,849,487	$ 15,717,000
2011-2012	15,717,000	2,511,840	2,511,840	15,717,000

Note 12: Joint Ventures

Water Facilities Authority

On February 19, 1980, the Water Facilities Authority (Authority) was created under a joint exercise of powers agreement between the City of Chino, the City of Ontario, the City of Upland, the City of Chino Hills and the Monte Vista Water District. It was formed for the purpose of acquisition and construction of facilities directly benefiting the participants by supplying potable water to the inhabitants within the boundaries of its members. Thus, each participant has an ongoing financial interest in the Authority.

The governing Board of Directors consists of one member appointed from each participating agency and has approval of all budget and finance activities. The City's investment in the Authority has been recorded under the equity method of accounting and is shown as an investment in joint venture in the Water Enterprise Fund.

On September 30, 1997, the Authority issued $24,455,000 in 1997 Refunding Certificates of Participation (COPs) to refund $25,820,000 of then outstanding 1986 COPs. The 1997 Refunding COPs carry interest rates from 4.0% to 5.3% and will be repaid in various principal increments with the final payment due on October 1, 2015. Each participant in the joint venture has pledged gross revenues from its respective Enterprise Fund and has agreed to restrictive covenants that establish rates and charges for each respective water enterprise fund at levels sufficient to maintain net revenues equal to at least 1.25 times the aggregate amount of each respective party's installment payments to the Authority as well as any parity debt that shall become due and payable within the succeeding twelve months. Each City has an ongoing financial responsibility as each has assumed a portion of the Authority's debt. The City of Ontario's percentage share of the installment payment is 41.51681% and the outstanding balance at June 30, 2012, for which the City is responsible is $2,418,354. At June 30, 2012, the City's investment in the Authority, including its share of Authority's debt, was $8,207,720.

Audited financial information of the Authority for the fiscal year ended June 30, 2012, is summarized as follows:

Water Facilities Authority Net Assets:	
Total assets	$ 35,989,058
Total liabilities	11,772,955
Total net assets	$ 24,216,103
Water Facilities Authority Changes in Net Assets:	
Operating revenues	$ 17,890,880
Operating expenses	17,959,140
Operating gain before depreciation and amortization	(68,260)
Depreciation and amortization	1,061,277
Operating revenue (loss)	(1,129,537)
Nonoperating revenues (expenses)	288,767
Contributions	1,710,000
Change in net assets	869,230
Beginning net assets	23,346,873
Ending net assets	$ 24,216,103

Note 12: Joint Ventures (Continued)

The current participants and their financial contributions through June 30, 2012, were as follows:

	Amount	Percent
City of Chino	$ 5,819,102	15.6%
City of Chino Hills	5,354,632	14.3%
City of Ontario	12,649,778	33.9%
City of Upland	7,355,796	19.7%
Monte Vista Water District	6,035,268	16.2%
Non-Participant	107,399	0.3%
Total	$ 37,321,975	100.0%

Financial statements of the Water Facility Authority can be obtained from the offices of Charles Z. Fedak & Co., 6081 Orange Avenue, Cypress, California 90630.

West End Communications Authority

The "Authority" governed by a seven-member board is a joint exercise of powers between the following entities as created by a joint powers:

City of Chino	City of Upland
City of Montclair	Rancho Cucamonga Fire Protection District
City of Rancho Cucamonga	Chino Valley Independent Fire Protection District
City of Ontario	

The purpose of the Authority is to provide a cooperative voluntary association to establish operate and maintain a consolidated 800MHZ communication system designed to serve public safety agencies throughout the western end of San Bernardino County, California. The City has an ongoing financial interest in the residual assets of the Authority upon disbandment.

The following is a summary of the West End Communications Authority financial information for the fiscal year ended June 30, 2012:

Statements of Net Assets

Assets:	
Cash and investments	$ 985,477
Accrued Interest	2,423
Capital Assets, net of depreciation	117,231
Total Assets	$ 1,105,131
Net Assets	
Invested in capital assets	$ 117,231
Restricted for public safety	987,900
Total Net Assets	$ 1,105,131

Note 12: Joint Ventures (Continued)

Statement of Activities

Functions/Programs	Expenses	Program Revenues	Net Expenses and Changes in Net Assets
Public Safety	$ 117,645	$ -	$ (117,645)
		General revenues	13,155
		Changes in net assets	(104,490)
		Net assets at the beginning of the year	1,209,621
		Net assets at the end of the year	$ 1,105,131

Separate financial statements of the West End Communications Authority are available upon request from the City of Ontario, Fiscal Services Department, 303 East "B" Street, Ontario, California 91764.

West End Fire and Emergency Response Commission

On January 23, 1989, the West End Fire and Emergency Response Commission was created under the Joint Exercise Powers Agreement between the Fire Departments of the City of Ontario, Upland, Montclair, Rancho Cucamonga and Chino. The governing board of directors consists of the Fire Chief from each city. The purpose of the Authority is to establish a hazardous materials response team. It has been amended to include an Urban Search and Rescue Team and the servicing of joint authority breathing apparatus equipment for emergency purposes.

The following is a summary of the West End Fire and Emergency Response Commission financial information for the fiscal year ended June 30, 2012:

Statements of Net Assets

Assets:	
Cash and investments	$ 294,084
Capital assets	342,295
Other assets	18,211
Total Assets	654,590
Liabilities	
Accounts payable	1,805
Total Liabilities	1,805
Net Assets	
Invested in capital assets	342,295
Restricted for public safety	310,490
Total Net Assets	$ 652,785

Note 12: Joint Ventures (Continued)

Statement of Activities

Functions/Programs	Expenses	Program Revenues	Net Expenses and Changes in Net Assets
Public Safety	$ 103,350	$ 50,002	$ (53,348)
		General revenues	4,469
		Changes in net assets	(48,879)
		Net assets at the beginning of the year	701,664
		Net assets at the end of the year	$ 652,785

Separate financial statements of the West End Fire and Emergency Response Commission are available upon request from the City of Ontario, Fiscal Services Department, 303 East "B" Street, Ontario, California 91764.

Chino Basin Desalter Authority

On January 15, 2002, the Chino Basin Desalter Authority (the Authority) was created under a joint exercise of powers agreement between the City of Ontario and other neighboring government agencies. This agreement was formed to successfully manage the groundwater resources in the Chino Basin.

The governing Board of Director consists of one representative appointed from each participating agency and has the power and responsibility to adopt budgets, operating plans and finance activities to further the purpose of the Authority. As of June 30, 2012, the City's investment in the Authority was $23,982,306.

The financial information of the Authority for the fiscal year ended June 30, 2012, is summarized as follows:

Chino Basin Desalter Authority Net Assets:	
Total assets	$ 176,283,194
Total liabilities	97,180,586
Total net assets	$ 79,102,608
Chino Basin Desalter Authority Changes in Net Assets:	
Operating revenues	$ 31,643,709
Operating expenses	29,091,359
Operating gain before depreciation and amortization	2,552,350
Depreciation and amortization	4,165,536
Operating revenue (loss)	(1,613,186)
Nonoperating revenues (expenses)	2,775,639
Transfers and capital contributions	22,902,588
Change in net assets	24,065,041
Beginning net assets	55,037,567
Ending net assets	$ 79,102,608

Note 12: Joint Ventures (Continued)

The current participants and their financial contributions through June 30, 2012, were as follows:

	Amount	Percent
Jurupa Community Services District	$ 7,447,343	35.0%
City of Chino Hills	3,921,115	18.5%
City of Chino	4,669,807	22.0%
City of Norco	935,030	4.4%
City of Ontario	3,132,783	14.8%
Santa Ana River Co.	1,121,061	5.3%
Total	$ 21,227,139	100.00%

Financial statements of the Authority can be obtained from the CDA Treasurer's office located at 6075 Kimball Avenue, Chino, CA 91710.

Note 13: Contingencies

Liabilities

Numerous claims and suits have been filed against the City in the normal course of business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by self-insurance designations and insurance coverage.

Grant

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Other

Proposition 218, which was approved by the voters in November, 1996, will regulate the City's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments and fees are subject to the voter initiative process and may be rescinded in the future by the voters.

Therefore, the City's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. At this time, it is uncertain how Proposition 218 will affect the City's ability to maintain or increase the revenue it receives from taxes, assessments and fees.

Note 14: Commitments

Construction Commitments

The following material construction commitments existed at June 30, 2012:

Project Name	Contract Amount	Expenditures to date as of June 30, 2012	Remaining Commitments
Milliken Avenue Grade Separation	$ 3,302,871	$ 3,130,935	$ 171,936
2012 Pavement Rehabilitation	3,650,769	974,735	2,676,034

Note 15: Fund Balance Restatements

Beginning fund balance has been restated by $2,555,425 in the General Fund and $(2,555,425) in the Capital Project Fund for prior year interest income incorrectly recorded in the Capital Project fund instead of the General Fund.

Note 16: Other Investments

Other investments as of June 30, 2012, totaled $237,756,517 and were recorded as follows:

Proprietary Funds	$ 201,750
Fiduciary Funds	237,554,767
Total	$ 237,756,517

For the proprietary funds, the other investments represent a $201,750 security interest (at cost) in the San Antonio Water Company. For the fiduciary funds, $217,598,051 is interest in bonds issued by the Ontario Financing Authority and $19,956,716 represents water rights/stored water, air quality credits and land purchased by the Other Post-Employment Benefits agency fund to generate a revenue stream to fund post-employment benefits.

Note 17: California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB 1X 26 and 27 (*California Redevelopment Association v. Matosantos*). AB 1X 26 dissolves redevelopment agencies effective October 1, 2011. AB 1X 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of $1.7 billion. In 2012-13 and subsequent years, the payments totaled $400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB 1X 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB 1X 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

Note 17: California Redevelopment Agency Dissolution (Continued)

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in *California Redevelopment Association v. Matosantos.* The court upheld AB 1X 26 which dissolves redevelopment agencies, but invalidated in its entirety AB 1X 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB 1X 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB 1X 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: *http://www.leginfo.ca.gov/bilinfo.html*.

As of January 31, 2012 the Redevelopment Agency has been dissolved and the City of Ontario has elected to become the Successor Agency. In conjunction, the Ontario Housing Authority was designated to receive the transfer of all housing assets, obligations and housing functions previously performed by the Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Redevelopment Agency.

Note 18: Successor Trust For Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Ontario that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-001.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds was reported in the governmental funds as an extraordinary loss (or gain) in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund as an extraordinary gain (or loss).

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the trust funds (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Total extraordinary loss reported in the governmental funds - increase to net assets of the Succesory Agency Trust Fund	$ (5,225,859)
Long-term debt reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	77,988,060
Net decrease to net assets of the Successor Agency Trust Fund as a result of initial transfers (equal to amount of extraordinary gain reported in the government-wide financial statements of the City)	$ 72,762,201

a. Cash and investments

As of June 30, 2012, cash and investments were reported in the accompanying financial statements as follows:

Cash and investments	$ 11,485,044
Cash and investments, restricted	2,414,563
Cash and investments with fiscal agent	3,279,644
Total Cash and Investments	$ 17,179,251

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

b. Notes Receivable

On October 19, 1993, the Ontario Redevelopment Agency accepted a note receivable of $35,000 from a developer as part of a transaction involving the sale of property. The note bears interest at 0% annually and was due in full on June 20, 1995. A new note was negotiated on November 8, 1996, and will mature on October 31, 2026. The unpaid principal balance at June 30, 2012 was $35,000.

c. Advances to/from City

During previous fiscal year, the General Fund made a loan in the amount of $3,500,000 to the Successor Agency of the Former RDA for capital improvements and the Successor of the Former RDA loaned $1,600,000 to the Capital Project Fund for project improvements.

d. Long-Term Debt

The following debts were transferred from the Redevelopment Agency to the Successor Agency as of February 1, 2012 as a result of the dissolution:

	Balance July 1, 2011	Transfers from City	Additions	Deletions	Balance June 30, 2012	Due Within One Year
Fiduciary Activities						
Successor Agency of the Former RDA						
Tax Allocation Bonds						
1993 TABs	$ -	$ 44,780,244	$ -	$ -	$ 44,780,244	$ 226,842
1995 TABs	-	3,959,656	-	-	3,959,656	20,058
2002 Refunding Revenue Bonds	-	17,098,599	612,340 *	-	17,710,939	3,852,141
Loans Payable	-	12,053,159	-	-	12,053,159	416,591
Total	$ -	$ 77,891,658	$ 612,340	$ -	78,503,998	$ 4,515,632
			Unamortized Bond Premium		808,558	
					$ 79,312,556	

* Additions of $612,340 relates to Refunding Revenue Bonds accretion of interest.

1993 Tax Allocation Bond

The 1993 Tax Allocation Bonds in the amount of $45,708,900 were issued on June 11, 1993, to finance redevelopment activities related to Project Area #1. The Agency sold the bonds to the Financing Authority at a purchase price equal to the principal amount of the bonds plus a premium. The investment by the Authority in the bonds is held in an agency fund. The terms were negotiated in a prior year and reduced the outstanding principal balance by $800. Additionally, the maturity date was extended two years to August 1, 2025. The interest is paid semi-annually at the stated rate of 12%. The balance at June 30, 2012, amounted to $44,780,244.

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

The annual requirements to amortize the outstanding bond indebtedness as of June 30, including interest, are as follows:

	1993 Tax Allocation Bonds	
	Principal	Interest
2012 - 2013	$ 226,842	$ 5,360,019
2013 - 2014	258,907	5,330,874
2014 - 2015	283,254	5,298,344
2015 - 2016	322,301	5,262,011
2016 - 2017	1,901,649	5,128,574
2017 - 2022	19,853,850	19,969,046
2022 - 2027	21,933,441	4,851,990
Total	$ 44,780,244	$ 51,200,858

1995 Tax Allocation Bonds

On August 15, 1995, the Ontario Redevelopment Agency issued $4,041,700 in 1995 Tax Allocation Bonds. The bonds were sold to the Ontario Redevelopment Financing Authority at par plus premium. All proceeds of the 1995 Bonds will be used to finance redevelopment projects related to Project Area #1. The 1995 Bonds were issued on parity with the Agency's existing Project Area #1 1992 and 1993 Tax Allocation Bonds. The 1995 Bonds were issued with an interest rate of 12.00%, provided that the interest rate for the period from August 1, 1995 through July 1, 1996, shall be 10.55% per annum, the interest rate for the period from August 1, 1996 through July 31, 1997, shall be 11.70% per annum, and the interest for the period from August 1, 1997 through July 31, 1999, shall be 11.86% per annum. Interest is paid semi-annually each year and commenced February 1, 1996, until final maturity on August 1, 2025. The balance at June 30, 2012, amounted to $3,959,656.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, including interest, are as follows:

	1995 Tax Allocation Bonds	
	Principal	Interest
2012 - 2013	$ 20,058	$ 473,955
2013 - 2014	22,893	471,378
2014 - 2015	25,046	468,502
2015 - 2016	28,499	465,289
2016 - 2017	168,151	453,490
2017 - 2022	1,755,550	1,765,751
2022 - 2027	1,939,459	429,036
Total	$ 3,959,656	$ 4,527,401

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

2002 Refunding Revenue Bonds

In February 2002, the Ontario Redevelopment Financing Authority issued revenue bonds in the amount of $35,290,000 to provide funds to concurrently refund on a current basis a portion of the Authority's 1992 Revenue Bonds and certain outstanding tax allocation bonds of the Agency and to finance redevelopment activities within the Agency's Project Area #1, Center City and Cimarron redevelopment projects. The bonds issued at a premium of $1,702,231, consist of $17,472,433 capital appreciation bonds maturing annually through 2017 and $9,795,000 interest bonds with interest payable semiannually on February 1 and August 1 of each year and maturing in 2021. The bonds are secured by a pledge and a lien on a portion of the taxes levied on all taxable property within the related project of the Agency. The outstanding balance at June 30, 2012, amounted to $17,710,939 and was made up of $7,351,507 original issue and $10,359,432 accreted interest. The unamortized bond premium was $808,558.

The annual requirements to amortize the outstanding bond indebtedness as of June 30, including interest, are as follows:

	2002 Refunding Revenue Bonds	
	Principal	Interest
2012 - 2013	$ 3,852,141	$ 310,063
2013 - 2014	3,334,239	273,369
2014 - 2015	3,085,238	235,044
2015 - 2016	2,848,052	195,013
2016 - 2017	1,462,554	160,363
2017 - 2022	3,128,715	376,553
Total	$ 17,710,939	$ 1,550,405

Loans Payable

Pursuant to a loan agreement dated February 1, 2002, the Ontario Redevelopment Agency issued the Ontario Redevelopment Project #1 2002 Housing Set-Aside Loan in the amount of $15,145,000 to finance low and moderate income activities of the Agency within or of the benefit to the Ontario Redevelopment Agency Project Area #1. The loan matures in 2029 and is payable from Housing Tax Revenues allocated to the Agency. Interest is paid semi-annually at a rate of 5.30% per annum. The balance at June 30, 2012, amounted to $12,053,159.

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

At June 30, 2012, the annual requirements to repay the outstanding indebtedness were as follows:

	2002 FNMA Housing Set-Aside Loan	
	Principal	Interest
2012 - 2013	$ 416,591	$ 627,778
2013 - 2014	438,670	605,113
2014 - 2015	461,920	581,248
2015 - 2016	486,402	556,117
2016 - 2017	512,181	529,655
2017 - 2022	2,998,031	2,199,563
2022 - 2027	3,881,306	1,292,881
2027 - 3032	2,858,058	232,429
Total	$ 12,053,159	$ 6,624,784

Debt Service Requirements

The City pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) that it receives. The bonds issued were to provide financing for various capital projects, accomplish Low and Moderate Income Housing projects and to defease previously issued bonds. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is $142,407,446 with annual debt service requirements as indicated above. For the current year, the total property tax revenue recognized by the City and Successor Agency for the payment of indebtedness incurred by the dissolved redevelopment agency was $42,463,334 and the debt service obligation on the bonds was $11,228,333.

e. Commitments and Contingencies

On July 1, 2009, the Ontario Redevelopment Agency entered into an Operating Covenant and Facility Upgrade Loan with Staples Contract and Commercial, Inc. The operating covenant payment is capped at $900,000 per year, but may be adjusted downward if the sales tax generated falls below the 2009 calendar year base amount. The interest free loan for equipment shall not exceed $3,000,000 or 50% of the cost of the project. The Agency is to disburse the loan after Staples has spent the lesser of $3,000,000 of 50% of the cost of acquiring the equipment to complete the Ontario facility upgrade. If Staples leaves the City of Ontario before 2015, the remaining balance on the loan shall be due. Any remaining balance on the loan will be forgiven if Staples remains in Ontario through January 1, 2017. As of June 30, 2012, the Agency had not made any payments to Staples except for the yearly operating covenant payment of $1,800,000.

Note 18: Successor Trust For Assets of Former Redevelopment Agency (Continued)

The City and the Agency have entered into a development incentive and assistance agreement in which the City will reimburse a private corporation 50% of any sales tax actually received by the City, and the Agency will reimburse a portion of the property tax increment generated by the development. Both reimbursements are subject to certain conditions. Reimbursements shall be made so long as monies are available and will continue to the sooner of the following: 1) the expiration of 25 years after the commencement of operation of any part of the development; 2) the time at which sales taxes received by the City fall below $500,000 in any given calendar year after December 31, 1992; or 3) the time at which the total amount reimbursed pursuant to the agreement reaches $53,000,000.

f. Subsequent Events

Assembly Bill 1484 Due Diligence Review

Assembly Bill 1484 requires the successor agency to remit to the County auditor-controller three payments as determined by the auditor-controller which consist of a payment to be made in July 2012 for taxing entities' share of the December 2011 property tax distribution to redevelopment agency/successor agency, a payment to be made in November 2012 related to Low-Moderate Income Housing Fund Due Diligence Review for unencumbered cash, and a payment to be made in April 2013 related to the other Redevelopment Funds Due Diligence Review for unencumbered cash. As of the date of the report, the payment in July 2012 resulted in no amount due, the Low-Moderate Income Housing Due Diligence Review and the other Redevelopment Funds Due Diligence Review currently resulted in no amount due to the County which has not been confirmed by the Department of Finance.

REQUIRED SUPPLEMENTARY INFORMATION

Modified Approach for City Infrastructure Capital Assets

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Modified Approach for City Infrastructure Capital Assets

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets including the street system; water purification and distribution system; wastewater collection and treatment system; park and recreation lands and improvement system; storm water conveyance system; and buildings combined with site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be divided into concrete curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. Subsystem detail is not presented in these basic financial statements; however, the City maintains detailed information on these subsystems.

The City has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its Street Pavement System. Under GASB Statement No. 34, eligible infrastructure capital assets are 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 scales; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

In May, 2012, the City completed a study to update the physical condition assessment of the streets. The prior assessment study was completed in March, 2010. A further updated study assessing the existing conditions is expected to be completed in the second quarter of 2012. The streets, primarily surfaced with asphalt and concrete, were defined as all physical features associated with the operation of motorized vehicles that exist within the limits of right of way. City owned streets are classified based on land use, access and traffic utilization into the following four classifications: arterial, collector local, and alley. Currently, 50% of the City's arterial and collectors and 25% of the local streets and alleys are being assessed each year. Each street and its related subsystems were assigned a physical condition based on 17 potential defects. A Pavement Condition Index (PCI), a nationally recognized index, was assigned and expressed in a continuous scale from 0 to 100, where 0 is assigned to the least acceptable physical condition and 100 is assigned the physical characteristics of a new street. The following conditions were defined in the 2010 study:

Condition	Rating
Excellent	86-100
Very Good	71-85
Good	56-70
Fair	41-55
Poor	26-40
Very Poor	11-25
Failed	0-10

The City's policy is to maintain the existing weighted average rating of "Good". This rating allows for minor cracking and raveling of the pavement along with minor roughness that could be noticeable to drivers traveling at the posted speeds. As of June 30, 2012, the City's average street and its related subsystem's PCI rating was 71.1, with the detail condition as follows:

Modified Approach for City Infrastructure Capital Assets (Continued)

Condition	% of Streets
Excellent to Very Good	67%
Good to Fair	26%
Poor to Failed	7%

The following is the condition assessment for the most recent years since implementation:

Report's Date	PCI Index
May 14, 2012	71.1
March 18, 2010	69
February 18, 2008	65
January 11, 2007	67
February 21, 2006	68
April 11, 2005	65
February 28, 2002	71
July 15, 1999	69

As of June 30, 2012 the City had some of its streets rated below a "fair" rating. The City will require several years to rehabilitate these segments of the streets.

The City's streets are constantly deteriorating resulting from the following four factors: (1) traffic using the streets, (2) the sun's ultra-violet rays drying out and breaking down the top layer of pavement, (3) utility company/private development interests trenching operations, and (4) water damage from natural precipitation and other urban runoff. The City is continuously taking actions to arrest the deterioration through short-term maintenance activities such as pothole patching, street sweeping, and street paving. The City expended $9.18 million on street maintenance for the fiscal year ended June 30, 2012. These expenditures delayed deterioration, however the overall condition of the streets was not improved through these maintenance expenditures. The City has estimated that the amount of annual expenditures required maintaining the City's streets at the average PCI rating of "Good" through the year 2012 is a minimum of $5.81 million per year. A schedule of estimated annual amount required to maintain and preserve the City's streets at the current level compared to actual expenditures for street maintenance for the last five years is presented below.

As of June 30, 2012, the City had approximately 114,267,064 square feet (543.5 centerline miles) of streets with a carrying amount of $297,018,892 and a replacement cost of approximately $330,805,376.

The City is also continuously taking actions to arrest the deterioration of other infrastructure assets through short-term maintenance activities. For the fiscal year ended June 30, 2012, the City expended $5.3 million on infrastructure maintenance for sidewalks, catch basin/storm drains, and traffic signal/street lightings. These expenditures delayed deterioration and improved the overall condition of these infrastructures. It is estimated that it will cost approximately $5.9 million per year to maintain these other infrastructure assets at their present level as shown on the schedule presented below.

Modified Approach for City Infrastructure Capital Assets (Continued)

INFRASTRUCTURE MAINTENANCE

**ESTIMATED AND ACTUAL EXPENDITURES
FIVE YEARS (IN THOUSANDS)**

		2009	2010	2011	2012	2013
Streets:						
	Estimated	$ 17,926	$ 8,166	$ 10,290	$ 12,228	$ 11,048
	Actual	11,338	8,244	6,874	9,181	
Sidewalks:						
	Estimated	2,854	1,740	1,495	1,495	1,414
	Actual	2,158	2,158	1,433	1,284	
Storm Drain:						
	Estimated	1,584	1,325	1,590	1,590	1,556
	Actual	1,292	1,209	1,281	1,428	
Traffic Signal/Street Lights:						
	Estimated	3,386	2,532	4,159	2,985	2,882
	Actual	2,250	2,419	3,035	2,558	

CITY OF ONTARIO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds			
	Special Gas Tax	Measure I	Park Impact / Quimby	Asset Seizure
Assets:				
Cash and investments	$ 5,878,258	$ 5,240,368	$ 7,816,587	$ 3,351,490
Receivables:				
Accounts	478,589	1,226,027	4,350	10
Accrued interest	14,801	11,828	19,267	8,060
Taxes	-	-	-	-
Prepaid costs	-	-	-	7,257
Deposits with others	-	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ 6,371,648**	**$ 6,478,223**	**$ 7,840,204**	**$ 3,366,817**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ 637,160	$ 1,174,273	$ 128,376	$ 143,430
Accrued liabilities	24,440	-	-	42,236
Deferred revenues	-	-	-	-
Deposits payable	-	-	-	170,213
Due to other funds	-	435,575	-	-
Advances from Successor Agency	-	-	-	-
Total Liabilities	**661,600**	**1,609,848**	**128,376**	**355,879**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	7,257
Deposits	-	-	-	-
Land held for resale	-	-	-	-
Restricted for:				
Community development projects	5,710,048	4,868,375	7,711,828	-
Public safety	-	-	-	284,248
Police narcotics	-	-	-	2,320,495
AQMD activities	-	-	-	-
Public services	-	-	-	-
Bond improvement projects	-	-	-	-
Committed to:				
Affordable Housing	-	-	-	-
Capital Projects	-	-	-	-
Assigned to:				
Continuing appropriations	-	-	-	398,938
Unassigned	-	-	-	-
Total Fund Balances	**5,710,048**	**4,868,375**	**7,711,828**	**3,010,938**
Total Liabilities and Fund Balances	**$ 6,371,648**	**$ 6,478,223**	**$ 7,840,204**	**$ 3,366,817**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012 **(Continued)**

	Special Revenue Funds			
	Mobile Source Air Pollution	Special Assessment/Fee Districts	Building Safety	Storm Drain Maintenance
Assets:				
Cash and investments	$ 930,480	$ 4,345,187	$ 1,174,972	$ 1,422,353
Receivables:				
Accounts	51,213	-	-	103,406
Accrued interest	2,339	7,219	-	3,518
Taxes	-	9,936	2,990	-
Prepaid costs	-	-	-	-
Deposits with others	-	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ 984,032**	**$ 4,362,342**	**$ 1,177,962**	**$ 1,529,277**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ 24,858	$ 57,852	$ 18,596	$ 10,303
Accrued liabilities	207	1,107,341	20,098	30,770
Deferred revenues	-	-	-	-
Deposits payable	-	-	-	7,455
Due to other funds	-	-	-	-
Advances from Successor Agency	-	-	-	-
Total Liabilities	**25,065**	**1,165,193**	**38,694**	**48,528**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Land held for resale	-	-	-	-
Restricted for:				
Community development projects	-	3,197,149	1,139,268	1,480,749
Public safety	-	-	-	-
Police narcotics	-	-	-	-
AQMD activities	958,967	-	-	-
Public services	-	-	-	-
Bond improvement projects	-	-	-	-
Committed to:				
Affordable Housing	-	-	-	-
Capital Projects	-	-	-	-
Assigned to:				
Continuing appropriations	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	**958,967**	**3,197,149**	**1,139,268**	**1,480,749**
Total Liabilities and Fund Balances	**$ 984,032**	**$ 4,362,342**	**$ 1,177,962**	**$ 1,529,277**

CITY OF ONTARIO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Special Revenue Funds			
	Historic Preservation	NMC Public Services	CFD No. 10 - Public Services	NMC CFD
Assets:				
Cash and investments	$ 313,637	$ 3,311,448	$ -	$ 73
Receivables:				
Accounts	-	-	-	-
Accrued interest	771	8,141	-	26
Taxes	-	-	-	1,290
Prepaid costs	-	-	-	-
Deposits with others	-	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ 314,408**	**$ 3,319,589**	**$ -**	**$ 1,389**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ 63
Accrued liabilities	-	-	-	-
Deferred revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	167	1,378
Advances from Successor Agency	-	-	-	-
Total Liabilities	**-**	**-**	**167**	**1,441**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Land held for resale	-	-	-	-
Restricted for:				
Community development projects	314,408	-	-	-
Public safety	-	-	-	-
Police narcotics	-	-	-	-
AQMD activities	-	-	-	-
Public services	-	3,319,589	-	-
Bond improvement projects	-	-	-	-
Committed to:				
Affordable Housing	-	-	-	-
Capital Projects	-	-	-	-
Assigned to:				
Continuing appropriations	-	-	-	-
Unassigned	-	-	(167)	(52)
Total Fund Balances	**314,408**	**3,319,589**	**(167)**	**(52)**
Total Liabilities and Fund Balances	**$ 314,408**	**$ 3,319,589**	**$ -**	**$ 1,389**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012 **(Continued)**

	Capital Projects Funds			
	Capital Projects	**Redevelopment Administration**	**Redevelopment Area #1**	**Redevelopment Area #2**
Assets:				
Cash and investments	$ 6,979,884	$ -	$ -	$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	3,487	-	-	-
Taxes	-	-	-	-
Prepaid costs	-	-	-	-
Deposits with others	168,674	-	-	-
Land held for resale	19,004,301	-	-	-
Restricted assets:				
Cash and investments	5,299,682	-	-	-
Cash and investments with fiscal agents	4,985,866	-	-	-
Total Assets	**$ 36,441,894**	**$ -**	**$ -**	**$ -**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ 806,808	$ -	$ -	$ -
Accrued liabilities	126	-	-	-
Deferred revenues	166,258	-	-	-
Deposits payable	-	-	-	-
Due to other funds	809,775	-	-	-
Advances from Successor Agency	1,600,000	-	-	-
Total Liabilities	**3,382,967**	**-**	**-**	**-**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	-
Deposits	168,674	-	-	-
Land held for resale	19,004,301	-	-	-
Restricted for:				
Community development projects	-	-	-	-
Public safety	-	-	-	-
Police narcotics	-	-	-	-
AQMD activities	-	-	-	-
Public services	-	-	-	-
Bond improvement projects	1,738,677	-	-	-
Committed to:				
Affordable Housing	1,421,885	-	-	-
Capital Projects	8,460,103	-	-	-
Assigned to:				
Continuing appropriations	2,265,287	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	**33,058,927**	**-**	**-**	**-**
Total Liabilities and Fund Balances	**$ 36,441,894**	**$ -**	**$ -**	**$ -**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Capital Projects Funds			
	Redevelopment Center City	Redevelopment Cimarron	Redevelopment Guasti	Combined Low/Moderate Housing
Assets:				
Cash and investments	$ -	$ -	$ -	$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Taxes	-	-	-	-
Prepaid costs	-	-	-	-
Deposits with others	-	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ -**	**$ -**	**$ -**	**$ -**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Accrued liabilities	-	-	-	-
Deferred revenues	-	-	-	-
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
Advances from Successor Agency	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**-**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Land held for resale	-	-	-	-
Restricted for:				
Community development projects	-	-	-	-
Public safety	-	-	-	-
Police narcotics	-	-	-	-
AQMD activities	-	-	-	-
Public services	-	-	-	-
Bond improvement projects	-	-	-	-
Committed to:				
Affordable Housing	-	-	-	-
Capital Projects	-	-	-	-
Assigned to:				
Continuing appropriations	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	**-**	**-**	**-**	**-**
Total Liabilities and Fund Balances	**$ -**	**$ -**	**$ -**	**$ -**

CITY OF ONTARIO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012 (Continued)

	Capital Projects Fund	Debt Service Funds		
	CFDs	Redevelopment Area #2	Redevelopment Center City	Redevelopment Cimarron
Assets:				
Cash and investments	$ 151,747	$ -	$ -	$ -
Receivables:				
Accounts	-	-	-	-
Accrued interest	-	-	-	-
Taxes	-	-	-	-
Prepaid costs	-	-	-	-
Deposits with others	-	-	-	-
Land held for resale	-	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	9,215	-	-	-
Total Assets	**$ 160,962**	**$ -**	**$ -**	**$ -**
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Accrued liabilities	-	-	-	-
Deferred revenues	-	-	-	-
Deposits payable	151,897	-	-	-
Due to other funds	-	-	-	-
Advances from Successor Agency	-	-	-	-
Total Liabilities	**151,897**	**-**	**-**	**-**
Fund Balances:				
Nonspendable:				
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Land held for resale	-	-	-	-
Restricted for:				
Community development projects	9,065	-	-	-
Public safety	-	-	-	-
Police narcotics	-	-	-	-
AQMD activities	-	-	-	-
Public services	-	-	-	-
Bond improvement projects	-	-	-	-
Committed to:				
Affordable Housing	-	-	-	-
Capital Projects	-	-	-	-
Assigned to:				
Continuing appropriations	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	**9,065**	**-**	**-**	**-**
Total Liabilities and Fund Balances	**$ 160,962**	**$ -**	**$ -**	**$ -**

CITY OF ONTARIO

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	Debt Service Fund Redevelopment Guasti	Total Nonmajor Governmental Funds
Assets:		
Cash and investments	$ -	$ 40,916,484
Receivables:		
Accounts	-	1,863,595
Accrued interest	-	79,457
Taxes	-	14,216
Prepaid costs	-	7,257
Deposits with others	-	168,674
Land held for resale	-	19,004,301
Restricted assets:		
Cash and investments	-	5,299,682
Cash and investments with fiscal agents	-	4,995,081
Total Assets	**$ -**	**$ 72,348,747**
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	$ -	$ 3,001,719
Accrued liabilities	-	1,225,218
Deferred revenues	-	166,258
Deposits payable	-	329,565
Due to other funds	-	1,246,895
Advances from Successor Agency	-	1,600,000
Total Liabilities	**-**	**7,569,655**
Fund Balances:		
Nonspendable:		
Prepaid costs	-	7,257
Deposits	-	168,674
Land held for resale	-	19,004,301
Restricted for:		
Community development projects	-	24,430,890
Public safety	-	284,248
Police narcotics	-	2,320,495
AQMD activities	-	958,967
Public services	-	3,319,589
Bond improvement projects	-	1,738,677
Committed to:		
Affordable Housing	-	1,421,885
Capital Projects	-	8,460,103
Assigned to:		
Continuing appropriations	-	2,664,225
Unassigned	-	(219)
Total Fund Balances	**-**	**64,779,092**
Total Liabilities and Fund Balances	**$ -**	**$ 72,348,747**

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CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			
	Special Gas Tax	Measure I	Park Impact / Quimby	Asset Seizure
Revenues:				
Taxes	$ -	$ -	$ -	$ -
Intergovernmental	4,832,150	7,450,133	-	789,093
Charges for services	-	-	331,074	-
Use of money and property	96,055	67,091	131,814	32,092
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	33
Total Revenues	**4,928,205**	**7,517,224**	**462,888**	**821,218**
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	513,185
Community development	2,493,795	6,167,042	2,712,907	-
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Pass-through agreement payments	-	-	-	-
Total Expenditures	**2,493,795**	**6,167,042**	**2,712,907**	**513,185**
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,434,410	1,350,182	(2,250,019)	308,033
Other Financing Sources (Uses):				
Transfers out	(2,339,887)	-	-	-
Transfers in	900,000	-	-	-
Total Other Financing Sources (Uses)	**(1,439,887)**	**-**	**-**	**-**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	**-**	**-**	**-**	**-**
Net Change in Fund Balances	$ 994,523	$ 1,350,182	$ (2,250,019)	$ 308,033
Fund Balance:				
Beginning of year, as originally reported	$ 4,715,525	$ 3,518,193	$ 9,961,847	$ 2,702,905
Restatements	-	-	-	-
Beginning of year, as restated	4,715,525	3,518,193	9,961,847	2,702,905
Net Change in Fund Balances	994,523	1,350,182	(2,250,019)	308,033
End of year	**$ 5,710,048**	**$ 4,868,375**	**$ 7,711,828**	**$ 3,010,938**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

(Continued)

	Special Revenue Funds			
	Mobile Source Air Pollution	Special Assessment/ Fee Districts	Building Safety	Storm Drain Maintenance
Revenues:				
Taxes	$ -	$ 1,013,488	$ -	$ -
Intergovernmental	207,464	-	-	6,179
Charges for services	-	-	866,129	1,219,936
Use of money and property	13,508	37,709	-	16,744
Fines and forfeitures	-	-	-	3,900
Miscellaneous	-	60,000	-	28,728
Total Revenues	**220,972**	**1,111,197**	**866,129**	**1,275,487**
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Community development	107,344	247,156	727,444	968,645
Public works	-	615,845	-	384,532
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Pass-through agreement payments	-	-	-	-
Total Expenditures	**107,344**	**863,001**	**727,444**	**1,353,177**
Excess (Deficiency) of Revenues Over (Under) Expenditures	113,628	248,196	138,685	(77,690)
Other Financing Sources (Uses):				
Transfers out	(26,695)	(222,610)	(186,166)	(342,419)
Transfers in	-	244,635	-	-
Total Other Financing Sources (Uses)	**(26,695)**	**22,025**	**(186,166)**	**(342,419)**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	**-**	**-**	**-**	**-**
Net Change in Fund Balances	$ 86,933	$ 270,221	$ (47,481)	$ (420,109)
Fund Balance:				
Beginning of year, as originally reported	$ 872,034	$ 2,926,928	$ 1,186,749	$ 1,900,858
Restatements	-	-	-	-
Beginning of year, as restated	872,034	2,926,928	1,186,749	1,900,858
Net Change in Fund Balances	86,933	270,221	(47,481)	(420,109)
End of year	**$ 958,967**	**$ 3,197,149**	**$ 1,139,268**	**$ 1,480,749**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			
	Historic Preservation	NMC Public Services	CFD No. 10 - Public Services	NMC CFD
Revenues:				
Taxes	$ -	$ -	$ 9,957	$ 339,421
Intergovernmental	-	-	-	-
Charges for services	-	21,250	-	-
Use of money and property	4,185	44,502	-	92
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	**4,185**	**65,752**	**9,957**	**339,513**
Expenditures:				
Current:				
General government	-	-	-	7,875
Public safety	-	-	-	-
Community development	2,250	-	-	-
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Pass-through agreement payments	-	-	-	-
Total Expenditures	**2,250**	**-**	**-**	**7,875**
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,935	65,752	9,957	331,638
Other Financing Sources (Uses):				
Transfers out	-	-	(9,957)	(331,690)
Transfers in	-	-	-	-
Total Other Financing Sources (Uses)	**-**	**-**	**(9,957)**	**(331,690)**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	-	-	-	-
Net Change in Fund Balances	$ 1,935	$ 65,752	$ -	$ (52)
Fund Balance:				
Beginning of year, as originally reported	$ 312,473	$ 3,253,837	$ (167)	$ -
Restatements	-	-	-	-
Beginning of year, as restated	312,473	3,253,837	(167)	-
Net Change in Fund Balances	1,935	65,752	-	(52)
End of year	**$ 314,408**	**$ 3,319,589**	**$ (167)**	**$ (52)**

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012 **(Continued)**

	Capital Projects Funds			
	Capital Projects	**Redevelopment Administration**	**Redevelopment Area #1**	**Redevelopment Area #2**
Revenues:				
Taxes	$ -	$ -	$ -	$ -
Intergovernmental	482,566	-	-	-
Charges for services	152,260	-	-	-
Use of money and property	757,106	(5,533)	17,600	(14,176)
Fines and forfeitures	-	-	-	-
Miscellaneous	947,899	-	-	-
Total Revenues	**2,339,831**	**(5,533)**	**17,600**	**(14,176)**
Expenditures:				
Current:				
General government	-	458,742	3,859,191	96,121
Public safety	372,963	-	-	-
Community development	4,024,280	872,787	-	-
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	1,350,208
Pass-through agreement payments	-	-	-	-
Total Expenditures	**4,397,243**	**1,331,529**	**3,859,191**	**1,446,329**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,057,412)	(1,337,062)	(3,841,591)	(1,460,505)
Other Financing Sources (Uses):				
Transfers out	-	-	(11,882,069)	(3,802,709)
Transfers in	20,167,892	1,550,740	7,933,882	373,837
Total Other Financing Sources (Uses)	**20,167,892**	**1,550,740**	**(3,948,187)**	**(3,428,872)**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	-	(3,676,639)	(4,063,563)	(968,471)
Net Change in Fund Balances	$ 18,110,480	$ (3,462,961)	$ (11,853,341)	$ (5,857,848)
Fund Balance:				
Beginning of year, as originally reported	$ 17,503,872	$ 3,462,961	$ 11,853,341	$ 5,857,848
Restatements	(2,555,425)	-	-	-
Beginning of year, as restated	14,948,447	3,462,961	11,853,341	5,857,848
Net Change in Fund Balances	18,110,480	(3,462,961)	(11,853,341)	(5,857,848)
End of year	**$ 33,058,927**	**$ -**	**$ -**	**$ -**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	Capital Projects Funds			
	Redevelopment Center City	Redevelopment Cimarron	Redevelopment Guasti	Combined Low/Moderate Housing
Revenues:				
Taxes	$ -	$ -	$ -	$ 5,733,353
Intergovernmental	-	-	-	139,904
Charges for services	-	-	-	-
Use of money and property	(11,121)	(4,370)	6,583	314,521
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	40,038
Total Revenues	**(11,121)**	**(4,370)**	**6,583**	**6,227,816**
Expenditures:				
Current:				
General government	410,554	416,936	38,148	1,495,732
Public safety	-	-	-	-
Community development	-	-	-	5,268,610
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	-	395,623
Interest and fiscal charges	-	-	-	649,302
Pass-through agreement payments	-	-	-	-
Total Expenditures	**410,554**	**416,936**	**38,148**	**7,809,267**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(421,675)	(421,306)	(31,565)	(1,581,451)
Other Financing Sources (Uses):				
Transfers out	(7,450,701)	(1,466,533)	(15,053)	(378,813)
Transfers in	1,523,631	607,194	58,478	-
Total Other Financing Sources (Uses)	**(5,927,070)**	**(859,339)**	**43,425**	**(378,813)**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	(3,546,333)	(1,124,935)	(158,449)	(31,395,420)
Net Change in Fund Balances	$ (9,895,078)	$ (2,405,580)	$ (146,589)	$ (33,355,684)
Fund Balance:				
Beginning of year, as originally reported	$ 9,895,078	$ 2,405,580	$ 146,589	$ 33,355,684
Restatements	-	-	-	-
Beginning of year, as restated	9,895,078	2,405,580	146,589	33,355,684
Net Change in Fund Balances	(9,895,078)	(2,405,580)	(146,589)	(33,355,684)
End of year	**$ -**	**$ -**	**$ -**	**$ -**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

(Continued)

	Capital Projects Fund	Debt Service Funds		
	CFDs	Redevelopment Area #2	Redevelopment Center City	Redevelopment Cimarron
Revenues:				
Taxes	$ -	$ 1,869,362	$ 1,628,722	$ 685,046
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Use of money and property	-	(63,865)	(31,412)	(22,302)
Fines and forfeitures	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	**-**	**1,805,497**	**1,597,310**	**662,744**
Expenditures:				
Current:				
General government	-	170,405	6,823,574	504,270
Public safety	-	-	-	-
Community development	-	-	-	-
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	420,000	225,000
Interest and fiscal charges	-	5,105,105	286,151	58,093
Pass-through agreement payments	-	401,309	221,980	66,383
Total Expenditures	**-**	**5,676,819**	**7,751,705**	**853,746**
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(3,871,322)	(6,154,395)	(191,002)
Other Financing Sources (Uses):				
Transfers out	-	(1,525,315)	(2,234,211)	(1,767,754)
Transfers in	-	2,626,538	668,305	2,076,541
Total Other Financing Sources (Uses)	**-**	**1,101,223**	**(1,565,906)**	**308,787**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	-	(225,209)	3,762,008	(714,118)
Net Change in Fund Balances	$ -	$ (2,995,308)	$ (3,958,293)	$ (596,333)
Fund Balance:				
Beginning of year, as originally reported	$ 9,065	$ 2,995,308	$ 3,958,293	$ 596,333
Restatements	-	-	-	-
Beginning of year, as restated	9,065	2,995,308	3,958,293	596,333
Net Change in Fund Balances	-	(2,995,308)	(3,958,293)	(596,333)
End of year	**$ 9,065**	**$ -**	**$ -**	**$ -**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2012

	Debt Service Fund — Redevelopment Guasti	Total Nonmajor Governmental Funds
Revenues:		
Taxes	$ 259,202	$ 11,538,551
Intergovernmental	-	13,907,489
Charges for services	-	2,590,649
Use of money and property	15,987	1,402,810
Fines and forfeitures	-	3,900
Miscellaneous	-	1,076,698
Total Revenues	**275,189**	**30,520,097**
Expenditures:		
Current:		
General government	617	14,282,165
Public safety	-	886,148
Community development	-	23,592,260
Public works	-	1,000,377
Debt service:		
Principal retirement	-	1,040,623
Interest and fiscal charges	-	7,448,859
Pass-through agreement payments	64,834	754,506
Total Expenditures	**65,451**	**49,004,938**
Excess (Deficiency) of Revenues Over (Under) Expenditures	209,738	(18,484,841)
Other Financing Sources (Uses):		
Transfers out	(409,564)	(34,392,146)
Transfers in	500,000	39,231,673
Total Other Financing Sources (Uses)	**90,436**	**4,839,527**
Extraordinary gain/(loss) on dissolution of redevelopment agency (Note 18)	(2,188,372)	(44,299,501)
Net Change in Fund Balances	$ (1,888,198)	$ (57,944,815)
Fund Balance:		
Beginning of year, as originally reported	$ 1,888,198	$ 125,279,332
Restatements	-	(2,555,425)
Beginning of year, as restated	1,888,198	122,723,907
Net Change in Fund Balances	(1,888,198)	(57,944,815)
End of year	**$ -**	**$ 64,779,092**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
SPECIAL GAS TAX
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 4,715,525	$ 4,715,525	$ 4,715,525	$ -
Resources (Inflows):				
Intergovernmental	4,663,566	4,663,566	4,832,150	168,584
Use of money and property	35,000	35,000	96,055	61,055
Transfers in	900,000	900,000	900,000	-
Amounts Available for Appropriation	**10,314,091**	**10,314,091**	**10,543,730**	**229,639**
Charges to Appropriation (Outflow):				
Community development	5,175,778	6,069,264	2,493,795	3,575,469
Transfers out	2,339,887	2,339,887	2,339,887	-
Total Charges to Appropriation	**7,515,665**	**8,409,151**	**4,833,682**	**3,575,469**
Budgetary Fund Balance, June 30	**$ 2,798,426**	**$ 1,904,940**	**$ 5,710,048**	**$ 3,805,108**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
MEASURE I
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	$ 3,518,193	$ 3,518,193	$ 3,518,193	$ -
Resources (Inflows):				
Intergovernmental	6,165,528	12,954,992	7,450,133	(5,504,859)
Use of money and property	40,000	40,000	67,091	27,091
Amounts Available for Appropriation	**9,723,721**	**16,513,185**	**11,035,417**	**(5,477,768)**
Charges to Appropriation (Outflow):				
Community development	6,996,800	16,066,780	6,167,042	9,899,738
Total Charges to Appropriation	**6,996,800**	**16,066,780**	**6,167,042**	**9,899,738**
Budgetary Fund Balance, June 30	**$ 2,726,921**	**$ 446,405**	**$ 4,868,375**	**$ 4,421,970**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
PARK IMPACT / QUIMBY
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 9,961,847	$ 9,961,847	$ 9,961,847	$ -
Resources (Inflows):				
Charges for services	-	-	331,074	331,074
Use of money and property	115,000	115,000	131,814	16,814
Amounts Available for Appropriation	**10,076,847**	**10,076,847**	**10,424,735**	**347,888**
Charges to Appropriation (Outflow):				
Community development	-	8,422,294	2,712,907	5,709,387
Total Charges to Appropriation	**-**	**8,422,294**	**2,712,907**	**5,709,387**
Budgetary Fund Balance, June 30	**$ 10,076,847**	**$ 1,654,553**	**$ 7,711,828**	**$ 6,057,275**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
ASSET SEIZURE
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 2,702,905	$ 2,702,905	$ 2,702,905	$ -
Resources (Inflows):				
Intergovernmental	-	-	789,093	789,093
Use of money and property	-	-	32,092	32,092
Miscellaneous	-	-	33	33
Amounts Available for Appropriation	**2,702,905**	**2,702,905**	**3,524,123**	**821,218**
Charges to Appropriation (Outflow):				
Public safety	425,587	866,756	513,185	353,571
Total Charges to Appropriation	**425,587**	**866,756**	**513,185**	**353,571**
Budgetary Fund Balance, June 30	**$ 2,277,318**	**$ 1,836,149**	**$ 3,010,938**	**$ 1,174,789**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
MOBILE SOURCE AIR POLLUTION
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	**Final**	**Amounts**	**(Negative)**
Budgetary Fund Balance, July 1	$ 872,034	$ 872,034	$ 872,034	$ -
Resources (Inflows):				
Intergovernmental	200,000	200,000	207,464	7,464
Use of money and property	9,000	9,000	13,508	4,508
Amounts Available for Appropriation	**1,081,034**	**1,081,034**	**1,093,006**	**11,972**
Charges to Appropriation (Outflow):				
Community development	73,262	638,850	107,344	531,506
Transfers out	7,236	7,236	26,695	(19,459)
Total Charges to Appropriation	**80,498**	**646,086**	**134,039**	**512,047**
Budgetary Fund Balance, June 30	**$ 1,000,536**	**$ 434,948**	**$ 958,967**	**$ 524,019**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
SPECIAL ASSESSMENT/FEE DISTRICTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 2,926,928	$ 2,926,928	$ 2,926,928	$ -
Resources (Inflows):				
Taxes	1,031,307	1,031,307	1,013,488	(17,819)
Charges for services	40,000	40,000	-	(40,000)
Use of money and property	38,500	38,500	37,709	(791)
Miscellaneous	60,000	60,000	60,000	-
Transfers in	244,635	244,635	244,635	-
Amounts Available for Appropriation	**4,341,370**	**4,341,370**	**4,282,760**	**(58,610)**
Charges to Appropriation (Outflow):				
Community development	535,616	535,616	247,156	288,460
Public works	667,887	667,887	615,845	52,042
Transfers out	246,822	246,822	222,610	24,212
Total Charges to Appropriation	**1,450,325**	**1,450,325**	**1,085,611**	**364,714**
Budgetary Fund Balance, June 30	**$ 2,891,045**	**$ 2,891,045**	**$ 3,197,149**	**$ 306,104**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
BUILDING SAFETY
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 1,186,749	$ 1,186,749	$ 1,186,749	$ -
Resources (Inflows):				
Charges for services	1,260,000	860,000	866,129	6,129
Use of money and property	7,000	7,000	-	(7,000)
Miscellaneous	100,000	100,000	-	(100,000)
Amounts Available for Appropriation	**2,553,749**	**2,153,749**	**2,052,878**	**(100,871)**
Charges to Appropriation (Outflow):				
Community development	1,170,731	1,170,731	727,444	443,287
Transfers out	26,647	26,647	186,166	(159,519)
Total Charges to Appropriation	**1,197,378**	**1,197,378**	**913,610**	**283,768**
Budgetary Fund Balance, June 30	**$ 1,356,371**	**$ 956,371**	**$ 1,139,268**	**$ 182,897**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
STORM DRAIN MAINTENANCE
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	$ 1,900,858	$ 1,900,858	$ 1,900,858	$ -
Resources (Inflows):				
Intergovernmental	-	-	6,179	6,179
Charges for services	1,156,000	1,156,000	1,219,936	63,936
Use of money and property	20,000	20,000	16,744	(3,256)
Fines and forfeitures	2,000	2,000	3,900	1,900
Miscellaneous	-	-	28,728	28,728
Amounts Available for Appropriation	**3,078,858**	**3,078,858**	**3,176,345**	**97,487**
Charges to Appropriation (Outflow):				
Community development	1,020,167	1,126,166	968,645	157,521
Public works	440,711	443,611	384,532	59,079
Transfers out	318,429	318,429	342,419	(23,990)
Total Charges to Appropriation	**1,779,307**	**1,888,206**	**1,695,596**	**192,610**
Budgetary Fund Balance, June 30	**$ 1,299,551**	**$ 1,190,652**	**$ 1,480,749**	**$ 290,097**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
HISTORIC PRESERVATION
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 312,473	$ 312,473	$ 312,473	$ -
Resources (Inflows):				
Use of money and property	3,000	3,000	4,185	1,185
Amounts Available for Appropriation	**315,473**	**315,473**	**316,658**	**1,185**
Charges to Appropriation (Outflow):				
Community development	-	-	2,250	(2,250)
Total Charges to Appropriation	**-**	**-**	**2,250**	**(2,250)**
Budgetary Fund Balance, June 30	**$ 315,473**	**$ 315,473**	**$ 314,408**	**$ (1,065)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
NMC PUBLIC SERVICES
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 3,253,837	$ 3,253,837	$ 3,253,837	$ -
Resources (Inflows):				
Charges for services	-	-	21,250	21,250
Use of money and property	30,000	30,000	44,502	14,502
Amounts Available for Appropriation	**3,283,837**	**3,283,837**	**3,319,589**	**35,752**
Budgetary Fund Balance, June 30	**$ 3,283,837**	**$ 3,283,837**	**$ 3,319,589**	**$ 35,752**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
CFD NO. 10 - PUBLIC SERVICES
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ (167)	$ (167)	$ (167)	$ -
Resources (Inflows):				
Taxes	9,957	9,957	9,957	-
Amounts Available for Appropriation	**9,790**	**9,790**	**9,790**	**-**
Charges to Appropriation (Outflow):				
Transfers out	9,957	9,957	9,957	-
Total Charges to Appropriation	**9,957**	**9,957**	**9,957**	**-**
Budgetary Fund Balance, June 30	**$ (167)**	**$ (167)**	**$ (167)**	**$ -**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
NMC CFD
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	$ -	$ -	$ -	$ -
Resources (Inflows):				
Taxes	339,561	339,561	339,421	(140)
Use of money and property	-	-	92	92
Amounts Available for Appropriation	**339,561**	**339,561**	**339,513**	**(48)**
Charges to Appropriation (Outflow):				
General government	19,577	19,577	7,875	11,702
Transfers out	319,984	319,984	331,690	(11,706)
Total Charges to Appropriation	**339,561**	**339,561**	**339,565**	**(4)**
Budgetary Fund Balance, June 30	**$ -**	**$ -**	**$ (52)**	**$ (52)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1, as restated	$ 14,948,447	$ 14,948,447	$ 14,948,447	$ -
Resources (Inflows):				
Intergovernmental	-	3,814,438	482,566	(3,331,872)
Charges for services	-	-	152,260	152,260
Use of money and property	10,000	10,000	757,106	747,106
Miscellaneous	-	1,300,000	947,899	(352,101)
Transfers in	1,147,000	1,582,000	20,167,892	18,585,892
Amounts Available for Appropriation	**16,105,447**	**21,654,885**	**37,456,170**	**15,801,285**
Charges to Appropriation (Outflow):				
Public safety	120,000	588,819	372,963	215,856
Community development	1,027,000	11,885,567	4,024,280	7,861,287
Public works	30,000	30,000	-	30,000
Total Charges to Appropriation	**1,177,000**	**12,504,386**	**4,397,243**	**8,107,143**
Budgetary Fund Balance, June 30	**$ 14,928,447**	**$ 9,150,499**	**$ 33,058,927**	**$ 23,908,428**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT ADMINISTRATION
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 3,462,961	$ 3,462,961	$ 3,462,961	$ -
Resources (Inflows):				
Use of money and property	50,000	50,000	(5,533)	(55,533)
Transfers in	3,101,481	3,101,481	1,550,740	(1,550,741)
Amounts Available for Appropriation	**6,614,442**	**6,614,442**	**5,008,168**	**(1,606,274)**
Charges to Appropriation (Outflow):				
General government	894,050	908,729	458,742	449,987
Community development	2,207,432	2,216,877	872,787	1,344,090
Extraordinary loss on dissolution of redevelopment agency	-	-	3,676,639	(3,676,639)
Total Charges to Appropriations	**3,101,482**	**3,125,606**	**5,008,168**	**(1,882,562)**
Budgetary Fund Balance, June 30	**$ 3,512,960**	**$ 3,488,836**	**$ -**	**$ (3,488,836)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AREA #1 - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 11,853,341	$ 11,853,341	$ 11,853,341	$ -
Resources (Inflows):				
Use of money and property	20,000	20,000	17,600	(2,400)
Other debts issued	4,376,933	4,376,933	-	(4,376,933)
Transfers in	5,000,000	5,000,000	7,933,882	2,933,882
Amounts Available for Appropriation	**21,250,274**	**21,250,274**	**19,804,823**	**(1,445,451)**
Charges to Appropriation (Outflow):				
General government	3,748,778	6,956,326	3,859,191	3,097,135
Transfers out	2,323,245	2,323,245	11,882,069	(9,558,824)
Extraordinary loss on dissolution of redevelopment agency	-	-	4,063,563	(4,063,563)
Total Charges to Appropriations	**6,072,023**	**9,279,571**	**19,804,823**	**(10,525,252)**
Budgetary Fund Balance, June 30	**$ 15,178,251**	**$ 11,970,703**	**$ -**	**$ (11,970,703)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AREA #2 - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 5,857,848	$ 5,857,848	$ 5,857,848	$ -
Resources (Inflows):				
Use of money and property	35,000	35,000	(14,176)	(49,176)
Other debts issued	328,178	328,178	-	(328,178)
Transfers in	-	-	373,837	373,837
Amounts Available for Appropriation	**6,221,026**	**6,221,026**	**6,217,509**	**(3,517)**
Charges to Appropriation (Outflow):				
General government	414,953	414,953	96,121	318,832
Community development	-	40,225	-	40,225
Debt service:				
Interest and fiscal charges	-	-	1,350,208	(1,350,208)
Transfers out	210,725	210,725	3,802,709	(3,591,984)
Extraordinary loss on dissolution of redevelopment agency	-	-	968,471	(968,471)
Total Charges to Appropriations	**625,678**	**665,903**	**6,217,509**	**(5,551,606)**
Budgetary Fund Balance, June 30	**$ 5,595,348**	**$ 5,555,123**	**$ -**	**$ (5,555,123)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT CENTER CITY - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 9,895,078	$ 9,895,078	$ 9,895,078	$ -
Resources (Inflows):				
Use of money and property	307,500	307,500	(11,121)	(318,621)
Other debts issued	813,918	813,918	-	(813,918)
Transfers in	-	-	1,523,631	1,523,631
Amounts Available for Appropriation	**11,016,496**	**11,016,496**	**11,407,588**	**391,092**
Charges to Appropriation (Outflow):				
General government	1,297,557	1,297,557	410,554	887,003
Community development	410,000	410,000	-	410,000
Transfers out	416,982	416,982	7,450,701	(7,033,719)
Extraordinary loss on dissolution of redevelopment agency	-	-	3,546,333	(3,546,333)
Total Charges to Appropriations	**2,124,539**	**2,124,539**	**11,407,588**	**(9,283,049)**
Budgetary Fund Balance, June 30	**$ 8,891,957**	**$ 8,891,957**	**$ -**	**$ (8,891,957)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT CIMARRON - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 2,405,580	$ 2,405,580	$ 2,405,580	$ -
Resources (Inflows):				
Use of money and property	14,000	14,000	(4,370)	(18,370)
Other debts issued	184,410	184,410	-	(184,410)
Transfers in	-	-	607,194	607,194
Amounts Available for Appropriation	**2,603,990**	**2,603,990**	**3,008,404**	**404,414**
Charges to Appropriation (Outflow):				
General government	323,987	323,987	416,936	(92,949)
Public safety	-	395,829	-	395,829
Community development	-	50,000	-	50,000
Transfers out	120,423	120,423	1,466,533	(1,346,110)
Extraordinary loss on dissolution of redevelopment agency	-	-	1,124,935	(1,124,935)
Total Charges to Appropriations	**444,410**	**890,239**	**3,008,404**	**(2,118,165)**
Budgetary Fund Balance, June 30	**$ 2,159,580**	**$ 1,713,751**	**$ -**	**$ (1,713,751)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT GUASTI - CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 146,589	$ 146,589	$ 146,589	$ -
Resources (Inflows):				
Use of money and property	1,500	1,500	6,583	5,083
Other debts issued	96,482	96,482	-	(96,482)
Transfers in	-	-	58,478	58,478
Amounts Available for Appropriation	**244,571**	**244,571**	**211,650**	**(32,921)**
Charges to Appropriation (Outflow):				
General government	131,376	131,376	38,148	93,228
Transfers out	30,106	30,106	15,053	15,053
Extraordinary loss on dissolution of redevelopment agency	-	-	158,449	(158,449)
Total Charges to Appropriations	**161,482**	**161,482**	**211,650**	**(50,168)**
Budgetary Fund Balance, June 30	**$ 83,089**	**$ 83,089**	**$ -**	**$ (83,089)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
COMBINED LOW/MODERATE HOUSING
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 33,355,684	$ 33,355,684	$ 33,355,684	$ -
Resources (Inflows):				
Taxes	9,830,470	9,830,470	5,733,353	(4,097,117)
Intergovernmental	-	-	139,904	139,904
Use of money and property	344,000	344,000	314,521	(29,479)
Miscellaneous	-	-	40,038	40,038
Amounts Available for Appropriation	**43,530,154**	**43,530,154**	**39,583,500**	**(3,946,654)**
Charges to Appropriation (Outflow):				
General government	3,085,741	3,085,741	1,495,732	1,590,009
Community development	25,967,342	25,658,343	5,268,610	20,389,733
Debt service:				
Principal retirement	395,623	395,623	395,623	-
Interest and fiscal charges	649,302	649,302	649,302	-
Transfers out	-	-	378,813	(378,813)
Extraordinary loss on dissolution of redevelopment agency	-	-	31,395,420	(31,395,420)
Total Charges to Appropriations	**30,098,008**	**29,789,009**	**39,583,500**	**(9,794,491)**
Budgetary Fund Balance, June 30	**$ 13,432,146**	**$ 13,741,145**	**$ -**	**$ (13,741,145)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
IMPACT FEES
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 42,573,785	$ 42,573,785	$ 42,573,785	$ -
Resources (Inflows):				
Charges for services	-	-	6,634,941	6,634,941
Use of money and property	453,300	453,300	616,210	162,910
Amounts Available for Appropriation	**43,027,085**	**43,027,085**	**49,824,936**	**6,797,851**
Charges to Appropriation (Outflow):				
Community development	1,044,200	18,869,915	935,139	17,934,776
Public works	30,000	7,064,091	4,485,323	2,578,768
Total Charges to Appropriation	**1,074,200**	**25,934,006**	**5,420,462**	**20,513,544**
Budgetary Fund Balance, June 30	**$ 41,952,885**	**$ 17,093,079**	**$ 44,404,474**	**$ 27,311,395**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AREA #1 - DEBT SERVICE
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 7,891,894	$ 7,891,894	$ 7,891,894	$ -
Resources (Inflows):				
Taxes	31,256,960	31,256,960	18,491,085	(12,765,875)
Use of money and property	300,000	300,000	(302,724)	(602,724)
Transfers in	-	-	4,430,814	4,430,814
Extraordinary gain on dissolution of redevelopment agency	-	-	9,695,931	9,695,931
Amounts Available for Appropriation	**39,448,854**	**39,448,854**	**40,207,000**	**758,146**
Charges to Appropriation (Outflow):				
General government	5,235,458	23,466,064	17,006,845	6,459,219
Debt service:				
Principal retirement	5,692,632	5,692,632	3,504,400	2,188,232
Interest and fiscal charges	10,549,327	10,549,327	5,862,300	4,687,027
Pass-through agreement payments	3,125,700	3,125,700	1,879,651	1,246,049
Transfers out	5,000,000	5,000,000	11,953,804	(6,953,804)
Total Charges to Appropriation	**29,603,117**	**47,833,723**	**40,207,000**	**7,626,723**
Budgetary Fund Balance, June 30	**$ 9,845,737**	**$ (8,384,869)**	**$ -**	**$ 8,384,869**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT AREA #2 - DEBT SERVICE
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	$ 2,995,308	$ 2,995,308	$ 2,995,308	$ -
Resources (Inflows):				
Taxes	3,504,110	3,504,110	1,869,362	(1,634,748)
Use of money and property	90,000	90,000	(63,865)	(153,865)
Transfers in	-	-	2,626,538	2,626,538
Amounts Available for Appropriation	**6,589,418**	**6,589,418**	**7,427,343**	**837,925**
Charges to Appropriation (Outflow):				
General government	70,080	70,080	170,405	(100,325)
Debt service:				
Principal retirement	378,008	378,008	-	378,008
Interest and fiscal charges	383,757	383,757	5,105,105	(4,721,348)
Pass-through agreement payments	1,051,235	1,051,235	401,309	649,926
Transfers out	668,305	668,305	1,525,315	(857,010)
Extraordinary loss on dissolution of redevelopment agency	-	-	225,209	(225,209)
Total Charges to Appropriation	**2,551,385**	**2,551,385**	**7,427,343**	**(4,875,958)**
Budgetary Fund Balance, June 30	**$ 4,038,033**	**$ 4,038,033**	**$ -**	**$ (4,038,033)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT CENTER CITY - DEBT SERVICE
YEAR ENDED JUNE 30, 2012

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Budgetary Fund Balance, July 1	$ 3,958,293	$ 3,958,293	$ 3,958,293	$ -
Resources (Inflows):				
Taxes	2,673,230	2,673,230	1,628,722	(1,044,508)
Use of money and property	30,000	30,000	(31,412)	(61,412)
Transfers in	668,305	668,305	668,305	-
Extraordinary gain on dissolution of redevelopment agency	-	-	3,762,008	3,762,008
Amounts Available for Appropriation	**7,329,828**	**7,329,828**	**9,985,916**	**2,656,088**
Charges to Appropriation (Outflow):				
General government	53,465	53,465	6,823,574	(6,770,109)
Debt service:				
Principal retirement	1,233,918	1,233,918	420,000	813,918
Interest and fiscal charges	367,544	367,544	286,151	81,393
Pass-through agreement payments	454,450	454,450	221,980	232,470
Transfers out	-	-	2,234,211	(2,234,211)
Total Charges to Appropriation	**2,109,377**	**2,109,377**	**9,985,916**	**(7,876,539)**
Budgetary Fund Balance, June 30	**$ 5,220,451**	**$ 5,220,451**	**$ -**	**$ (5,220,451)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT CIMARRON - DEBT SERVICE
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 596,333	$ 596,333	$ 596,333	$ -
Resources (Inflows):				
Taxes	1,301,910	1,301,910	685,046	(616,864)
Use of money and property	20,000	20,000	(22,302)	(42,302)
Transfers in	-	-	2,076,541	2,076,541
Amounts Available for Appropriation	**1,918,243**	**1,918,243**	**3,335,618**	**1,417,375**
Charges to Appropriation (Outflow):				
General government	26,040	26,040	504,270	(478,230)
Debt service:				
Principal retirement	409,410	409,410	225,000	184,410
Interest and fiscal charges	76,534	76,534	58,093	18,441
Pass-through agreement payments	349,890	349,890	66,383	283,507
Transfers out	-	-	1,767,754	(1,767,754)
Extraordinary loss on dissolution of redevelopment agency	-	-	714,118	(714,118)
Total Charges to Appropriation	**861,874**	**861,874**	**3,335,618**	**(2,473,744)**
Budgetary Fund Balance, June 30	**$ 1,056,369**	**$ 1,056,369**	**$ -**	**$ (1,056,369)**

CITY OF ONTARIO

BUDGETARY COMPARISON SCHEDULE
REDEVELOPMENT GUASTI - DEBT SERVICE
YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Budgetary Fund Balance, July 1	$ 1,888,198	$ 1,888,198	$ 1,888,198	$ -
Resources (Inflows):				
Taxes	585,665	585,665	259,202	(326,463)
Use of money and property	20,000	20,000	15,987	(4,013)
Transfers in	-	-	500,000	500,000
Amounts Available for Appropriation	**2,493,863**	**2,493,863**	**2,663,387**	**169,524**
Charges to Appropriation (Outflow):				
General government	231,715	231,715	617	231,098
Debt service:				
Principal retirement	96,482	96,482	-	96,482
Interest and fiscal charges	9,649	9,649	-	9,649
Pass-through agreement payments	146,415	146,415	64,834	81,581
Transfers out	-	-	409,564	(409,564)
Extraordinary loss on dissolution of redevelopment agency	-	-	2,188,372	(2,188,372)
Total Charges to Appropriation	**484,261**	**484,261**	**2,663,387**	**(2,179,126)**
Budgetary Fund Balance, June 30	**$ 2,009,602**	**$ 2,009,602**	**$ -**	**$ (2,009,602)**

CITY OF ONTARIO

COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2012

	Equipment Services	Self Insurance	Information Technology	Total
Assets:				
Current:				
Cash and investments	$ 35,337,350	$ 26,557,598	$ 26,304,417	$ 88,199,365
Receivables:				
Accounts	25,938	850	52,215	79,003
Accrued interest	86,311	-	64,555	150,866
Prepaid costs	-	-	37,327	37,327
Inventories	497,389	-	-	497,389
Total Current Assets	**35,946,988**	**26,558,448**	**26,458,514**	**88,963,950**
Noncurrent:				
Capital assets - net of accumulated depreciation	15,049,469	-	1,657,976	16,707,445
Total Noncurrent Assets	**15,049,469**	**-**	**1,657,976**	**16,707,445**
Total Assets	**$ 50,996,457**	**$ 26,558,448**	**$ 28,116,490**	**$ 105,671,395**
Liabilities and Net Assets:				
Liabilities:				
Current:				
Accounts payable	$ 279,272	$ 80,381	$ 371,456	$ 731,109
Accrued liabilities	85,079	16,217	122,759	224,055
Accrued compensated absences	12,000	3,000	21,000	36,000
Accrued claims and judgments	-	2,512,000	-	2,512,000
Total Current Liabilities	**376,351**	**2,611,598**	**515,215**	**3,503,164**
Noncurrent:				
Accrued compensated absences	135,698	35,787	242,705	414,190
Accrued claims and judgments	-	13,205,000	-	13,205,000
Total Noncurrent Liabilities	**135,698**	**13,240,787**	**242,705**	**13,619,190**
Total Liabilities	**512,049**	**15,852,385**	**757,920**	**17,122,354**
Net Assets:				
Invested in capital assets	15,049,469	-	1,657,976	16,707,445
Unrestricted	35,434,939	10,706,063	25,700,594	71,841,596
Total Net Assets	**50,484,408**	**10,706,063**	**27,358,570**	**88,549,041**
Total Liabilities and Net Assets	**$ 50,996,457**	**$ 26,558,448**	**$ 28,116,490**	**$ 105,671,395**

CITY OF ONTARIO

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS INTERNAL SERVICE FUNDS YEAR ENDED JUNE 30, 2012

	Equipment Services	Self Insurance	Information Technology	Total
Operating Revenues:				
Sales and service charges	$ 11,139,405	$ 8,703,788	$ 8,578,513	$ 28,421,706
Miscellaneous	78,842	-	-	78,842
Total Operating Revenues	**11,218,247**	**8,703,788**	**8,578,513**	**28,500,548**
Operating Expenses:				
Administration and general	2,877,297	2,374,267	3,524,525	8,776,089
Source of supply	4,139,857	-	2,526,905	6,666,762
Claims expense	-	3,955,538	-	3,955,538
Depreciation expense	3,045,034	-	383,705	3,428,739
Total Operating Expenses	**10,062,188**	**6,329,805**	**6,435,135**	**22,827,128**
Operating Income (Loss)	1,156,059	2,373,983	2,143,378	5,673,420
Nonoperating Revenues (Expenses):				
Interest revenue	486,839	-	347,756	834,595
Total Nonoperating Revenues (Expenses)	**486,839**	**-**	**347,756**	**834,595**
Income (Loss) Before Transfers	1,642,898	2,373,983	2,491,134	6,508,015
Transfers in	-	-	90,000	90,000
Transfers out	-	-	(840,000)	(840,000)
Changes in Net Assets	1,642,898	2,373,983	1,741,134	5,758,015
Net Assets:				
Beginning of Year	48,841,510	8,332,080	25,617,436	82,791,026
End of Fiscal Year	**$ 50,484,408**	**$ 10,706,063**	**$ 27,358,570**	**$ 88,549,041**

CITY OF ONTARIO

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2012

	Equipment Services	Self Insurance	Information Technology	Total
Cash Flows from Operating Activities:				
Cash received from customers and users	$11,449,368	$ 8,702,938	$ 8,526,298	$ 28,678,604
Cash paid to suppliers for goods and services	(4,318,713)	(5,008,057)	(2,468,816)	(11,795,586)
Cash paid to employees for services	(2,881,154)	(2,368,680)	(3,497,906)	(8,747,740)
Net Cash Provided (Used) by Operating Activities	**4,249,501**	**1,326,201**	**2,559,576**	**8,135,278**
Cash Flows from Non-Capital Financing Activities:				
Cash transfers in	-	-	90,000	90,000
Cash transfers out	-	-	(840,000)	(840,000)
Net Cash Provided (Used) by Non-Capital Financing Activities	**-**	**-**	**(750,000)**	**(750,000)**
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(2,318,963)	-	(656,169)	(2,975,132)
Net Cash Provided (Used) by Capital and Related Financing Activities	**(2,318,963)**	**-**	**(656,169)**	**(2,975,132)**
Cash Flows from Investing Activities:				
Interest received	496,458	-	356,339	852,797
Net Cash Provided (Used) by Investing Activities	**496,458**	**-**	**356,339**	**852,797**
Net Increase (Decrease) in Cash and Cash Equivalents	**2,426,996**	**1,326,201**	**1,509,746**	**5,262,943**
Cash and Cash Equivalents at Beginning of Year	32,910,354	25,231,397	24,794,671	82,936,422
Cash and Cash Equivalents at End of Year	**$35,337,350**	**$ 26,557,598**	**$ 26,304,417**	**$ 88,199,365**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	$ 1,156,059	$ 2,373,983	$ 2,143,378	$ 5,673,420
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:				
Depreciation	3,045,034	-	383,705	3,428,739
(Increase) decrease in accounts receivable	231,121	(850)	(52,215)	178,056
(Increase) decrease in prepaid expense	-	-	(23,953)	(23,953)
(Increase) decrease in inventories	(59,636)	-	-	(59,636)
Increase (decrease) in accounts payable	(119,220)	(1,052,519)	82,042	(1,089,697)
Increase (decrease) in accrued liabilities	1,977	5,484	17,428	24,889
Increase (decrease) in compensated absences	(5,834)	103	9,191	3,460
Total Adjustments	**3,093,442**	**(1,047,782)**	**416,198**	**2,461,858**
Net Cash Provided (Used) by Operating Activities	**$ 4,249,501**	**$ 1,326,201**	**$ 2,559,576**	**$ 8,135,278**

Non-Cash Investing, Capital, and Financing Activities:
During fiscal year 2011-2012, there was no noncash investing, capital or financing activities.

CITY OF ONTARIO

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2012

	Redevelopment Financing Authority	West End Communications Authority	Assessment District 106 Bond Redemption	Sanitary Collection Treatment
Assets:				
Cash and investments	$ 47,174	$ 985,477	$ 897,814	$ 3,151,337
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	3,027	-
Accrued interest	116	2,423	2,233	-
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Other investments	217,598,051	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	896,872	-	446,864	-
Total Assets	**$ 218,542,213**	**$ 987,900**	**$ 1,349,938**	**$ 3,151,337**
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ 584,708
Due to other governments	218,542,213	987,900	-	2,566,629
Due to bondholders	-	-	1,349,938	-
Available for other post employment benefits	-	-	-	-
Total Liabilities	**$ 218,542,213**	**$ 987,900**	**$ 1,349,938**	**$ 3,151,337**

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2012 **(Continued)**

	Reassessment Bond Redemption	Assessment District 100C Bond	Assessment District 103 Bond Redemption	Assessment District 104 Bond Redemption
Assets:				
Cash and investments	$ 564,000	$ 41,856	$ 177,050	$ 51,272
Receivables:				
Accounts	-	-	-	-
Taxes	-	-	-	-
Accrued interest	1,387	103	435	126
Prepaid costs	-	-	-	-
Deposits	-	-	-	-
Other investments	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	-	-	-	-
Total Assets	**$ 565,387**	**$ 41,959**	**$ 177,485**	**$ 51,398**
Liabilities:				
Accounts payable	$ -	$ -	$ -	$ -
Due to other governments	-	-	-	-
Due to bondholders	565,387	41,959	177,485	51,398
Available for other post employment benefits	-	-	-	-
Total Liabilities	**$ 565,387**	**$ 41,959**	**$ 177,485**	**$ 51,398**

CITY OF ONTARIO

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2012

	Assessment District 108 Bond	Assessment District 107 Bond	West End Fire and Emergency Response	Community Facility District No.5 Debt
Assets:				
Cash and investments	$ 1,039,643	$ 129,780	$ 294,084	$ 1,786,178
Receivables:				
Accounts	-	-	2	-
Taxes	3,884	-	-	1,738
Accrued interest	2,628	319	760	4,270
Prepaid costs	-	-	17,449	-
Deposits	-	-	-	-
Other investments	-	-	-	-
Restricted assets:				
Cash and investments with fiscal agents	1,368,161	-	-	985,436
Total Assets	**$ 2,414,316**	**$ 130,099**	**$ 312,295**	**$ 2,777,622**
Liabilities:				
Accounts payable	$ 63	$ -	$ 1,805	$ 63
Due to other governments	-	-	310,490	-
Due to bondholders	2,414,253	130,099	-	2,777,559
Available for other post employment benefits	-	-	-	-
Total Liabilities	**$ 2,414,316**	**$ 130,099**	**$ 312,295**	**$ 2,777,622**

COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2012

	Community Facility District No. 13 Debt	Other Post Employment Benefits	Total
Assets:			
Cash and investments	$ 403,578	$ 51,267,178	$ 60,836,421
Receivables:			
Accounts	-	9,181	9,183
Taxes	-	-	8,649
Accrued interest	999	100,452	116,251
Prepaid costs	-	-	17,449
Deposits	-	5,332	5,332
Other investments	-	19,956,716	237,554,767
Restricted assets:			
Cash and investments with fiscal agents	341,468	-	4,038,801
Total Assets	**$ 746,045**	**$ 71,338,859**	**$ 302,586,853**
Liabilities:			
Accounts payable	$ 63	$ 463	$ 587,165
Due to other governments	-	-	222,407,232
Due to bondholders	745,982	-	8,254,060
Available for other post employment benefits	-	71,338,396	71,338,396
Total Liabilities	**$ 746,045**	**$ 71,338,859**	**$ 302,586,853**

CITY OF ONTARIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Redevelopment Financing Authority				
Assets:				
Cash and investments	$ 7,412	$ 53,607,114	$ 53,567,352	$ 47,174
Receivables:				
Accrued interest	22	116	22	116
Other investments	243,367,067	3,194,234	28,963,250	217,598,051
Restricted assets:				
Cash and investments with fiscal agents	865,114	10,355,944	10,324,186	896,872
Total Assets	**$ 244,239,615**	**$ 67,157,408**	**$ 92,854,810**	**$ 218,542,213**
Liabilities:				
Due to other governments	$ 244,239,615	$ 90,715,543	$116,412,945	$ 218,542,213
Total Liabilities	**$ 244,239,615**	**$ 90,715,543**	**$116,412,945**	**$ 218,542,213**
West End Communications Authority				
Assets:				
Cash and investments	$ 971,883	$ 49,580	$ 35,986	$ 985,477
Receivables:				
Accrued interest	2,862	2,423	2,862	2,423
Total Assets	**$ 974,745**	**$ 52,003**	**$ 38,848**	**$ 987,900**
Liabilities:				
Due to other governments	$ 974,745	$ 13,155	$ -	$ 987,900
Total Liabilities	**$ 974,745**	**$ 13,155**	**$ -**	**$ 987,900**
Assessment District 106 Bond Redemption				
Assets:				
Cash and investments	$ 879,067	$ 489,580	$ 470,833	$ 897,814
Receivables:				
Taxes	2,777	3,027	2,777	3,027
Accrued interest	2,638	2,233	2,638	2,233
Restricted assets:				
Cash and investments with fiscal agents	446,864	-	-	446,864
Total Assets	**$ 1,331,346**	**$ 494,840**	**$ 476,248**	**$ 1,349,938**
Liabilities:				
Due to bondholders	$ 1,331,346	$ 18,592	$ -	$ 1,349,938
Total Liabilities	**$ 1,331,346**	**$ 18,592**	**$ -**	**$ 1,349,938**

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2012
(Continued)

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Sanitary Collection Treatment				
Assets:				
Cash and investments	$ 1,670,094	$ 1,886,723	$ 405,480	$ 3,151,337
Total Assets	**$ 1,670,094**	**$ 1,886,723**	**$ 405,480**	**$ 3,151,337**
Liabilities:				
Accounts payable	$ -	$ 584,708	$ -	$ 584,708
Due to other governments	1,670,094	896,535	-	2,566,629
Total Liabilities	**$ 1,670,094**	**$ 1,481,243**	**$ -**	**$ 3,151,337**
Reassessment Bond Redemption				
Assets:				
Cash and investments	$ 556,219	$ 28,376	$ 20,595	$ 564,000
Receivables:				
Accrued interest	1,638	1,387	1,638	1,387
Total Assets	**$ 557,857**	**$ 29,763**	**$ 22,233**	**$ 565,387**
Liabilities:				
Due to bondholders	$ 557,857	$ 7,530	$ -	$ 565,387
Total Liabilities	**$ 557,857**	**$ 7,530**	**$ -**	**$ 565,387**
Assessment District 100C Bond Redemption				
Assets:				
Cash and investments	$ 40,237	$ 3,123	$ 1,504	$ 41,856
Receivables:				
Accrued interest	118	103	118	103
Restricted assets:				
Cash and investments with fiscal agents	401,434	-	401,434	-
Total Assets	**$ 441,789**	**$ 3,226**	**$ 403,056**	**$ 41,959**
Liabilities:				
Due to bondholders	$ 441,789	$ -	$ 399,830	$ 41,959
Total Liabilities	**$ 441,789**	**$ -**	**$ 399,830**	**$ 41,959**
Assessment District 103 Bond Redemption				
Assets:				
Cash and investments	$ 174,607	$ 8,908	$ 6,465	$ 177,050
Receivables:				
Accrued interest	514	949	1,028	435
Total Assets	**$ 175,121**	**$ 9,857**	**$ 7,493**	**$ 177,485**
Liabilities:				
Due to bondholders	$ 175,121	$ 2,364	$ -	$ 177,485
Total Liabilities	**$ 175,121**	**$ 2,364**	**$ -**	**$ 177,485**

CITY OF ONTARIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Assessment District 104 Bond Redemption				
Assets:				
Cash and investments	$ 40,488	$ 19,996	$ 9,212	$ 51,272
Receivables:				
Accrued interest	140	126	140	126
Total Assets	**$ 40,628**	**$ 20,122**	**$ 9,352**	**$ 51,398**
Liabilities:				
Due to bondholders	$ 40,628	$ 10,770	$ -	$ 51,398
Total Liabilities	**$ 40,628**	**$ 10,770**	**$ -**	**$ 51,398**
Assessment District 108 Bond Redemption				
Assets:				
Cash and investments	$ 915,422	$ 1,411,807	$ 1,287,586	$ 1,039,643
Receivables:				
Taxes	4,296	3,884	4,296	3,884
Accrued interest	2,746	2,628	2,746	2,628
Restricted assets:				
Cash and investments with fiscal agents	1,368,161	-	-	1,368,161
Total Assets	**$ 2,290,625**	**$ 1,418,319**	**$ 1,294,628**	**$ 2,414,316**
Liabilities:				
Accounts payable	$ -	$ 63	$ -	$ 63
Due to bondholders	2,290,625	123,628	-	2,414,253
Total Liabilities	**$ 2,290,625**	**$ 123,691**	**$ -**	**$ 2,414,316**
Assessment District 107 Bond Redemption				
Assets:				
Cash and investments	$ 127,989	$ 156,723	$ 154,932	$ 129,780
Receivables:				
Accrued interest	377	319	377	319
Total Assets	**$ 128,366**	**$ 157,042**	**$ 155,309**	**$ 130,099**
Liabilities:				
Due to bondholders	$ 128,366	$ 1,733	$ -	$ 130,099
Total Liabilities	**$ 128,366**	**$ 1,733**	**$ -**	**$ 130,099**
West End Fire and Emergency Response Commission				
Assets:				
Cash and investments	$ 286,260	$ 66,382	$ 58,558	$ 294,084
Receivables:				
Accounts	-	2	-	2
Accrued interest	892	760	892	760
Prepaid costs	18,329	17,449	18,329	17,449
Total Assets	**$ 305,481**	**$ 84,593**	**$ 77,779**	**$ 312,295**
Liabilities:				
Accounts payable	$ 560	$ 38,321	$ 37,076	$ 1,805
Due to other governments	304,921	5,569	-	310,490
Total Liabilities	**$ 305,481**	**$ 43,890**	**$ 37,076**	**$ 312,295**

CITY OF ONTARIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

(Continued)

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Community Facility District No.5 Debt Service				
Assets:				
Cash and investments	$ 1,841,283	$ 1,129,123	$ 1,184,228	$ 1,786,178
Receivables:				
Taxes	4,031	1,738	4,031	1,738
Accrued interest	5,479	4,270	5,479	4,270
Restricted assets:				
Cash and investments with fiscal agents	985,610	62,685	62,859	985,436
Total Assets	**$ 2,836,403**	**$ 1,197,816**	**$ 1,256,597**	**$ 2,777,622**
Liabilities:				
Accounts payable	$ -	$ 1,036,946	$ 1,036,883	$ 63
Due to bondholders	2,836,403	-	58,844	2,777,559
Total Liabilities	**$ 2,836,403**	**$ 1,036,946**	**$ 1,095,727**	**$ 2,777,622**
Community Facility District No. 13 Debt Service				
Assets:				
Cash and investments	$ 355,655	$ 389,571	$ 341,648	$ 403,578
Receivables:				
Accrued interest	1,047	999	1,047	999
Restricted assets:				
Cash and investments with fiscal agents	341,468	-	-	341,468
Total Assets	**$ 698,170**	**$ 390,570**	**$ 342,695**	**$ 746,045**
Liabilities:				
Accounts payable	$ -	$ 63	$ -	$ 63
Due to bondholders	698,170	47,812	-	745,982
Total Liabilities	**$ 698,170**	**$ 47,875**	**$ -**	**$ 746,045**
Other Post Employment Benefits				
Assets:				
Cash and investments	$ 34,295,061	$ 22,541,365	$ 5,569,248	$ 51,267,178
Receivables:				
Accounts	-	9,181	-	9,181
Accrued interest	82,789	183,240	165,577	100,452
Deposits	2,090	5,332	2,090	5,332
Other investments	20,715,196	-	758,480	19,956,716
Restricted assets:				
Cash and investments	12,024	-	12,024	-
Total Assets	**$ 55,107,160**	**$ 22,739,118**	**$ 6,507,419**	**$ 71,338,859**
Liabilities:				
Accounts payable	$ -	$ 3,003,033	$ 3,002,570	$ 463
Available for other post employment benefits	55,107,160	16,231,236	-	71,338,396
Total Liabilities	**$ 55,107,160**	**$ 19,234,269**	**$ 3,002,570**	**$ 71,338,859**

CITY OF ONTARIO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2012

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Totals - All Agency Funds				
Assets:				
Cash and investments	$ 42,161,677	$ 81,788,371	$ 63,113,627	$ 60,836,421
Receivables:				
Accounts	-	9,183	-	9,183
Taxes	11,104	8,649	11,104	8,649
Accrued interest	101,262	199,553	184,564	116,251
Prepaid costs	18,329	17,449	18,329	17,449
Deposits	2,090	5,332	2,090	5,332
Other investments	264,082,263	3,194,234	29,721,730	237,554,767
Restricted assets:		-	-	
Cash and investments	12,024	-	12,024	-
Cash and investments with fiscal agents	4,408,651	10,418,629	10,788,479	4,038,801
Total Assets	**$ 310,797,400**	**$ 95,641,400**	**$103,851,947**	**$ 302,586,853**
Liabilities:				
Accounts payable	$ 560	$ 4,663,134	$ 4,076,529	$ 587,165
Due to other governments	247,189,375	91,630,802	116,412,945	222,407,232
Due to bondholders	8,500,305	212,429	458,674	8,254,060
Available for other post employment benefits	55,107,160	16,231,236	-	71,338,396
Total Liabilities	**$ 310,797,400**	**$112,737,601**	**$120,948,148**	**$ 302,586,853**

Statistical Section

Statistical Section

The statistical section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Table of Contents

Financial Trends
These schedules contain trend information to help the readers understand how the City's financial performance and well-being have changed over time.

Revenue Capacity
These schedules contain trend information to help the readers assess the factors affecting the City's most significant local revenue sources: property taxes and sales taxes.

Debt Capacity
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

City of Ontario
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	$ 461,161,635	$ 502,705,357	$ 525,894,467	$ 555,454,727	$ 582,408,788	$ 646,348,259	$ 697,130,716	$ 705,173,228	$ 704,218,787	$ 821,632,336
Restricted	161,315,543	166,895,446	216,343,022	235,407,092	324,612,962	294,221,349	270,086,388	260,692,006	243,017,889	216,270,766
Unrestricted	90,250,905	90,632,786	77,994,397	100,365,953	100,909,316	82,652,762	104,930,518	120,831,755	135,744,173	127,864,653
Total governmental activities net assets	$ 712,728,083	$ 760,233,589	$ 820,231,886	$ 891,227,772	$ 1,007,931,066	$ 1,023,222,370	$ 1,072,147,622	$ 1,086,696,989	$ 1,082,980,849	$ 1,165,767,755
Business-type activities										
Invested in capital assets, net of related debt	$ 91,031,468	$ 95,663,579	$ 101,195,535	$ 100,001,461	$ 76,791,514	$ 94,728,569	$ 132,549,162	$ 133,931,846	$ 136,609,773	$ 140,007,920
Restricted	-	-	31,508,733	25,352,801	21,040,157	8,375,108	12,035,268	4,000,553	4,185,546	4,267,828
Unrestricted	68,232,999	68,813,390	38,394,197	42,630,813	95,502,060	127,928,871	131,682,493	174,631,011	201,923,905	223,743,456
Total business-type activities net assets	$ 159,264,467	$ 164,476,969	$ 171,098,465	$ 167,985,075	$ 193,333,731	$ 231,032,548	$ 276,266,923	$ 312,563,410	$ 342,719,224	$ 368,019,204
Primary government										
Invested in capital assets, net of related debt	$ 552,193,103	$ 598,368,936	$ 627,090,002	$ 655,456,188	$ 659,200,302	$ 741,076,828	$ 829,679,878	$ 839,105,074	$ 840,828,560	$ 961,640,256
Restricted	161,315,543	166,895,446	247,851,755	260,759,893	345,653,119	302,596,457	282,121,656	264,692,559	247,203,435	220,538,594
Unrestricted	158,483,904	159,446,176	116,388,594	142,996,766	196,411,376	210,581,633	236,613,011	295,462,766	337,668,078	351,608,109
Total primary government net assets	$ 871,992,550	$ 924,710,558	$ 991,330,351	$ 1,059,212,847	$ 1,201,264,797	$ 1,254,254,918	$ 1,348,414,545	$ 1,399,260,399	$ 1,425,700,073	$ 1,533,786,959

Schedule 2

City of Ontario
Changes in Net Assets Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	$ 20,816,577	$ 22,491,222	$ 23,167,617	$ 46,891,843	$ 36,573,422	$ 41,866,159	$ 36,950,147	$ 52,786,433	$ 56,951,330	$ 64,330,936
Public safety	70,411,906	67,817,542	77,217,848	81,691,441	83,998,192	93,857,650	99,580,479	100,024,583	103,472,190	107,848,353
Community development	26,647,678	42,750,172	51,689,545	49,137,773	49,070,134	65,645,808	54,580,626	52,553,241	39,888,900	47,088,876
Library	4,338,731	4,498,038	2,689,240	4,422,800	2,795,396	4,377,237	4,219,081	4,408,926	4,363,701	3,764,564
Public works	12,628,368	11,470,405	12,598,967	11,530,391	33,550,596	34,089,222	8,688,268	13,892,857	23,165,874	21,371,492
Interest on long-term debt	10,833,248	11,596,326	14,192,152	13,955,705	12,402,162	13,592,070	14,146,879	14,619,649	14,514,729	13,740,250
Total governmental activities expenses	145,676,508	160,623,705	181,555,369	207,629,953	218,389,902	253,428,146	218,165,480	238,285,689	242,356,724	258,144,471
Business-type activities:										
Water	16,048,602	18,309,603	23,169,266	29,936,424	31,434,855	29,546,787	27,854,314	24,622,694	31,052,190	28,986,963
Sewer	7,420,726	7,822,323	9,916,097	12,779,813	8,906,357	10,583,454	10,270,538	10,883,888	11,008,579	11,766,599
Waste	17,313,881	18,706,598	19,824,702	22,723,516	22,417,370	22,381,564	21,791,770	20,554,087	21,296,114	21,309,485
Convention Center	4,250,741	-	-	-	-	-	-	-	-	-
Total business-type activities expenses	45,033,950	44,838,524	52,910,065	65,439,753	62,758,582	62,511,805	59,916,622	56,060,669	63,356,883	62,063,047
Total primary government expenses	$ 190,710,458	$ 205,462,229	$ 234,465,434	$ 273,069,706	$ 281,148,484	$ 315,939,951	$ 278,082,102	$ 294,346,358	$ 305,713,607	$ 320,207,518
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 1,262,376	$ 1,137,552	$ 1,557,704	$ 2,167,719	$ 2,405,392	$ 3,178,919	$ 1,542,584	$ 296,079	$ 269,874	$ 294,873
Public safety	3,135,490	3,440,264	2,964,363	3,052,620	3,982,037	2,889,309	4,008,540	4,407,085	4,554,954	4,077,684
Community development	5,390,332	6,133,449	8,396,665	10,955,059	17,075,558	27,303,604	8,184,489	8,389,198	8,043,168	16,231,379
Library	130,233	128,528	111,249	113,472	122,699	139,762	259,285	160,853	147,610	143,055
Public works	-	-	-	-	-	-	-	-	-	47,931
Operating grants and contributions	18,113,792	18,562,460	15,620,266	24,790,731	14,359,349	15,603,655	14,629,676	15,103,061	15,606,700	15,311,536
Capital grants and contributions	12,316,066	27,203,240	28,346,840	31,066,474	76,508,279	25,854,354	26,218,115	19,910,072	18,851,354	47,080,485
Total governmental activities program revenues	40,348,289	56,605,493	56,997,087	72,146,075	114,453,314	74,969,603	54,842,689	48,266,348	47,473,660	83,186,943
Business-type activities:										
Charges for services:										
Water	26,606,178	26,733,970	29,704,425	31,061,134	36,415,703	40,742,157	46,201,981	45,766,917	51,174,737	51,434,727
Sewer	10,069,023	9,904,183	11,384,075	11,787,568	13,803,439	15,638,977	16,914,590	17,816,960	18,274,955	20,410,854
Waste	21,314,771	21,882,087	26,620,819	27,679,931	31,442,422	32,802,198	32,647,449	31,366,983	30,777,779	29,825,989
Convention Center	2,609,861	-		-	-	-	-	-	-	-
Operating grants and contributions	-	109,412	140,835	162,497	110,719	258,545	52,324	122,409	6,338,128	290,724
Capital grants and contributions	-	-	-	-	-	17,849,846	-	-	-	-
Total business-type activities program revenues	60,599,833	58,629,652	67,850,154	70,691,130	81,772,283	107,291,723	95,816,344	95,073,269	106,565,599	101,962,294
Total primary government program revenues	$ 100,948,122	$ 115,235,145	$ 124,847,241	$ 142,837,205	$ 196,225,597	$ 182,261,326	$ 150,659,033	$ 143,339,617	$ 154,039,259	$ 185,149,237

City of Ontario
Changes in Net Assets Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net (Expense)/Revenue										
Governmental activities	$ (105,328,219)	$ (104,018,212)	$ (124,558,282)	$ (135,483,878)	$ (103,936,588)	$ (178,458,543)	$ (163,322,791)	$ (190,019,341)	$ (194,883,064)	$ (174,957,528)
Business-type activities	15,565,883	13,791,128	14,940,089	5,251,377	19,013,701	44,779,918	35,899,722	39,012,600	43,208,716	39,899,247
Total primary government net expense	$ (89,762,336)	$ (90,227,084)	$ (109,618,193)	$ (130,232,501)	$ (84,922,887)	$ (133,678,625)	$ (127,423,069)	$ (151,006,741)	$ (151,674,348)	$ (135,058,281)
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes:										
Property taxes - general purpose	$ 46,251,688	$ 49,382,236	$ 52,621,082	$ 70,964,804	$ 77,084,582	$ 88,994,013	$ 91,075,881	$ 95,049,840	$ 88,030,394	$ 66,733,840
Transient occupancy taxes	8,710,404	9,417,101	10,495,259	11,068,749	11,013,014	11,025,406	9,367,537	8,398,053	8,790,219	9,148,976
Sales taxes	39,829,603	46,018,272	54,003,509	63,445,795	61,385,360	65,468,807	48,921,819	54,729,792	56,390,363	61,362,958
Franchise taxes	1,880,977	2,136,494	2,188,460	2,337,806	2,561,379	2,696,335	3,162,639	2,741,116	2,879,831	2,897,780
Business licenses taxes	3,652,800	4,561,542	4,855,324	5,206,797	5,595,149	5,767,540	5,550,779	5,170,173	5,496,576	5,610,738
Other taxes	11,665,315	12,823,552	14,329,640	14,838,058	14,485,983	8,253,930	4,794,681	4,013,628	4,072,860	4,566,791
Intergovernmental, unrestricted:										
Motor vehicle in lieu	9,569,525	7,346,663	14,143,683	577,775	1,016,916	765,679	590,224	510,057	883,460	89,471
Use of money and property	8,886,483	4,136,564	8,537,607	8,949,418	18,691,740	25,240,383	16,869,840	16,662,291	10,267,816	10,082,524
Other	226,408	4,164,614	11,458,389	13,266,178	33,299,211	7,464,170	10,012,883	9,071,587	7,404,868	6,407,829
Extraordinary gain on dissolution of RDA	-	-	-	-	-	-	-	-	-	72,762,201
Transfers	11,255,895	11,544,945	12,208,807	13,891,361	12,381,811	12,269,273	(4,651,984)	8,222,171	15,672,612	18,081,326
Total governmental activities	141,929,098	151,531,983	184,841,760	204,546,741	237,515,145	227,945,536	185,694,299	204,568,708	199,888,999	257,744,434
Business-type activities:										
Use of money and property	2,820,847	371,832	1,960,372	2,551,362	4,692,482	5,248,880	4,682,669	3,520,038	2,611,942	3,474,268
Other	1,376,113	2,835,697	2,060,482	2,940,955	4,360,322	-	-	-	7,768	7,791
Transfers	(11,255,895)	(11,544,945)	(12,208,807)	(13,891,361)	(12,381,811)	(12,329,981)	4,651,984	(8,222,171)	(15,672,612)	(18,081,326)
Total business-type activities	(7,058,935)	(8,337,416)	(8,187,953)	(8,399,044)	(3,329,007)	(7,081,101)	9,334,653	(4,702,133)	(13,052,902)	(14,599,267)
Total primary government	$ 134,870,163	$ 143,194,567	$ 176,653,807	$ 196,147,697	$ 234,186,138	$ 220,864,435	$ 195,028,952	$ 199,866,575	$ 186,836,097	$ 243,145,167
Change in Net Assets										
Governmental activities	$ 36,600,879	$ 47,513,771	$ 60,283,478	$ 69,062,863	$ 133,578,557	$ 227,945,536	$ 185,694,299	$ 204,568,708	$ 199,888,999	$ 257,744,434
Business-type activities	8,506,948	5,453,712	6,752,136	(3,147,667)	15,676,500	(7,081,101)	9,334,653	(4,702,133)	(13,052,902)	(14,599,267)
Total primary government program revenues	$ 45,107,827	$ 52,967,483	$ 67,035,614	$ 65,915,196	$ 149,255,057	$ 220,864,435	$ 195,028,952	$ 199,866,575	$ 186,836,097	$ 243,145,167

City of Ontario
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	$ 107,468,055	$ 119,452,954	$ 129,537,910	$ 160,212,875	$ 168,045,333	$ 180,125,455	$ 167,152,205	$ 166,935,715	$ 165,671,667	$ 150,044,804
Licenses and permits	1,944,438	2,251,562	3,150,121	2,802,140	3,077,713	2,745,841	1,344,689	1,455,692	1,563,722	1,639,061
Intergovernmental	34,820,835	36,011,184	37,347,967	39,149,116	38,815,828	38,237,360	33,475,335	30,382,203	32,763,572	37,725,923
Charges for services	7,171,586	11,045,360	24,070,910	32,161,431	70,405,497	30,901,234	10,850,659	11,618,059	10,123,695	17,697,037
Use of money and property	10,684,052	5,930,672	8,555,954	7,459,982	21,361,232	22,094,462	12,406,158	9,038,266	8,614,113	17,707,695
Fines and forfeitures	1,272,480	1,320,994	1,099,057	1,243,200	1,628,664	1,555,938	1,679,130	1,312,115	1,318,369	1,202,716
Contributions from property owners	-	-	-	-	-	-	3,887,060	1,719,084	314,000	-
Miscellaneous	10,530,343	9,609,247	15,952,394	17,701,314	38,854,280	8,910,669	11,499,201	10,484,644	8,741,044	30,081,850
Total Revenues	173,891,789	185,621,973	219,714,313	260,730,058	342,188,547	284,570,959	242,294,437	232,945,778	229,110,182	256,099,086
Expenditures										
Current:										
General government	22,876,851	19,548,804	23,230,597	46,664,029	32,363,072	34,054,015	25,940,539	25,731,003	33,220,115	51,424,202
Public safety	73,814,220	82,159,396	77,600,019	80,070,884	87,796,439	99,449,853	101,562,349	101,743,831	103,296,429	110,958,962
Community development	29,499,351	47,871,264	54,441,920	61,499,015	82,665,039	140,914,334	113,840,713	64,139,983	71,571,514	53,503,162
Library	5,680,003	5,125,528	9,661,210	4,050,405	4,096,171	4,072,044	4,063,682	4,084,426	3,974,567	4,049,363
Public works	22,662,294	14,391,663	20,226,449	23,804,817	34,282,333	37,353,238	19,227,003	15,547,113	16,164,629	20,642,548
Debt service:										
Principal retirement	5,196,558	8,459,675	5,394,502	5,450,309	5,226,752	5,288,739	5,891,298	5,767,047	5,849,785	25,255,023
Interest and fiscal charges	11,018,012	11,748,818	11,833,718	11,671,330	10,481,955	10,967,002	12,642,105	13,042,482	13,227,758	16,318,551
Bond issuance costs	-	-	-	-	-	857,247	-	-	-	-
Pass-through agreement payments	2,260,460	2,511,114	2,924,668	3,360,364	4,455,381	7,737,612	5,533,228	5,832,700	5,911,331	2,634,157
Total Expenditures	173,007,749	191,816,262	205,313,083	236,571,153	261,367,142	340,694,084	288,700,917	235,888,585	253,216,128	284,785,968
Excess (deficiency) of revenues over (under) expenditures	884,040	(6,194,289)	14,401,230	24,158,905	80,821,405	(56,123,125)	(46,406,480)	(2,942,807)	(24,105,946)	(28,686,882)

Schedule 3-Continued

City of Ontario
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Other Financing Sources (Uses)										
Transfers in	32,220,587	42,436,046	51,291,283	56,891,273	72,178,081	58,742,988	42,761,972	46,401,468	39,422,158	68,493,176
Transfers out	(21,379,587)	(32,624,767)	(40,058,319)	(42,946,642)	(59,904,099)	(46,856,913)	(30,049,115)	(31,938,128)	(23,545,610)	(49,661,850)
Long-term debt issued	2,281,909	2,526,204	-	-	-	37,535,000	-	-	-	-
Gain (loss) on sale of assets	(1,342,434)	9,368,835	-	-	-	440,617	-	-	-	-
Payment to Educational Revenue Augmentation Fund	-	-	-	-	-	-	-	(16,394,862)	-	-
Total Other Financing Sources (Uses)	11,780,475	21,706,318	11,232,964	13,944,631	12,273,982	49,861,692	12,712,857	(1,931,522)	15,876,548	18,831,326
Extraordinary gain/(loss) on dissolution of redevelopment agency	-	-	-	-	-	-	-	-	-	(5,225,859)
Net change in fund balances	$ 12,664,515	$ 15,512,029	$ 25,634,194	$ 38,103,536	$ 93,095,387	$ (6,261,433)	$ (33,693,623)	$ (4,874,329)	$ (8,229,398)	$ (15,081,415)
Total Current Expenditures	$ 173,007,749	$ 191,816,262	$ 205,313,083	$ 236,571,153	$ 261,367,142	$ 340,694,084	$ 288,700,917	$ 235,888,585	$ 253,216,128	$ 284,785,968
Less: Capital outlay	(22,155,772)	(26,078,170)	(23,385,658)	(28,687,456)	(44,713,839)	(94,401,317)	(64,193,377)	(25,380,201)	(28,242,375)	(20,629,670)
Total Non-Capital Expenditures	$ 150,851,977	$ 165,738,092	$ 181,927,425	$ 207,883,697	$ 216,653,303	$ 246,292,767	$ 224,507,540	$ 210,508,384	$ 224,973,753	$ 264,156,298
Total Debt Service Expenditures	$ 16,214,570	$ 20,208,493	$ 17,228,220	$ 17,121,639	$ 15,708,707	$ 16,255,741	$ 18,533,403	$ 18,809,529	$ 19,077,543	$ 41,573,574
Debt service as a percentage of non-capital expenditures	10.7%	12.2%	9.5%	8.2%	7.3%	6.6%	8.3%	8.9%	8.5%	15.7%

Schedule 4

City of Ontario
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	$ 8,858,104	$ 18,569,213	$ 17,815,758	$ 22,255,872	$ 19,375,419	$ 13,625,169	$ 15,576,453	$ 14,268,790	$ -	$ -
Unreserved	59,646,214	64,703,450	58,249,854	68,713,905	70,563,181	78,056,275	70,919,119	76,746,835	-	-
Nonspendable									12,712,698	3,730,345
Restricted									398,047	403,914
Committed									44,429,493	41,613,880
Assigned									33,062,541	58,426,392
Unassigned									-	-
Total General Fund	$ 68,504,318	$ 83,272,663	$ 76,065,612	$ 90,969,777	$ 89,938,600	$ 91,681,444	$ 86,495,572	$ 91,015,625	$ 90,602,779	$ 104,174,531
All Other Governmental Funds										
Reserved	$ 70,159,174	$ 133,394,841	$ 140,455,533	$ 150,812,635	$ 222,774,135	$ 209,906,550	$ 134,952,208	$ 154,980,840	$ -	$ -
Unreserved, reported in:										
Special revenue funds	13,741,229	8,950,039	7,598,913	8,779,811	18,540,822	19,523,748	25,069,564	16,293,863	-	-
Capital project funds	59,583,169	22,494,017	55,906,084	62,643,481	62,201,510	57,460,304	87,314,009	74,559,493	-	-
Debt service funds	19,844,475	(775,431)	(7,634,384)	(777,387)	11,740,681	13,449,217	22,750,607	14,857,810	-	-
Nonspendable									123,135,004	105,361,843
Restricted									83,617,857	53,187,901
Committed									45,687,149	54,286,462
Assigned									1,558,488	2,664,225
Unassigned									(9,845,119)	(219)
Total All Other Governmental Funds	$ 163,328,047	$ 164,063,466	$ 196,326,146	$ 221,458,540	$ 315,257,148	$ 300,339,819	$ 270,086,388	$ 260,692,006	$ 244,153,379	$ 215,500,212
Grand Total Governmental Funds	$ 231,832,365	$ 247,336,129	$ 272,391,758	$ 312,428,317	$ 405,195,748	$ 392,021,263	$ 356,581,960	$ 351,707,631	$ 334,756,158	$ 319,674,743

Note: The City implemented GASB Statement No. 54 in fiscal year ended June 30, 2011. Information prior to the implementation of GASB 54 is not presented.

City of Ontario
Assessed Value and Estimated Actual Value of Taxable Property*
Last Ten Fiscal Years
(in thousands of dollars)

Fiscal Year Ended June 30	City				Redevelopment Agency			Total Direct Tax Rate [a]
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Taxable Assessed Value	
2003	7,387,329	1,303,833	(113,652)	8,577,510	2,218,900	664,672	2,883,571	1.0068
2004	7,958,470	1,361,315	(117,157)	9,202,628	2,369,395	730,649	3,100,044	1.0065
2005	8,571,566	1,372,657	(116,924)	9,827,299	2,529,595	689,338	3,218,934	1.0062
2006	9,452,251	1,494,847	(115,154)	10,831,944	2,827,674	727,732	3,555,406	1.0056
2007	10,576,169	1,410,250	(115,154)	11,871,265	3,217,432	729,945	3,947,377	1.0050
2008	11,750,445	1,663,422	(113,948)	13,299,919	3,716,427	923,354	4,639,781	1.0048
2009	12,374,781	1,906,125	(114,675)	14,166,231	4,063,383	878,794	4,942,177	1.0046
2010	12,109,876	1,914,746	(114,806)	13,909,816	4,211,063	936,974	5,148,037	1.0046
2011	11,736,550	1,854,606	(114,659)	13,476,497	4,260,662	834,052	5,094,714	1.0037
2012	11,883,548	1,792,402	(113,832)	13,562,118	4,021,158	763,987	4,785,145	1.0041

Source: San Bernardino County Auditor-Controller Property Tax Division, Agency Net Valuations

*In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. The value of the property was set at its 1975-76 level but was allowed to increase by an "inflation factor" (limited to a maximum increase of 2% each year. With few exceptions, property is only reassessed at its value when acquired through a change of ownership or by new construction. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described earlier. The estimated actual taxable value is, therefore, not readily available for cities in the State of California.

a See Schedule 6 for Total Direct Tax Rate information.

City of Ontario
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate per $1,000 of assessed value)

	City Direct Rates			Overlapping Rates		
Fiscal Year Ended June 30	Basic Rate	Redevelopment Debt Service	Total Direct Tax Rate	County	School Districts	Metropolitan Water District
2003	-	1.0068	1.0068	1.0000	0.1112	0.0067
2004	-	1.0065	1.0065	1.0000	0.0761	0.0061
2005	-	1.0062	1.0062	1.0000	0.0712	0.0058
2006	-	1.0056	1.0056	1.0000	0.0874	0.0052
2007	-	1.0050	1.0050	1.0000	0.0675	0.0047
2008	-	1.0048	1.0048	1.0000	0.0640	0.0045
2009	-	1.0046	1.0046	1.0000	0.0648	0.0043
2010	-	1.0046	1.0046	1.0000	0.0577	0.0043
2011	-	1.0037	1.0037	1.0000	0.0619	0.0037
2012	-	1.0041	1.0041	1.0000	0.0704	0.0037

Source: San Bernardino County Valuations - Tax Rates Code Area Tax Rates 2011-12; Bonded Indebtedness June 30, 2011

City of Ontario
Principal Property Tax Payers
Current Year and Ten Years Ago

Taxpayer	2012 Taxable Assessed Value	2012 Percent of Total City Taxable Assessed Value	2002 Taxable Assessed Value	2002 Percent of Total City Taxable Assessed Value
Pro Logis California I LLC	265,167,329	1.67%	104,733,837	0.99%
Ontario Mills Limited Partnership	257,867,806	1.62%	$ 206,365,849	1.95%
Catellus Operating LP / Catellus Finance I LLC	256,126,726	1.61%	-	0.00%
Majestic CCC IV, Partners	121,616,735	0.76%	120,796,881	1.14%
UPS Worldwide Forwarding Inc.	113,466,828	0.71%	67,393,174	0.64%
Landmark PR I Ontario LLC	87,631,000	0.55%	-	0.00%
Craig Development Corp.	87,729,209	0.55%		0.00%
ML Casa III LP	85,051,895	0.53%	-	0.00%
Tishman Speyer Archstone-Smith Terra	80,120,000	0.50%	-	0.00%
Teachers Insurance & Annuity Asssociation of America	71,960,423	0.45%	-	0.00%
United Parcel Service Company	-		213,922,218	2.02%
Southwest Airlines Company Inc.	-		132,765,902	1.25%
MRT Technology, Inc.			110,831,630	1.05%
Inland Paperboard & Packaging Inc.	-		83,450,471	0.79%
Great Spring Waters of America	-		70,793,985	0.67%
Coca Cola Company	-		68,286,319	0.64%
	$ 1,426,737,951	8.95%	$ 1,179,340,266	11.14%

Source: Current year - California Municipal Statistics, Inc.
Ten years ago - 2002 from California Municipal Statistics, Inc.

City of Ontario
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years [a]	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2003	14,816,615	14,473,076	97.68%	n/a	14,473,076	97.68%
2004	15,992,023	15,986,773	99.97%	n/a	15,986,773	99.97%
2005	16,998,903	16,751,852	98.55%	n/a	16,751,852	98.55%
2006	18,767,438	18,663,312	99.45%	n/a	18,663,312	99.45%
2007	20,731,782	20,496,709	98.87%	n/a	20,496,709	98.87%
2008	23,191,120	22,533,906	97.17%	n/a	22,533,906	97.17%
2009	24,751,328	23,056,214	93.15%	n/a	23,056,214	93.15%
2010	24,264,694	22,720,878	93.64%	n/a	22,720,878	93.64%
2011	23,607,260	21,801,016	92.35%	n/a	21,801,016	92.35%
2012	23,917,413	21,383,058	89.40%	n/a	21,383,058	89.40%

Schedule presents **City's property tax only, not RDA tax increment**

Source: San Bernardino County, Auditor-Controller-Recorder letter received in November of the previous calendar year and General Fund Revenue Statement as of June 30th.

[a] Data provided by the San Bernardino County Assessor's Office for collection of prior year taxes does not segregate the information by fiscal year. Therefore, the City is not able to provide this information in the above schedule.

Schedule 9

City of Ontario
Taxable Sales by Category
Last Ten Calendar Years
(in thousands of dollars)

Category	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Office equipment	$ 331,343	$ 383,278	$ 459,038	$ 555,888	$ 653,295	$ 675,124	$ 685,757	$ 692,228	$ 764,021	$ 790,406
Auto sales	843,367	936,398	1,060,064	1,152,326	1,062,907	885,919	582,338	622,759	732,112	882,210
Service stations/energy sales	370,178	390,351	468,741	600,597	625,312	723,602	615,277	588,807	685,861	658,672
Light/heavy industry	272,823	318,116	360,791	520,129	567,628	542,308	541,230	511,619	564,152	603,125
General merchandise	444,434	467,675	477,094	499,733	498,494	482,982	422,406	411,433	458,344	420,131
Building materials	462,397	601,303	714,862	844,874	774,074	577,804	465,555	368,744	388,292	422,640
Health & Government	236,314	235,797	230,897	246,350	261,265	282,235	315,470	322,201	309,879	362,715
Apparel stores	202,235	219,892	228,432	256,918	274,116	287,888	269,466	309,438	358,461	378,550
Restaurants	265,837	291,257	310,926	319,894	343,646	342,979	313,985	285,495	300,089	315,645
Furniture/appliances	440,143	436,962	439,645	383,806	302,670	336,952	226,668	205,183	188,634	131,780
Leasing	179,267	172,098	166,773	188,391	180,738	167,990	138,673	134,176	125,627	136,115
Other	93,168	136,115	184,314	230,555	242,658	341,157	295,532	291,504	179,590	431,190
Total	$ 4,141,506	$ 4,589,242	$ 5,101,578	$ 5,799,462	$ 5,786,804	$ 5,646,939	$ 4,872,355	$ 4,743,587	$ 5,055,062	$ 5,533,179
City direct sales tax rate	-	-	-	-	-	-	-	-	-	-

Note: For the City of Ontario, property and sales taxes provide similar amounts of annual revenue; therefore, the City has elected to disclose revenue capacity information about both the property and sales tax.

Source: MuniServices, LLC

City of Ontario
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Ended June 30	City Direct Rate	County Transportation Authority Rate	San Bernardino County Rate	State Rate
2003	-	0.50%	1.25%	6.00%
2004	-	0.50%	1.25%	6.00%
2005	-	0.50%	1.00%	6.25%
2006	-	0.50%	1.00%	6.25%
2007	-	0.50%	1.00%	6.25%
2008	-	0.50%	1.00%	6.25%
2009	-	0.50%	1.00%	7.25%
2010	-	0.50%	1.00%	7.25%
2011	-	0.50%	1.00%	7.25%
2012	-	0.50%	1.00%	6.25%

Source: State of California, Board of Equalization, Publication 71.

Note: The Bradley-Burns Uniform Local Sales and Use Tax Law was enacted in 1955. The law authorized counties to impose sales and use tax. Effective January 1, 1962, all counties within the State of California have adopted ordinances for the Board of Equalization to collect the local tax. Local tax rate for the San Bernardino County has been 1.00% since July 1, 2004.

The City of Ontario does not impose direct sales and use tax.

City of Ontario
Sales Tax Payers by Industry
Current Year and Ten Years Ago
(in thousands of dollars)

	Fiscal Year 2012				Fiscal Year 2002			
Economic Category	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Tax Liability	Percentage of Total
General retail	1,024	33.07%	$ 9,305	16.82%	1,385	35.30%	$ 6,131	16.76%
Food products	547	17.67%	4,335	7.84%	539	13.74%	3,639	9.95%
Transportation	399	12.89%	15,583	28.16%	472	12.03%	10,097	27.60%
Construction	177	5.72%	4,226	7.64%	180	4.59%	3,893	10.64%
Business to business	775	25.03%	18,177	32.85%	993	25.31%	10,579	28.92%
Miscellaneous	174	5.62%	3,705	6.70%	354	9.02%	2,242	6.13%
	3,096	100.00%	$ 55,332	100.00%	3,923	100.00%	$ 36,581	100.00%

Source: MuniServices, LLC

Note: Due to confidentiality issues, the names of the ten largest sales tax remitters are not available. The categories presented above are intended to provide alternative information regarding the sources of the City's revenue.

City of Ontario
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(dollars in thousands, except per capita)

	Governmental Activities						Business-type Activities						
Fiscal Year Ended June 30	General Obligation Bonds	*Tax Allocation Bonds	*Revenue Bonds	Loans	Capital Leases	Total Governmental Activities	Term Loan	Certificates of Participation	Total Business-type Activities	Total Primary Government	Percentage of Personal Income [d]	Per Capita [d]	Personal Income ('000)
2001	1,797	91,749	-	4,054	1,283	98,884	857	-	857	99,741	3.20%	626	3,114,139
2002	33,717	55,119	34,880	18,695	1,149	143,560	822	-	822	144,382	5.69%	884	2,536,097
2003	33,057	60,883	24,775	18,004	1,005	137,725	747	-	747	138,472	5.20%	833	2,661,524
2004	32,187	61,588	22,703	15,313	-	131,791	-	-	-	131,791	5.19%	783	2,540,000
2005 [a]	31,282	62,337	20,430	14,738	-	128,787	-	51,470	51,470	180,257	6.42%	1,060	2,806,549
2006	29,997	63,133	18,295	14,148	-	125,573	-	50,585	50,585	176,158	5.96%	1,033	2,955,000
2007	29,191	60,681	18,582	13,842	-	122,296	-	49,670	49,670	171,966	5.87%	1,001	2,929,000
2008	65,905	58,046	18,908	13,520	-	156,378	-	48,730	48,730	205,108	6.27%	1,189	3,270,000
2009	64,504	55,139	19,277	13,181	-	152,102	-	47,750	47,750	199,852	5.79%	1,156	3,453,541
2010	63,270	52,150	19,696	12,824	-	147,940	-	46,735	46,735	194,675	8.11%	1,115	2,400,178
2011	61,995	48,965	20,166	12,449	-	143,575	-	45,680	45,680	189,255	7.87%	1,155	2,403,359
2012 [c]	41,285	-	-	-	-	41,285	-	45,680	44,580	85,865	3.71%	517	2,315,184

Source: Notes to the Financial Statements, Long Term Debt section.

a The City issued $50 million new certificates of participation in 2004.
b The City issued approximately $38 million in revenue bonds in 2008.
c Outstanding long term debts of the Ontario Redevelopment Agency were transferred to the Successor Agency on February 1, 2012 as a result of dissolution of Redevelopment Agencies in California.
d See Schedule 17 for personal and population data. These ratios are calculated using personal income and population for the prior calendar year.

City of Ontario
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year Ended June 30	General Bonded Debt Outstanding				Percentage of Assessed Value [a] of Property	Per Capita [b]
	General Obligation Bonds	Redevelopment Bonds		Total		
		Tax Allocation Bonds	Revenue Bonds			
2002	33,717	55,119	34,880	123,716	1.18%	757.86
2003	33,057	60,883	24,775	118,715	1.04%	714.56
2004	32,187	61,588	22,703	116,478	0.95%	692.15
2005	31,282	62,337	20,430	114,049	0.87%	670.60
2006	29,997	63,133	18,295	111,425	0.77%	653.41
2007	29,191	60,681	18,582	108,454	0.69%	631.18
2008	65,905	58,046	18,908	142,859	0.80%	828.02
2009	64,504	55,139	19,277	138,920	0.73%	803.44
2010	63,270	52,150	19,696	135,116	0.71%	774.14
2011	61,995	48,965	20,166	131,126	0.71%	795.49
2012 [c]	41,285	-	-	41,285	0.22%	248.50

Note: General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in the enterprise funds (of which the City has none). Details regarding the City's outstanding debt can be found in the notes to the financial statements.

a Assessed value has been used because the actual value of taxable property is not readily available. See Schedule 5 for assessed property value data.

b See Schedule 17 for personal income and population data. These ratios are calculated using personal income and population for the 10 prior calendar years.

c Outstanding long term debts of the Ontario Redevelopment Agency were transferred to the Successor Agency on February 1, 2012 as a result of dissolution of Redevelopment Agencies in California.

City of Ontario
Direct and Overlapping Governmental Activities Debt
As of June 30, 2011
(dollars in thousands)

City Assessed Valuation	$ 13,675,950		
Redevelopment Agency Incremental Valuation	4,785,144		
Total Assessed Valuation	$ 18,461,094 *		

**Does not include deduction of the homeowner's exception of $115k*

	Outstanding Debt 06/30/2012	Percentage Applicable [a]	Est. Share of Overlapping Debt 06/30/2012
Overlapping Debt Repaid with Property Taxes:			
Metropolitan Water District	$ 196,545	0.758%	$ 1,490
Chaffey Community College District	145,843	25.082%	36,580
Chino Valley Unified School District	139,375	4.996%	6,963
Chaffey Union High School District	86,055	48.847%	42,035
Mountain View School District	330	99.961%	330
Ontario-Montclair School District	51,805	79.037%	40,945
Mountain View School District School Facilities Improvement District No. 1	14,119	99.956%	14,113
Mountain View School District CFD No. 1	1,525	100.000%	1,525
Mountain View School District CFD No. 1997-1	965	100.000%	965
Ontario Community Facilities District No. 5	4,780	100.000%	4,780
Ontario Community Facilities District No. 13	4,430	100.000%	4,430
City of Ontario 1915 Act Bonds	10,780	100.000%	10,780
Total overlapping debt repaid with property taxes	656,552		164,937
Overlapping General Fund Debt:			
San Bernardino County General Fund Obligations	613,235	12.015%	73,680
San Bernardino County Pension Obligations	547,886	12.015%	65,828
San Bernardino County Flood Control District GF Obligation	108,210	12.015%	13,001
Chaffey Community College District Certificates of Participation	12,276	25.082%	3,079
Chino Valley Unified School District Certificates of Participation	23,295	4.996%	1,164
Cucamonga School District Certificate of Participation	10,805	67.229%	7,264
West Valley Vector Control District Certificate of Participation	3,375	32.440%	1,095
Total overlapping general fund debt	1,319,081		165,112
Total overlapping debt	$ 1,975,633		330,049
City direct debt			41,285
Total direct and overlapping debt			$ 371,334

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and, therefore, responsible for repaying the debt of each overlapping government.

[a] For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

Source: California Municipal Statistics, Inc.
City direct debt can be obtained from Schedule 12

City of Ontario
Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Assessed valuation [a]	$ 8,577,510	$ 9,202,628	$ 9,827,299	$ 10,831,944	$ 11,871,265	$ 13,299,919	$ 14,051,556	$ 13,909,816	$ 13,476,497	$ 13,562,118
Conversion percentage [b]	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,144,378	2,300,657	2,456,825	2,707,986	2,967,816	3,324,980	3,512,889	3,477,454	3,369,124	3,390,530
Debt limit percentage [c]	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	321,657	345,099	368,524	406,198	445,172	498,747	526,933	521,618	505,369	508,579
Total net debt applicable to limit:										
General obligation bonds	33,057	32,187	31,282	29,997	29,191	65,905	64,504	63,270	61,995	41,285
Legal debt margin	$ 288,600	$ 312,912	$ 337,242	$ 376,201	$ 415,981	$ 432,842	$ 462,429	$ 458,348	$ 443,374	$ 467,294
Total debt applicable to the limit as a percentage of debt limit	11.45%	10.29%	9.28%	7.97%	7.02%	15.23%	13.95%	13.80%	13.98%	8.83%

Source: City of Ontario, Administrative Services Agency

a Assessed valuation includes the City portion only.

b The California Code Section 43605 provides for a legal debt margin limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computation shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that legal margin debt was enacted by the State of California for local governments within the State.

c The legal debt limit of 15% is established by the State of California Code Section 43605.

City of Ontario
Pledged-Revenue Coverage
Last Ten Fiscal Years
(dollars in thousands)

Fiscal Year Ended June 30	Tax Allocation/Tax Increment Revenue Bonds				Water Certificates of Participation					
	Tax Increment	Debt Service Principal	Debt Service Interest	Coverage	Water Revenue	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2003	31,237	3,555	1,181	6.60	-	-	-	-	-	-
2004	32,770	3,393	1,580	6.59	-	-	-	-	-	-
2005	34,493	3,104	1,912	6.88	31,007	19,504	11,503	-	1,090	10.55
2006	39,323	2,842	2,211	7.78	33,506	23,856	9,649	850	2,536	2.85
2007	42,880	4,971	7,903	3.33	39,944	29,049	10,895	915	2,497	3.19
2008	51,760	5,143	7,877	3.98	40,742	27,261	13,481	940	2,470	3.95
2009	51,410	5,638	9,580	3.38	46,202	25,643	20,559	980	2,432	6.03
2010	55,505	5,512	9,518	3.69	45,767	22,432	23,335	1,015	2,393	6.85
2011	49,667	5,592	9,454	3.30	51,182	28,759	22,423	1,055	2,352	6.58
2012 [a]	10,176	1,240	2,966	2.42	55,482	26,814	28,668	1,100	2,310	8.41

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

a Outstanding long term debts of the Ontario Redevelopment Agency were transferred to the Successor Agency on February 1, 2012 as a result of dissolution of Redevelopment Agencies in California.

City of Ontario
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population (1)	Personal Income (in thousands) (2)	Per Capita Personal Income	Unemployment Rate (3)
2001	159,438	2,536,097	15,906	5.1%
2002	163,244	2,661,524	16,304	6.0%
2003	166,137	2,540,000	15,289	6.3%
2004	168,285	2,806,549	16,677	5.8%
2005	170,069	2,954,897	17,285	5.2%
2006	170,529	2,929,000	17,176	4.8%
2007	171,828	3,270,000	17,857	5.6%
2008	172,530	3,453,541	20,008	7.9%
2009	172,908	2,400,178	16,255	13.5%
2010	163,924	2,403,359	17,947	14.1%
2011	164,836	2,315,184	17,625	14.7%

Source: (1) - State of California Department of Finance Demographic Research Unit web site.
(2) - U.S. Census Bureau, American Factfinder. http://factfinder2.census.gov/faces/nav/jsf/pages/index.xhtml
(3) - California Labor Market Info, EDD. http://www.labormarketinfo.edd.ca.gov/cgi/dataanalysis/areaselection.asp?tablename=labforce

Schedule 18

City of Ontario
Principal Employers – Current Year
Principal Employment Sectors - Current Year and Nine Years Ago

Employer [a]	2011 Number of Employees [b]	2011 Percentage of Total City Employment	2006 [c] Number of Employees	2006 [c] Percentage of Total City Employment
Ontario Intl Airport-Ont	5,000 to 9,999			
City of Ontario	1,000 to 4999		1,106	1.39%
Safariland Llc	500 to 999			
Securitas Security Svc USA	500 to 999		500	0.63%
Barrett Business Svc Inc	250 to 499			
Bbb Industries	250 to 499			
Cardinal Health	250 to 499			
Care Fusion	250 to 499			
Classic Containers Inc	250 to 499			
Crown Toyota	250 to 499			
Dave & Buster's	250 to 499			
Dhe-Dependable Highway Express	250 to 499			
Doubletree-Ontario	250 to 499			
Gold Star Foods	250 to 499	Left		
Guard Systems Inc	250 to 499	intentionally		
Las Vegas LA Express Inc	250 to 499	blank [b]		
Mark Christopher Auto Ctr	250 to 499			
New Breed Logistics Inc	250 to 499			
Nordstrom	250 to 499			
Oakwood Interiors	250 to 499			
Radisson	250 to 499			
Savage Bmw	250 to 499			
Solar Link Intl Inc	250 to 499			
Superior Windows & Doors	250 to 499			
Mag Instrument, Inc.			1,000	1.25%
Toyota Motor Sales, Inc.			530	0.66%
United Parcel Service (UPS)			3,500	4.39%
Verizon			679	0.85%
Burns International Security Services			650	0.82%
Marriott International Hotel			624	0.78%
Skechers USA			500	0.63%
Superior Building Products			500	0.63%
US Merchants Financial Group, Inc.			500	0.63%
Total	-	-	10,089	12.66%

Notes: [a] List of top 26 business employers.
[b] Per EDD, employment numbers are confidential therefore,only the data for the range of the number of employees are available.
[c] The City opted to provide data for 2006 as 2001 is not available.
Source: 2006 Largest Employers - City's Economic Development Department

City of Ontario
Principal Employers – Current Year
Principal Employment Sectors - Current Year and Nine Years Ago

Employment Sector	2011 Number of Employees	2011 Percentage of Total City Employment	2001 Number of Employees	2001 Percentage of Total City Employment
Distribution	23,194	25.69%	15,613	20.09%
Retail Trade	14,768	16.36%	15,005	19.31%
Manufacturing	11,970	13.26%	15,798	20.33%
Help Agency	10,575	11.71%	4,825	6.21%
Construction	2,984	3.31%	3,387	4.36%
Education	4,993	5.53%	5,429	6.99%
Other Services	4,156	4.60%	2,651	3.41%
Business Services	3,534	3.91%	2,804	3.61%
Engineering and Management	2,468	2.73%	1,395	1.80%
Financial Institution/Insurance/Real Estate	3,066	3.40%	2,085	2.68%
Hotels and Entertainment	2,604	2.88%	2,305	2.97%
Agriculture	1,074	1.19%	1,490	1.92%
Health Services	2,375	2.63%	1,726	2.22%
Utilities	781	0.87%	1,183	1.52%
Government Agencies	1,202	1.33%	1,018	1.31%
Aerospace	533	0.59%	993	1.28%
Total	90,277	100.00%	77,707	100.00%

Source: Number of employees by sector - Husing's Ontario Economic Profile

City of Ontario
Full-time City Government Employees by Function
Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government	87	99	108	111	110	108	100	100	103	103
Public Safety	482	484	492	501	504	494	493	492	492	492
Community Development	130	131	146	156	158	145	133	131	132	118
Public Works	309	315	329	338	355	354	342	340	333	331
Total	1,008	1,029	1,075	1,106	1,127	1,101	1,068	1,063	1,060	1,044

Source: City of Ontario, Administrative Services Agency

Note: A full-time employee is scheduled to work 2,088 hours per year (including vacation and sick leave).

Schedule 20

City of Ontario
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Building permits issued	4,452	4,789	5,057	4,945	3,999	2,933	2,339	2,594	3,244	3,300
Police										
Physical arrests	10,022	10,264	10,134	9,561	11,207	11,001	10,945	9,979	7,877	8,839
Citations	16,647	15,558	14,293	16,155	20,762	20,436	19,710	16,031	14,636	12,006
Fire										
Emergency response	21,375	20,146	21,989	22,151	22,832	16,227 [b]	15,157	14,877	15,487	15,889
Fire inspections	1,574	1,589	1,760	1,635	1,987	1,967	2,358	1,228	1,210	3,537
Public works										
Street resurfacing (miles)	24	24	19	13	10	11.5	9.2	9.6	9.1	9.3
Parks and recreation										
Number of recreation classes	95	100	1,245 [a]	1,350	1,358	1,340	1,353	1,371	1,286	140
Number of facility rentals	590	605	625	644	788	772	1,071	3,285	3,231	3,780
Library										
Total volumes of books borrowed	458,594	443,490	418,100	380,016	403,964	423,011	436,576	470,567	467,185	472,384
Total volumes of audio/visual items borrowed	157,825	163,804	184,928	187,853	147,190	174,635	176,665	173,444	169,827	155,855
Water										
Number of recycled water connections	4	4	4	5	4	70	113	164	205	218
Number of potable connections	32,251	32,281	32,714	33,964	33,872	32,553	32,752	33,384	32,907	32,904
Average daily potable consumption (MGD)	40	39	38	38	39	39	36	33	31	31
Solid waste										
Refuse collected (tons per day)	535	550	582	569	552	754	599	584	573	535
Recyclables collected (tons per day)	35	39	41	44	41	56	52	53	45	49
Recyclables recovered (tons per day)	23	24	25	28	25	39	34	34	37	34

[a] *Method of recording contract classes changed with Fiscal Year 2004-05 budget. Prior method reflected number of annual class titles, starting Fiscal Year 2004-05, the numbers reflect individual class sessions.*

[b] *Method of reporting incident calls changed with Fiscal Year 2007-08. Prior method reflected total incident calls per apparatus which may have been duplicated due to one apparatus being on the same call.*

Source: City of Ontario, various departments

City of Ontario
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Police stations	3	2	2	2	2	2	2	2	2	2
Fire										
Fire stations	8	8	8	8	8	8	8	8	8	8
Public works										
Streets (miles) [c]	520	572	572	572	579	579	544	544	544	544
Traffic signals	144	150	150	152	157 [a]	161 [a]	184 [a]	184 [a]	191 [a]	191
Parks and recreation										
Parks	18	18	18	18	18	18	18	18	21	22
Community centers	6	6	6	6	6	6	6	6	7	7
Library										
Buildings	1	2	2	2	2	2	2	2	2	2
Water										
Number of wells	26	23	22	22	18	20	24	24	24	24
Water lines (miles)	541	541	536	538	556	553	556	556	556	556
Storage capacity (millions of gallons)	60	60	60	60	76	76	76	76	76	75
Sewer										
Sewer lines (miles)	370	371	375	378	386	396	386	386	386	386
Storm drainage										
Storm drainage (miles) [b]	60	60	61	61	61	63	67	68	68	68

[a] *Number of traffic signals include 13 owned by the LA-ONT airport, but maintained and operated by the City.*
[b] *Number of miles reflect only the storm drains with 36-inch diameter or larger.*
[c] *Number of streets miles were adjusted to reflect only the mileage in the City of Ontario ~ not the surrounding cities.*

Source: City of Ontario, various departments

AB 1600 DEVELOPMENT IMPACT FEE ANNUAL REPORT

CITY OF ONTARIO

AB 1600 DEVELOPMENT IMPACT FEE ANNUAL REPORT
JUNE 30, 2012

On July 1, 2003, the City Council adopted Ordinance Nos. 2779 and 2780 approving the collection of Development Impact Fees in the City of Ontario to mitigate the impacts of future development. In accordance with the provisions of Ordinance Nos. 2779 and 2780, the City began collecting Development Impact Fees on September 1, 2003. Pursuant to Ordinance 2779, the impact fees have been updated periodically since that time by resolution of the City Council. The last Development Impact Fee update was authorized by the City Council on March 15, 2011 by Resolution 2011-011. An updated General Plan for the City of Ontario was adopted by the City Council on January 27, 2010. The City is currently in the process of finalizing updates to its Master Plan documents to address the revised land use assumptions underlying the new General Plan. In conjunction with the new Master Plan updates, the City is in the process of completing a comprehensive update of its Development Impact Fees to incorporate the changes included in the City's revised General and Master Plans.

California Government Code sections §66001 and §66006 require making available to the public various Development Impact Fee information. The City of Ontario addresses these reporting requirements through annual issuance of the following two schedules, along with the release of periodic updates to the City's Development Impact Fee calculation and nexus schedules. The following two schedules include Development Impact Fee information for the fiscal year ended June 30, 2012. The first schedule reports each Development Impact Fee category's beginning and ending fund balance, revenue and earnings, and expenditures. The second schedule provides a summary listing of Development Impact Fee expenditure amounts by individual public improvement project. The most recently adopted update of the City's Development Impact Fee calculation and nexus schedules - *Development Impact Fee Calculation and Nexus Schedules for the City of Ontario, California, December 2010* - contains the amount and purpose of each Development Impact Fee, the public improvements the fees will fund, and the reasonable relationship between the fee and the purpose for which it is charged.

CITY OF ONTARIO
AB 1600 DEVELOPMENT IMPACT FEE ANNUAL REPORT
PURSUANT TO GOVERNMENT CODE SECTION 66006
FOR FISCAL YEAR ENDED JUNE 30, 2012

Fund	Development Impact Fee	Fund Balance July 1, 2011	Revenues			Projects Expenditures	Fund Balance June 30, 2012
			DIF Fees	Interest	Gains/Losses		
007	Parkland Acquisition and Facilities Development	$ 9,961,846.47	$ 331,074.00	$ 132,964.38	$ (31,151.26)	$ 2,712,906.78	$ 7,681,826.81
101	Law Enforcement Facilities, Vehicles and Equipment	(2,699,269.62)	88,226.75	1,690.46	492.55	-	(2,608,859.86)
102	Fire Facilities, Vehicles and Equipment	78,046.89	128,395.93	2,175.19	1,029.73	-	209,647.74
103	OMC Circulation (Streets, Bridges and Signals) System	15,650,418.32	3,934,843.38	222,862.62	(31,749.30)	4,941,594.14	14,834,780.88
104	OMC Water System Source, Storage and Distribution	7,101,946.16	482,988.94	109,073.15	(8,705.32)	-	7,685,302.93
105	OMC Sewer Collection System	2,748,289.69	230,259.02	42,305.78	(3,302.71)	-	3,017,551.78
106	Solid Waste Collection Equipment	686,337.04	124,749.38	10,942.84	(501.63)	-	821,527.63
107	General Facilities, Vehicles and Equipment	113,112.53	382,062.95	3,472.63	1,360.19	-	500,008.30
108	Library Facilities and Collection	46,316.56	29,479.00	1,052.90	250.92	-	77,099.38
109	Public Use Facilities	748,232.99	30,157.00	11,624.82	(827.91)	-	789,186.90
110	Aquatics Centers	97,658.17	4,054.00	1,518.29	(107.39)	-	103,123.07
111	OMC Storm Drainage System	15,886,897.01	766,547.39	237,377.94	(28,516.48)	478,867.99	16,383,437.87
112	NMC Open Space Land Acquisition	204,550.59	-	3,078.81	(317.91)	-	207,311.49
113	Fiber Optic Communication System	13,527.14	1,951.14	231.74	0.10	-	15,710.12
115	NMC Circulation (Streets, Bridges and Signals) System	1,009,200.70	335,480.20	19,645.29	1,978.31	-	1,366,304.50
116	NMC Water System Source, Storage and Distribution	(326,843.79)	24,051.73	-	-	-	(302,792.06)
117	NMC Sewer Collection System	141,720.17	23,446.29	2,634.93	(15.98)	-	167,785.41
118	NMC Storm Drainage System	1,073,642.40	48,250.00	16,644.54	(1,191.12)	-	1,137,345.82
		$ 52,535,629.42	$ 6,966,017.10	$ 819,296.31	$ (101,275.21)	$ 8,133,368.91	$ 52,086,298.71

CITY OF ONTARIO

DEVELOPMENT IMPACT FEE PROJECTS WORKED ON

FISCAL YEAR ENDED JUNE 30, 2012

City Project ID	Description		Annual Expenditure
Parkland Acquisition and Facilities Development (Fund 007)			
PA0205	OMC Park Planning, Acq. & Dev.		$ 5,300.00
PA0402	NMC Park Planning		2,197,891.88
PA0701	Downtown Plaza Design		509,714.90
		Fund 007 Subtotal	$ 2,712,906.78
OMC Circulation (Streets, Bridges and Signals) System (Fund 103)			
ST0104	N. Milliken Grade Separation		$ 4,195,407.46
ST0302	Grove/I10 Interchange-Corridor		458.60
ST0308	S. Milliken Grade Separation		491,632.52
ST0711	N. Vineyard Ave Grade Separation		193,916.80
ST0908	I-10/Archibald Ave Interchange		29,486.63
TR0703	T/S Install Grove/Princeton		10,999.10
TR9902	T/S Modification Grove/6th St		19,693.03
		Fund 103 Subtotal	$ 4,941,594.14
OMC Storm Drainage System (Fund 111)			
SD-75	Storm Drain Master Plan Update		$ 70,685.00
SM1001	5th Street Storm Drain		406,120.48
SM1002	6th Street Storm Drain		2,062.51
		Fund 111 Subtotal	$ 478,867.99
			$ 8,133,368.91

CITY OF ONTARIO CALIF.

SCHOOLS & CHURCHES

BUSINESS & AGRICULTURE

BALANCED COMMUNITY

INCORPORATED 1891

CITY OF ONTARIO
SOUTHERN CALIFORNIA

MAYOR
Paul S. Leon

MAYOR PRO TEM
Jim W. Bowman

COUNCIL MEMBERS
Alan D. Wapner
Debra Dorst-Porada
Paul Vincent Avila

CITY TREASURER
James R. Milhiser

CITY CLERK
Mary E. Wirtes

CITY MANAGER
Chris Hughes

ADMINISTRATIVE SERVICES/
FINANCE DIRECTOR
Grant D. Yee

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the Series 2013 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

Ontario Public Financing Authority
c/o City of Ontario
303 East B Street
Ontario, California 91764

Re: *$______ Ontario Public Financing Authority*
2013 Lease Revenue Bonds (Capital Projects)

Members of the Board of Directors:

We have acted as Bond Counsel to the Ontario Public Financing Authority (the "Authority") in connection with the issuance by the Authority of its 2013 Lease Revenue Bonds (Capital Projects) (the "Series 2013 Bonds") in the aggregate principal amount of $______. In such connection, we have reviewed: (i) the Indenture, dated as of September 1, 2013 (the "Indenture"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the Authority and the City of Ontario (the "City"); (ii) the Lease Agreement, dated as of September 1, 2013 (the "Lease Agreement"), by and between the City and the Authority; (iii) the Ground Lease, dated as of September 1, 2013 (the "Ground Lease"), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of September 1, 2013 (the "Assignment Agreement"), by and between the Authority and the Trustee; (v) the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"); and (vi) opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease Agreement does not constitute a debt of the City, the State of California (the "State") or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State or any political subdivision thereof.

2. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series 2013 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Series 2013 Bonds is exempt from personal income taxes imposed in the State.

5. The difference between the issue price of a Series 2013 Bond (the first price at which a substantial amount of the Series 2013 Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013 Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Series 2013 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Series 2013 Bond Owner will increase the Series 2013 Bond Owner's basis in the applicable Series 2013 Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the Series 2013 Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Series 2013 Bond Owner's original basis for determining loss on sale or exchange in a Series 2013 Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Series 2013 Bond Owner's basis in the applicable Series 2013 Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013 Bond Owner realizing a taxable gain when a Series 2013 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013 Bond to the Owner. Purchasers of the Series 2013 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Series 2013 Bonds are based upon certain representations of fact and certifications made by the City and the Authority and are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2013 Bonds to assure that such interest (and original issue discount) on the Series 2013 Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013 Bonds. The City and the Authority have covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Series 2013 Bonds terminates on the date of their issuance. The Indenture, the Lease Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Series 2013 Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than as expressly stated herein, we express no other opinion regarding tax consequences with respect to the Series 2013 Bonds.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Lease Agreement and the Series 2013 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2013 Bonds and expressly disclaim any duty to advise the Owners of the Series 2013 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$_______________
ONTARIO PUBLIC FINANCING AUTHORITY
2013 LEASE REVENUE BONDS (CAPITAL PROJECTS)

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the CITY OF ONTARIO (the "City"), for and on behalf of itself and the Ontario Public Financing Authority (the "Authority"), in connection with the issuance by the Authority of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered pursuant to an Indenture, dated as of September 1, 2013 (the "Indenture"), by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee.

The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms will have the following meanings:

"*Annual Report*" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the date that is nine months after the end of the City's fiscal year (currently March 31 based on the City's fiscal year end of June 30).

"*Dissemination Agent*" means The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the City in connection with the issuance of the Bonds.

"*Participating Underwriter*" means _________, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City will, or will cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2014, with the report for the 2012-13 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City will provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent will contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(c). The City will provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City will provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent will:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report will contain or incorporate by reference the following:

(a) The City's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the Annual Report Date, the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year, including information showing tax revenue collections by source;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City that are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the City from the most recently available County Assessor's Roll, showing the valuation for secured and unsecured property;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year;

(v) table showing General Fund tax revenues by source; and

(vi) information showing the balance sheet of the General Fund of the City as of the close of the most recent completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City will provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City will clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City will give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, or will cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City will cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate will be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City will give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be The Bank of New York Mellon Trust Company, N.A. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison will be quantitative.

A notice of any amendment made pursuant to this Section 9 will be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate will be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate will not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent will have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent will have no duty or obligation to review any information provided to it by the City hereunder, and will not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The Dissemination Agent shall have the same rights, protections and immunities hereunder as provided to the Trustee under the Indenture. The obligations of the City under this Section will survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent will be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and will be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate will inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and will create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which will be regarded as an original, and all of which will constitute one and the same instrument.

Date: _______, 2013

CITY OF ONTARIO

By: ________________________________

Name: ______________________________

Title: _______________________________

AGREED AND ACCEPTED:
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Dissemination Agent

By: ________________________________

Name: ______________________________

Title: _______________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Ontario Public Financing Authority
Name of Issue:	Ontario Public Financing Authority 2013 Lease Revenue Bonds (Capital Projects)
Date of Issuance:	_______, 2013

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated _______, 2013. The City anticipates that the Annual Report will be filed by ________________.

Dated: __________________

DISSEMINATION AGENT:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.

By: ________________________________
Its: ________________________________

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013 Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2013 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2013 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2013 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive

written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Securities within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal, redemption price and interest payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time

to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner will give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and will effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: $ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ________________________________
Authorized Officer

APPENDIX H

SPECIMEN RESERVE POLICY

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ASSURED GUARANTY® MUNICIPAL

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER: Policy No.:

BONDS: Effective Date:

Premium: $

Termination Date:

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AGM will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy. Upon such payment, AGM shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Insurance Agreement.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to AGM by or on behalf of the Issuer. Within three Business Days of such reimbursement, AGM shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall AGM incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that AGM has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

(212) 826-0100