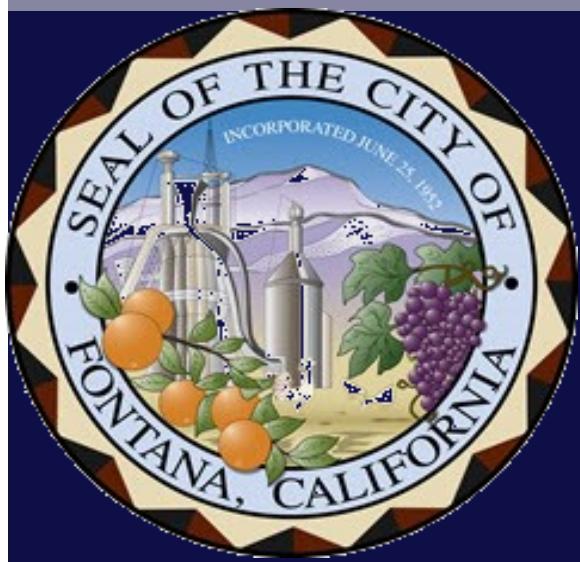


CITY OF FONTANA



Popular Annual Financial Report
Fiscal Year Ended June 30, 2016





The Popular Annual Financial Report (PAFR) is an unaudited summary report of the financial activities of the City and is prepared primarily from detailed information contained in the City's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016, with selected information from CAFRs prepared in earlier fiscal years.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and includes financial statements audited by Davis Farr LLP. The City received an unmodified (or clean) opinion that the financial statements present fairly, in all material respects, the financial position of the City of Fontana at June 30, 2016. The CAFR provides much more detail as well as full disclosure of all material events, both financial and non-financial and includes the City's component units (related organizations) and information on individual funds.

The PAFR has been prepared to simplify the information in the CAFR and better inform the public about the overall financial condition of the City, without the heavy use of technical accounting terms or excessive detail. The PAFR is not intended to provide a complete financial picture of the City in accordance with GAAP.

Questions or feedback concerning any of the information provided in this report or requests for additional financial information may be directed to the Accounting Division via mail to 8353 Sierra Ave, Fontana, California 92335, via email to dbrooks@fontana.org or via telephone at 909-350-7611.

Copies of both the PAFR and CAFR are available online at:

www.fontana.org/index.aspx?NID=343

Vision Statement

“Fontana is a dynamic, thriving community that supports education, growth, safety and positive community fabric. Our community is creating the opportunities that encourage social and economic investment.”

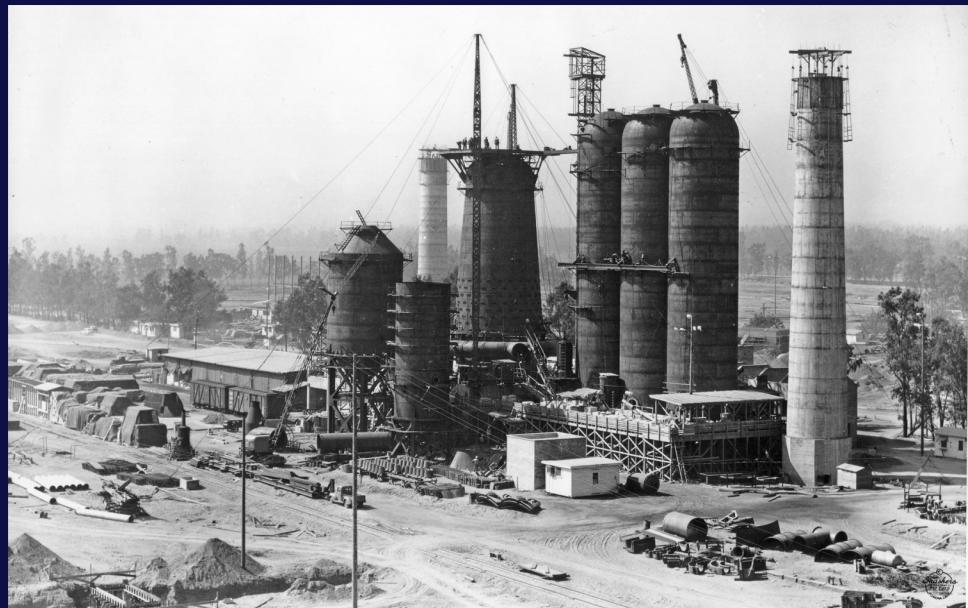
Adopted by the Fontana City Council



About Fontana

The City of Fontana encompasses approximately 42.4 square miles and has a population of 209,895. It is located 50 miles east of Los Angeles, 50 miles north of the heart of Orange County, and 10 miles west of the cities of Riverside and San Bernardino. The City was incorporated on June 25, 1952, under the laws of the State of California and enjoys all the rights and privileges applicable to a general law city.

The City was first developed as an organized rural community through the vision of Mr. A. B. Miller. The farming community was abruptly reshaped in 1942 with the transformation of Mr. Miller's farm into a steel mill by Henry J. Kaiser. The City incorporated in 1952 and the area became Southern California's leading producer of steel and steel-related products. The steel industry dominated the City's economy until 1984 when the steel mill closed.



Fontana Government

The City of Fontana is governed by a five-member City Council under the Council-Manager form of government. The City provides a full range of services to its residents including police and fire services; sanitation services; construction and maintenance of highways, streets and infrastructure; land use and planning; recreation and cultural arts; and general governmental services.

Elected Officials (at time of issuance)

Acquanetta Warren, Mayor
Lydia S. Wibert, Mayor Pro Tem
John B. Roberts, Council Member
Jesus "Jesse" Sandoval, Council Member
Michael Tahan, Council Member
Janet Kohler-Brooks, Treasurer
Tonia Lewis, City Clerk

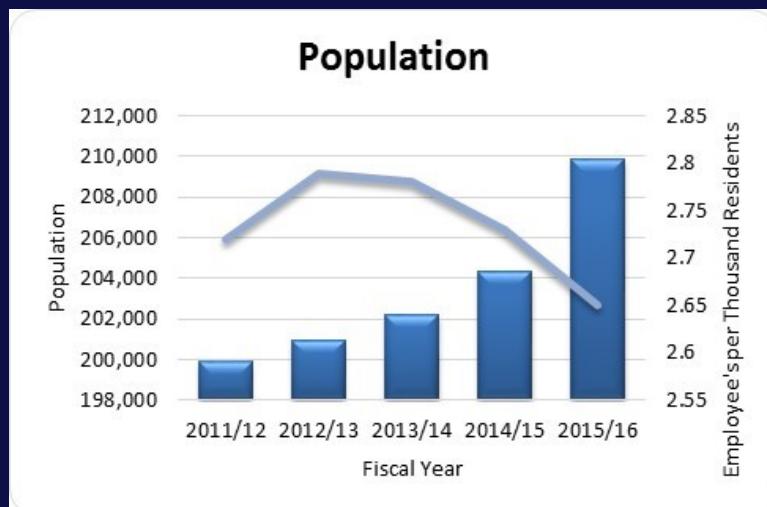
Administrative Staff

Kenneth R. Hunt	City Manager
Debbie Brazill	Deputy City Manager / Development Services
David R. Edgar	Deputy City Manager / Administrative Services
Robert W. Ramsey	Police Chief
Jeffrey Birchfield	Fire Chief
Ramon Ebert	Information Technology Director
Charles E. Hays	Public Works Director
Annette Henckel	Human Resources Director
Cecilia Lopez-Henderson	Deputy City Clerk
Garth W. Nelson	Community Services Director
Ricardo Sandoval	City Engineer
Lisa A. Strong	Management Services Director
Vacant	Community Development Director

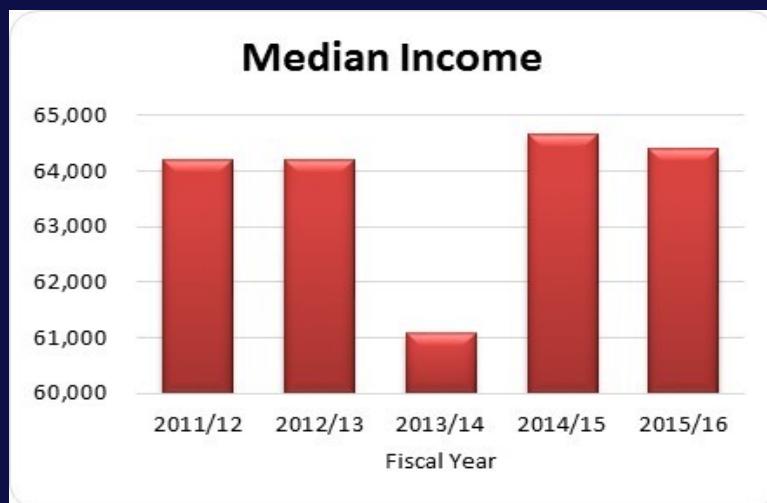




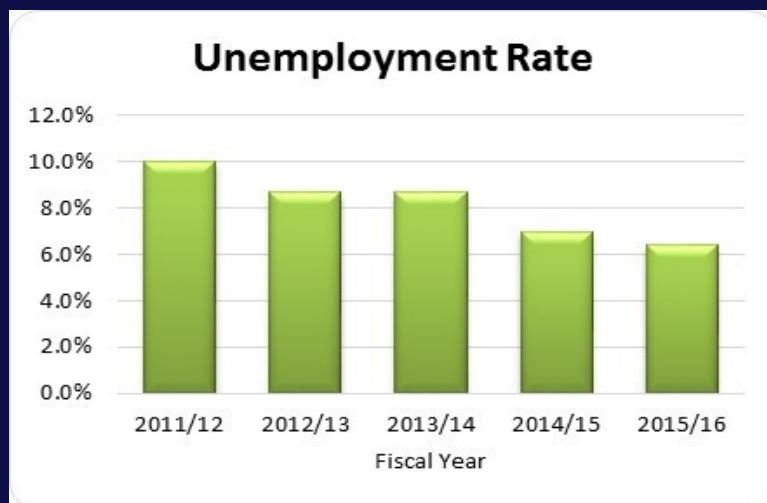
Demographics



The center of San Bernardino County's growth is moving west into Fontana. The population has grown 15.6% over the past ten years and, at 209,895 Fontana is the second largest city in San Bernardino County, the third largest in the Inland Empire, and twentieth in the State. It is likely that Fontana's population will exceed 225,000 by the year 2025.



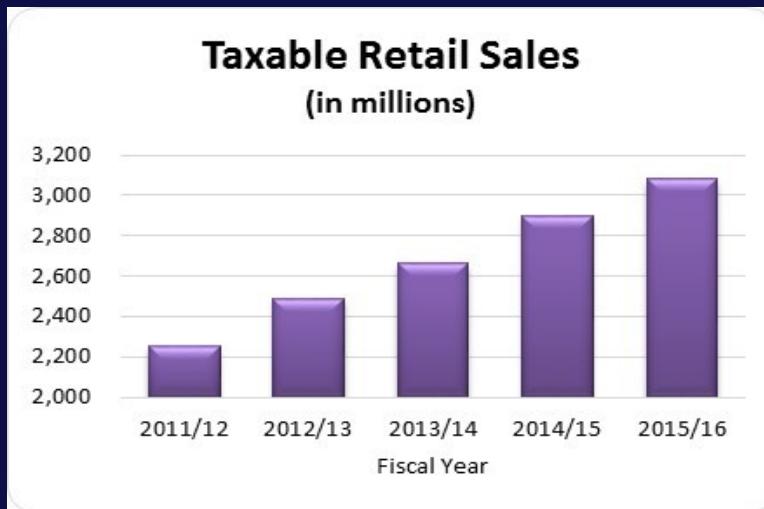
The median income in Fontana was \$64,399, decreasing only 0.5% from the previous fiscal year. And ranked 15th in the Inland Empire. Unfortunately, the City also has a large population (17.4%) with income below the poverty level and 24.4% of the population without health insurance.



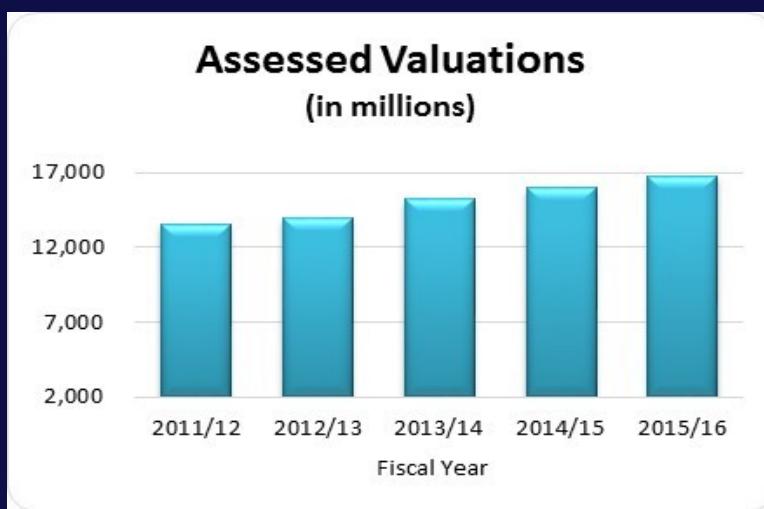
The unemployment rate was down slightly from 6.7% in June 2015 to 6.6% in 2016, 1.7% above the U.S. rate of 4.9%. The sectors with the largest job growth were logistics (24%) and construction (13%). The region's job growth is expected to continue partly due to the area's advantage for blue collar sectors, underdeveloped land, modestly priced labor, and growing population.

Economy

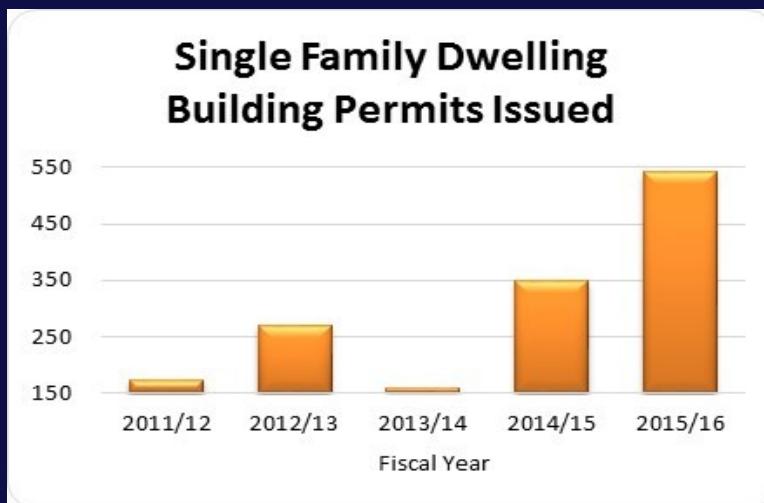
Taxable sales are a major city revenue source that is now recovering from a steep downturn. Taxable retail sales were up 7.0% over the last year within the City, which was well above California's growth of 3.2%. The City of Fontana is ranked fourth in taxable retail sales in the Inland Empire with sales of \$3.083 billion.



While the Inland Empire's housing markets, as a whole, remain stuck in a narrow band of home sales that has gone on six years; the City of Fontana homes sales are surging. Fontana has competitive advantages related to its neighbors in the Inland Empire as it continues to be the westernmost city with available space to accommodate both residential and industrial development.



The housing market in the region has been stuck at a standstill that has gone on six years. In the most recent years, lack of supply has begun propelling prices which continues to rise sharply, and demand is increasing as consumer confidence returns and interest rates remain low. The affordability in Fontana is high, thus driving developers to build more homes.



Statement of Net Position:

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

The largest component of the City's net position, about 77% or \$755.2 million, was net investment in capital assets. The City's investment in capital assets themselves cannot be used to liquidate the City's debt, and so the resources needed to pay the City's liabilities must be provided from other sources.

\$226.4 million or 23% of the City's net position was restricted. Restricted means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws or regulations of other governments, or restrictions imposed by law through constitutional provision or legislation, including those passed by the City itself.

The final component of net position is unrestricted net position. Unrestricted net position is a resource that can be used to meet ongoing obligations to citizens and creditors. Unrestricted net position totaled \$3.1 million, compared to (\$13.2) million in FY 2014/15.

Description of Categories:

Current and other assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress.

Deferred outflows of resources – This represents a consumption of net position that applies to future periods.

Current and other liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll, deposits payable, accrued interest payable, and unearned revenue.

Long-term obligations – Represents the debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.

Deferred inflows of resources – This represents an acquisition of net position that applies to future periods.

Net position - This represents the difference between the City's total assets and deferred outflows of resources, and liabilities and deferred inflows of resources.

Net Investment in capital assets – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets.

Restricted – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for various purposes such as; debt service, public works projects, and community development projects as established by the City Council.

Unrestricted – These are resources that are accessible to the City to provide services to the residents of Fontana if there were no additional revenues or resources available.

Statement of Net Position Governmental Activities

	Fiscal Years	
	2015/16	2014/15
Assets:		
Current and other assets	\$ 403,205,369	\$ 364,962,902
Capital assets	804,007,560	741,194,276
Total assets	1,207,212,929	1,106,157,178
 Deferred outflows of resources:	 11,344,250	 10,308,102
 Liabilities:	 	
Long-term liabilities outstanding	191,654,087	184,524,649
Other liabilities	34,226,087	32,034,284
Total liabilities	225,880,174	216,558,933
 Deferred inflows of resources:	 7,922,572	 16,767,681
 Net position:	 	
Net investment in capital assets	755,220,959	691,627,257
Restricted	226,420,563	204,759,026
Unrestricted	3,112,911	(13,247,617)
Total net position	\$ 984,754,433	\$ 883,138,666



The financial information in this report is derived from the City's Comprehensive Annual Financial Report (CAFR) for FY 2015/16. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles, and available at: www.fontana.org/index.aspx?NID=343.

Statement of Activities:

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year for all governmental fund types. All changes in net position are reported as soon as the underlying event giving rise to the change occurs using the full-accrual basis, *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 and earned but unused vacation leave).

Statement of Activities

Governmental Activities

	Fiscal Years	
	2015/16	2014/15
Revenues		
Program revenues:		
Charges for services	\$ 77,293,820	\$ 60,744,206
Operating contributions and grants	4,920,888	5,388,077
Capital contributions and grants	13,763,600	17,231,877
Total program revenues	<u>95,978,308</u>	<u>83,364,160</u>
General revenues:		
Property taxes	48,537,350	47,772,343
Sales taxes	38,442,282	34,219,832
Franchise taxes	7,042,887	7,428,364
Business license taxes	5,215,605	4,982,546
Transient occupancy taxes	962,089	715,570
Investment earnings	8,151,890	7,362,672
Other	3,801,250	5,661,849
Total general revenues	<u>112,153,353</u>	<u>108,143,176</u>
Total Revenues	<u>208,131,661</u>	<u>191,507,336</u>
Expenses		
Program expenses:		
General government	29,336,758	24,737,274
Public safety	77,928,071	76,501,195
Public works	37,524,666	69,996,558
Community development	9,037,714	3,882,448
Community services	14,762,425	13,474,939
Engineering	21,667,220	14,859,417
Interest on long-term debt	2,153,414	3,105,404
Total program expenses	<u>192,410,268</u>	<u>206,557,235</u>
Transfers	2,109,800	1,815,690
Change in Net Position	<u>17,831,193</u>	<u>(13,234,209)</u>
Net position at beginning of year (as restated)	966,923,240	896,372,875
Net position at end of year	<u>\$ 984,754,433</u>	<u>\$ 883,138,666</u>

Description of Revenues:

Program revenues – Revenues that are earned as a direct result of a given function. Program revenues are offset by program expenses.

Operating grants and contributions – Monies received from parties outside the City and are generally restricted to one or more specific programs.

Capital grants and contributions – Monies received for capital purposes, to purchase, construct, or renovate capital assets associated with a specific program.

Property taxes – The assessed valuation of the property in the City is determined by the San Bernardino County Tax Assessor, which levies a base tax at the rate of 1% of assessed valuation. Approximately 3.7% of the base 1% levy is allocated annually to the City in the form of property tax revenue.

Sales taxes – In accordance with the California Revenue and Taxation Code, the State of California imposes a 8.00% sales and use tax within the County of San Bernardino on all taxable sales in the City. The City receives 0.75% of the taxable sales in the city. The State of California and the County of San Bernardino receive 5.50% and 1.75% respectively.

Franchise taxes – The city's franchise revenues come from fees collected on water, gas, electric utilities, rubbish and cable franchises operating within the City. The fees are based on gross receipts.

Business license taxes – In order for a business to operate within Fontana city limits, the City imposes a tax based on gross receipts of the business.

Transient occupancy taxes – In accordance with the California Revenue and Taxation Code, the City levies an 8% tax for the privilege of occupying a rented room or space for less than 30 days.

Interest earnings – The City pools its available cash from various funds and invests in instruments allowed by the City's investment policy. Earnings are allocated to various funds on the basis of proportionate cash balances. The actual revenue realized is a function of current cash balances and market interest rates.

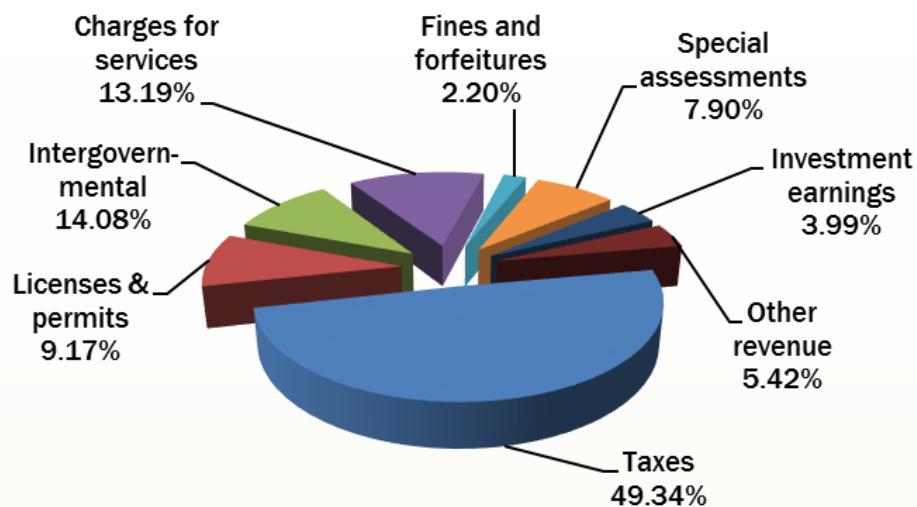
Other – Revenues that are non-recurring in nature such as reimbursable expenses.

Governmental Funds:

The City maintains 46 individual governmental funds for financial reporting purposes. *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 the City's near-term financing requirements.

Where the Money Comes From?

Total revenues for the fiscal year were \$203,091,600. The breakdown of where the revenues come from is as follows:



Revenues	Amount	Percent of Total	Increase (Decrease) from prior year	Percent of Increase (Decrease) from prior year
Taxes	\$100,200,213	49.34%	\$5,081,558	5.34%
Licenses & permits	18,626,256	9.17%	9,168,641	96.94%
Intergovernmental	20,328,373	10.01%	(5,705,050)	-21.91%
Charges for services	26,783,977	13.19%	10,438,477	63.86%
Fines and forfeitures	4,472,790	2.20%	(307,498)	-6.43%
Special assessments	16,040,403	7.90%	279,972	1.78%
Investment earnings	8,110,868	3.99%	759,690	10.33%
Other revenue	8,528,720	4.20%	(1,505,607)	-15.00%
Total	\$203,091,600	100.00%	\$18,210,183	9.85%

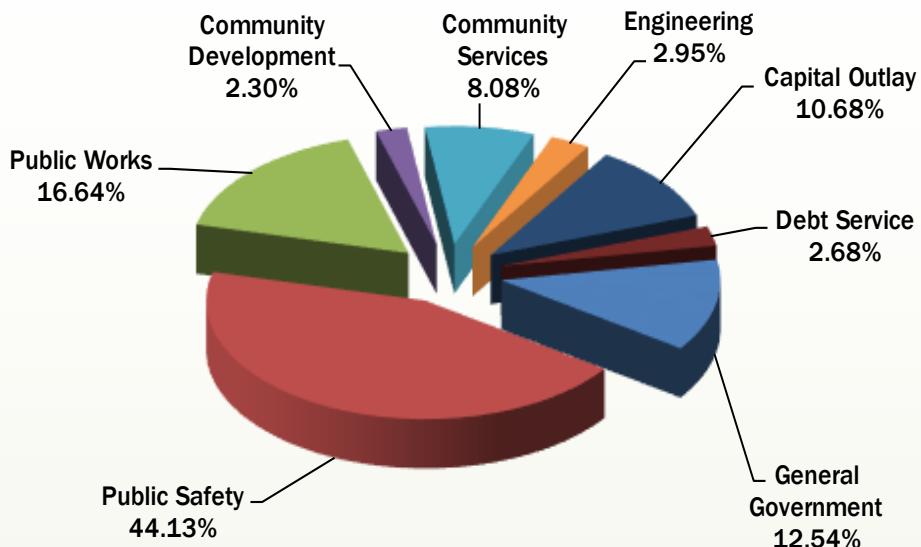
The City's revenues increased \$18.2 million (9.85%) over the prior year with the most significant revenues sources being property taxes (23%) and sales and use taxes (18%).

The major increase is caused by the following:

- Sales tax revenues increased by \$4.2 million due to increased consumer confidence and spending.
- Development related activities have increased revenues in both the Licenses & permits and Charges for services categories by a total of \$20.0 million. New residential building permits increased by 300% in the fiscal year, with 506 permits issued in 2015/16 as compared to 164 permits in 2014/15.
- Revenues from various State allocations, such as Prop 1B (\$2.6 million) and Prop 42 Replacement (\$1.1 million), decreased in the current year offsetting the increases discussed above, as well as reduced funding received from grants.

Where the Money Goes?

Total expenditures for the fiscal year were \$175,724,094. The breakdown of where the expenditures went is as follows:



Expenditures	Amount	Percent of Total	Increase (Decrease) from prior year	Percent of Increase (Decrease) from prior year
General Government	\$22,040,327	12.54%	(\$1,890,303)	-7.90%
Public Safety	77,542,546	44.13%	893,490	1.17%
Public Works	29,236,066	16.64%	(4,446,820)	-13.20%
Community Development	4,048,697	2.30%	120,102	3.06%
Community Services	14,190,508	8.08%	571,086	4.19%
Engineering	5,180,562	2.95%	(9,747,995)	-65.30%
Capital Outlay	18,772,727	10.68%	4,080,365	27.77%
Debt Service	4,712,661	2.68%	(3,956,958)	-45.64%
Total	\$175,724,094	100.00%	(\$14,377,033)	-7.56%

The City's most significant expenditures were Public Safety related (44.13%); \$52.5 million for Police and \$24.9 million for Fire.

Total expenditures decreased in the fiscal year by \$14.4 million (7.56%). The decrease was primarily caused by:

- Engineering and Public Works expenditures decreased by a combined \$14.2 million due to the completion of various capital projects with the majority of the project expenditures being incurred in the previous fiscal year.
- Capital Outlay expenditures increased by \$4.1 million due to the completion of and capitalization of capital projects of Engineering and Public Works, as stated above.
- Debt service expenditures decreased by \$4.0 million as a result of a prior year bond refinancing, 2014 Lease Revenue Bonds. The City will often refinance debt if it will result in annual savings to the City and its residents.



The financial information in this report is derived from the City's Comprehensive Annual Financial Report (CAFR) for FY 2015/16. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles, and available at: www.fontana.org/index.aspx?NID=343.

What We Own

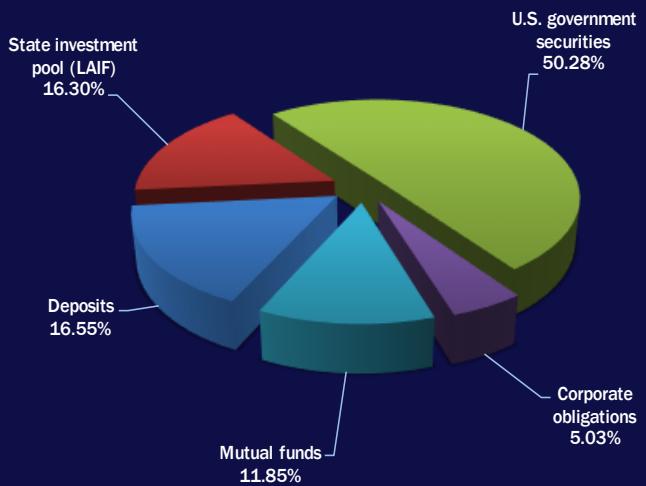
Investment Management

The City follows the practice of pooling cash and investments of all funds except for restricted funds generally held by outside trustees or fiscal agents and funds in its employees' deferred compensation plans. Interest income earned on pooled cash and investments is allocated to those funds which are required by law, local ordinance, administrative action or agreements to receive interest based on the weighted average cash balances.

The City invests temporarily idle cash in accordance with the Government Code and a formal investment policy approved by the City Council on an annual basis in January. Investments must meet established criteria for safety, liquidity and yield. As of June 30, 2016, pooled investments had a market value of \$301.3 million as follows:

The average yield on City pooled investments during the year was 1.08% producing interest earnings of approximately \$3.6 million. This was higher than the two-year treasury benchmark of 0.58% (annual average).

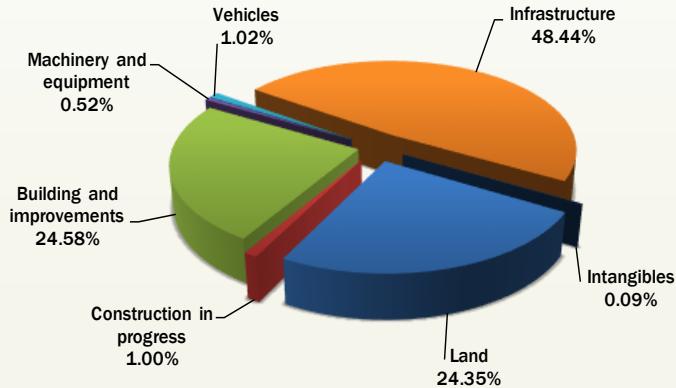
	Market Value	Percentage
Deposits	\$ 49,850,578	16.55%
State investment pool (LAIF)	49,115,217	16.30%
U.S. government securities	151,471,710	50.28%
Corporate obligations	15,140,400	5.03%
Mutual funds	35,703,004	11.85%
	\$ 301,280,909	100.00%



Capital Assets

As of June 30, 2016, the value of the City's capital assets was \$804 million, an increase of about \$62.8 million or 8.5% from the previous fiscal year. Major events during the fiscal year include:

- The City took on ownership of net assets in the amount of \$76.7 million (\$100.4 million in assets and \$23.7 million in the related accumulated depreciation) previously recorded as Successor Agency assets.
- The I-15/Duncan Canyon Interchange was completed; the total value of the asset recorded \$11.4 million.
- \$7.6 million was contributed by developers to the City as a result of various housing and commercial developments being completed during the fiscal year.
- Depreciation in the amount of \$40.5 million was recorded as a current year expense.



Asset Category (net of depreciation)	Percentage
Land	24.35%
Construction in progress	1.00%
Building and improvements	24.58%
Machinery and equipment	0.52%
Vehicles	1.02%
Infrastructure	48.44%
Intangibles	0.09%
\$ 804,007,560	100.00%

The financial information in this report is derived from the City's Comprehensive Annual Financial Report (CAFR) for FY 2015/16. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles, and available at: www.fontana.org/index.aspx?NID=343.

What We Owe

Debt Management

The City of Fontana occasionally issues debt to fund major capital projects. Outstanding debt is continuously evaluated to take advantage of lower interest rates and reduce long-term borrowing costs.

The City of Fontana is well within the legal debt limit established by the State of California.

Total long-term debt outstanding at June 30, 2016 was \$191.7 million.

Community Facilities Districts

In addition to the City's debt, there are currently 8 Community Facilities Districts within the City with Special Tax Bonds outstanding.

These bonds are not general obligation debt of the City as they are not backed by the full faith and credit of the City's General Fund. The bonds are authorized pursuant to the Mello-Roos Community Facilities Act of 1982 and are secured by and payable solely from the revenues of an annual special assessment tax levied against land within the districts.

As of June 30, 2016, the principal outstanding was \$95.7 million.

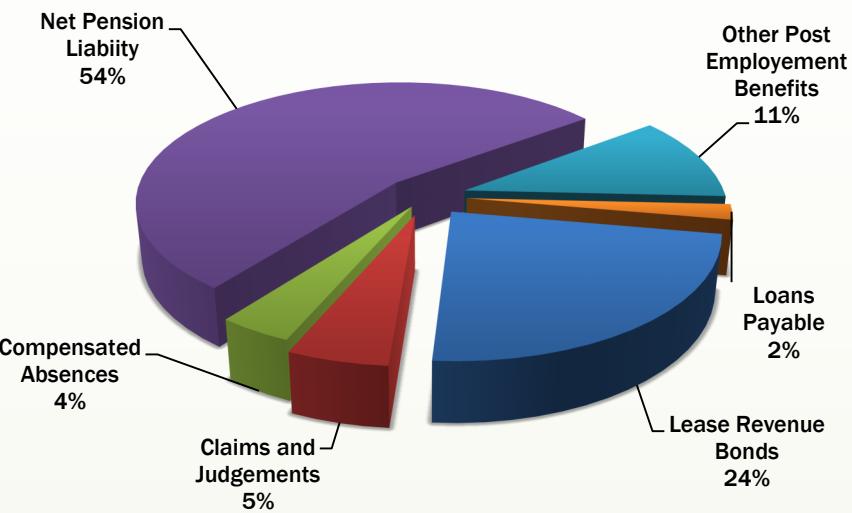
Bond Rating

The City of Fontana holds a rating of AA and A2 from Standard and Poor's and Moody's Investor Service, respectively.

The credit ratings express the confidence of the rating agencies that the City has a strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

The City's bond debt outstanding at June 30, 2016, consists of the following:

Debt Type	Balance @ June 30, 2016	% of total debt
Lease Revenue Bonds	\$ 44,912,760	23.43%
Claims and Judgements	10,063,360	5.25%
Compensated Absences	7,474,744	3.90%
Net Pension Liability	104,131,214	54.33%
Other Post Employment Benefits	21,198,155	11.06%
Loans Payable	3,873,854	2.02%
Total	\$ 191,654,087	100%



The City of Fontana occasionally issues debt to fund major capital projects within the City, such as libraries, fire stations, parks and community centers.



The financial information in this report is derived from the City's Comprehensive Annual Financial Report (CAFR) for FY 2015/16. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles, and available at: www.fontana.org/index.aspx?NID=343.

GFOA Awards

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Fontana for its Popular Annual Financial Report for the fiscal year ended June 30, 2015. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. This is the fifteenth year the City of Fontana has received a Popular Award. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

The City of Fontana's comprehensive annual financial report for the year ended June 30, 2015 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our CAFR continues to conform to the Certificate of Achievement program requirements and we are submitting our CAFR for the current year to the GFOA.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**City of Fontana
California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

A handwritten signature in black ink that reads "Jeffrey P. Eason".

Executive Director/CEO



City of Fontana

Management Services Department
8353 Sierra Avenue
Fontana, CA 92335
www.fontana.org