

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2009

CITY OF VERNON
For the Fiscal Year Ended June 30, 2009

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SACRAMENTO

OAKLAND

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SAN MARCOS

SAN DIEGO

To the City Council
City of Vernon, California

Independent Auditor's Report

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 City of Vernon, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Vernon'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions* and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

The management's discussion and analysis, budgetary comparison information and the schedules of funding progress on pages 3 through 16, pages 68 and 69, and page 70, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 23, 2009

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(Unaudited)

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (i) government-wide financial statements, (ii) fund financial statements, and (iii) notes to the basic financial statements.

Government-wide financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent 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 and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and health services. The business-type activities of the City include the Light and Power Department, Gas Department, Water Department and Fiber Optic Department.

The government-wide financial statements can be found on pages 17-18 of this report.

Fund financial statements.

A *fund* is a grouping of related accounts that is 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 of the City can be divided into two categories: governmental funds and proprietary funds.

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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget (See page 68).

The basic governmental funds financial statements can be found on pages 19-22 of this report.

Proprietary funds.

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Light and Power Department, Gas Department, Water Department and Fiber Optic Department. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, insurance, and retirement. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Light and Power Fund and the Gas Fund, which are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary funds financial statements can be found on pages 23-25 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Assets

The table below summarizes the City's net assets for the current fiscal year ended June 30, 2009 and prior fiscal year ended June 30, 2008. The details of the current year's summary can be found on page 17 of this report.

City of Vernon
Net Assets
June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Assets:						
Current and other assets	\$ 99,157,180	\$ 116,693,602	\$ 441,422,495	\$ 594,379,617	\$ 540,579,675	\$ 711,073,219
Restricted assets	6,955,661	8,537,162	95,404,594	52,790,753	102,360,255	61,327,915
Capital assets	88,036,588	82,175,165	200,894,936	145,563,905	288,931,524	227,739,070
Total assets	194,149,429	207,405,929	737,722,025	792,734,275	931,871,454	1,000,140,204
Liabilities						
Current liabilities	19,795,651	43,531,160	101,163,317	150,566,234	120,958,968	194,097,394
Long-term liabilities	68,763,779	53,697,942	502,536,614	458,375,473	571,300,393	512,073,415
Total liabilities	88,559,430	97,229,102	603,699,931	608,941,707	692,259,361	706,170,809
Net Assets:						
Invested in capital assets, net of related debt	61,405,387	40,831,552	157,134,027	145,563,956	218,539,414	186,395,508
Restricted	5,544,783	6,021,539	59,932,410	48,378,388	65,477,193	54,399,927
Unrestricted	38,639,829	63,323,736	(83,044,343)	(10,149,776)	(44,404,514)	53,173,960
Total net assets	\$ 105,589,999	\$ 110,176,827	\$ 134,022,094	\$ 183,792,568	\$ 239,612,093	\$ 293,969,395

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$239,612,093 (*net assets*).

The City is not able to report positive balances in all categories of net assets for the government as a whole.

The category of the City's net assets with the largest balance totaling \$218,539,414 (91%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net assets, totaling \$65,477,193 (27%) represents the City's restricted assets, which is restricted for special purposes and payment of long-term debt.

The last remaining category of net assets, totaling (\$44,404,514) (18%) represents a deficit in unrestricted net assets that is expected to be recovered from the City's future revenues.

Governmental activities, net assets:

- Current and other assets decreased \$17,536,422 from the prior year due primarily to a decrease in cash and investments of \$2,641,856 and an increase in land held for resale of \$23,536,521 offset by a decrease in internal balances of \$41,803,274. The increase in land held for resale was due primarily to the cost of investment in a base load electric generating station being developed as a joint venture between the General Fund and the Redevelopment Agency Fund (See Note 5). The City intends to sell the General Fund's land held for resale in the future. The decrease in internal balances was due primarily to the repayment of loans by the business-type activities.
- Restricted assets decreased \$1,581,501 from the prior year due primarily to the Redevelopment Agency Fund's use of restricted funds for redevelopment projects.
- Capital assets increased \$5,861,423 from the prior year due primarily to an increase in Redevelopment Agency Fund's infrastructure and General Fund's machinery and equipment.
- Current liabilities decreased \$23,735,509 from the prior year due primarily to a decrease in accounts payable and current notes payable related to principal payments.
- Long-term liabilities increased \$15,065,837 due primarily to an increase in notes payable related to principal payments.
- Unrestricted net assets decreased \$24,683,907 from the prior year due primarily to an increase in investment in capital assets, net of related debt of \$20,573,835, decrease in restricted net assets of \$476,756, and a decrease in net assets from current year's activities \$6,506,919.

Business-type activities, net assets:

- Current and other assets decreased \$152,957,122 from the prior year due primarily to a \$106,059,683 decrease in cash and investments and a \$59,903,859 decrease in deferred outflows. The decrease in cash was due primarily to the cost of acquiring renewable energy capital assets and repaying loans to the governmental funds. The decrease in deferred outflows was due primarily to the treatment of derivative instruments as investments under GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.
- Restricted assets increased \$42,613,841 from the prior year due primarily to an increase in cash restricted for debt service.
- Capital assets increased \$55,331,031 from the prior year due primarily to an increase in Light and Power's construction in progress of \$42,925,240 mostly for renewable energy capital assets and land purchases of \$9,277,332 for certain land under Light and Power's electrical infrastructure.
- Current liabilities decreased \$49,402,917 from the prior year due primarily to a decrease in derivative liabilities of \$31,266,966 and a decrease in current bonds payable, net, of \$18,125,190.

- Long-term liabilities increased \$44,161,141 from the prior year due primarily to an increase in long-term bonds payable, net, of \$58,030,820 offset by a decrease in prior year's deferred gain from the sale of generation assets of \$13,688,840 due to annual amortization.
- Unrestricted net assets decreased \$72,894,567 from the prior year due primarily to an increase in investment in capital assets, net of related debt, of \$11,570,071 and an increase in net assets restricted for debt service and capacity payments of \$11,554,022 and a decrease in net assets from current year's activities of \$62,106,245. \$12,335,771 of the increase in investment in capital assets, net of related debt, was due to the recognition of water rights in accordance with *GASB 51, Accounting and Financial Reporting for Intangible Assets* (See Notes 5 and 16).

Changes in Net Assets

The table below summarizes the City's changes in net assets over the current and prior fiscal years. The details of the current year's changes in net assets can be found on page 18 of this report.

Changes in Net Assets
For the Fiscal Years Ended June 30, 2009 and 2008

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues						
Charges for services	\$ 4,807,457	\$ 10,875,572			\$ 4,807,457	\$ 10,875,572
Light and power			\$ 132,861,886	\$ 147,262,646	132,861,886	147,262,646
Gas			43,588,209	27,730,435	43,588,209	27,730,435
Other			6,874,431	7,430,230	6,874,431	7,430,230
Operating and capital grants and contributions	2,221,316	539,854	-	-	2,221,316	539,854
General Revenues						
Taxes	22,115,107	19,408,565	-	-	22,115,107	19,408,565
State allocations	5,080,969	5,651,207	-	-	5,080,969	5,651,207
Investment income	491,227	727,243	(25,329,590) *	(23,882,829)	(24,838,363)	(23,155,586)
Gain on sale of property	17,729	2,790,812	-	-	17,729	2,790,812
Other revenues	687,821	1,036,315	-	-	687,821	1,036,315
Total revenues	35,421,626	41,029,568	157,994,936	158,540,482	193,416,562	199,570,050
Expenses						
Governmental activities						
General government	21,707,582	19,381,698	-	-	21,707,582	19,381,698
Public safety	25,198,861	22,993,043	-	-	25,198,861	22,993,043
Public works	5,644,757	5,261,193	-	-	5,644,757	5,261,193
Health services	1,751,066	1,599,106	-	-	1,751,066	1,599,106
Interest on long-term debt	3,288,114	2,774,358	-	-	3,288,114	2,774,358
Business-type activities						
Light and Power	-	-	152,977,259	182,819,295	152,977,259	182,819,295
Gas	-	-	45,953,173	24,743,547	45,953,173	24,743,547
Other	-	-	5,508,914	6,229,186	5,508,914	6,229,186
Total expenses	57,590,380	52,009,398	204,439,346	213,792,028	262,029,726	265,801,426
Special Items						
Business-type activities						
Light and Power						
Gain on sale of generation and transmission assets	-	-	-	64,091,699	-	64,091,699
Loss on early termination of debt	-	-	-	(13,487,833)	-	(13,487,833)
Total special items	-	-	-	50,603,866	-	50,603,866
Decrease in net assets before transfers	(22,168,754)	(10,979,830)	(46,444,410)	(4,647,680)	(68,613,164)	(15,627,510)
Transfers	15,661,835	3,373,897	(15,661,835)	(3,373,897)	-	-
Decrease in net assets	(6,506,919)	(7,605,933)	(62,106,245)	(8,021,577)	(68,613,164)	(15,627,510)
Net assets- beginning of year, restated (See Notes 16 and 17)**	112,096,918	117,782,760	196,128,339	191,814,145	308,225,257	309,596,905
Net assets- end of year	\$ 105,589,999	\$ 110,176,827	\$ 134,022,094	\$ 183,792,568	\$ 239,612,093	\$ 293,969,395

* Business-type activities' negative revenue of \$25,329,590 is due to \$2,331,956 of investment income and a net decrease of \$27,661,959 in the fair value of investments.

** 2008 Beginning net assets were not restated for the accounting change.

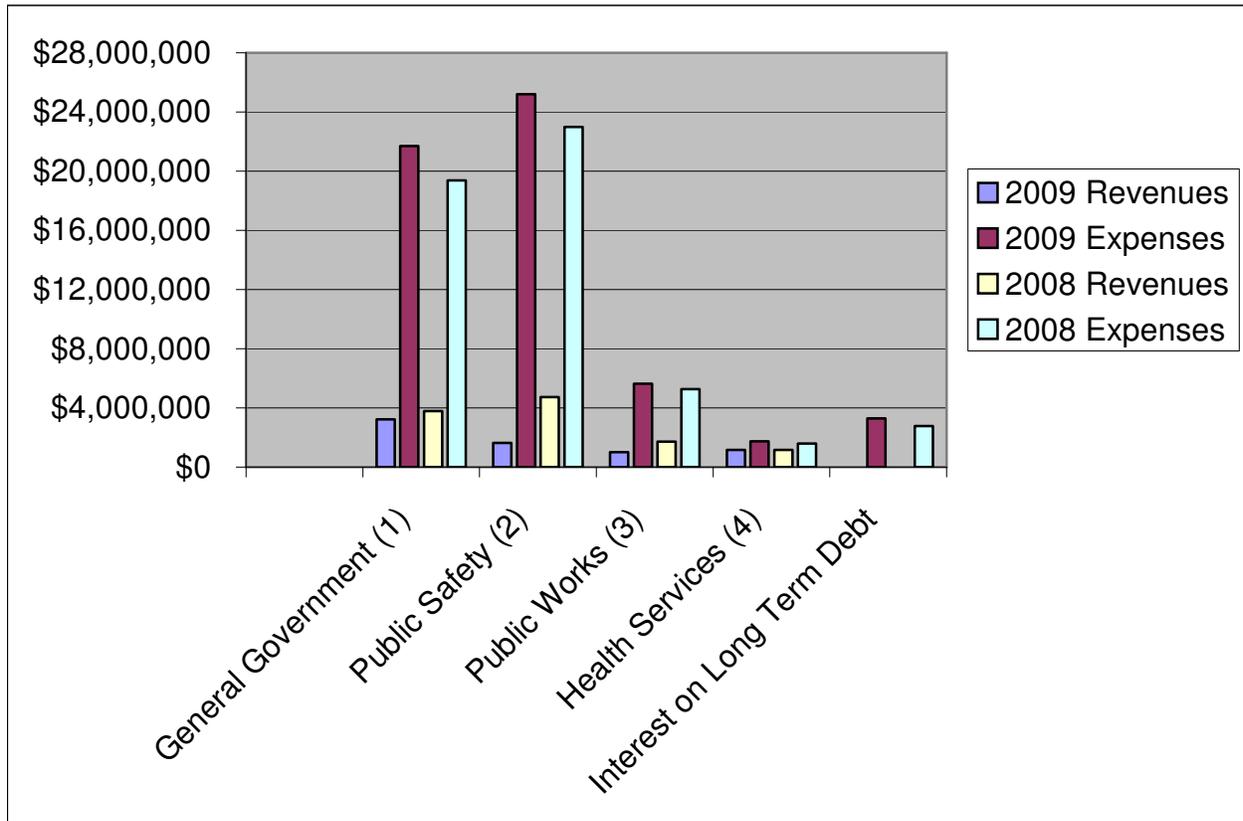
Governmental activities' net assets decreased by \$6,506,919 and business-type activities' net assets decreased by \$62,106,245 for a net decrease of \$68,613,164 for the City. The decrease in the governmental activities was caused by the governmental activities reporting a \$22,168,754 decrease in net assets before transfers and a \$15,661,835 transfer in from the business-type activities.

Governmental activities, changes in net assets:

Governmental activities decreased the City's net assets by \$6,506,919. This is an increase of \$1,099,014 from the prior year. The key reasons for this increase and change in net assets are as follows:

- In the current year, charges for services decreased by \$6,068,115 due primarily to a new cost allocation method applied to the Light and Power Fund based on direct costing.
- In the current year, operating and capital grants and contributions decreased by \$238,629, net of prior period adjustment (See Note 17), due primarily to less capital grants being awarded for community development.
- In the current year, taxes increased by \$2,706,542 due primarily to more property taxes being collected for Prior Years Secured property tax being remitted by the Los Angeles County Tax Assessor for prior years' increases in property assessed values.
- In the current year, gain on sale of property decreased by \$2,773,083 due to parcels of land being sold in the prior year.
- In the current year, program expenses were \$5,580,982 higher than the prior year mainly due to the following:
 - In the current year, program expenses for general government were \$2,325,884 higher than in the prior year mainly due to an increase in group insurance premiums and postemployment benefit costs (See Note 12 for additional information on postemployment benefits other than pensions).
 - In the current year, program expenses for public safety were \$2,205,818 higher than in the prior year due to higher salaries and benefit costs.
 - In the current year, program expense for interest was \$513,756 higher than the prior year due to higher interest rates on the City's revolving line of credit.
- In the current year, transfers were \$12,287,938 higher than the prior year. The main reasons for these transfers were enterprise funds' in-lieu tax payments of \$3,308,441 and an operating transfer of \$12,335,771 from the Water Fund to the General Fund.

Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2009 and 2008

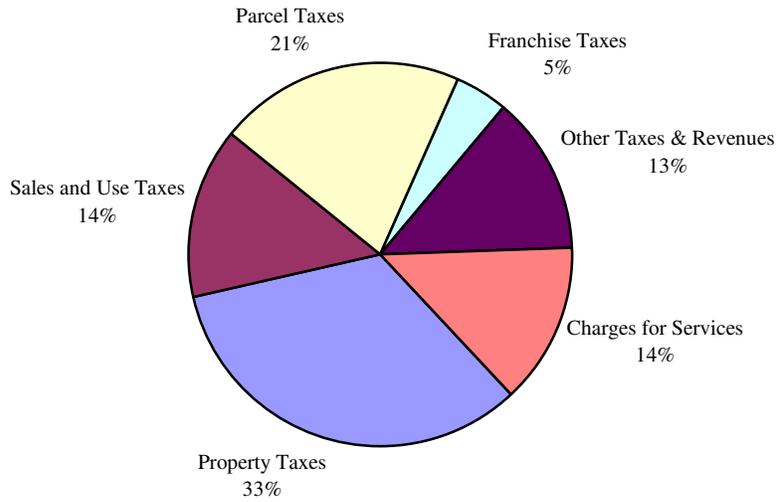


Governmental activities consist of the following departments:

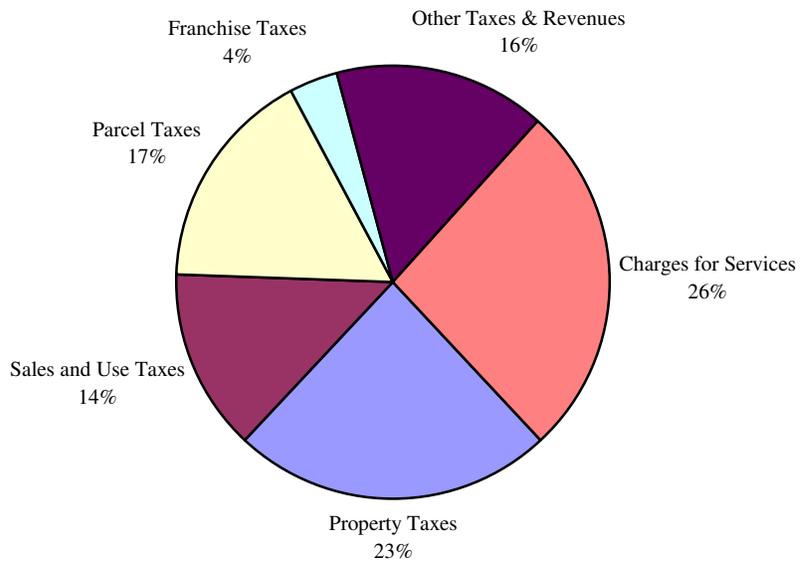
<u>(1) General Government:</u>	<u>(2) Public Safety</u>	<u>(3) Public Works</u>	<u>(4) Health Services</u>
a. City Council	a. Police	a. Administrative, Engineering, and Planning	a. Health
b. City Administrator	b. Prisoner Care	b. Building Regulations	b. Solid Waste
c. City Clerk	c. Fire	c. Street Lighting	c. Hazardous Waste
d. Finance	d. Civil Defense	d. Street Operations	
e. Legal		e. Garage	
f. Elections		f. Warehouse	
g. Treasurer		g. Municipal Housing	
h. Business Services and Purchasing			
i. Personnel			
j. Employee Relations			
k. Redevelopment			
l. City Attorney			
m. Insurance			
n. Communications			
o. Library			
p. Street Lighting			
q. General Government Building			
r. Parcel Tax			
s. Information Technology			

Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2009 and 2008

2009 Governmental Activities Revenues



2008 Governmental Activities Revenues

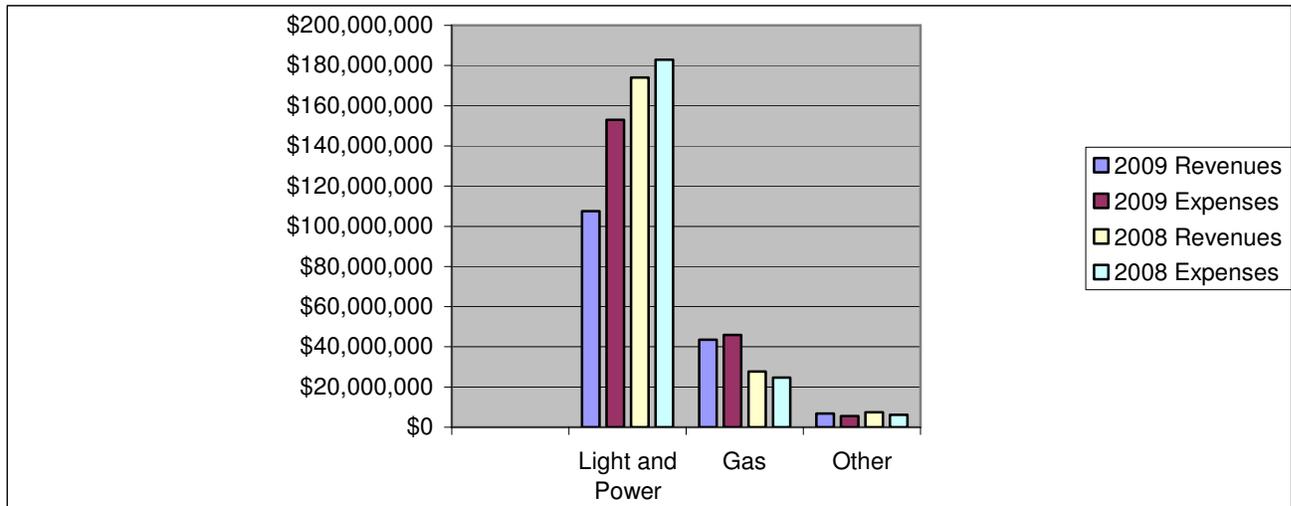


Business-type activities, changes in net assets:

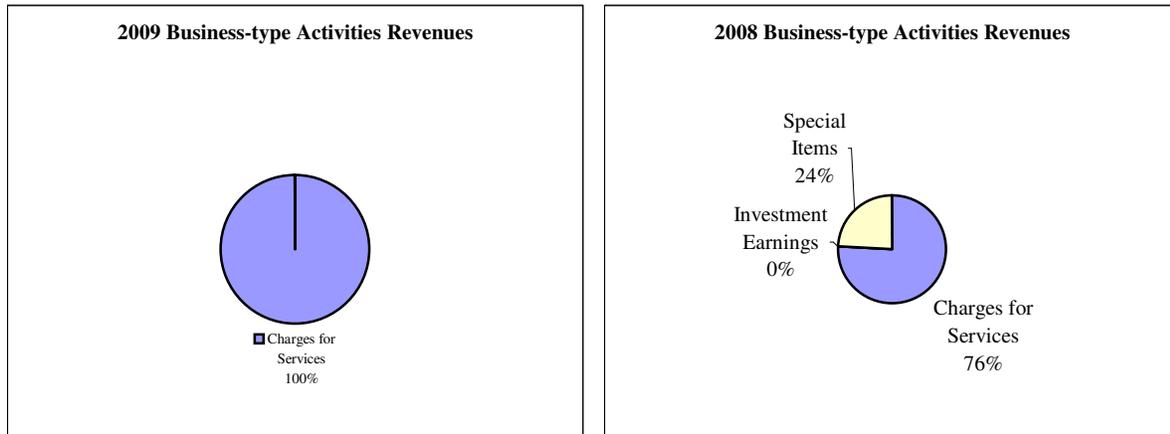
Business-type activities decreased the City's net assets by \$46,444,410 before transfers. The key reasons for this decrease in change in net assets are as follows:

- Light and Power's operating revenue was \$132,861,886 for the current year which is \$14,400,760 lower than the previous year. The decrease in revenue was mainly due to a decrease in demand.
- Light and Power's depreciation and amortization expense was \$4,357,980 for the current year, which is \$6,695,513 lower than the previous year. This decrease was mainly due to the generation and transmission assets being sold in the prior year.
- Light and Power's cost of sales was \$106,545,147 for the current year which is \$28,989,554 lower than the previous year. This decrease was mainly due to a decrease in demand.
- Gas Fund's total operating revenues and expenses were \$43,588,209 and \$45,953,173, respectively, in the current year. The total operating revenues and expenses were \$15,857,774 and \$21,209,626, respectively higher than the prior year. These increases were mainly caused by the Gas Fund procuring natural gas for the Light and Power Fund and providing natural gas services to City customers and Sacramento Municipal Utility District.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2009 and 2008



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2009 and 2008



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

The fund accounting financial statements can be found on pages 19-22 of this report.

Governmental funds.

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$78,901,816 (See page 19), a decrease of \$14,111,152 in comparison with the prior year (See page 21). Approximately 88% of total fund balance amount, \$69,628,981, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance, \$9,272,835, is *reserved* to indicate that it is not available for new spending because it has already been committed (i) to liquidate contracts and purchase orders of the current period \$2,057,412, (ii) to be used for debt service \$5,104,157, (iii) to be used for various redevelopment projects in or benefiting the Redevelopment Agency Fund's Industrial Redevelopment Project area, \$796,844, and (iv) for a variety of other purposes \$1,314,422.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$321,031 with a deficit in unreserved fund balance of \$2,976,103 (See page 19). At the end of the current fiscal year, the total fund balance was 1% as compared to the total expenditures for the year. However, as the operating fund of the City, the General Fund will be supported by the resources of the City.

Proprietary funds.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets for the Light and Power Fund at the end of the year amounted to deficit of \$45,421,113 (See page 23). Unrestricted net assets of the Gas Fund at the end of the year amounted to a deficit of \$28,817,683. Unrestricted net assets of the non-major enterprise funds (Water Fund and Fiber Optic Fund) amounted to a deficit of \$8,805,547. These deficit balances in unrestricted net assets are primarily due to the Proprietary Funds heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The Proprietary Funds expect to eliminate these deficit balances through increased future revenues.

Total decrease in net assets for the Light and Power Fund, Gas Fund, and Other Enterprise Funds were \$48,574,973, \$2,364,964, and \$11,166,308, respectively (See page 24). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GOVERNMENTAL FUNDS AND BUDGETARY HIGHLIGHTS

For the current year, the City's original and final budget for General Fund expenditures was \$77,183,473. The General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$24,214,881. The key reasons for this variance were excess appropriations of \$1,767,701 in General Government's group insurance premiums and professional services expenditures, \$686,103 in Public Safety's salaries and professional services expenditures, \$813,606 in Public Works' salaries and professional services expenditures, and \$20,829,015 in Capital Outlay.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounts to \$288,931,524 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utilities system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as water rights. The total increase in the City's investment in capital assets for the current fiscal year was \$61,192,454 (net of depreciation of \$8,146,093), primarily due to an increases in the Light and Power Fund's construction in progress of \$49,925,240 and land purchases of \$9,277,332.

Major capital asset events during the current fiscal year included the following:

- In the current year, the City recharacterized \$18,717,450 of prior years' accumulated construction in progress balance associated with the cost of investment in a base load electric generating station in the Light and Power Fund to the General Fund as land held for resale for which the Light and Power Fund had been administering on behalf of the General Fund. The City's plan, pending state approval, is to build the generating station on the \$26,200,000 of land owned by the Redevelopment Agency Fund (RDA) as a joint venture with between the General Fund and the Redevelopment Agency Fund. The City intends to sell the General Fund's land held for resale in the future.
- In the current year, the Water Fund recorded \$12,335,771 of water rights as a restatement of its beginning net asset in accordance with *GASB 51, Accounting and Financial Reporting for Intangible Assets* (See Notes 5 and 16).
- In the current year, the Redevelopment Agency Fund adjusted its construction in progress by restating its beginning net asset by \$1,920,091 to correct its prior year's understated construction in progress for a grant related to capital expenditures (See Notes 5 and 17).

There were no significant construction commitments outstanding as of June 30, 2009.

Additional information on the City's capital assets can be found in Note 5 on pages 41-44 of this report.

Outstanding debt

During the current year, the City refunded in advance the following debt with proceeds from the \$419,400,000 Vernon Electric System Revenue Bonds, 2009 Series A (See Note 6):

- \$179,650,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series A
- \$103,765,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series B
- \$103,730,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series C

As of June 30, 2009, the following debt remains outstanding:

- \$49,420,000 RDA Industrial Redevelopment Project Tax Allocation Bonds, 2005 Series
- \$43,765,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$419,400,000 City of Vernon Electric System Revenue Bonds, 2009 Series A

The 2005 RDA Industrial Redevelopment Project Tax Allocation Bonds were issued to provide funds to (i) finance various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay the costs of issuance related to the Series 2005 Bonds.

The City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A were issued to provide funds to (i) finance to finance the cost of certain capital improvements to the City's Electric System, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2008 Bonds.

The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

As of June 30, 2009, all bonds issued by the Vernon Redevelopment Agency had an insured rating of A by S&P and Baa1 by Moody's. However, during the current year, S&P and Moody's made numerous rating changes on the Vernon Redevelopment Agency and Authority bonds. Below is a summary of such rating changes.

- In September 2008, S&P increased the underlying rating of the City's electric system to A- from BBB+.
- In November 2008, Moody's downgraded the bond insurer MBIA, the bond insurer for the 2005 Series to Baa1. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was lowered to Baa1.
- In February 2009, S&P assigned a rating of AA- to the bond insurer MBIA and the 2005 Series. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was changed to AA-.
- In June 2009, S&P lowered the rating to the bond insurer MBIA and the 2005 Series to A from AA-. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was changed to A.

Additional information on the City's long-term debt can be found in Note 6 on pages 44-48 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2010 fiscal year.

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of adjacent communities is currently 10.8%. This compares favorably to the state's average unemployment rate of 11.6% but unfavorably to the national average unemployment rate of 9.5%.
- The occupancy rate of the City's central business district has remained at 98% for the current year.
- Inflationary trends in the region compare favorably to national indices.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report of requests for additional financial information should be addressed to the Director of Finance, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

CITY OF VERNON, CALIFORNIA
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 12,904,964	\$ 58,829,629	\$ 71,734,593
Receivables, net of allowances of \$50,000 for business-type activities	2,998,962	4,806,989	7,805,951
Accrued unbilled revenue	-	7,660,101	7,660,101
Accrued interest receivable	202	14,244	14,446
Inventories	813,285	1,209,318	2,022,603
Internal balances	(9,902,032)	9,902,032	-
Prepaid natural gas	-	340,147,245	340,147,245
Deposits and prepaid expenses	111,892	7,917,875	8,029,767
Restricted cash and investments	6,955,661	95,404,594	102,360,255
Note receivable	-	3,268,493	3,268,493
Bond issuance costs	2,089,877	3,566,372	5,656,249
Other assets	24,885,506	-	24,885,506
Derivative assets	-	4,100,197	4,100,197
Land held for resale	65,254,524	-	65,254,524
Capital assets:			
Nondepreciable	39,196,149	71,805,414	111,001,563
Depreciable, net	48,840,439	129,089,522	177,929,961
Total assets	<u>194,149,429</u>	<u>737,722,025</u>	<u>931,871,454</u>
LIABILITIES:			
Accounts payable	1,480,862	13,738,984	15,219,846
Accrued wages and benefits	1,276,233	205,761	1,481,994
Customer deposits and funds held for others	301,778	595,919	897,697
Unearned revenue	346,527	-	346,527
Derivative liabilities	-	62,282,720	62,282,720
Bond interest payable	758,435	6,229,086	6,987,521
Note interest payable	98,555	-	98,555
Long-term liabilities:			
Due within one year:			
Bonds payable, net	1,204,345	4,204,810	5,409,155
Notes payable	10,972,000	-	10,972,000
Deferred gain from sale of generation assets	-	13,593,976	13,593,976
Claims payable	1,439,801	-	1,439,801
Compensated absences	1,917,115	312,061	2,229,176
Due in more than one year:			
Postemployment benefit liability	2,024,003	-	2,024,003
Bonds payable, net	48,984,666	445,175,820	494,160,486
Notes payable	14,875,509	-	14,875,509
Deferred gain from sale of generation assets	-	57,360,794	57,360,794
Claims payable	2,879,601	-	2,879,601
Total liabilities	<u>88,559,430</u>	<u>603,699,931</u>	<u>692,259,361</u>
NET ASSETS:			
Invested in capital assets, net of related debt	61,405,387	157,134,027	218,539,414
Restricted for:			
Grants	440,626	-	440,626
Debt service	5,104,157	40,941,930	46,046,087
Capacity payments	-	18,990,480	18,990,480
Unrestricted (deficit)	38,639,829	(83,044,343)	(44,404,514)
Total net assets	<u>\$ 105,589,999</u>	<u>\$ 134,022,094</u>	<u>\$ 239,612,093</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2009

	Program Revenues				Net (Expenses) Revenues and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
FUNCTION/PROGRAM ACTIVITIES:							
Governmental activities:							
General government	\$ 21,707,582	\$ 1,010,885	\$ 1,773,938	\$ 447,378	\$ (18,475,381)	\$ -	\$ (18,475,381)
Public safety	25,198,861	1,632,466	-	-	(23,566,395)	-	(23,566,395)
Public works	5,644,757	1,010,114	-	-	(4,634,643)	-	(4,634,643)
Health services	1,751,066	1,153,992	-	-	(597,074)	-	(597,074)
Interest on long-term debt	3,288,114	-	-	-	(3,288,114)	-	(3,288,114)
Total governmental activities	<u>57,590,380</u>	<u>4,807,457</u>	<u>1,773,938</u>	<u>447,378</u>	<u>(50,561,607)</u>	<u>-</u>	<u>(50,561,607)</u>
Business-type activities:							
Light and power	152,977,259	132,861,886	-	-	-	(20,115,373)	(20,115,373)
Gas	45,953,173	43,588,209	-	-	-	(2,364,964)	(2,364,964)
Other	5,508,914	6,874,431	-	-	-	1,365,517	1,365,517
Total business-type activities	<u>204,439,346</u>	<u>183,324,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,114,820)</u>	<u>(21,114,820)</u>
Total	<u>\$ 262,029,726</u>	<u>\$ 188,131,983</u>	<u>\$ 1,773,938</u>	<u>\$ 447,378</u>	<u>(50,561,607)</u>	<u>(21,114,820)</u>	<u>(71,676,427)</u>
General revenues:							
Property taxes					11,822,063	-	11,822,063
Parcel taxes					7,370,622	-	7,370,622
Franchise taxes					1,607,246	-	1,607,246
Business license taxes					1,256,638	-	1,256,638
Other license taxes					58,538	-	58,538
Investment income					240,860	2,332,369	2,573,229
Net increase (decrease) in fair value of investments					250,367	(27,661,959)	(27,411,592)
State contribution - sales and use taxes					5,080,969	-	5,080,969
Gain on sale of property					17,729	-	17,729
Other revenues					687,821	-	687,821
Transfers					15,661,835	(15,661,835)	-
Total general revenues and transfers					<u>44,054,688</u>	<u>(40,991,425)</u>	<u>3,063,263</u>
Change in net assets					(6,506,919)	(62,106,245)	(68,613,164)
NET ASSETS, BEGINNING OF YEAR, RESTATED					<u>112,096,918</u>	<u>196,128,339</u>	<u>308,225,257</u>
NET ASSETS, END OF YEAR					<u>\$ 105,589,999</u>	<u>\$ 134,022,094</u>	<u>\$ 239,612,093</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Redevelopment Agency Fund	Industrial Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and investments	\$ -	\$ 8,467,985	\$ -	\$ 4,326,637	\$ 12,794,622
Receivables	1,580,368	1,188,244	-	230,350	2,998,962
Accrued interest receivable	31	171	-	-	202
Due from other funds	-	-	-	13,704,241	13,704,241
Inventories	813,285	-	-	-	813,285
Restricted cash and investments	285,397	5,201,921	1,468,343	-	6,955,661
Other assets	111,892	24,885,506	-	-	24,997,398
Land held for resale	24,873,269	-	40,381,255	-	65,254,524
Total assets	<u>\$ 27,664,242</u>	<u>\$ 39,743,827</u>	<u>\$ 41,849,598</u>	<u>\$ 18,261,228</u>	<u>\$ 127,518,895</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 1,140,880	\$ 19,812	\$ 127,877	\$ 144,902	\$ 1,433,471
Accrued wages and benefits	1,255,167	-	10,143	10,923	1,276,233
Due to other funds	9,393,288	-	9,095,136	-	18,488,424
Advances from other funds	14,780,646	-	-	-	14,780,646
Customer deposits and funds held for others	301,778	-	-	-	301,778
Deferred revenue	471,452	-	11,865,075	-	12,336,527
Total liabilities	<u>27,343,211</u>	<u>19,812</u>	<u>21,098,231</u>	<u>155,825</u>	<u>48,617,079</u>
Fund balances:					
Reserved for:					
Federal forfeiture funds	440,626	-	-	-	440,626
Inventories	813,285	-	-	-	813,285
Encumbrances	1,982,712	27,018	23,541	24,141	2,057,412
Employee loans receivable	60,511	-	-	-	60,511
Debt service	-	4,405,077	699,080	-	5,104,157
Redevelopment projects	-	796,844	-	-	796,844
Unreserved	(2,976,103)	34,495,076	20,028,746	-	51,547,719
Unreserved, reported in nonmajor:					
Special revenue funds	-	-	-	18,081,262	18,081,262
Total fund balances	<u>321,031</u>	<u>39,724,015</u>	<u>20,751,367</u>	<u>18,105,403</u>	<u>78,901,816</u>
Total liabilities and fund balances	<u>\$ 27,664,242</u>	<u>\$ 39,743,827</u>	<u>\$ 41,849,598</u>	<u>\$ 18,261,228</u>	<u>\$ 127,518,895</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Assets - Governmental Activities
 June 30, 2009

Fund balances - total governmental funds (page 19)	\$	78,901,816
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		88,036,588
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds		11,990,000
Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.		
Unamortized bond issuance costs		2,089,877
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(1,917,115)
The cost for postemployment benefits other than pensions are funded on a pay-as-you-go basis; however, the unfunded portion is not due and payable in the current period and therefore is not reported in the funds.		(2,024,003)
Internal service funds are used by management to charge the costs of employee benefits for health insurance, workers compensation, etc., to individual funds. The assets and liabilities of these funds are included in governmental activities in the statement of net assets		
		5,406,346
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Bonds payable		(49,420,000)
Bond interest payable		(758,435)
Unamortized bond premium		(769,011)
Note payable		(25,847,509)
Note interest payable		(98,555)
		(98,555)
Net assets of governmental activities (page 17)	\$	105,589,999

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2009

	General Fund	Redevelopment Agency Funds	Industrial Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 9,652,816	\$ 9,990,833	\$ -	\$ 6,853,231	\$ 26,496,880
Special assessments	1,038,602	-	-	-	1,038,602
Licenses and permits	1,222,770	-	-	484,008	1,706,778
Fines, forfeitures and penalties	302,569	-	-	-	302,569
Investment income	25,677	251,209	25,078	-	301,964
Intergovernmental revenues	1,773,938	447,378	-	804	2,222,120
Charges for services to enterprise funds	2,541,019	-	-	-	2,541,019
Other revenues	996,478	-	6,250	93	1,002,821
Total revenues	<u>17,553,869</u>	<u>10,689,420</u>	<u>31,328</u>	<u>7,338,136</u>	<u>35,612,753</u>
EXPENDITURES:					
General government	16,716,155	633,589	785,156	-	18,134,900
Public safety	23,572,030	-	-	244,538	23,816,568
Public works	5,276,794	-	-	-	5,276,794
Health services	1,468,191	-	-	193,490	1,661,681
Capital outlay	3,938,884	3,732,010	-	18,955	7,689,849
Principal retirement	-	-	4,426,241	-	4,426,241
Bond and note interest	-	2,020,844	1,230,917	-	3,251,761
Total expenditures	<u>50,972,054</u>	<u>6,386,443</u>	<u>6,442,314</u>	<u>456,983</u>	<u>64,257,794</u>
Excess (deficiency) of revenues over (under) expenditures	(33,418,185)	4,302,977	(6,410,986)	6,881,153	(28,645,041)
Other financing sources (uses):					
Sale of property	17,729	-	-	-	17,729
Transfers in	33,555,856	-	-	-	33,555,856
Transfers out	(1,125,876)	-	(338,000)	(17,575,820)	(19,039,696)
Total other financing sources (uses)	<u>32,447,709</u>	<u>-</u>	<u>(338,000)</u>	<u>(17,575,820)</u>	<u>14,533,889</u>
NET CHANGE IN FUND BALANCES	(970,476)	4,302,977	(6,748,986)	(10,694,667)	(14,111,152)
FUND BALANCES, BEGINNING OF YEAR	<u>1,291,507</u>	<u>35,421,038</u>	<u>27,500,353</u>	<u>28,800,070</u>	<u>93,012,968</u>
FUND BALANCES, END OF YEAR	<u>\$ 321,031</u>	<u>\$ 39,724,015</u>	<u>\$ 20,751,367</u>	<u>\$ 18,105,403</u>	<u>\$ 78,901,816</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities - Governmental Activities
 For the Fiscal Year Ended June 30, 2009

Net change in fund balances - total governmental funds (page 21)		\$ (14,111,152)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Expenditures for capital assets	\$ 7,689,849	
Less current year depreciation	<u>(3,009,203)</u>	4,680,646
Change in long-term compensated absences		(80,054)
Change in net postemployment benefits other than pensions obligation.		(2,024,003)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		967,034
Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.		
Change in unamortized bond issuance costs		(120,513)
Long-term debt repayments consume current financial resources of governmental funds, but repaying debt decreases long-term liabilities in the statement of net assets.		
Principal repayment on notes		4,426,241
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in bond interest payable		(94,635)
Change in unamortized bond premium		44,345
Change in fair value of derivative liabilities		189,261
Change in note interest payable		13,937
Revenue timing differences result in less revenue in government-wide statement of activities.		<u>(398,026)</u>
Change in net assets of governmental activities (page 18)		<u><u>\$ (6,506,919)</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2009

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Internal Service Funds
	Light and Power Fund	Gas Fund	Other Enterprise Funds		
ASSETS:					
Current assets:					
Cash and investments	\$ 58,826,346	\$ 3,283	\$ -	\$ 58,829,629	\$ 110,342
Accounts receivable, net of allowances of \$50,000	2,866,332	1,580,369	360,288	4,806,989	-
Accrued unbilled revenue	7,398,928	-	261,173	7,660,101	-
Accrued interest receivable	14,244	-	-	14,244	-
Bond issuance costs	240,815	-	-	240,815	-
Due from other funds	1,614,802	-	-	1,614,802	9,662,797
Inventories	1,120,446	88,872	-	1,209,318	-
Prepaid natural gas	28,578,343	-	-	28,578,343	-
Notes receivable	315,996	-	-	315,996	-
Deposits and prepaid expenses	7,895,453	-	22,422	7,917,875	-
Derivative assets	4,100,197	-	-	4,100,197	-
Total current assets	<u>112,971,902</u>	<u>1,672,524</u>	<u>643,883</u>	<u>115,288,309</u>	<u>9,773,139</u>
Noncurrent assets:					
Restricted cash and investments	95,404,594	-	-	95,404,594	-
Advances to other funds	45,290,078	-	-	45,290,078	-
Prepaid natural gas	311,568,902	-	-	311,568,902	-
Note receivable	2,952,497	-	-	2,952,497	-
Bond issuance costs	3,325,557	-	-	3,325,557	-
Capital assets:					
Nondepreciable	59,170,842	-	12,634,572	71,805,414	-
Depreciable, net	98,802,767	22,177,682	8,109,073	129,089,522	-
Total noncurrent assets	<u>616,515,237</u>	<u>22,177,682</u>	<u>20,743,645</u>	<u>659,436,564</u>	<u>-</u>
Total assets	<u>729,487,139</u>	<u>23,850,206</u>	<u>21,387,528</u>	<u>774,724,873</u>	<u>9,773,139</u>
LIABILITIES:					
Accounts payable	11,059,368	2,306,134	373,482	13,738,984	47,391
Accrued wages and benefits	149,988	8,266	47,507	205,761	-
Customer deposits	475,735	20,370	99,814	595,919	-
Due to other funds	-	2,939,786	3,553,630	6,493,416	-
Bond interest	6,229,086	-	-	6,229,086	-
Long-term liabilities:					
Due within one year:					
Claims payable	-	-	-	-	1,439,801
Deferred gain from sale of generation assets	13,593,976	-	-	13,593,976	-
Derivative liabilities	62,282,720	-	-	62,282,720	-
Bonds payable, net	4,204,810	-	-	4,204,810	-
Compensated absences	230,845	8,076	73,140	312,061	-
Total current liabilities	<u>98,226,528</u>	<u>5,282,632</u>	<u>4,147,573</u>	<u>107,656,733</u>	<u>1,487,192</u>
Due in more than one year:					
Claims payable	-	-	-	-	2,879,601
Advances from other funds	-	25,207,575	5,301,857	30,509,432	-
Deferred gain from sale of generation assets	57,360,794	-	-	57,360,794	-
Bonds payable, net	445,175,820	-	-	445,175,820	-
Total noncurrent liabilities	<u>502,536,614</u>	<u>25,207,575</u>	<u>5,301,857</u>	<u>533,046,046</u>	<u>2,879,601</u>
Total liabilities	<u>600,763,142</u>	<u>30,490,207</u>	<u>9,449,430</u>	<u>640,702,779</u>	<u>4,366,793</u>
NET ASSETS:					
Invested in capital assets, net of related debt	114,212,700	22,177,682	20,743,645	157,134,027	-
Restricted for debt service	40,941,930	-	-	40,941,930	-
Restricted for capacity payments	18,990,480	-	-	18,990,480	-
Unrestricted (deficit)	(45,421,113)	(28,817,683)	(8,805,547)	(83,044,343)	5,406,346
Total net assets (deficit)	<u>\$ 128,723,997</u>	<u>\$ (6,640,001)</u>	<u>\$ 11,938,098</u>	<u>\$ 134,022,094</u>	<u>\$ 5,406,346</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Internal Service Funds
	Light and Power Fund	Gas Fund	Other Enterprise Funds		
OPERATING REVENUES:					
Charges for services	\$ 132,861,886	\$ 43,588,209	\$ 6,874,431	\$ 183,324,526	\$ 675,056
Total operating revenues	<u>132,861,886</u>	<u>43,588,209</u>	<u>6,874,431</u>	<u>183,324,526</u>	<u>675,056</u>
OPERATING EXPENSES:					
Cost of sales	106,545,147	45,241,998	4,973,073	156,760,218	408,790
Depreciation and amortization	4,357,980	711,175	535,841	5,604,996	-
Claims expense	-	-	-	-	439,647
Employee benefits	-	-	-	-	5,262
Total operating expenses	<u>110,903,127</u>	<u>45,953,173</u>	<u>5,508,914</u>	<u>162,365,214</u>	<u>853,699</u>
Operating income (loss)	21,958,759	(2,364,964)	1,365,517	20,959,312	(178,643)
NONOPERATING REVENUE (EXPENSES):					
Investment income	2,332,369	-	-	2,332,369	2
Net decrease in fair value of investments	(27,661,959)	-	-	(27,661,959)	-
Interest expense	(42,074,132)	-	-	(42,074,132)	-
Total nonoperating revenue (expenses), net	<u>(67,403,722)</u>	<u>-</u>	<u>-</u>	<u>(67,403,722)</u>	<u>2</u>
Income (loss) before transfers	(45,444,963)	(2,364,964)	1,365,517	(46,444,410)	(178,641)
Transfers in	-	-	-	-	1,145,675
Transfers out	(3,130,010)	-	(12,531,825)	(15,661,835)	-
Change in net assets	(48,574,973)	(2,364,964)	(11,166,308)	(62,106,245)	967,034
Net assets (deficit), beginning of the year, restated	177,298,970	(4,275,037)	23,104,406	196,128,339	4,439,312
Net assets (deficit), end of the year	<u>\$ 128,723,997</u>	<u>\$ (6,640,001)</u>	<u>\$ 11,938,098</u>	<u>\$ 134,022,094</u>	<u>\$ 5,406,346</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Light & Power Fund	Gas Fund	Other Enterprise Funds	Total	
Cash flows from operating activities:					
Cash received from customers/other funds	\$ 131,818,711	\$ 50,391,998	\$ 18,250,043	\$ 200,460,752	\$ 564,599
Cash paid to suppliers for goods and services	(109,596,087)	(50,017,319)	(3,904,888)	(163,518,294)	(439,361)
Cash paid to City general fund for services	(2,533,729)	-	-	(2,533,729)	-
Cash paid to employees for services	(4,736,603)	(222,101)	(1,364,773)	(6,323,477)	(5,262)
Cash paid for claims expense	-	-	-	-	(1,383,641)
Net cash provided by (used in) operating activities	<u>14,952,292</u>	<u>152,578</u>	<u>12,980,382</u>	<u>28,085,252</u>	<u>(1,263,665)</u>
Cash flows from noncapital financing activities:					
Transfers received	-	-	-	-	1,145,675
Transfers (paid)	(3,130,010)	-	(12,531,825)	(15,661,835)	-
Advances from (to) other funds	31,000	(31,000)	-	-	-
Collection of note receivable	298,310	-	-	298,310	-
Net cash provided by (used in) noncapital financing activities	<u>(2,800,700)</u>	<u>(31,000)</u>	<u>(12,531,825)</u>	<u>(15,363,525)</u>	<u>1,145,675</u>
Cash flows from capital and related financing activities:					
Proceeds from bond issuance	62,235,630	-	-	62,235,630	-
Repayment of bonds	(22,330,000)	-	-	(22,330,000)	-
Bond interest paid	(40,528,551)	-	-	(40,528,551)	-
Acquisition and construction of capital assets	(63,997,097)	(118,295)	(448,557)	(64,563,949)	-
Net cash used in capital and related financing activities	<u>(64,620,018)</u>	<u>(118,295)</u>	<u>(448,557)</u>	<u>(65,186,870)</u>	<u>-</u>
Cash flows from investing activities:					
Purchases and sales of investments, net	33,305,635	-	-	33,305,635	-
Investment income	2,332,369	-	-	2,332,369	2
Net cash provided by investing activities	<u>35,638,004</u>	<u>-</u>	<u>-</u>	<u>35,638,004</u>	<u>2</u>
Net increase (decrease) in cash and cash equivalents	(16,830,422)	3,283	-	(16,827,139)	(117,988)
Cash and cash equivalents, beginning of year	170,530,670	-	-	170,530,670	228,330
Cash and cash equivalents, end of year	<u>\$ 153,700,248</u>	<u>\$ 3,283</u>	<u>\$ -</u>	<u>\$ 153,703,531</u>	<u>\$ 110,342</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 21,958,759	\$ (2,364,964)	\$ 1,365,517	20,959,312	\$ (178,643)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,357,980	711,175	535,841	5,604,996	-
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	5,804,825	(755,391)	(2,171)	5,047,263	-
Other receivables	19,258	625,845	295,564	940,667	-
Inventories	(1,120,446)	(28,558)	-	(1,149,004)	-
Prepaid expenses and deposits	(7,878,683)	-	(22,422)	(7,901,105)	-
Prepaid natural gas	28,578,342	-	-	28,578,342	-
Other assets	31,808,535	-	-	31,808,535	-
Increase (decrease) in:					
Accounts payable	2,522,170	(5,012,380)	(136,785)	(2,626,995)	(30,570)
Claims payable	(1,866,667)	-	-	(1,866,667)	(943,995)
Accrued wages and benefits	(123,072)	(4,396)	(34,525)	(161,993)	-
Due (to) from other funds	(58,255,006)	6,961,893	11,104,641	(40,188,472)	(110,457)
Customer deposits	37,938	14,370	(118,600)	(66,292)	-
Compensated absences	(7,000)	4,984	(6,678)	(8,694)	-
Deferred gain from sale of generation assets	(10,884,641)	-	-	(10,884,641)	-
Net cash provided by (used in) operating activities	<u>\$ 14,952,292</u>	<u>\$ 152,578</u>	<u>\$ 12,980,382</u>	<u>\$ 28,085,252</u>	<u>\$ (1,263,665)</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets					
Cash and investments	\$ 58,826,346	\$ 3,283	\$ -	\$ 58,829,629	\$ 110,342
Noncurrent restricted cash and investments	95,404,594	-	-	95,404,594	-
Total	154,230,940	3,283	-	154,234,223	110,342
Less: Investments with maturities of more than 90 days	(530,692)	-	-	(530,692)	-
Total cash and cash equivalents	<u>\$ 153,700,248</u>	<u>\$ 3,283</u>	<u>\$ -</u>	<u>\$ 153,703,531</u>	<u>\$ 110,342</u>
Noncash Capital, Investing and Financing Activities					
Acquisition of capital assets in accounts payable	\$ 2,285,651	\$ -	\$ -	\$ 2,285,651	\$ -
Decrease in fair value of investments	27,661,959	-	-	27,661,959	-
Defeasance of debt	387,145,000	-	-	-	-

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Vernon, California (City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. In accordance with GASB Statement No. 14, the City's component units are considered blended component units. Although legally separate entities, they are, in substance, part of the City's operations, and therefore, data from these units are combined with data of the primary government.

Blended Component Units

Vernon Redevelopment Agency (RDA). The governing body of the RDA is comprised of members of the City Council and the Mayor. Among its duties, it approves the RDA's budget and appoints the management.

Separately issued financial statements for the RDA may be obtained through the City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

Vernon Natural Gas Financing Authority

On April 1, 2006, the City and the RDA created the Vernon Natural Gas Financing Authority (Authority) pursuant to the Joint Powers Agreement, for the express purpose of undertaking projects and programs that promote economic development within the City. Such projects and programs include assisting the City in procuring natural gas for use as fuel for electric generating units that are part of the City's Electric System, which is accounted for in the City's Light and Power fund. During the year ended June 30, 2006, the Authority issued \$430,845,000 in variable rate bonds and subsequently purchased natural gas in accordance with the Natural Gas Agreement between the Authority and the City. As a result of this financing arrangement, the debt and related asset (prepaid natural gas) associated with the Authority have been blended with the City's Light and Power fund for financial reporting purposes.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. It is the City's policy to make eliminations to minimize the double counting of internal activities, except for services rendered by governmental activities to business-type activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function; and therefore, are clearly identifiable to a particular function. Expenses by function have been adjusted for any internal service profit/loss existing at fiscal year-end. Program revenues include (i) charges paid by the recipients of goods or services offered by the programs and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds and blended component units. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as nonmajor funds.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. *Operating* expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as general government, public safety, health services, and public works.

The *Vernon Redevelopment Agency* was activated September 16, 1986, by action of the Vernon City Council pursuant to the Community Redevelopment Law of California. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. Additionally, the Agency has the right of eminent domain to facilitate acquisition of property. The principal objectives of the Agency are to improve the commercial environment, provide new public improvements, strengthen the City's economic base, generate added employment opportunities, and expand the City's industrial base.

The *Industrial Development Fund* is utilized to acquire, rehabilitate, develop, administer, and sell or lease property. The principal objectives of the Industrial Development Department are to improve the commercial environment, strengthen the City's economic base, generate added employment opportunities, and expand the City's industrial base.

The City reports the following major enterprise funds:

- The *Light and Power Fund* accounts for the maintenance and operations of the City's electric utility plant. Revenue for this fund is primarily from charges for services.
- The *Gas Fund* accounts for maintenance and operations of the City's gas utility system. Revenue for this fund is primarily from charges for services.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund types:

- The City's *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- The City's *Capital Projects Funds* are used to account for financial resources designated for the acquisition or construction of major capital facilities other than those financed by proprietary fund types.
- The City's *Internal Service Funds* are specifically designed to account for goods and services that are provided on a cost-reimbursement basis to other City funds. That is, the goal of an internal service fund should be to measure the full cost of providing goods and services for the purpose of fully recovering that cost through fees or charges. Some examples of the City's services accounted for in the internal service funds are self-insurance activities for worker's compensation, general liability, group medical and dental, and vehicle replacement. The Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. In the government-wide financial statements, the changes in net assets for the fiscal year, as presented in the statements of activities, were allocated to the user functions of the governmental activities, to reflect the entire activity for the year. Since the predominant users of the internal services are the City's governmental activities, the asset and liability balances of the Internal Service Funds are consolidated into the governmental activities column at the government-wide level.

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual – that is, when they become 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. Property, sales, and other taxes are considered available and are accrued when received within 60 days after fiscal year-end. Additionally, all other revenue sources are considered available and are accrued when received within 60 days of year-end. 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. General capital assets acquisitions are reported as expenditures in governmental fund statements.

For the government-wide financial statements and proprietary fund financial statements, under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City applies all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected to not apply private-sector accounting standards issued after November 30, 1989 for business type activities and proprietary funds financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements for governmental activities, reconciliations are presented which briefly explain the adjustments necessary to reconcile the fund financial statements to the governmental-wide statements.

The City’s policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available is to use restricted resources first.

Cash Deposits and Investments

The City follows the practice of pooling cash and investments of all funds to maximize returns for all funds, except for funds held by trustee or fiscal agents.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents. Investment transactions are recorded on the trade date. Investments in nonparticipating interest-earning investment contracts are reported at cost, and all other investments are reported at fair value. Fair value is defined as the amount that the City could reasonably expect to receive for an investment in a current sale between a willing buyer and a seller and is generally measured by quoted market prices.

Interfund Receivables/Payables

Short-term interfund receivables and payables are classified as “due from other funds” and “due to other funds”, respectively, on the balance sheet/statement of fund net assets. Long-term interfund receivables and payables are classified as “advances to/from other funds,” respectively, on the balance sheet/statement of fund net assets.

Inventories

Inventories consist of consumable supplies and fuel stock, which are stated at cost on a first-in, first-out basis. The cost of inventories is recorded as an expenditures/expense when the items are used.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets include public domain (infrastructure) general capital assets consisting of certain improvements including roads and bridges, sidewalks, curbs and gutters, and traffic light system. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Infrastructure	10 to 50 years
Utility plant and buildings	25 to 50 years
Improvements	10 to 20 years
Machinery and equipment	3 to 35 years

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position. For tax-exempt securities, interest income and expense associated with construction of capital assets is capitalized during the construction phase up until the capital asset is substantially complete and ready for its intended use.

Compensated Absences

Accumulated vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for accrued vacation is recorded in the governmental funds only to the extent that such amounts have matured (i.e., as a result of employee resignations and retirements). Upon termination of employment, the City will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate.

Deferred/Unearned Revenue

Deferred revenue arises when a potential revenue transaction does not meet the "available" criteria for recognition in the current period. Unearned revenue arises when resources are received before the City has a legal claim to them, as when grant monies are received in advance of incurring qualified expenditures.

Long-term Obligations

Certain of the City's governmental fund obligations not currently due and payable at year-end are reported in the government-wide statement of net assets. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund and government-wide statement of net assets. Bond issuance costs, discounts and premiums and deferred amounts on refunding are amortized over the life of the bonds using the straight-line method.

Net Assets

The government-wide financial statements and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This category represents net assets of the City not restricted for any project or other purpose.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not appropriable or legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property Taxes

The County of Los Angeles (County) levies, collects and apportions property taxes for all taxing jurisdictions with the County. Property taxes are determined by applying approved rates to the properties' assessed values. The County remits property taxes applicable to the City less an administrative fee throughout the year.

Article XIII A of the State of California Constitution limits the property tax levy to support general government services of the various taxing jurisdictions to \$1.00 per \$100 of assessed value. Taxes levied to service voter-approved debt prior to June 30, 1978 are excluded from this limitation.

Secured property taxes are levied in two installments, November 1 and February 1. They become delinquent with penalties after December 10 and April 10, respectively. The lien date is January 1 of each year for secured and unsecured property taxes and the levy date occurs on the 4th Monday of September of the tax year. Unsecured property taxes on the tax roll as of July 31 become delinquent with penalties on August 31.

GASB Pronouncements

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement 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. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement'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. This statement 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. The City implemented this Statement during the fiscal year ended June 30, 2009. Additional note disclosures are presented in Note 12.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented. The City implemented this Statement during the fiscal year ended June 30, 2009 and it had no effect on financial position, changes in financial position, or cash flows.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and also addresses recognition and amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Although effective for the fiscal periods beginning after June 15, 2009, the City has elected to early implement the provisions of this Statement for the fiscal year ended June 30, 2009. See Note 16 for further discussion.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature, which were previously included in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 71,734,593
Restricted cash and investments	<u>102,360,255</u>
Total cash and investments	<u><u>\$ 174,094,848</u></u>

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	47,177,006
Investments	<u>126,916,542</u>
Total cash and investments	<u><u>\$ 174,094,848</u></u>

The City's Investment Policy

The City's Investment Policy sets forth the investment guidelines for all funds of the City. The Investment Policy conforms to the California Government Code Section 53600 et. seq. The authority to manage the City's investment program is derived from the City Council. Pursuant to Section 53607 of the California Government Code, the City Council annually appoints the City Treasurer and approves the City's investment policy. The Treasurer is authorized to delegate this authority as deemed appropriate. No person may engage in investment transactions except as provided under the terms of the Investment Policy and the procedures established by the Treasurer.

This Policy requires that the investments be made with the prudent person standard, that is, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the trustee (Treasurer and staff) will act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the City.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The Investment Policy also requires that when following the investing actions cited above, the primary objective of the trustee be to safeguard the principal, secondarily meet the liquidity needs of depositors, and then achieve a return on the funds under the trustee’s control. Further, the intent of the Investment Policy is to minimize risk of loss on the City's held investments from:

- A. Credit risk
- B. Custodial credit risk
- C. Concentration of credit risk
- D. Interest rate risk

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's Investment Policy. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investment of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or it agencies	5 years	None	None	None
Certain Asset-Backed Securities	5 years	None	None	AA
Certificates of Deposit	5 years	30%	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	P-1
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium-Term Notes	5 years	30%	None	A
Mutual Funds investing in eligible securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 years	20%	None	AA
State Administered Pool Investment	N/A	None	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's Investment Policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or it agencies	None	None	None	None
Certain Asset-Backed Securities	None	None	None	AA
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 year	None	None	None
Commercial Paper	None	None	None	P-1
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	None	None
Investment Contracts	None	None	None	None

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

Investment Type	Fair Value as of June 30, 2009	Investment Maturities (in Months)		% of Total
		Less Than 12 Months	13 to 60 Months	
Federal National Mortgage Association	\$ 3,684,375	\$ -	\$ 3,684,375	2.90%
Local Agency Investment Fund	530,692	530,692	-	0.42%
Money Market Mutual Fund	84,908,389	84,908,389	-	66.90%
United States Treasury Notes	37,793,086	37,793,086	-	29.78%
Total investment	\$ 126,916,542	\$ 123,232,167	\$ 3,684,375	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's Investment Policy, or debt agreements, and the actual rating as of the year end for each investment type.

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2009	% of Total
In custody of Treasurer:				
Investments held by Treasurer:				
Local Agency Investment Fund	Not Rated	Not Rated	530,692	0.42%
Money Market Mutual Fund	Aaa/AAA	Not Rated	25,041	0.02%
Total in custody of Treasurer			555,733	0.44%
In custody of Trustee:				
Investments held by Trustee:				
Federal National Mortgage Association	Aaa / AAA	Aaa / AAA	3,684,375	2.90%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	84,883,348	66.88%
United States Treasury Notes	Aaa / AAA	Aaa / AAA	37,793,086	29.78%
Total in custody of Trustee			126,360,809	99.56%
Total cash and investments held by Trustee			\$ 126,916,542	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City's Investment Policy also places no limit on the amount of debt proceeds held by bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2009, the City's investments in any one issuer exceeding 5% were as follows:

Issuer	In Custody of	Minimum Required Rating	Actual Credit Rating	Moody's / S&P	Fair Value as of June 30, 2009	% of Total
Treasury Notes	U.S Treasury	Trustee	Aaa / AAA	Aaa / AAA	\$ 37,793,086	29.78%

Custodial Credit Risk

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 its 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 its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. Under the California Government Code, a financial institution is required to secure deposits of \$250,000 in excess of FDIC insurance made by state or local governmental units by pledging government securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the City's name.

At year-end, the carrying amount of the City's deposits was \$47,177,006 and the bank balance was \$47,875,472. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2009, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. \$48,125,472 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

Local Agency Investment Fund (LAIF)

The Agency also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$530,692 at June 30, 2009. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The total amount invested by all public agencies in LAIF at June 30, 2009 was \$25,156,667,108. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$50,892,735,137 at June 30, 2009. Of this amount, 13.23% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 0.64 years as of June 30, 2009. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2009 are as follows:

Receivables - Governmental Activities:	General Fund	Redevelopment Agency Fund	Industrial Development Fund	Other Governmental Funds	Total Governmental Activities
Accounts	\$ 3,698	\$ 22,369	\$ -	\$ -	\$ 26,067
Taxes	29,611	1,031,935	-	230,350	1,291,896
Notes or loans	60,511	-	-	-	60,511
Other	1,486,548	133,940	-	-	1,620,488
Total receivables	<u>\$ 1,580,368</u>	<u>\$ 1,188,244</u>	<u>\$ -</u>	<u>\$ 230,350</u>	<u>\$ 2,998,962</u>

Receivables - Business-type Activities:	Light and Power Fund	Gas Fund	Other Enterprise Funds	Total Business-type Activities
Accounts	\$ 2,916,332	\$ 1,580,369	\$ 360,288	\$ 4,856,989
Allowances	(50,000)	-	-	(50,000)
Total receivables	<u>\$ 2,866,332</u>	<u>\$ 1,580,369</u>	<u>\$ 360,288</u>	<u>\$ 4,806,989</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2009:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 9,393,288
	Industrial Development Fund	4,310,953
		<u>\$ 13,704,241</u>
Internal Service Funds	Other Enterprise Funds	\$ 3,553,630
	Industrial Development Fund	4,784,183
	Gas Fund	1,324,984
		<u>\$ 9,662,797</u>
Light and Power Fund	Gas Fund	\$ 1,614,802
		<u>\$ 1,614,802</u>

The above balances represent interfund borrowings payable due within one year.

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Fund	General Fund	\$ 14,780,646
	Gas Fund	25,207,575
	Other Enterprise Funds	5,301,857
		<u>\$ 45,290,078</u>

The above balances represent interfund borrowings payable beyond one year.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 4 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Fund	\$ 3,112,387
	Other Enterprise Funds	196,054
		<u>\$ 3,308,441</u>
General Fund	Industrial Development Fund	\$ 338,000
		<u>\$ 338,000</u>
General Fund	Other Governmental Funds	\$ 17,573,644
	Other Enterprise Funds	12,335,771
		<u>\$ 29,909,415</u>
Internal Service Funds	General Fund	\$ 1,125,876
	Other Governmental Funds	2,176
	Light and Power Fund	17,623
		<u>\$ 1,145,675</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or move revenues collected in certain enterprise funds to the General Fund to cover overhead costs provided by the General Fund and for the payment of in-lieu franchise taxes.

For the current year, the Light and Power Fund and the Other Enterprise Funds transferred a total of \$3,308,441 for in-lieu franchise taxes.

For the current year, the Industrial Development Fund made an interfund reimbursement transfer of \$338,000 to the General Fund for prior year's cost of professional services.

For the current year, the Other Governmental Funds made an interfund reimbursement transfer of \$17,573,644 to the General Fund to reimburse the General Fund for two street projects funded by the General Fund in prior years.

For the current year, the Other Enterprise Funds made an operating transfer of \$12,335,771 to the General Fund.

For the current year, the Internal Service Funds received reimbursement transfers of \$1,125,876 from the General Fund, \$2,176 from the Other Governmental Funds, and \$17,623 from the Light and Power Fund for the payment of claims and liability insurance.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2009
Governmental activities:					
<i>Capital assets, not being depreciated:</i>					
Land - General Fund	\$ 11,656,842	\$ -	\$ -	\$ -	\$ 11,656,842
Land - Redevelopment Agency Fund (RDA)	26,974,295	-	-	-	26,974,295
Total land	38,631,137	-	-	-	38,631,137
Construction in progress - General Fund	572,356	482,924	-	(490,268)	565,012
Construction in progress - Ind. Dev. Fund	739,314	-	-	(739,314)	-
Construction in progress - RDA*	8,451,337	-	-	(8,451,337)	-
Total construction in progress	9,763,007	482,924	-	(9,680,919)	565,012
Total capital assets, not being depreciated	48,394,144	482,924	-	(9,680,919)	39,196,149
<i>Capital assets, being depreciated</i>					
Infrastructure - General Fund	25,312,464	220,920	-	483,564	26,016,948
Infrastructure - RDA	6,231,413	3,710,561	-	8,451,337	18,393,311
Building and Improvements - General Fund	13,638,482	750,121	-	-	14,388,603
Improvements O/T Buildings - General Fund	10,154,708	225,408	-	-	10,380,116
Improvements O/T Buildings - RDA	12,523	-	-	-	12,523
Machinery and Equipment - General Fund	15,488,800	2,259,511	-	6,704	17,755,015
Machinery and Equipment - Other Gov't Fund	1,023,268	18,955	-	-	1,042,223
Machinery and Equipment - RDA	-	21,449	-	-	21,449
Total capital assets, being depreciated	71,861,658	7,206,925	-	8,941,605	88,010,188
Less accumulated depreciation for:					
Infrastructure - General Fund	(19,437,275)	(589,086)	-	-	(20,026,361)
Infrastructure - RDA	(232,824)	(379,120)	-	-	(611,944)
Building and Improvements - General Fund	(4,359,335)	(340,699)	-	-	(4,700,034)
Improvements O/T Building - General Fund	(2,498,799)	(258,003)	-	-	(2,756,802)
Improvements O/T Building - RDA	(782)	(313)	-	-	(1,095)
Machinery and Equipment - General Fund	(9,267,627)	(1,361,559)	-	-	(10,629,186)
Machinery and Equipment - Other Gov't Fund	(363,904)	(79,396)	-	-	(443,300)
Machinery and Equipment - RDA	-	(1,027)	-	-	(1,027)
Total accumulated depreciation	(36,160,546)	(3,009,203)	-	-	(39,169,749)
Total capital assets, being depreciated, net					
Infrastructure - General Fund	5,875,189	(368,166)	-	483,564	5,990,587
Infrastructure - RDA	5,998,589	3,331,441	-	8,451,337	17,781,367
Building and Improvements - General Fund	9,279,147	409,422	-	-	9,688,569
Improvements O/T Building - General Fund	7,655,909	(32,595)	-	-	7,623,314
Improvements O/T Building - RDA	11,741	(313)	-	-	11,428
Machinery and Equipment - General Fund	6,221,173	897,952	-	6,704	7,125,829
Machinery and Equipment - Other Gov't Fund	659,364	(60,441)	-	-	598,923
Machinery and Equipment - RDA	-	20,422	-	-	20,422
Total	35,701,112	4,197,722	-	8,941,605	48,840,439
Governmental activities capital assets, net	\$ 84,095,256	\$ 4,680,646	\$ -	\$ (739,314)	\$ 88,036,588

* In the current year, the Redevelopment Agency Fund adjusted its construction in progress by restating its beginning net asset by \$1,920,091 to correct its prior year's understated construction in progress for grant funded capital expenditures.

In the current year, the Industrial Development Fund recharacterized \$739,314 of construction in progress to land held for resale.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,167,158
Public safety	1,384,099
Public works	368,444
Health services	<u>89,502</u>
Total depreciation expense - governmental functions	<u>\$ 3,009,203</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2009
Business-type activities:					
<i>Capital assets, not being depreciated:</i>					
Land - Light and Power	\$ -	\$ 9,277,332	\$ -	\$ -	\$ 9,277,332
Land - Water	45,000	-	-	-	45,000
Water rights - Water*	12,335,771	-	-	-	12,335,771
Construction in progress - Light and Power	20,062,636	49,925,240	-	(20,094,366)	49,893,510
Construction in progress - Water	-	163,188	-	-	163,188
Construction in progress - Fiber Optic	-	90,613	-	-	90,613
Total capital assets, not being depreciated	<u>32,443,407</u>	<u>59,456,373</u>	<u>-</u>	<u>(20,094,366)</u>	<u>71,805,414</u>
<i>Capital assets, being depreciated</i>					
Production plant - Light and Power	10,880,014	-	-	3,885,310	14,765,324
Transmission plant - Light and Power	-	1,568,599	-	4,931,864	6,500,463
Distribution plant - Light and Power	121,271,662	4,803,905	-	(8,448,255)	117,627,312
General plant - Light and Power	5,688,071	707,672	-	1,489,797	7,885,540
Buildings - Light and Power	481,800	-	-	(481,800)	-
Water utility plant	16,762,940	118,400	-	-	16,881,340
Gas utility plant	24,326,692	118,295	-	-	24,444,987
Fiber Optic utility plant	3,195,530	76,356	-	-	3,271,886
Total capital assets, being depreciated	<u>182,606,709</u>	<u>7,393,227</u>	<u>-</u>	<u>1,376,916</u>	<u>191,376,852</u>
Less accumulated depreciation for:					
Production plant - Light and Power	(8,204,268)	(368,431)	-	3,816,381	(4,756,318)
Transmission plant - Light and Power	-	(105,917)	-	(2,202,334)	(2,308,251)
Distribution plant - Light and Power	(31,684,280)	(3,029,429)	-	(5,098,400)	(39,812,109)
General plant - Light and Power	(3,885,234)	(386,097)	-	3,172,137	(1,099,194)
Buildings - Light and Power	(312,216)	-	-	312,216	-
Water utility plant	(11,301,017)	(369,169)	-	-	(11,670,186)
Gas utility plant	(1,556,130)	(711,175)	-	-	(2,267,305)
Fiber Optic utility plant	(207,295)	(166,672)	-	-	(373,967)
Total accumulated depreciation	<u>(57,150,440)</u>	<u>(5,136,890)</u>	<u>-</u>	<u>-</u>	<u>(62,287,330)</u>
Total capital assets, being depreciated, net					
Production plant - Light and Power	2,675,746	(368,431)	-	7,701,691	10,009,006
Transmission plant - Light and Power	-	1,462,682	-	2,729,530	4,192,212
Distribution plant - Light and Power	89,587,382	1,774,476	-	(13,546,655)	77,815,203
General plant - Light and Power	1,802,837	321,575	-	4,661,934	6,786,346
Buildings - Light and Power	169,584	-	-	(169,584)	-
Water utility plant	5,461,923	(250,769)	-	-	5,211,154
Gas utility plant	22,770,562	(592,880)	-	-	22,177,682
Fiber Optic utility plant	2,988,235	(90,316)	-	-	2,897,919
Total	<u>125,456,269</u>	<u>2,256,337</u>	<u>-</u>	<u>1,376,916</u>	<u>129,089,522</u>
Business-type activities capital assets, net	<u>\$ 157,899,676</u>	<u>\$ 61,712,710</u>	<u>\$ -</u>	<u>\$ (18,717,450)</u>	<u>\$ 200,894,936</u>

* In the current year, Water Fund recorded \$12,335,771 of water rights as a restatement of its beginning net assets in accordance with GASB 51, *Accounting and Financial Reporting for Intangible Assets* (See Note 16). The water rights are Allowed Pumping Allocation of the California Central Basin transferred to the City on April 9, 1974 that do not expire.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS (CONTINUED)

In the current year, the City transferred \$18,717,450 of prior years' accumulated construction in progress balance associated with the development of a base load electric generating station from the Light and Power Fund to the General Fund for which the Light and Power Fund had been administering on behalf of the General Fund. The City's plan, pending state approval, is to build the generating station on the \$26,200,000 of land owned by the Redevelopment Agency Fund (RDA) as a joint venture with between the General Fund and the Redevelopment Agency Fund. In the current year, Light and Power Fund had an independent third party to take a physical inventory of its capital assets and made adjustments accordingly.

Depreciation

Depreciation expense was charged to the business-type functions as follows:

Light and Power depreciation	\$ 3,889,874
Gas Fund depreciation	711,175
Other Enterprise Fund depreciation	535,841
Total depreciation expense - business-type functions	<u>\$ 5,136,890</u>

NOTE 6 – LONG-TERM OBLIGATIONS

During the fiscal year 2009, a total of \$463,165,000 in long-term obligations were issued and as of June 30, 2009, \$512,585,000 remained outstanding consisting of the following:

- \$49,420,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005
- \$43,765,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$419,400,000 City of Vernon Electric System Revenue Bonds, 2009 Series A

Outstanding at June 30, 2009, were \$49,420,000 of Industrial Redevelopment Project Tax Allocation Bonds Series 2005. The 2005 Tax allocation bonds are special obligations of the RDA, which are secured by an irrevocable pledge of tax revenues payable to bondholders. The principal and interest remaining on the bonds is \$87,118,660, payable through July 2036. For the current year, principal and interest and total incremental property tax revenues were \$2,275,306 and \$9,990,833 respectively. The Series 2005 Bonds were issued to (i) to finance various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area, (ii) to fund the reserve requirement for the Series 2005 Bonds, and (iii) to pay costs of issuance related to the Series 2005 Bonds.

Outstanding at June 30, 2009 were \$43,765,000 of City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A. The 2008 Electric System Revenue Bonds are special obligations of the City, which are secured by an irrevocable pledge of electric revenues payable to bondholders. The principal and interest remaining on the bonds is \$124,272,719, payable through 2038. For the current year, principal and interest and total incremental electric revenues were \$44,582,992 and \$132,861,886, respectively. The City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A were issued to provide funds to (i) finance the cost of certain capital improvements to the City's Electric System, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2008 Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Outstanding at June 30, 2009 were \$419,400,000 of City of Vernon Electric System Revenue Bonds, 2009 Series A. The 2009 Electric System Revenue Bonds are special obligations of the City, which are secured by an irrevocable pledge of electric revenues payable to bondholders. The principal and interest remaining on the bonds is \$572,030,428, payable through 2022. For the current year, principal and interest and total incremental electric revenues were \$44,582,992 and \$132,861,886, respectively. The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

In September 2007, the City entered into a \$50,000,000 revolving line of credit agreements with a bank for the purpose of financing the City's industrial development programs which are secured with land held for resale. The termination dates of the agreements are September 26, 2009, and April 1, 2014. The interest rates on the loans are the greater of 4%-5% or Libor Rate plus 2.00%. As of June 30, 2009, \$25,847,509 of the line of credit was used for the purposes of acquiring land held for resale.

A summary of bonds payable for governmental and business-type activities is as follows:

Bonds	Maturity	Interest Rates*	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2009
<i>RDA Industrial Redevelopment Project Tax Allocation Bonds, 2005 Series</i>	09/01/35	3.250% - 5.250%	To begin 09/01/09: \$1,160,000 - \$3,460,000	\$ 49,420,000	\$ 49,420,000
<i>City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A</i>	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 43,765,000
<i>City of Vernon Electric System Revenue Bonds, 2009 Series A</i>	08/01/21	2.500% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	419,400,000
<i>Premium</i>				933,458	769,011
<i>Discounts</i>					(4,098,088)
<i>Deferred amount on refunding</i>					(9,686,282)
<i>Total Revenue Bonds</i>				<u>\$ 513,518,458</u>	<u>\$ 499,569,641</u>

* Rates on the Series 2005 Bonds are fixed rates ranging from 3.25% to 5.25%. Rates on the Series 2008 Bonds are fixed rates of 7.40% and 8.59%. Rates on the Series 2009 Bonds are fixed rates ranging from 2.50% to 5.125%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2009, annual debt service requirements of governmental activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable	
	Principal	Interest*
2010	\$ 1,160,000	\$ 2,256,456
2011	1,285,000	2,216,725
2012	1,380,000	2,171,694
2013	1,160,000	2,127,244
2014	1,270,000	2,081,544
2015-2019	7,335,000	9,491,109
2020-2024	7,515,000	7,699,794
2025-2029	8,540,000	5,904,194
2030-2034	13,020,000	3,408,025
2035-2036	6,755,000	341,875
Total requirements	<u>\$ 49,420,000</u>	<u>\$ 37,698,660</u>

*As of June 30, 2009, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.25% to 5.25%.

As of June 30, 2009, annual debt service requirements of the business-type activities to maturity are as follows:

Fiscal year ending June 30:	Electric System Revenue Bonds 2008 Taxable Series A	
	Principal	Interest*
2010	\$ 265,000	\$ 3,720,560
2011	285,000	3,710,755
2012	305,000	3,690,405
2013	330,000	3,668,575
2014	355,000	3,645,080
2015-2019	2,520,000	17,802,490
2020-2024	5,175,000	16,444,267
2025-2029	7,955,000	13,894,325
2030-2034	12,220,000	9,975,782
2035-2038	14,355,000	3,955,480
Total requirements	<u>\$ 43,765,000</u>	<u>\$ 80,507,719</u>

*As of June 30, 2009, debt service for 2008 Series A, was calculated based upon fixed coupon rates of 7.40% and 8.59% on principal balances of \$3,265,000 and \$40,500,000, respectively.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2009 Series A	
	Principal	Interest*
2010	\$ 5,000,000	\$ 14,513,783
2011	26,285,000	19,755,600
2012	27,370,000	18,674,350
2013	28,680,000	17,363,100
2014	29,930,000	16,110,638
2015-2019	174,070,000	56,143,741
2020-2022	128,065,000	10,069,216
Total requirements	<u>\$ 419,400,000</u>	<u>\$ 152,630,428</u>

*As of June 30, 2009, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 2.500% to 5.125%.

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2009:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
<u>Governmental activities:</u>					
Bonds payable	\$ 49,420,000	\$ -	\$ -	\$ 49,420,000	\$ 1,160,000
Bond premium	813,356	-	(44,345)	769,011	44,345
Notes payable	30,273,750	-	(4,426,241)	25,847,509	10,972,000
Claims payable	5,263,397	812,276	(1,756,271)	4,319,402	1,439,801
Compensated absences	1,837,061	1,917,115	(1,837,061)	1,917,115	1,917,115
	<u>\$ 87,607,564</u>	<u>\$ 2,729,391</u>	<u>\$ (8,063,918)</u>	<u>\$ 82,273,037</u>	<u>\$ 15,533,261</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 409,475,000	\$ 463,165,000	\$ (409,475,000)	\$ 463,165,000	\$ 5,265,000
Bond discount	-	(4,150,421)	52,333	(4,098,088)	(315,091)
Deferred amount on refunding	-	(9,809,969)	123,686	(9,686,282)	(745,099)
Compensated absences	320,755	312,061	(320,755)	312,061	312,061
	<u>\$ 409,795,755</u>	<u>\$ 449,516,671</u>	<u>\$ (409,619,736)</u>	<u>\$ 449,692,691</u>	<u>\$ 4,516,872</u>

In-Substance Defeasance – 2006 Series A, B and C

On May 13, 2009 the City issued \$419,400,000 Electric System Revenue Bonds - 2009 Series A with an average interest rate of 5.041% refunding revenue bonds. The proceeds of the bonds were used to refund in advance of their maturity, the Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series A totaling \$179,650,000 with an average interest rate of 5.000%, the Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series B totaling \$103,765,000 with an average interest rate of 3.753%, and the Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series C totaling \$103,730,000 with an average interest rate of 3.753%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Proceeds of the bonds were used to establish an irrevocable escrow account. Funds in the escrow account were invested in special direct obligations of the United States Treasury or other obligations of the United States government or its agencies. The escrow securities and their earnings are structured to pay the principal and interest on the refunded bonds as such payment become due, until the call dates of the respective refunded bonds, at which time the escrow payment will pay the principal of the refunded bonds at a price of par plus accrued interest. Since these bonds have been placed in an irrevocable trust, they are considered defeased for these financial statements.

The advance refunding resulted in a difference (a loss) between the reacquisition price and the net carrying amount of the old debt of \$9,809,969. The City increased its debt service payment by \$31,371,532 resulting in an economic gain of \$7,321,785.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired derivative instruments to reduce its overall exposure to interest rate and commodity priced risk and to achieve a lower cost of capital and commodity. As of June 30, 2009, all derivative instruments have been classified as investment derivative instruments under GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, with the following instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Term	Fair Value
A	Variable to Fixed Swap	Reduce overall exposure to interest rate risk and achieve lower cost of capital for the 2004 Series A Bonds	\$ 90,150,000	December 2004	April 2037	Receive 62.87% of LIBOR one-month index plus 0.119%, pay 3.607%	\$ (12,677,068)
B	Variable to Fixed Swap	Reduce overall exposure to interest rate risk and achieve lower cost of capital for the 2004 Series B Bonds	83,575,000	December 2004	April 2029	Receive 62.87% of LIBOR one-month index plus 0.119%, pay 3.542%	(8,947,294)
C	Variable to Fixed Swap	Reduce overall exposure to interest rate risk and achieve lower cost of capital for the 2004 Series D Bonds	61,825,000	March 2006	April 2018	Receive 100.00% of LIBOR three-month index, pay 5.227%	(4,897,748)
D	Variable to Fixed Swap	Reduce overall exposure to interest rate risk for the 2006 Series A Bonds	200,000,000	June 2006	August 2021	Receive 62.6% of LIBOR one-month index, pay 3.683%	(16,626,748)
E	Variable to Fixed Swap	Reduce overall exposure to interest rate risk for the 2006 Series B and C Bonds	230,845,000	June 2006	August 2021	Receive 64.8% of LIBOR one-month index, pay 3.753%	(19,133,863)
F	Natural Gas Commodity Swap	To adjust the cost of gas from fixed prices to market prices	92,181,397	July 2006	August 2021	Receive fixed natural gas price for notional quantity equal to 25% of monthly quantity deliverable under the gas supply contract with Citigroup Energy, Inc.; pay floating natural gas price	3,896,776
G	Derivative Contracts / Futures and Options	To hedge variable price risk associated with the purchase and sale of commodities.	3,549,338	Various	Various	Various	203,421

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

A - Variable to Fixed Swap – 2004 Series A Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$90,150,000 2004 Series A Electric System revenue bonds (the "2004 Series A Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed debt.

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of the 2004 Series A Bonds. The notional amount of the swap is \$90,150,000. Under the original terms of the swap, the City pays the counterparty a fixed rate of 3.637% and receives from the counterparty variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus 0.119%. On March 16, 2006, the City amended its fixed payment to 3.607% to the counterparty. In April 2008, the City redeemed its 2004 Series A Bonds. The City expects to terminate the swap prior to December 31, 2011.

Fair value: As of June 30, 2009, the swap had a negative fair value of \$12,677,068. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2009 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2009, the swap counterparty, Morgan Stanley was rated A by Standard & Poor's and A2 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap increases the City's exposure to interest rate risk. As LIBOR decreases, the City's net payments in the swap increases.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Rollover risk. The City is not exposed to rollover risk on the swap since the term of the swap matched the term of the 2004 Series A Bonds at the time of issuance and the 2004 Series A Bonds were redeemed in April 2008.

Swap payments and associated debt: The debt associated with the swap, the 2004 Series A Bonds, has been redeemed. The City expects to terminate the swap prior to December 31, 2011.

B - Variable to Fixed Swap – 2004 Series B Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$83,575,000 2004 Series B Electric System revenue bonds (the "2004 Series B Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed debt.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2004 Series B Bonds. The notional amount of the swap is \$83,575,000. Under the original terms of the swap, the City pays a fixed rate of 3.572% and receives variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus .119%. On March 16, 2006, the City revised its fixed payment to 3.542% to the counterparty. In April 2008, the City redeemed its 2004 Series B Bonds. The City expects to terminate the swap prior to December 31, 2011.

Fair value: As of June 30, 2009, the swap had a negative fair value of \$8,947,294. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2009 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2009, the swap counterparty, Morgan Stanley was rated A by Standard & Poor's and A2 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap increases the City's exposure to interest rate risk. As LIBOR decreases, the City's net payments in the swap increases.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Rollover risk. The City is not exposed to rollover risk on the swap since the term of the swap matched the term of the 2004 Series B Bonds at the time of issuance and the 2004 Series B Bonds were redeemed in April 2008.

Swap payments and associated debt: The debt associated with the swap, the 2004 Series B Bonds, has been redeemed. The City expects to terminate the swap prior to December 31, 2011.

C - Variable to Fixed Swap – 2004 Taxable Series D Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the City elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$69,100,000 2004 Taxable Series D Electric System revenue bonds (the "2004 Taxable Series D Bonds") issued in a variable rate mode.

Terms: On March 16, 2006, the City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2004 Taxable Series D Bonds. The notional amount of the swap is \$61,825,000. Under the terms of the swap, the City pays a fixed rate of 5.227% and receives variable-rate payments equal to 100.00% of the London Interbank Offered Rate (LIBOR) three-month index. In April 2008, the City redeemed its 2004 Taxable Series D Bonds. The City expects to terminate the swap prior to December 31, 2011.

Fair value: As of June 30, 2009, the swap had a negative fair value of \$4,897,748. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

Credit risk: As the swap's fair value as of June 30, 2009 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2009, the swap counterparty, Morgan Stanley was rated A by Standard & Poor's and A2 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap increases the City's exposure to interest rate risk. As LIBOR decreases, the City's net payments in the swap increases.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Rollover risk. The City is not exposed to rollover risk on the swap since the term of the swap matched the term of the 2004 Taxable Series D Bonds at the time of issuance and the 2004 Taxable Series D Bonds were redeemed in April 2008.

Swap payments and associated debt: The debt associated with the swap. 2004 Taxable Series D Bonds, has been redeemed. The City expects to terminate the swap prior to December 31, 2011.

D - Variable to Fixed Swap – 2006 Series A Gas Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the Vernon Natural Gas Financing Authority elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$200,000,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series A (the "2006 Series A Gas Bonds") issued in a variable rate mode.

Terms: The City entered into four (4) pay-fixed, receive-variable interest rate swaps for the term of its 2006 Series A Gas Bonds. The notional amounts of each of the four (4) swaps is \$50,000,000. Under the terms of the swaps, the City pays a fixed rate of 3.683% and receives variable-rate payments equal to 62.6% of the London Interbank Offered Rate (LIBOR) one month index. The City expects that the variable-rate payments from the swaps will approximate the interest payments on the 2006 Series A Gas Bonds. The notional amount of the swaps and the amortization of the principal of the 2006 Series A Gas Bonds are exactly matched. In May 2009, the Authority defeased its 2006 Series A Gas Bonds with proceeds of the City's Electric System Revenue Bonds 2009 Series A (the 2009 Series A Bonds"). The Authority expects to terminate the swap prior to December 31, 2011.

Fair value: As of June 30, 2009, the swaps had a negative fair value of \$16,626,748. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

Credit risk: As the swap's fair value as of June 30, 2009 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2009, the swap counterparty, Citibank, N.A. was rated A+ by Standard & Poor's and A1 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (A-/A3), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap increases the City's exposure to interest rate risk. As LIBOR decreases, the City's net payments in the swap increases.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Rollover risk. The City is not exposed to rollover risk on the swap since the term of the swap matched the term of the 2006 Series A Gas Bonds at the time of issuance and the 2006 Series A Gas Bonds were defeased in May 2009.

Swap payments and associated debt: The debt associated with the swap, the 2006 Series A Gas Bonds, has been defeased. The City expects to terminate the swap prior to December 31, 2011.

E - Variable to Fixed Swap – 2006 Series B and C Gas Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the Vernon Natural Gas Financing Authority elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$115,440,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series B and \$115,405,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series C (the "2006 Series B and C Gas Bonds") issued in a variable rate mode.

Terms: The City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2006 Series B and Series C Gas Bonds. The notional amount for the swap is \$230,845,000. Under the terms of the swap, the City pays a fixed rate of 3.753% and receives variable-rate payments equal to 64.8% of the London Interbank Offered Rate (LIBOR) one month index. The notional amount of the swaps and the amortization of the principal of the 2006 Series B and Series C Gas Bonds are exactly matched. In May 2009, the Authority defeased its 2006 Series B and Series C Gas Bonds with proceeds of the City's Electric System Revenue Bonds 2009 Series A (the 2009 Series A Bonds"). The Authority expects to terminate the swap prior to December 31, 2011.

Fair value: As of June 30, 2009, the swaps had a negative fair value of \$19,133,863. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2009 is negative, the City does not have credit exposure to the counterparty. Should the City's fair market value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2009, the swap counterparty, Citibank, N.A. was rated A+ by Standard & Poor's and A1 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (A-/A3), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

Interest rate risk: The swap increases the City's exposure to interest rate risk. As LIBOR decreases, the City's net payments in the swap increases.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Rollover risk. The City is not exposed to rollover risk on the swap since the term of the swap matched the term of the 2006 Series B and C Gas Bonds at the time of issuance and the 2006 Series B and C Gas Bonds were defeased in May 2009.

Swap payments and associated debt: The debt associated with the swap, the 2006 Series B and C Gas Bonds, has been defeased. The City expects to terminate the swap prior to December 31, 2011.

F - Natural Gas Commodity Swap

The Vernon Natural Gas Financing Authority issued its Revenue Bonds (Vernon Gas Project) 2006 Series A, B and C to finance the cost of acquiring a fixed quantity of natural gas to be delivered over a fifteen year period by Citigroup Energy, Inc. under an Agreement for Purchase and Sale of Natural Gas, the gas supply contract. In connection with the gas supply contract, the City entered into a natural gas commodity swap agreement with a counterparty Societe Generale' to adjust the cost of gas from fixed prices to market prices. The counterparty under such natural gas commodity swap was rated "A+" by Standard & Poor's and "Aa2" by Moody's Investors Service as of June 30, 2009.

Under the terms of the natural gas commodity swap, the City will pay a floating natural gas price over fifteen years and receive a fixed natural gas price for a notional quantity equal to 25% of the monthly quantity of natural gas supplied under the gas supply contract with Citigroup Energy, Inc. The natural gas commodity swap was entered into in July 2006.

The natural gas commodity swap addresses the termination payments received or payable by the City in the event the termination of the natural gas commodity swap apart from or in connection with the termination of the gas supply contract. In the event of termination, the natural gas commodity swap has provisions whereby the City may have to make a termination payment to the counterparty.

For the fiscal year ended June 30, 2009, the City was a net receiver under the natural gas commodity swap in the amount of \$492,797. As of June 30, 2009, the fair value of the natural gas commodity swap was positive \$3,896,776. The fair value was based on the estimated forward curve for natural gas at the delivery points set forth in the gas supply contract.

G - Derivative Contracts / Futures and Options

The City's Light and Power Fund (Fund), which accounts for the maintenance and operations of the City's electric utility plant, enters into contracts for electricity and natural gas to meet the expected needs of its retail customers. The Fund also sells excess electricity capacity during periods when it is not needed to meet its retail requirements. Derivative contracts (futures and options) designated as cash flow hedges are entered into by the Fund to hedge variable price risk associated with the purchase and sale of commodities. At June 30, 2009, the Fund's derivative contracts cost totaled \$3,549,338. The fair value of the derivative instruments at June 30, 2009 totaled \$203,421.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

I - Change in Fair Value of Derivative Instruments

In the current year, the Vernon Redevelopment Agency terminated its basis swap with Lehman Brothers as a result of the bankruptcy of Lehman Brothers in September 2008. The fair value of the swap at the time the swap was terminated was positive \$513,857. While the Agency should have received a payment from Lehman Brothers, as a result of the bankruptcy, the Agency did not receive a payment from Lehman Brothers and does not expect to receive a payment from Lehman Brothers in the future. The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2009, classified by type, and the change in fair value of such derivative instrument for the year then ended as reported in the current year financial statements are as follows:

	Change in Fair Value		Fair Value at June 30, 2009		Notional
	Classification	Amount	Classification	Amount	
Governmental activities					
Investment derivative instruments					
Basis Swap - Series 2005	Increase in fair value	\$ 189,261	Derivative liability	\$ -	\$ -
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	(7,247,400)	Derivative liability	(12,677,068)	90,150,000
2004 Series B Bonds	Decrease in fair value	(5,038,262)	Derivative liability	(8,947,293)	83,575,000
2004 Series D Bonds	Decrease in fair value	(2,601,750)	Derivative liability	(4,897,748)	61,825,000
2006 Series A Gas Bonds	Decrease in fair value	(6,330,465)	Derivative liability	(16,626,748)	200,000,000
2006 Series B and C Gas Bonds	Decrease in fair value	(7,608,277)	Derivative liability	(19,133,863)	230,845,000
Natural Gas Commodity Swap	Increase in fair value	63,800,635	Derivative asset	3,896,776	85,036,811
Derivative Contracts /					
Futures and Options	Decrease in fair value	(2,718,637)	Derivative asset	203,421	3,549,338

The change in fair value subsequent to June 30, 2009 is discussed in Note 15.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage, and providing health benefits to employees, retirees, and their dependents. The City is self-insured for its general liability, workers' compensation, and property liability. The City has chosen to establish risk financing Internal Service Funds, whereby assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

The City has obtained various insurance policies that provide coverage for "Special Form Perils" against direct physical loss or damage, including earthquake and flood, to all real and personal property of the City, including equipment, business and revenue interruption, errors and omissions, boiler and machinery and pollution legal liability. The flood portion of the policies have a 5% deductible of the total insurable values per building, structure or covered item at the time and place of loss. In the most recent "Statement of Values" for the City, real and personal property total insured values equaled \$154,419,000.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 8 – RISK MANAGEMENT (CONTINUED)

Property insurance has been distinguished by “Utility” and “Non-utility” assets. Excess utility insurance is provided by the Commonwealth Insurance Company and Liberty International. The total value of insured utility assets is \$55,189,000. Non-utility insurance is provided by the Lexington Insurance Company and Landmark American Insurance Company. The total value of insured non-utility assets is \$99,230,000.

Crime (Employee Theft) coverage is also in force with a limit \$100,000 for each line of coverage with a deductible of \$5,000.

The City is self insured for the first \$1,000,000 of workers’ compensation claims and for the first \$2,000,000 of its general liability coverage. Southern California Risk Managers Association (SCRMA) is the Third Party Administrator for the City’s workers compensation claims. The City self administers its general liability claims. Loss run reports for workers compensation and general liability are provided by SCRMA.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 8 – RISK MANAGEMENT (CONTINUED)

Excess liability coverage is provided by a stand alone policy purchased by the City. Excess coverage is provided by the Insurance Company of the State of Pennsylvania. Excess workers compensation coverage is provided by a stand alone policy purchased through ACE American Insurance Company. The insurance limits are as follows:

Type of Coverage	Self-Insured Retention	Limit	Excess Carrier
General Liability Excess Workers' Compensation Property:	\$2,000,000 \$1,000,000 \$500,000 (Deductible) -Utility; \$50,000 (Deductible) NonUtility	Up to \$20,000,000 Up to \$50,000,000	Insurance Co. of the State of PA ACE American Insurance Co.
Blanket Building & Contents		Up to \$100,000,000	Commonwealth Insurance Company and Liberty International (Utility), Lexington Insurance Company and Landmark American Insurance Company (Non Utility)
Flood Sublimit – Annual		Up to \$50,000,000 (Non-Utility) and \$25,000,000 (Utility)	Commonwealth Insurance Company and Liberty International (Utility), Lexington Insurance Company and Landmark American Insurance Company (Non Utility)
Electronic Data Processing Equipment:		As scheduled (Utility) and \$250,000 (Non-Utility)	Commonwealth Insurance Company and Liberty International (Utility), Lexington Insurance Company and Landmark American Insurance Company (Non Utility)
Unscheduled Locations		Up to \$1,000,000	Commonwealth Insurance Company and Liberty International (Utility), Lexington Insurance Company and Landmark American Insurance Company (Non Utility)
Machinery Breakdown		Included	Commonwealth Insurance Company and Liberty International (Utility), Lexington Insurance Company and Landmark American Insurance Company (Non Utility)

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 8 – RISK MANAGEMENT (CONTINUED)

Amounts in excess of these limits are self-insured. There have been no significant reductions of coverage from the prior year. There have been no settlements exceeding insurance coverage for each of the past three fiscal years.

The unpaid claims liabilities included in each of the self-insurance Internal Service Funds are based on the results of actuarial studies and third-party administrator claim reports and include amounts for claims incurred but not reported, including loss adjustment expenses. Claims liabilities are calculated considering the effects of inflation and recent claim settlement trends, including frequency and amount of payouts and other economic and social factors.

Changes in the balances of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows:

	Fiscal Year Ended June 30	
	2009	2008
Claims payable, beginning of fiscal year	\$ 5,263,397	\$ 4,552,035
Incurred claims and change in estimates	812,276	1,605,396
Claims payments	(1,756,271)	(894,034)
Claims payable, end of fiscal year	\$ 4,319,402	\$ 5,263,397

NOTE 9 – PENSION PLAN

The City contributes to the California Public Employees’ Retirement System (PERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked 1,000 hours in a fiscal year are eligible to participate in the PERS. Benefits vest after five years of service. Employees who retire at age 50 with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on an employee’s average compensation for his or her single highest year of compensation for each year of credited service.

Miscellaneous members with five years of credited service may retire at age 55 with full benefits based on a benefit factor derived from the “2.7% at 55 Miscellaneous Factor” benefit factor table and between age 50 and 54 with reduced retirement benefits. Safety members may retire at age 50 with full benefits based on a benefit factor derived from the “3% at 50 Safety Factor” for Police Department Employees and “3% at 50 Safety Factor” for Fire Department Employees benefit factor table with five years of credited service. The PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City’s plan does not issue a stand-alone financial report but is included in the PERS report, which can be obtained from PERS at Lincoln Plaza, 400 P Street, Sacramento, California 95814.

The State-required City employee salary contributions of 8% for miscellaneous employees and 9% for safety members are subsidized by the City. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration.

The City’s total contribution to the PERS for the year ended June 30, 2009 was \$7,477,878. City contribution rates as a percentage of covered payroll were 20.557% for miscellaneous plan members and 33.097% for safety plan members.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 9 – PENSION PLAN (CONTINUED)

The City's contribution was made in accordance with actuarially determined requirements based on an actuarial valuation performed as of June 30, 2006.

The PERS uses the entry age normal actuarial cost method, which is a projected benefit cost method that takes into account those benefits expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry age normal cost method whereby the employer's total normal cost is expressed as a level percentage of payroll. Unfunded liabilities are amortized over a closed, 20-year period.

Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.75% a year, compounded annually; (b) overall payroll growth of 3.25%, compounded annually; and (c) a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period.

Trend information for the current and two preceding fiscal years is as follows:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Amount Contributed	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 7,477,878	\$ 7,477,878	100%	-
2008	6,007,916	6,007,916	100%	-
2007	4,919,700	4,919,700	100%	-

The following schedules present the funded status as of June 30, 2008 based on actuarial assumptions consistent with prior years (dollar amounts in millions).

Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2008	\$149,927,837	\$131,536,377	\$18,391,460	87.7%	\$13,707,337	134.2%

Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2008	\$90,806,464	\$83,190,002	\$7,616,462	91.6%	\$12,771,889	59.6%

The schedules of funding progress, presented as required supplemental information following the notes to the financial statements, provides multi-year trend information based on the three most recent actuarial valuations and shows information about progress made in accumulating sufficient assets to pay benefits when due.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 10 – DEFICITS IN FUND EQUITY

The Gas Enterprise Fund has a deficit of \$6,640,001 at June 30, 2009, which will be recovered from future operating revenues from customers.

The Fiber Optic Other Enterprise fund has a deficit of \$443,423 at June 30, 2009, which will be recovered from future operating revenues from customers.

The Equipment Replacement Fund has a deficit of \$96,333 at June 30, 2009, which will be recovered from future operating revenues from customers

The Group Medical Insurance Fund has a deficit of \$232,456 at June 30, 2009. To the extent such deficit is attributed to shortfalls in charges to other funds, such deficit will be recovered through future rate increases and transfers from the General Fund.

The Group Dental Insurance Internal Service Fund has a deficit of \$268,487 at June 30, 2009. To the extent such deficit is attributed to shortfalls in charges to other funds, such deficit will be recovered through future rate increases and transfers from the General Fund.

NOTE 11 – LIGHT AND POWER OPERATIONS AND COMMITMENTS

Asset Sale

On December 13, 2007, the City entered into an Amended and Restated Purchase and Sale Agreement (the “Bicent Agreement”), with Bicent (California) Power LLC (“Bicent”), which is an affiliate of Bicent Holdings and Natural Gas Partners, to sell to Bicent the Malburg Generating Station (“MGS”) and the economic burdens and benefits of the City’s interests in 22 MW from the Hoover Dam Upgrading Project for \$287,500,000. This transaction closed on April 10, 2008.

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the “PPTA”). In addition, Bicent has acquired the benefits and burdens of the City’s interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences (“CFD”), between Bicent (California) Hoover LLC, a Delaware limited liability company (“BCH”) and the City, dated as of April 10, 2008 (the “Hoover Differences Contract”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company (“BCM”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2009, a deferred gain of \$70,954,770 remains to be amortized over the life of the PPTA and CFD which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 11 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

Project Commitments

A. Southern California Public Power Authority

In 1980, the City entered into a joint powers agreement with nine (9) Southern California cities and an irrigation district to form the Southern California Public Power Authority (the “Authority”). The Authority’s purpose is the planning, financing, acquiring, constructing and operating of projects that generate or transmit electric energy.

The Authority purchased a 5.91% interest in the Palo Verde Nuclear Generating Station (the “Station”), a nuclear-fired generating station near Phoenix, Arizona, from the Salt River Project Agricultural Improvement and Power District, and a 6.55% share of the right to use certain portions of the Arizona Nuclear Power Project Valley Transmission System. The City has a 4.9% entitlement share of the Authority’s interest in the station.

Between 1983 and 2002, the Authority issued \$3.166 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City’s proportionate share of costs during fiscal year 2009 was \$4,454,069.

B. Hoover Dam Power Plant Upgrade Program

In January 1987, the City entered into a contract with the Federal Bureau of Reclamation to fund part of an upgrading program of the Hoover Dam power plant to increase the plant’s generating capacity. In exchange, the City will receive its pro rata share of the additional power produced. Total program costs are estimated to be \$155 million.

As of June 30, 2009, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2009, the outstanding note receivable was \$3,268,493. The City has no obligation to advance funds in the future. The note is being repaid with interest over a period of 30 years. The City must also make payments for its pro rata share of operating and maintenance costs not recovered by the plant through revenues. The amount paid during the current year for purchased power was reduced by principal and interest amounts totaling \$298,309 due the City on the outstanding note receivable. The contract expires in September 2017.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 11 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

Power Purchase Commitments

As of June 30, 2009, the City has entered into long-term commitments to purchase power subject to certain conditions. The following table summarizes the value of the commitments at June 30, 2009:

Fiscal Year	Amount*
2010	\$ 14,361,704
2011	17,181,089
2012	21,429,835
2013	21,429,835
2014	21,429,835
2015-2019	148,746,172
2020-2023	131,589,008
	<u>\$ 376,167,478</u>

*Commitments under the PPTA and CFD net of amortization of deferred gain.

Electric Rate Increase

Effective December 1, 2008, the City increased its electric rates 5% charged for electrical energy distributed and supplied by the City within its boundaries.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Currently, Resolution 9782, regarding the payment of premiums for medical-dental insurance for certain categories of retired employees during the 2008-2009 fiscal year, defines that the City provides a single-employer post-employment benefit plan with medical and dental benefits for employees who attain age 60 with 20 years of service. The City plan subsidizes the full cost of the premium for qualified employees beginning at age 60. Alternatively, an employee can retire with 30 years of service but must pay the full cost until age 60 when the City begins to subsidize the payments. These benefits are not vested rights and expire at the conclusion of the fiscal year. In the future, the City may terminate its unvested OPEB. Sworn safety personnel eligibility requirements are a minimum of 20 years service and a minimum of 10 years of service with the City. As of June 30, 2009, 375 employees (309 active employees and 66 retired employees), were participants in the OPEB.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) CONTINUED

The City does not use a trust fund to administer the financing and payment of benefits for its Post-Employment Benefits Other Than Pensions (OPEB). Instead, the City pays benefits on a pay-as-you-go basis.

As of July 1, 2008, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City paid \$139,997 in benefits on a pay-as-you-go basis during the fiscal year. The following represents the status of the Unfunded Actuarial Accrued Liability.

Actuarial Accrued Liability (AAL) (a)	\$	22,115,000
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>22,115,000</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	26,479,226
UAAL as a % of covered payroll (a-b/c)		83.5%

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as currently 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 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.

In the July 1, 2008 actuarial valuation, the Projected Unit Credit method was used. The investment return assumption was based on the expected return on employer assets which generally consist of short-term liquid investments.

Based on the July 1, 2008 actuarial valuation, the June 30, 2009 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$	1,227,000
Interest on Normal Cost		55,000
Amortization		844,000
Interest on Amortization		38,000
Total ARC	<u>\$</u>	<u>2,164,000</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) CONTINUED

Based on the July 1, 2008 actuarial valuation, the June 30, 2009 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ -
Annual OPEB Cost	2,164,000
Employer contributions	<u>139,997</u>
Increase in NOO	<u>\$ 2,024,003</u>
NOO - End of Year	<u><u>\$ 2,024,003</u></u>

The funded status of the OPEB plan as of July 1, 2008 was based on the following actuarial assumptions:

Valuation date:	July 1, 2008
Discount Rate:	4.5%
Attribution method:	Projected unit credit
Amortization method:	Level percentage of payroll
Amortization period:	30 year, open basis
Salary increases assumption:	3.5% per Annum
Plan Participation Percentage:	100%
Healthcare cost trend rates:	
Medical:	11% graded down by .5% Ultimate rate of 5%
Dental:	6% graded down by .5% Ultimate rate of 6%

The actuarial valuation presents a long term perspective based on the types of benefits provided under the term of the resolution and assumptions about the probability of events in the future. The required schedule of funding progress on page 70 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits. Prior year actuarial valuations were not available to present a multiyear trend.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 13- CONTINGENCIES

As of June 30, 2009, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

On March 12, 2009, the County of Los Angeles and the Los Angeles County Flood Control District (collectively "County") filed a claim against the City. The County sought "indemnification" and purported to seek payment of "money" of an unknown amount contingent upon whether the County was held liable in a separate lawsuit brought against the County. To date, there has been no adjudication or judgment against the County in that lawsuit. On April 15, 2009, the County purported to supplement its initial claim. The City rejected the claim filed by the County. To date, no further action has been initiated by the County.

NOTE 14 – FUTURE GASB PRONOUNCEMENTS

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

The City has not determined the impact on the City's financial statements of the adoption of this statement.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instrument outstanding at December 15, 2009, classified by type, and the change in fair value of such derivative instrument since June 30, 2009 are as follows:

	Change in Fair Value		Fair Value at December 15, 2009		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Increase in fair value	\$ 1,856,424	Derivative liability	\$ (10,820,644)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	428,049	Derivative liability	(8,519,244)	83,575,000
2004 Series D Bonds	Decrease in fair value	(82,763)	Derivative liability	(4,980,511)	61,825,000
2006 Series A Gas Bonds	Increase in fair value	310,509	Derivative liability	(16,316,239)	200,000,000
2006 Series B and C Gas Bonds	Decrease in fair value	(101,107)	Derivative liability	(19,234,970)	230,845,000
Natural Gas Commodity Swap	Decrease in fair value	(4,993,315)	Derivative liability	(1,096,539)	82,535,007
Derivative Contracts /					
Futures and Options	Decrease in fair value	(3,000)	Derivative asset	200,421	3,549,338

NOTE 16 – IMPLEMENTATION OF GASB STATEMENT NO. 51

In the current year, the City adopted an early implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. In accordance with GASB 51, identifiable intangible assets were recognized as capital assets as a restatement of beginning net assets.

For business-type activities and enterprise funds, the beginning net assets were restated by increasing beginning net assets by \$12,335,771 which is the estimated cost value of water rights.

Business-type Activities:	
Beginning Net Assets	\$ 183,792,568
Adjustment for GASB 51	12,335,771
Beginning Net Assets, Restated	<u>\$ 196,128,339</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2009

NOTE 17 – PRIOR PERIOD ADJUSTMENT

In fiscal year 2008, the Redevelopment Agency Fund erroneously netted \$1,920,091 of grant revenues against capital outlay expenditures and the related capital expenditures were not capitalized in the prior year. At the fund level, GAAP requires these grants be classified as intergovernmental revenues in the Redevelopment Agency Fund's operating statement. At the City's government-wide level, GAAP requires these grants be classified as capital grants. Accordingly, the City recorded an adjustment to increase governmental activities' beginning net assets for this amount. There was no affect on the fund level fund balance.

Governmental Activities:

Beginning Net Assets	\$ 110,176,827
Adjustment for grant revenues	<u>1,920,091</u>
Beginning Net Assets, Restated	<u><u>\$ 112,096,918</u></u>

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 9,903,400	\$ 9,903,400	\$ 9,652,816	\$ (250,584)
Special assessments	800,000	800,000	1,038,602	238,602
Licenses and permits	1,371,000	1,371,000	1,222,770	(148,230)
Fines, forfeitures and penalties	275,000	275,000	302,569	27,569
Investment Income	300,000	300,000	25,677	(274,323)
Intergovernmental revenues	201,000	201,000	1,773,938	1,572,938
Charges for services	9,000,000	9,000,000	2,541,019	(6,458,981)
Other revenues	18,512,305	18,512,305	996,478	(17,515,827)
Total revenues	<u>40,362,705</u>	<u>40,362,705</u>	<u>17,553,869</u>	<u>(22,808,836)</u>
EXPENDITURES:				
General government	20,480,394	20,480,394	18,712,693	1,767,701
Public safety	24,258,133	24,258,133	23,572,030	686,103
Public works	6,090,400	6,090,400	5,276,794	813,606
Health services	1,586,647	1,586,647	1,468,191	118,456
Capital outlay	24,767,899	24,767,899	3,938,884	20,829,015
Total expenditures	<u>77,183,473</u>	<u>77,183,473</u>	<u>52,968,592</u>	<u>24,214,881</u>
Deficiency of revenues under expenditures	<u>(36,820,768)</u>	<u>(36,820,768)</u>	<u>(35,414,723)</u>	<u>1,406,045</u>
Other financing sources:				
Proceeds from land	-	-	17,729	17,729
Transfers in / (out)	4,068,160	4,068,160	32,429,980	28,361,820
Net change	<u>\$ (32,752,608)</u>	<u>\$ (32,752,608)</u>		
Reconciliation of GAAP basis fund balance				
Current year encumbrances			<u>1,996,538</u>	<u>1,996,538</u>
NET CHANGE IN FUND BALANCE			(970,476)	31,782,132
FUND BALANCE, BEGINNING OF YEAR			<u>1,291,507</u>	<u>29,560,762</u>
FUND BALANCE, END OF YEAR			<u>\$ 321,031</u>	<u>\$ 61,342,894</u>

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2009

NOTE 1 – BUDGET

The City adheres to the following general procedures in establishing its annual budget, which is reflected in the accompanying General Fund budgetary comparison schedule.

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund, Special Revenue Funds and Capital Projects Funds;
- The budget is formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities under GAAP. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- The budget is adopted on a modified accrual basis, except that encumbrances are treated as budgetary basis expenditures in the year of incurrence of the commitment to purchase;
- Excess expenditures over appropriations are financed by beginning fund balances. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2009. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the City's original and final budget for General Fund expenditures was \$77,183,473. The General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$24,214,881. The key reasons for this variance were excess appropriations of \$1,767,701 in General Government's group insurance premiums and professional services expenditures, \$686,103 in Public Safety's salaries and professional services expenditures, \$813,606 in Public Works' salaries and professional services expenditures, \$118,456 in Health Services' supplies and professional services expenditures, and \$20,829,015 in Capital Outlay.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2009

Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2008	\$149,927,837	\$131,536,377	\$18,391,460	87.7%	\$13,707,337	134.2%
6/30/2007	140,886,059	124,665,136	16,220,923	88.5%	12,102,457	134.0%
6/30/2006	130,796,720	117,846,016	12,950,704	90.1%	11,081,334	116.9%

Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) UAAL (OAAL) (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL (OAAL) as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2008	\$90,806,464	\$83,190,002	\$7,616,462	91.6%	\$12,771,889	59.6%
6/30/2007	85,883,318	78,380,103	7,503,215	91.3%	11,794,287	63.6%
6/30/2006	72,037,986	73,178,437	(1,140,451)	101.6%	10,818,668	(10.5%)

Schedule of Funding Progress for City of Vernon Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
7/01/2008	\$ -	\$ 22,115,000	\$ 22,115,000	00.0%	\$ 26,479,226	83.5%