

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2010

CITY OF VERNON
For the Fiscal Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Vernon, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Vernon, California (City), as of and for the fiscal year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City'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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, the City changed its method of accounting for activities reported in certain internal service funds effective July 1, 2009 and for a certain internal service fund and the Industrial Development Fund as of June 30, 2010.

As discussed in Note 13 to the financial statements, the City is currently involved with certain legal matters, the outcome of which is undeterminable and, therefore, represents significant uncertainties related to the operations of the City.

The management's discussion and analysis, the budgetary comparison information and the schedule of funding progress on pages 3 through 16, pages 62 through 63, and page 64, 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 performed 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 Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

December 27, 2010

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
(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, 2010.

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 62).

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. In the current year, with the exception of the Equipment Replacement Fund, all activity in the internal service funds has been consolidated and presented in the General Fund (See Note 16). The City uses the Equipment Replacement Fund to account for its fleet of vehicles. 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 as of June 30, 2010 and June 30, 2009. The details of the current year's summary can be found on page 17 of this report.

City of Vernon
Net Assets
June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Assets:						
Current and other assets	\$ 72,296,519	\$ 99,157,180	\$ 442,796,774	\$ 441,422,495	\$ 515,093,293	\$ 540,579,675
Restricted assets	7,657,648	6,955,661	56,274,028	95,404,594	63,931,676	102,360,255
Capital assets	87,748,219	88,036,588	172,195,252	200,894,936	259,943,471	288,931,524
Total assets	167,702,386	194,149,429	671,266,054	737,722,025	838,968,440	931,871,454
Liabilities						
Current liabilities	11,685,468	19,795,651	86,284,199	101,163,317	97,969,667	120,958,968
Long-term liabilities	72,298,257	68,763,779	467,592,442	502,536,614	539,890,699	571,300,393
Total liabilities	83,983,725	88,559,430	553,876,641	603,699,931	637,860,366	692,259,361
Net Assets:						
Invested in capital assets, net of related debt	63,255,887	61,405,387	128,434,174	157,134,027	191,690,061	218,539,414
Restricted	5,694,169	5,544,783	45,522,784	59,932,410	51,216,953	65,477,193
Unrestricted	14,768,605	38,639,829	(56,567,545)	(83,044,343)	(41,798,940)	(44,404,514)
Total net assets	\$ 83,718,661	\$ 105,589,999	\$ 117,389,413	\$ 134,022,094	\$ 201,108,074	\$ 239,612,093

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$201,108,074 (*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 \$191,690,061 (95%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net assets, totaling \$51,216,953 (25%) 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 (\$41,798,940) (21%) 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 \$26,860,661 from the prior year due primarily to a decrease in internal balances of \$12,726,509 and a decrease in land held for resale of \$17,385,000 offset by an increase in cash and investments of \$3,849,652. The decrease in internal balances was due primarily to transfers received from proprietary funds (See Note 4). The decrease in land held for resale was due primarily to a parcel of land held for resale being sold during the year.
- Restricted assets increased \$701,987 from the prior year due primarily to increases in reserves for note interest and federal asset forfeiture funds.
- Capital assets decreased \$288,369 from the prior year due primarily to addition to capital assets of \$3,033,903 net of current year's depreciation of \$3,322,270 (See Note 5).
- Current liabilities decreased \$8,110,183 from the prior year due primarily to a decrease in notes payable of \$10,240,335 offset by an increase in accounts payable of \$2,136,708.
- Long-term liabilities increased \$3,534,478 from the prior year due primarily to an increase in accrued postemployment benefit liability of \$1,823,210, an increase in accrued compensated absences of \$3,981,942, and an increase in claims payable of \$476,372, offset by a decrease in bonds payable, net, of \$1,329,346 and a decrease in notes payable of \$1,417,700.
- Unrestricted net assets decreased \$23,871,224 from the prior year due primarily to an increase in investment in capital assets, net of related debt of \$1,850,500, an increase in restricted net assets of \$149,386, offset by a decrease in net assets from current year's activities of \$21,871,338.

Business-type activities, net assets:

- Current and other assets increased \$1,374,279 from the prior year due primarily to an increase in cash and investments of \$10,731,270, an increase in inventories of \$9,202,903, and an increase in internal balances of \$12,726,509, offset by a decrease in prepaid natural gas of \$28,578,343 and derivative assets of \$4,100,197.
- Restricted assets decreased \$39,130,566 from the prior year due primarily to decreases in cash restricted for debt service and capacity payments.
- Capital assets decreased \$28,699,684 from the prior year due primarily to a partial sale of land with a cost of \$33,107,062 offset by current year's additions to capital assets net of depreciation (See Note 5).

- Current liabilities decreased \$14,879,118 from the prior year due primarily to a decrease in accounts payable of \$5,714,982, a decrease in derivative liabilities of \$31,047,629, and a decrease in deferred gain from sale of generation assets of \$3,910,342 offset by an increase in bond interest payable of \$4,522,158, and an increase in bonds principal payable of \$21,285,000. The decrease in derivative liabilities was due primarily to the termination of interest rate swaps during the year (See Note 7).
- Long-term liabilities decreased \$34,944,172 from the prior year due primarily to a decrease in long-term bonds payable, net, of \$25,224,811 and a decrease in deferred gain from the sale of generation assets of \$10,331,807, due to annual amortization.
- Unrestricted net (deficit) increased \$26,476,798 from the prior year due primarily to a decrease in investment in capital assets, net of related debt, of \$28,699,853, a decrease in net assets restricted for debt service and capacity payments of \$14,409,626, offset by a decrease in net assets from current year's activities of \$16,632,681.

Changes in Net Assets

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

City of Vernon
Changes in Net Assets
For the Fiscal Years Ended June 30, 2010 and 2009

	Governmental Activities		Business-type Activities		Totals	
	2010	2009*	2010	2009	2010	2009
Revenues:						
Program Revenues						
Charges for services	\$ 6,428,482	\$ 4,807,457			\$ 6,428,482	\$ 4,807,457
Light and power			\$ 118,589,706	\$ 132,861,886	118,589,706	132,861,886
Gas			50,541,903	43,588,209	50,541,903	43,588,209
Other			6,648,329	6,874,431	6,648,329	6,874,431
Operating and capital grants and contributions	2,724,809	2,221,316	-	-	2,724,809	2,221,316
General Revenues						
Taxes	30,077,200	27,329,900	-	-	30,077,200	27,329,900
State allocations	3,746,152	5,080,969	-	-	3,746,152	5,080,969
Investment income (loss)	214,846	491,227	(20,247,978) **	(25,329,590)	(20,033,132)	(24,838,363)
Other revenues	662,588	705,550	-	-	662,588	705,550
Total revenues	43,854,077	40,636,419	155,531,960	157,994,936	199,386,037	198,631,355
Expenses						
Governmental activities						
General government	34,544,828	26,922,375	-	-	34,544,828	26,922,375
Public safety	27,926,502	25,198,861	-	-	27,926,502	25,198,861
Public works	6,967,273	5,644,757	-	-	6,967,273	5,644,757
Health services	1,622,208	1,751,066	-	-	1,622,208	1,751,066
Interest on long-term debt	3,264,642	3,288,114	-	-	3,264,642	3,288,114
Business-type activities						
Light and Power	-	-	110,433,226	152,977,259	110,433,226	152,977,259
Gas	-	-	53,551,029	45,953,173	53,551,029	45,953,173
Other	-	-	6,473,286	5,508,914	6,473,286	5,508,914
Total expenses	74,325,453	62,805,173	170,457,541	204,439,346	244,782,994	267,244,519
Special Item						
Business-type activities						
Light and Power						
Gain on sale of land	-	-	6,892,938	-	6,892,938	-
Total special items	-	-	6,892,938	-	6,892,938	-
Decrease in net assets before transfers	(30,471,376)	(22,168,754)	(8,032,643)	(46,444,410)	(38,504,019)	(68,613,164)
Transfers	8,600,038	15,661,835	(8,600,038)	(15,661,835)	-	-
Decrease in net assets	(21,871,338)	(6,506,919)	(16,632,681)	(62,106,245)	(38,504,019)	(68,613,164)
Net assets- beginning of year	105,589,999	112,096,918	134,022,094	196,128,339	239,612,093	308,225,257
Net assets- end of year	\$ 83,718,661	\$ 105,589,999	\$ 117,389,413	\$ 134,022,094	\$ 201,108,074	\$ 239,612,093

* Certain adjustments have been made to the condensed financial statements for the year 2008-09 to conform to the 2009-10 condensed financial statement presentation.

** Business-type activities' negative revenue of \$20,247,978 is due to a \$10,281,703 investment loss and a net decrease in fair value of investments of \$9,966,275.

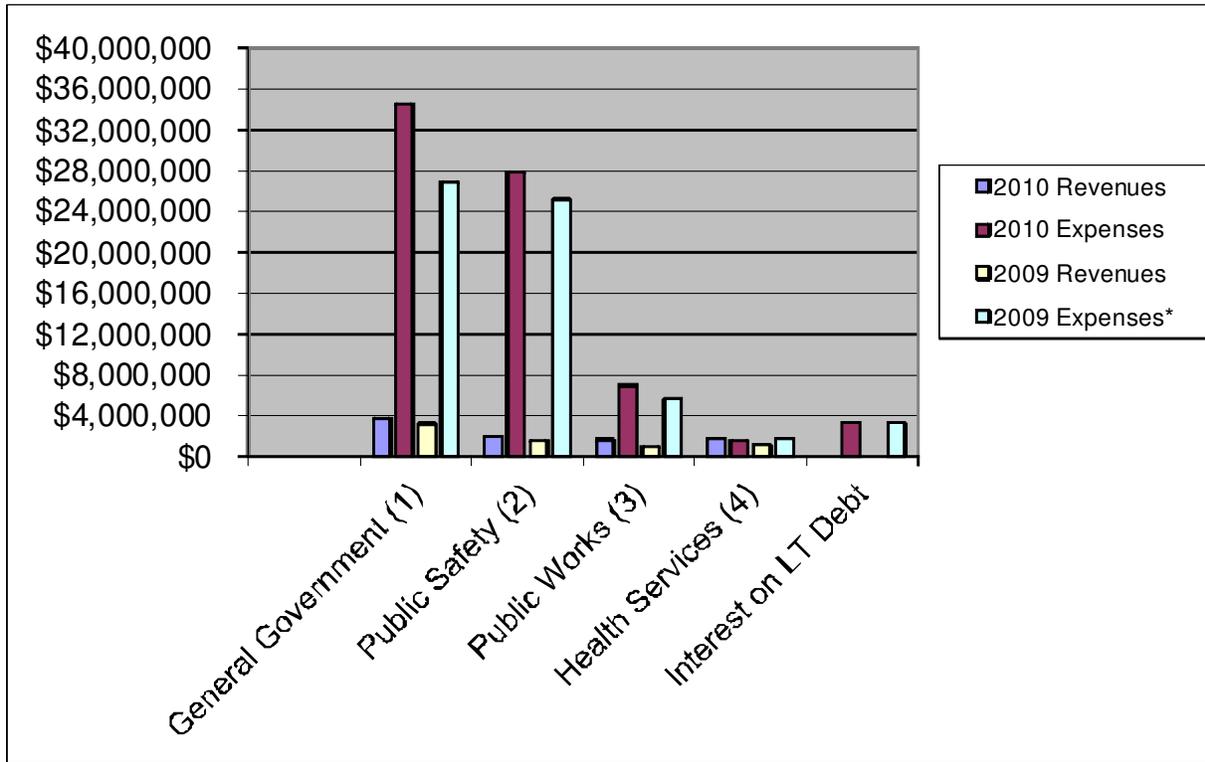
Governmental activities' net assets decreased by \$21,871,338 and business-type activities' net assets decreased by \$16,632,681 for a net decrease of \$38,504,019 for the City. The decrease in the governmental activities was caused by the governmental activities reporting a \$30,471,376 decrease in net assets before transfers and an \$8,600,038 transfer in from the business-type activities.

Governmental activities, changes in net assets:

Governmental activities decreased the City's net assets by \$21,871,338. This is a decrease of \$15,364,419 from the prior year. The key reasons for this decrease and change in net assets are as follows:

- In the current year, charges for services increased by \$1,621,025 due primarily to the City identifying charges for services previously classified as general revenue.
- In the current year, operating and capital grants and contributions increased by \$503,493 due primarily to more operating grants being awarded for public safety and capital grants being awarded for community development.
- In the current year, taxes increased by \$2,747,300 due primarily to an increase in current secured property taxes.
- In the current year, state allocations decreased by \$1,334,817 due primarily to a decrease in sales and use tax due to the economy.
- In the current year, program expenses were \$11,543,752 higher than the prior year mainly due to the following:
 - In the current year, program expenses for general government were \$7,622,453 higher than the prior year due primarily to the redevelopment agency's "Supplemental Educational Revenue Augmentation Funds" revenue shift to the State of \$3,624,181, swap termination of \$1,625,000 (See Note 13), and an increase in salaries and benefits and related compensated absences.
 - In the current year, program expenses for public safety were \$2,727,641 higher than the prior year due primarily to an allocation of salaries and benefits and related compensated absences that were treated as program expenses for general government in prior years.
 - In the current year, program expenses for public works were \$1,322,516 higher than the prior year due primarily to an allocation of salaries and benefits and related compensated absences that were treated as program expenses for general government in prior years.
- In the current year, transfers in were \$7,061,797 lower than the prior year. The main reasons for these transfers were enterprise fund's in-lieu tax payments of \$3,121,268 and net operating transfers of \$5,478,770. The transfers in were lower in the current year because the Water Fund made a \$12,335,771 operating transfer to the General Fund in the prior year.

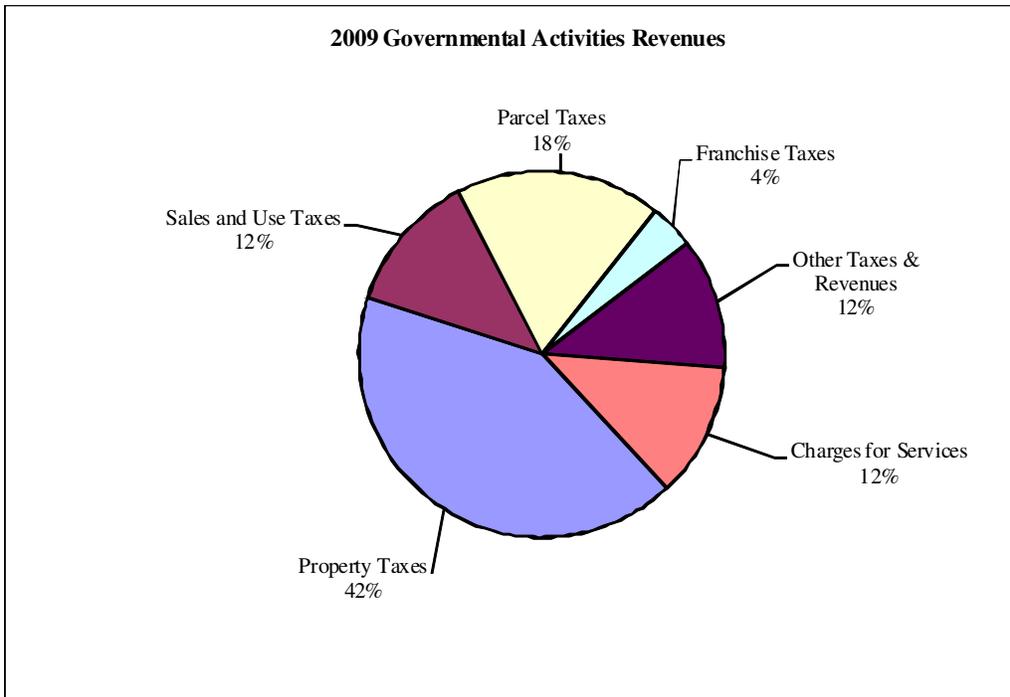
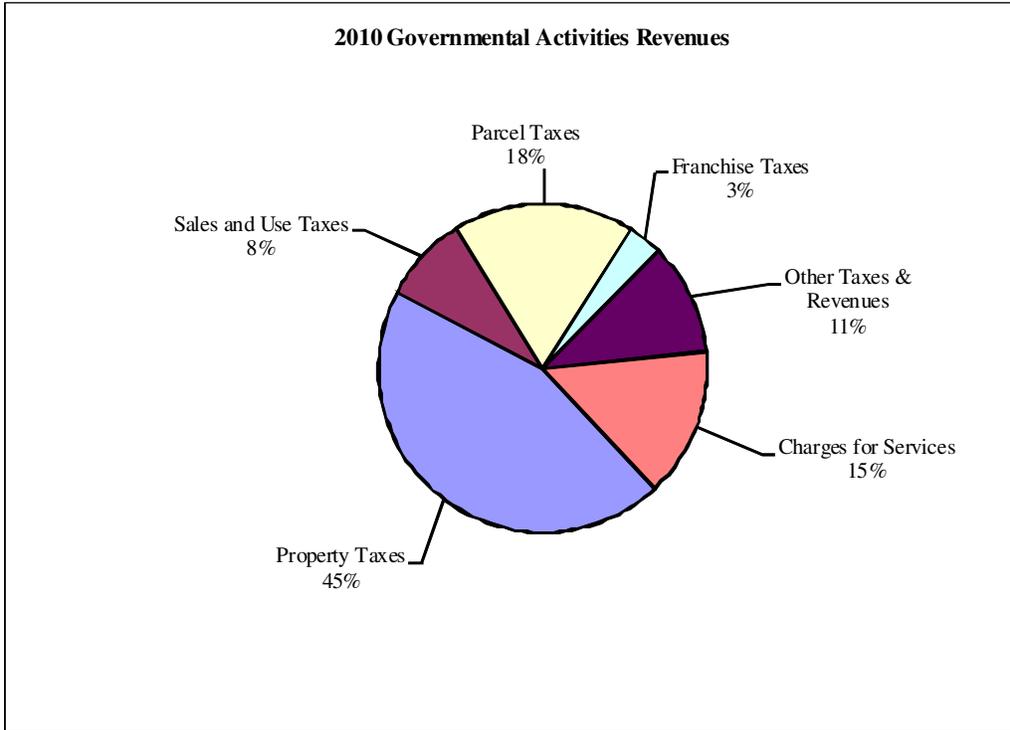
Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2010 and 2009



Governmental activities consist of the following departments:

- | (1) General Government: | (2) Public Safety | (3) Public Works | (4) Health Services |
|-----------------------------------|------------------------------|--------------------------------------|--------------------------------|
| a. City Council | a. Police & Fire Dispatch | a. Community Services Administration | a. Health |
| b. City Administrator | b. Police | b. Building Department | b. Health - Solid Waste |
| c. City Clerk | c. Fire | c. Street Lighting | c. Health - Hazardous Material |
| d. Finance | d. Civil Defense | d. Street Operations | |
| e. Treasurer | e. Fire - Hazardous Material | e. City Garage | |
| f. Business Services & Purchasing | | f. City Warehouse | |
| g. Personnel | | g. City Housing | |
| h. Redevelopment | | h. Industrial Development | |
| i. City Attorney | | | |
| j. Risk Management | | | |
| k. City Building | | | |
| l. Parcel Tax | | | |
| m. Information Technology | | | |

Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2010 and 2009

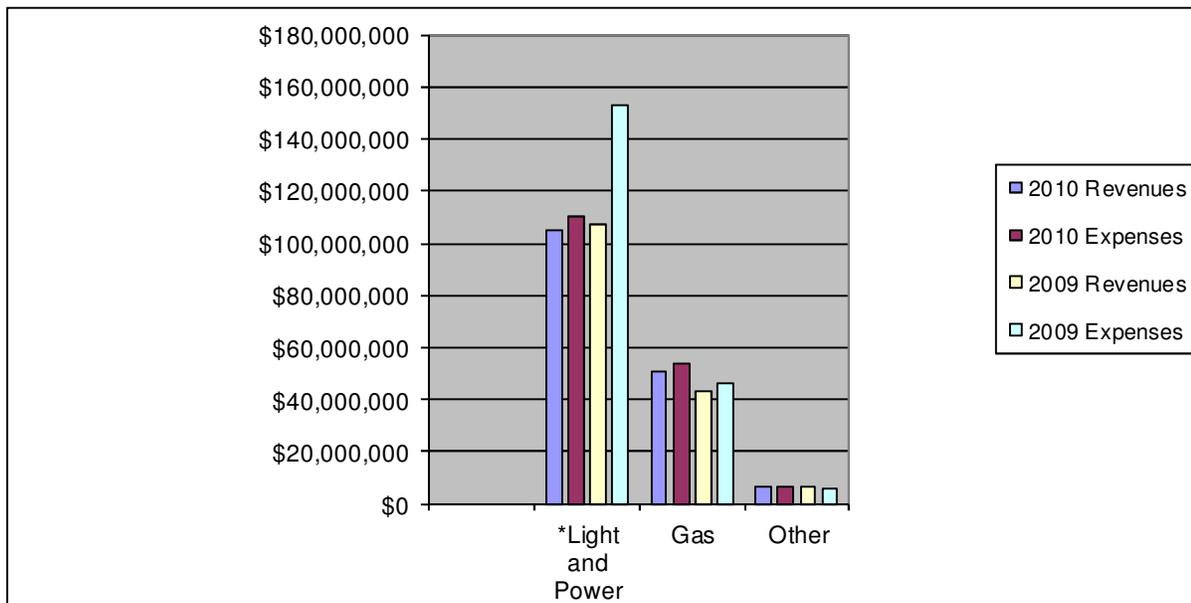


Business-type activities, changes in net assets:

Business-type activities decreased the City's net assets by \$8,032,643 before transfers. The key reasons for this decrease in change in net assets from the prior year are as follows:

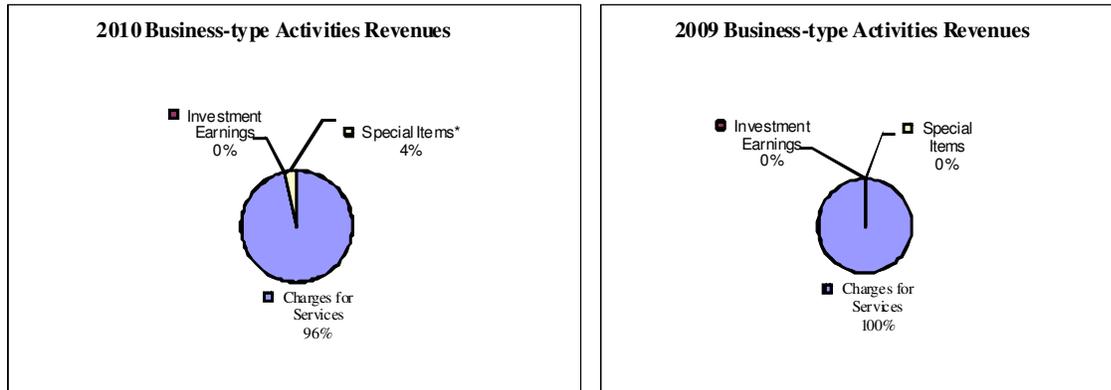
- Light and Power's operating revenue was \$118,589,706 for the current year which is \$14,272,180 lower than the previous year. This decrease was mainly due to a decrease in demand and due to a wholesale energy netting contract Light and Power entered with the California ISO in which the sale of wholesale energy were previously recorded at gross as charges for services and the purchase of wholesale energy were previously recorded at gross as cost of sales but is now recorded net as cost of sales. This decrease in revenue was also offset by an electric rate increase of 4.7% on December 1, 2009.
- Light and Power's operating expense was \$89,092,291 for the current year which is \$21,810,836 lower than the previous year. This decrease was mainly due to a decrease in demand and due to a wholesale energy netting contract Light and Power entered with the California ISO in which the sale of wholesale energy were previously recorded at gross as charges for services and the purchase of wholesale energy were previously recorded at gross as cost of sales but is now recorded net as cost of sales. This decrease was also complemented by a favorable natural gas price used to generate energy during the year.
- Gas Fund's total operating revenue and expense were \$50,541,903 and \$53,551,029, respectively, for the current year. The total operating revenues and expenses were \$6,953,694 and \$7,597,856, respectively higher than the prior year. These increases were mainly attributed to more City customers coming on line.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2010 and 2009



*Revenues and Expenses are net of nonoperating revenues and expenses and special item. See Page 24 for additional information.

Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2010 and 2009



* Special item consists of gain on sale of land. See Page 24 for additional information.

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 \$61,142,380 (See page 19), a decrease of \$17,759,436 from the prior year after restatement of General Fund's beginning fund balance of \$4,319,403 (See Note 16). Approximately 47% of total fund balance amount, \$29,022,705, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance, \$32,119,675, is *reserved* to indicate that it is not available for new spending because it has already been committed (i) for land held for resale, \$21,226,561, (ii) to liquidate contracts and purchase orders of the current period \$3,617,570, (iii) to be used for debt service \$5,231,584, (iv) to be used for various redevelopment projects in or benefiting the Redevelopment Agency Fund's Industrial Redevelopment Project area, \$796,846, and (v) for a variety of other purposes \$1,247,114.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$14,097,228 with an unreserved deficit of \$10,987,848 (See page 19). At the end of the current fiscal year, the total fund balance was 27% as compared to the total expenditures for the year.

The Redevelopment Agency Fund is a capital project fund of the City. At the end of the current fiscal year, the total fund balance was \$42,310,301 of which \$35,362,589 is unreserved (See page 19). At the end of the current fiscal year, the total fund balance was 297% as compared to the total expenditures for the year.

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 a deficit of \$20,953,894 (See page 23). Unrestricted net assets of the Gas Fund at the end of the year amounted to a deficit of \$26,179,138. Unrestricted net assets of the non-major enterprise funds (Water Fund and Fiber Optic Fund) amounted to a deficit of \$9,434,513. 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 was \$18,928,598 (See page 24). Total increases in net assets for the Gas Fund and Other Enterprise Funds were \$2,120,874 and \$175,043 respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

For the current year, the City's original and final budget for General Fund expenditures was \$47,913,541. The General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$5,716,689. The key reasons for this variance were excess expenditures over appropriations of \$2,948,547 of capital outlay and \$1,424,666 in General Government's legal and professional services expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$259,943,471 (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 decrease in the City's investment in capital assets for the current fiscal year was \$28,988,053 (net of depreciation of \$8,662,697), primarily due a partial sale of land with a cost of \$33,107,062 offset by current year's additions to capital asset net of depreciation (See Note 5).

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

- In the current year, the Light & Power Fund sold 12,420 acres of land for \$40,000,000 with a cost of \$33,107,062 for a net gain of \$6,892,938 (See Note 5).
- In the current year, the Light & Power Fund reclassified \$9,856,303 of inventory previously recorded as capital assets (See Note 5).

There were no significant construction commitments outstanding as of June 30, 2010.

Additional information on the City's capital assets can be found in Note 5 on pages 40-43 of this report.

Outstanding debt

As of June 30, 2010, the following debt remains outstanding:

- \$48,260,000 RDA Industrial Redevelopment Project Tax Allocation Bonds, 2005 Series
- \$43,765,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$414,400,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$14,189,474 Revolving Line of Credit with East West Bank

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 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, 2010, all bonds issued by the Vernon Redevelopment Agency had an insured rating of A by S&P and Baa1 by Moody's consistent with the prior year.
- On December 9, 2010, Moody's Investors Service has put on a Watchlist for a possible downgrade, the A3 ratings on the City of Vernon's, Electric System Revenue Bonds, 2008 Taxable Series A and Electric System Revenue Bonds 2009 Series A. (See Currently Known Facts on page 16).
- On December 22, 2010, S&P lowered the rating of National Public Finance Guarantee, formally known as MBIA, from A to BBB. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was changed to BBB. (See Currently Known Facts on page 16).

In September 2007, the City entered into \$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 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, 2010, \$14,189,474 of the line of credit was used for the purposes of acquiring land held for resale.

The change in outstanding debt for the year ended June 30, 2010 was due to the principal payments of \$1,160,000 on the Tax Allocation Bonds, \$5,000,000 on the Electric System Revenue Bonds, and \$11,658,035 on the Line of Credit (See Note 6).

Additional information on the City's long-term debt can be found in Note 6 on pages 43-46 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2011 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 11.5%. This compares favorably to the state's average unemployment rate of 12.3% 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.

CURRENTLY KNOWN FACTS

- On December 9, 2010, Moody's Investors Service has put on a Watchlist for a possible downgrade, the A3 ratings on the City of Vernon's, Electric System Revenue Bonds, 2008 Taxable Series A and Electric System Revenue Bonds 2009 Series A.
- On December 22, 2010, Standard and Poor's lowered the rating of National Public Finance Guarantee, formally known as MBIA, from A to BBB. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was changed to BBB.
- This action is prompted by the introduction in the California Assembly of a bill, which, if adopted, could dis-incorporate the City. However, the impact or outcome on the City and any potential credit implications cannot presently be determined and therefore results in uncertainties at the City.

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 or 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, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 16,754,616	\$ 69,560,899	\$ 86,315,515
Receivables, net of allowances of \$50,000			
for business-type activities	2,624,081	3,986,042	6,610,123
Accrued unbilled revenue	-	7,071,215	7,071,215
Accrued interest receivable	31,085	327,845	358,930
Inventories	752,032	10,454,466	11,206,498
Internal balances	(22,628,541)	22,628,541	-
Prepaid natural gas	-	311,568,902	311,568,902
Deposits and prepaid expenses	89,515	10,851,655	10,941,170
Restricted cash and investments	7,657,648	56,274,028	63,931,676
Note receivable	-	2,953,044	2,953,044
Bond issuance costs	1,969,363	3,394,165	5,363,528
Other assets	24,834,844	-	24,834,844
Land held for resale	47,869,524	-	47,869,524
Capital assets:			
Nondepreciable	38,733,985	50,780,518	89,514,503
Depreciable, net	49,014,234	121,414,734	170,428,968
Total assets	<u>167,702,386</u>	<u>671,266,054</u>	<u>838,968,440</u>
LIABILITIES:			
Accounts payable	3,617,570	8,024,002	11,641,572
Accrued wages and benefits	933,934	181,035	1,114,969
Customer deposits and funds held for others	309,601	613,159	922,760
Unearned revenue	119,001	-	119,001
Derivative liabilities	-	31,235,091	31,235,091
Bond interest payable	745,869	10,751,244	11,497,113
Note interest payable	59,131	-	59,131
Long-term liabilities:			
Due within one year:			
Postemployment benefit liability	170,395	-	170,395
Bonds payable, net	1,329,345	25,489,810	26,819,155
Notes payable	731,665	-	731,665
Deferred gain from sale of generation assets	-	9,683,634	9,683,634
Claims payable	1,677,986	-	1,677,986
Compensated absences	1,990,971	306,224	2,297,195
Due in more than one year:			
Postemployment benefit liability	3,847,213	-	3,847,213
Bonds payable, net	47,655,320	419,951,009	467,606,329
Notes payable	13,457,809	-	13,457,809
Deferred gain from sale of generation assets	-	47,028,987	47,028,987
Claims payable	3,355,973	-	3,355,973
Compensated absences	3,981,942	612,446	4,594,388
Total liabilities	<u>83,983,725</u>	<u>553,876,641</u>	<u>637,860,366</u>
NET ASSETS:			
Invested in capital assets, net of related debt	63,255,887	128,434,174	191,690,061
Restricted for:			
Grants	462,585	-	462,585
Debt service	5,231,584	38,526,313	43,757,897
Capacity payments	-	6,996,471	6,996,471
Unrestricted (deficit)	14,768,605	(56,567,545)	(41,798,940)
Total net assets	<u>\$ 83,718,661</u>	<u>\$ 117,389,413</u>	<u>\$ 201,108,074</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2010

FUNCTION/PROGRAM ACTIVITIES:	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
Governmental activities:							
General government	\$ 34,544,828	\$ 2,583,009	\$ 1,189,003	\$ -	\$ (30,772,816)	\$ -	\$ (30,772,816)
Public safety	27,926,502	931,441	1,087,473	-	(25,907,588)	-	(25,907,588)
Public works	6,967,273	1,295,200	-	365,365	(5,306,708)	-	(5,306,708)
Health services	1,622,208	1,618,832	82,968	-	79,592	-	79,592
Interest on long-term debt	3,264,642	-	-	-	(3,264,642)	-	(3,264,642)
Total governmental activities	<u>74,325,453</u>	<u>6,428,482</u>	<u>2,359,444</u>	<u>365,365</u>	<u>(65,172,162)</u>	<u>-</u>	<u>(65,172,162)</u>
Business-type activities:							
Light and power	110,433,226	118,589,706	-	-	-	8,156,480	8,156,480
Gas	53,551,029	50,541,903	-	-	-	(3,009,126)	(3,009,126)
Other	6,473,286	6,648,329	-	-	-	175,043	175,043
Total business-type activities	<u>170,457,541</u>	<u>175,779,938</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,322,397</u>	<u>5,322,397</u>
Total	<u>\$ 244,782,994</u>	<u>\$ 182,208,420</u>	<u>\$ 2,359,444</u>	<u>\$ 365,365</u>	<u>(65,172,162)</u>	<u>5,322,397</u>	<u>(59,849,765)</u>
General revenues:							
Property taxes					19,550,513	-	19,550,513
Parcel taxes					7,803,767	-	7,803,767
Franchise taxes					1,483,940	-	1,483,940
Business license taxes					1,229,420	-	1,229,420
Other license taxes					9,560	-	9,560
Investment income (loss)					214,846	(10,281,703)	(10,066,857)
Net decrease in fair value of investments					-	(9,966,275)	(9,966,275)
State contribution - sales and use taxes					3,746,152	-	3,746,152
Gain on sale of property					1,197	-	1,197
Other revenues					661,391	-	661,391
Special item:							
Gain on sale of land					-	6,892,938	6,892,938
Transfers					8,600,038	(8,600,038)	-
Total general revenues, special items and transfers					<u>43,300,824</u>	<u>(21,955,078)</u>	<u>21,345,746</u>
Change in net assets					(21,871,338)	(16,632,681)	(38,504,019)
NET ASSETS, BEGINNING OF YEAR					<u>105,589,999</u>	<u>134,022,094</u>	<u>239,612,093</u>
NET ASSETS, END OF YEAR					<u>\$ 83,718,661</u>	<u>\$ 117,389,413</u>	<u>\$ 201,108,074</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Balance Sheet
 Governmental Funds
 June 30, 2010

	General Fund	Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments	\$ 2,953,875	\$ 13,014,097	\$ 786,644	\$ 16,754,616
Receivables	1,489,428	747,834	386,819	2,624,081
Accrued interest receivable	10	31,075	-	31,085
Due from other funds	-	-	3,654,191	3,654,191
Inventories	752,032	-	-	752,032
Restricted cash and investments	2,342,567	5,315,081	-	7,657,648
Other assets	89,515	24,834,844	-	24,924,359
Land held for resale	47,869,524	-	-	47,869,524
Total assets	<u>\$ 55,496,951</u>	<u>\$ 43,942,931</u>	<u>\$ 4,827,654</u>	<u>\$ 104,267,536</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 1,898,053	\$ 1,632,630	\$ 86,887	\$ 3,617,570
Accrued wages and benefits	928,018	-	5,916	933,934
Due to other funds	11,502,086	-	-	11,502,086
Advances from other funds	14,780,646	-	-	14,780,646
Customer deposits and funds held for others	309,601	-	-	309,601
Deferred revenue	11,981,319	-	-	11,981,319
Total liabilities	<u>41,399,723</u>	<u>1,632,630</u>	<u>92,803</u>	<u>43,125,156</u>
Fund balances:				
Reserved for:				
Federal forfeiture funds	462,585	-	-	462,585
Inventories	752,032	-	-	752,032
Encumbrances	1,898,053	1,632,630	86,887	3,617,570
Employee loans receivable	32,497	-	-	32,497
Land held for resale	21,226,561	-	-	21,226,561
Debt service	713,348	4,518,236	-	5,231,584
Redevelopment projects	-	796,846	-	796,846
Unreserved (deficit)	(10,987,848)	35,362,589	-	24,374,741
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	4,647,964	4,647,964
Total fund balances	<u>14,097,228</u>	<u>42,310,301</u>	<u>4,734,851</u>	<u>61,142,380</u>
Total liabilities and fund balances	<u>\$ 55,496,951</u>	<u>\$ 43,942,931</u>	<u>\$ 4,827,654</u>	<u>\$ 104,267,536</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, 2010

Fund balances - total governmental funds (page 19)	\$	61,142,380
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.		87,748,219
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.		11,862,318
Unamortized bond issuance costs used in governmental activities do not consume current financial resources and therefore are not reported in the governmental funds.		
Unamortized bond issuance costs		1,969,363
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(5,972,913)
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.		(4,017,608)
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental funds.		
Claims payable		(5,033,959)
Bonds payable		(48,260,000)
Bond interest payable		(745,869)
Unamortized bond premium		(724,665)
Note payable		(14,189,474)
Note interest payable		(59,131)
		(83,718,661)
Net assets of governmental activities (page 17)	\$	83,718,661

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, 2010

	General Fund	Redevelopment Agency Fund	Industrial Development Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 8,175,484	\$ 16,751,985	\$ -	\$ 7,716,817	\$ 32,644,286
Special assessments	1,090,346	-	-	-	1,090,346
Licenses and permits	1,351,739	-	-	953,040	2,304,779
Fines, forfeitures and penalties	306,919	-	-	-	306,919
Investment income	15,114	196,973	2,760	-	214,847
Intergovernmental revenues	2,725,165	-	-	621	2,725,786
Charges for services to enterprise funds	3,590,166	-	-	-	3,590,166
Other revenues	1,098,835	1,843	-	-	1,100,678
Total revenues	<u>18,353,768</u>	<u>16,950,801</u>	<u>2,760</u>	<u>8,670,478</u>	<u>43,977,807</u>
EXPENDITURES:					
Current:					
General government	18,874,342	10,803,442	1,010,386	-	30,688,170
Public safety	23,216,320	-	-	157,090	23,373,410
Public works	5,424,865	-	-	-	5,424,865
Health services	1,210,750	-	-	177,523	1,388,273
Capital outlay	2,948,547	8,463	47,882	29,011	3,033,903
Debt Service:					
Principal retirement	57,353	1,160,000	11,600,682	-	12,818,035
Bond and note interest	-	2,256,456	1,104,521	-	3,360,977
Total expenditures	<u>51,732,177</u>	<u>14,228,361</u>	<u>13,763,471</u>	<u>363,624</u>	<u>80,087,633</u>
Excess (deficiency) of revenues over (under) expenditures	(33,378,409)	2,722,440	(13,760,711)	8,306,854	(36,109,826)
Other financing sources (uses)					
Sale of property	1,197	-	-	-	1,197
Transfers in	42,834,006	-	-	-	42,834,006
Transfers out	-	(136,154)	(6,990,656)	(21,677,406)	(28,804,216)
Total other financing sources (uses)	<u>42,835,203</u>	<u>(136,154)</u>	<u>(6,990,656)</u>	<u>(21,677,406)</u>	<u>14,030,987</u>
NET CHANGE IN FUND BALANCES	9,456,794	2,586,286	(20,751,367)	(13,370,552)	(22,078,839)
FUND BALANCES, BEGINNING OF YEAR, RESTATED	<u>4,640,434</u>	<u>39,724,015</u>	<u>20,751,367</u>	<u>18,105,403</u>	<u>83,221,219</u>
FUND BALANCES, END OF YEAR	<u>\$ 14,097,228</u>	<u>\$ 42,310,301</u>	<u>\$ -</u>	<u>\$ 4,734,851</u>	<u>\$ 61,142,380</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, 2010

Net change in fund balances - total governmental funds (page 21)		\$ (22,078,839)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Expenditures for capital assets	\$ 3,033,903	
Less current year depreciation	<u>(3,322,270)</u>	(288,367)
Change in long-term compensated absences		(4,055,798)
<p>The effect of various miscellaneous transactions involving land held for resale (i.e., sales, trade-ins, and donations) is to decrease net assets.</p>		
Sale of and loss on land held for resale		(2,758)
Change in net postemployment benefits other than pensions obligation.		(1,993,605)
<p>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.</p>		
		(5,406,346)
<p>Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.</p>		
Change in unamortized bond issuance costs		(120,514)
<p>Long-term debt repayments consume current financial resources of governmental funds, but repaying debt decreases long-term liabilities in the statement of net assets.</p>		
Principal repayment on bonds and notes		12,818,035
<p>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.</p>		
Change in claims payable		(714,557)
Change in bond interest payable		12,566
Change in unamortized bond premium		44,346
Change in note interest payable		39,424
<p>Revenue timing differences result in less revenue in government-wide statement of activities.</p>		
		<u>(124,925)</u>
Change in net assets of governmental activities (page 18)		<u><u>\$ (21,871,338)</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2010

	Business-type Activities Enterprise Funds			
	Light and Power	Other		Totals
	Fund	Gas Fund	Enterprise Funds	
ASSETS:				
Current assets:				
Cash and investments	\$ 67,966,574	\$ 1,594,325	\$ -	\$ 69,560,899
Accounts receivable, net of allowances of \$50,000	1,606,890	1,992,035	387,117	3,986,042
Accrued unbilled revenue	6,806,720	-	264,495	7,071,215
Accrued interest receivable	327,845	-	-	327,845
Bond issuance costs	246,533	-	-	246,533
Due from other funds	16,129,388	-	-	16,129,388
Inventories	10,377,384	77,082	-	10,454,466
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	333,599	-	-	333,599
Deposits and prepaid expenses	10,851,655	-	-	10,851,655
Total current assets	<u>143,224,931</u>	<u>3,663,442</u>	<u>651,612</u>	<u>147,539,985</u>
Noncurrent assets:				
Restricted cash and investments	56,274,028	-	-	56,274,028
Advances to other funds	45,290,078	-	-	45,290,078
Prepaid natural gas	282,990,559	-	-	282,990,559
Note receivable	2,619,445	-	-	2,619,445
Bond issuance costs	3,147,632	-	-	3,147,632
Capital assets:				
Nondepreciable	37,236,445	6,706	13,537,367	50,780,518
Depreciable, net	91,751,142	21,653,305	8,010,287	121,414,734
Total noncurrent assets	<u>519,309,329</u>	<u>21,660,011</u>	<u>21,547,654</u>	<u>562,516,994</u>
Total assets	<u>662,534,260</u>	<u>25,323,453</u>	<u>22,199,266</u>	<u>710,056,979</u>
LIABILITIES:				
Accounts payable	7,323,093	333,956	366,953	8,024,002
Accrued wages and benefits	126,736	6,831	47,468	181,035
Customer deposits	492,635	18,000	102,524	613,159
Due to other funds	-	4,251,484	4,030,009	8,281,493
Derivative liabilities	31,235,091	-	-	31,235,091
Bond interest	10,751,244	-	-	10,751,244
Long-term liabilities:				
Due within one year:				
Deferred gain from sale of generation assets	9,683,634	-	-	9,683,634
Bonds payable, net	25,489,810	-	-	25,489,810
Compensated absences	218,874	8,245	79,105	306,224
Total current liabilities	<u>85,321,117</u>	<u>4,618,516</u>	<u>4,626,059</u>	<u>94,565,692</u>
Due in more than one year:				
Advances from other funds	-	25,207,575	5,301,857	30,509,432
Deferred gain from sale of generation assets	47,028,987	-	-	47,028,987
Bonds payable, net	419,951,009	-	-	419,951,009
Compensated absences	437,748	16,489	158,209	612,446
Total noncurrent liabilities	<u>467,417,744</u>	<u>25,224,064</u>	<u>5,460,066</u>	<u>498,101,874</u>
Total liabilities	<u>552,738,861</u>	<u>29,842,580</u>	<u>10,086,125</u>	<u>592,667,566</u>
NET ASSETS:				
Invested in capital assets, net of related debt	85,226,509	21,660,011	21,547,654	128,434,174
Restricted for debt service	38,526,313	-	-	38,526,313
Restricted for capacity payments	6,996,471	-	-	6,996,471
Unrestricted (deficit)	(20,953,894)	(26,179,138)	(9,434,513)	(56,567,545)
Total net assets (deficit)	<u>\$ 109,795,399</u>	<u>\$ (4,519,127)</u>	<u>\$ 12,113,141</u>	<u>\$ 117,389,413</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, 2010

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Internal Service Fund
	Light and Power Fund	Gas Fund	Other Enterprise Funds		
OPERATING REVENUES:					
Charges for services	\$ 118,589,706	\$ 50,541,903	\$ 6,648,329	\$ 175,779,938	\$ 197,511
Total operating revenues	<u>118,589,706</u>	<u>50,541,903</u>	<u>6,648,329</u>	<u>175,779,938</u>	<u>197,511</u>
OPERATING EXPENSES:					
Cost of sales	84,727,883	52,840,649	5,960,166	143,528,698	174,105
Depreciation and amortization	4,364,408	710,380	513,120	5,587,908	-
Total operating expenses	<u>89,092,291</u>	<u>53,551,029</u>	<u>6,473,286</u>	<u>149,116,606</u>	<u>174,105</u>
Operating income (loss)	29,497,415	(3,009,126)	175,043	26,663,332	23,406
NONOPERATING REVENUE (EXPENSES):					
Investment loss	(10,281,703)	-	-	(10,281,703)	-
Net decrease in fair value of investments	(9,966,275)	-	-	(9,966,275)	-
Interest expense	(21,340,935)	-	-	(21,340,935)	-
Total nonoperating revenue (expenses), net	<u>(41,588,913)</u>	<u>-</u>	<u>-</u>	<u>(41,588,913)</u>	<u>-</u>
Income (loss) before transfers and special item	(12,091,498)	(3,009,126)	175,043	(14,925,581)	23,406
Special Item:					
Gain on sale of land	6,892,938	-	-	6,892,938	-
Transfers in	-	5,130,000	-	5,130,000	-
Transfers out	(13,730,038)	-	-	(13,730,038)	(5,429,752)
Change in net assets	(18,928,598)	2,120,874	175,043	(16,632,681)	(5,406,346)
Net assets (deficit), beginning of the year, as restated	<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>
Net assets (deficit), end of the year	<u>\$ 109,795,399</u>	<u>\$ (4,519,127)</u>	<u>\$ 12,113,141</u>	<u>\$ 117,389,413</u>	<u>\$ -</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, 2010

	Business-type Activities - Enterprise Funds				Governmental
	Light & Power	Gas Fund	Other	Total	Activities -
	Fund		Enterprise Funds		Internal Service Fund
Cash flows from operating activities:					
Cash received from customers/other funds	\$ 95,203,147	\$ 51,453,725	\$ 7,116,979	\$ 153,773,851	\$ 9,860,308
Cash paid to suppliers for goods and services	(95,756,289)	(54,552,678)	(3,606,206)	(153,915,173)	(4,540,898)
Cash paid to City general fund for services	(2,872,661)	-	(510,000)	(3,382,661)	-
Cash paid to employees for services	(3,657,932)	(247,296)	(1,683,644)	(5,588,872)	-
Net cash provided by (used in) operating activities	(7,083,735)	(3,346,249)	1,317,129	(9,112,855)	5,319,410
Cash flows from noncapital financing activities:					
Transfers received	-	5,130,000	-	5,130,000	-
Transfers (paid)	(13,730,038)	-	-	(13,730,038)	(5,429,752)
Collection of note receivable	315,449	-	-	315,449	-
Net cash provided by (used in) noncapital financing activities	(13,414,589)	5,130,000	-	(8,284,589)	(5,429,752)
Cash flows from capital and related financing activities:					
Repayment of bonds	(5,000,000)	-	-	(5,000,000)	-
Bond interest paid	(16,818,777)	-	-	(16,818,777)	-
Sale of land	40,000,000	-	-	40,000,000	-
Acquisition and construction of capital assets	(17,341,195)	(192,709)	(1,317,129)	(18,851,033)	-
Net cash provided by (used in) capital and related financing activities	840,028	(192,709)	(1,317,129)	(669,810)	-
Cash flows from investing activities:					
Purchases and sales of investments, net	(46,067,218)	-	-	(46,067,218)	-
Investment loss (net interest rate swap payments)	(10,281,703)	-	-	(10,281,703)	-
Net cash used in investing activities	(56,348,921)	-	-	(56,348,921)	-
Net increase (decrease) in cash and cash equivalents	(76,007,217)	1,591,042	-	(74,416,175)	(110,342)
Cash and cash equivalents, beginning of year, as restated	153,700,248	3,283	-	153,703,531	110,342
Cash and cash equivalents, end of year	<u>\$ 77,693,031</u>	<u>\$ 1,594,325</u>	<u>\$ -</u>	<u>\$ 79,287,356</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 29,497,415	\$ (3,009,126)	\$ 175,043	\$ 26,663,332	\$ 23,406
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,364,408	710,380	513,120	5,587,908	-
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	1,259,442	(411,666)	(26,829)	820,947	-
Other receivables	278,607	-	(3,322)	275,285	-
Inventories	(9,256,938)	11,790	-	(9,245,148)	-
Prepaid expenses and deposits	(2,956,202)	-	22,422	(2,933,780)	-
Prepaid natural gas	28,578,343	-	-	28,578,343	-
Other assets	(26,775,225)	-	-	(26,775,225)	-
Increase (decrease) in:					
Accounts payable	(3,736,275)	(1,972,178)	(6,529)	(5,714,982)	(47,391)
Claims payable	-	-	-	-	(4,319,402)
Accrued wages and benefits	(23,252)	(1,435)	(39)	(24,726)	-
Due (to) from other funds	(14,514,586)	1,311,698	476,379	(12,726,509)	9,662,797
Customer deposits	16,900	(2,370)	2,710	17,240	-
Compensated absences	425,777	16,658	164,174	606,609	-
Deferred gain from sale of generation assets	(14,242,149)	-	-	(14,242,149)	-
Net cash provided by (used in) operating activities	<u>\$ (7,083,735)</u>	<u>\$ (3,346,249)</u>	<u>\$ 1,317,129</u>	<u>\$ (9,112,855)</u>	<u>\$ 5,319,410</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets					
Cash and investments	\$ 67,966,574	\$ 1,594,325	\$ -	\$ 69,560,899	\$ -
Noncurrent restricted cash and investments	56,274,028	-	-	56,274,028	-
Total	124,240,602	1,594,325	-	125,834,927	-
Less: Investments with maturities of more than 90 days	(46,547,571)	-	-	(46,547,571)	-
Total cash and cash equivalents	<u>\$ 77,693,031</u>	<u>\$ 1,594,325</u>	<u>\$ -</u>	<u>\$ 79,287,356</u>	<u>\$ -</u>
Noncash Capital, Investing and Financing Activities					
Acquisition of capital assets in accounts payable	\$ 827,010	\$ -	\$ -	\$ 827,010	\$ -
Decrease in fair value of investments	9,966,275	-	-	9,966,275	-

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2010

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. 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 proprietary 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. In the current year, the Industrial Development Fund was consolidated with the General Fund (See Note 16).

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, 2010

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 Fund* is specifically designed to account for equipment replacement 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. The Equipment Replacement Internal Service Fund is 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 Equipment Replacement Internal Service Fund is consolidated into the governmental activities column at the government-wide level. Effective July 1, 2009, the internal service funds previously used to account for workers' compensation, general liability, and group medical and dental insurance were consolidated into the General Fund. As of June 30, 2010, the Equipment Replacement Internal Service Fund was closed and net assets were transferred to the General Fund. Further discussion of the accounting change for the internal service funds can be found in Note 16 of this report.

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, 2010

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 amounts on deposit in the City’s cash and investment pool and 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 and proprietary funds statements.

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, 2010

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, 2010

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.

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 86,315,515
Restricted cash and investments	<u>63,931,676</u>
Total cash and investments	<u><u>\$ 150,247,191</u></u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	45,111,879
Investments	<u>105,134,012</u>
Total cash and investments	<u><u>\$ 150,247,191</u></u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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.

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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, 2010

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, 2010	Investment Maturities (in Months)		% of Total
		Less Than 12 Months	13 to 60 Months	
Federal National Mortgage Association	\$ 5,052,955	\$ 3,146	\$ 5,049,809	4.81%
Federal Home Loan	14,916,036	2,463,929	12,452,107	14.19%
Local Agency Investment Fund	533,617	533,617	-	0.51%
Mutual Fund	54,132,674	54,132,674	-	51.48%
United States Treasury Notes	30,498,730	7,339,876	23,158,854	29.01%
Total investment	\$ 105,134,012	\$ 64,473,242	\$ 40,660,770	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2010	% of Total
In custody of Treasurer:				
Investments held by Treasurer:				
Local Agency Investment Fund	Not Rated	Not Rated	\$ 533,617	0.51%
Mutual Fund	Aaa / AAA	Aaa / AAA	25,101	0.02%
Total in custody of Treasurer			558,718	0.53%
In custody of Trustee:				
Investments held by Trustee:				
Federal Home Loan Bank	Aaa / AAA	Aaa / AAA	14,916,036	14.19%
Federal National Mortgage Association	Aaa / AAA	Aaa / AAA	5,052,955	4.81%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	54,107,573	51.47%
United States Treasury Notes	Aaa / AAA	Aaa / AAA	30,498,730	29.01%
Total in custody of Trustee			104,575,294	99.48%
Total cash and investments held by Treasurer and Trustee			\$ 105,134,012	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2010, the City's investments in any one issuer exceeding 5% were as follows:

Issuer		In Custody of	Fair Value as of June 30, 2010	% of Total
Treasury Notes	U.S Treasury	Trustee	\$ 30,498,730	29.01%
Mutual Fund	Invesco Government	Trustee	49,982,656	47.54%
Federal Home Loan	Federal Home Loan Bank	Trustee	14,916,036	14.19%
Total investments in any one issuer exceeding 5%			\$ 95,397,422	

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 \$45,111,879 and the bank balance was \$45,186,140. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2010, \$419,176 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts. \$44,766,964 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The City also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$533,617 at June 30, 2010. 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.

The total amount invested by all public agencies in LAIF at June 30, 2010 was \$23,263,615,099. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$69,385,966,558 at June 30, 2010. Of this amount, 5.42% 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 weighted average maturity of PMIA investments was 0.56 years as of June 30, 2010. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2010 are as follows:

Receivables - Governmental Activities:	General Fund	Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Activities
Accounts	\$ 68,197	\$ 42,581	\$ 667	\$ 111,445
Taxes	152,144	705,252	386,152	1,243,548
Notes or loans	30,297	-	-	30,297
Other	1,238,791	-	-	1,238,791
Total receivables	\$ 1,489,429	\$ 747,833	\$ 386,819	\$ 2,624,081

Receivables - Business-type Activities:	Light and Power Fund	Gas Fund	Other Enterprise Funds	Total Business-type Activities
Accounts	\$ 1,656,890	\$ 1,992,035	\$ 387,117	\$ 4,036,042
Allowances	(50,000)	-	-	(50,000)
Total receivables	\$ 1,606,890	\$ 1,992,035	\$ 387,117	\$ 3,986,042

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2010:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 3,654,191
		<u>\$ 3,654,191</u>
Light and Power Fund	General Fund	\$ 7,847,895
	Gas Fund	4,251,484
	Other Enterprise Funds	4,030,009
		<u>\$ 16,129,388</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, 2010

NOTE 4 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Fund	\$ 3,121,268
		<u>\$ 3,121,268</u>
General Fund	Redevelopment Agency Fund	\$ 136,154
	Industrial Development Fund	6,990,656
	Other Governmental Funds	21,677,406
	Light and Power Fund	5,478,770
	Internal Service Funds	5,429,752
		<u>\$ 39,712,738</u>
Gas Fund	Light and Power Fund	\$ 5,130,000
		<u>\$ 5,130,000</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.

During the current year, the Light and Power Fund transferred a total of \$3,121,268 for in-lieu franchise taxes.

During the current year, the Redevelopment Agency Fund made an interfund reimbursement transfer of \$136,154 to the General Fund for purchase of a Graffiti Truck.

During the current year, the Industrial Development Fund was consolidated with the General Fund with a fund balance transfer of \$6,990,656 (See Note 16).

The City imposes a special parcel tax on properties used for warehouses, truck terminals, freight terminals, railroad facilities, and distribution facilities for the City's construction, improvement and maintenance of streets, bridges and other public rights-of-way, including acquisition of land. During the current year, the City's Parcel Tax Fund made an interfund reimbursement transfer of \$21,677,406 to the City's General Fund for prior years' public works cost expended in the General Fund.

During the current year, the Light and Power Fund made an operating transfer of \$5,478,770 and \$5,130,000 to the General Fund and Gas Fund, respectively to meet the operations of those funds.

During the current year, the Internal Service Funds were consolidated with the General Fund with a net asset transfer of \$5,429,752 (See Note 16).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2010
<u>Governmental activities:</u>					
<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	565,012	73,148	-	(535,312)	102,848
Total capital assets, not being depreciated	39,196,149	73,148	-	(535,312)	38,733,985
<i>Capital assets, being depreciated</i>					
Infrastructure - General Fund	26,016,948	436,916	-	-	26,453,864
Infrastructure - RDA	18,393,311	5,327	-	-	18,398,638
Building and Improvements - General Fund	14,388,603	-	-	445,102	14,833,705
Improvements Other Than Buildings - General Fund	10,380,116	210,471	-	-	10,590,587
Improvements Other Than Buildings - RDA	12,523	-	-	-	12,523
Machinery and Equipment - General Fund	17,755,015	2,275,894	-	90,208	20,121,117
Machinery and Equipment - Other Gov't Fund	1,042,223	29,011	-	-	1,071,234
Machinery and Equipment - RDA	21,449	3,136	-	-	24,585
Total capital assets, being depreciated	88,010,188	2,960,755	-	535,310	91,506,253
Less accumulated depreciation for:					
Infrastructure - General Fund	(20,026,361)	(567,087)	-	-	(20,593,448)
Infrastructure - RDA	(611,944)	(590,310)	-	-	(1,202,254)
Building and Improvements - General Fund	(4,700,034)	(374,726)	-	-	(5,074,760)
Improvements Other Than Building - General Fund	(2,756,802)	(274,871)	-	-	(3,031,673)
Improvements Other Than Building - RDA	(1,095)	(309)	-	-	(1,404)
Machinery and Equipment - General Fund	(10,629,186)	(1,434,113)	-	-	(12,063,299)
Machinery and Equipment - Other Gov't Fund	(443,300)	(79,701)	-	-	(523,001)
Machinery and Equipment - RDA	(1,027)	(1,153)	-	-	(2,180)
Total accumulated depreciation	(39,169,749)	(3,322,270)	-	-	(42,492,019)
Total capital assets, being depreciated, net					
Infrastructure - General Fund	5,990,587	(130,171)	-	-	5,860,416
Infrastructure - RDA	17,781,367	(584,983)	-	-	17,196,384
Building and Improvements - General Fund	9,688,569	(374,726)	-	445,102	9,758,945
Improvements Other Than Building - General Fund	7,623,314	(64,400)	-	-	7,558,914
Improvements Other Than Building - RDA	11,428	(309)	-	-	11,119
Machinery and Equipment - General Fund	7,125,829	841,781	-	90,208	8,057,818
Machinery and Equipment - Other Gov't Fund	598,923	(50,690)	-	-	548,233
Machinery and Equipment - RDA	20,422	1,983	-	-	22,405
Total	48,840,439	(361,515)	-	535,310	49,014,234
Governmental activities capital assets, net	\$ 88,036,588	\$ (288,367)	\$ -	\$ (2)	\$ 87,748,219

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,409,413
Public safety	1,058,582
Public works	829,568
Health services	<u>24,707</u>
Total depreciation expense - governmental functions	<u><u>\$ 3,322,270</u></u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2010
Business-type activities:					
<i>Capital assets, not being depreciated:</i>					
Land - Light and Power	\$ 9,277,332	\$ -	\$ (736)	\$ -	\$ 9,276,596
Land - Water	45,000	422,640	-	-	467,640
Water rights - Water	12,335,771	-	-	-	12,335,771
Construction in progress - Light and Power	49,893,510	11,173,401	(33,107,062)	-	27,959,849
Construction in progress - Water	163,188	720,001	-	(149,233)	733,956
Construction in progress - Gas	-	6,706	-	-	6,706
Construction in progress - Fiber Optic	90,613	-	-	(90,613)	-
Total capital assets, not being depreciated	<u>71,805,414</u>	<u>12,322,748</u>	<u>(33,107,798)</u>	<u>(239,846)</u>	<u>50,780,518</u>
<i>Capital assets, being depreciated</i>					
Production plant - Light and Power	14,765,324	-	-	-	14,765,324
Transmission plant - Light and Power	6,500,463	-	(27,341)	(1,655,193)	4,817,929
Distribution plant - Light and Power	117,627,312	6,792,267	(231,741)	(7,132,793)	117,055,045
General plant - Light and Power	7,885,540	202,537	(251)	-	8,087,826
Water utility plant	16,881,340	101,282	-	149,233	17,131,855
Gas utility plant	24,444,987	186,003	-	-	24,630,990
Fiber Optic utility plant	3,271,886	73,206	-	90,613	3,435,705
Total capital assets, being depreciated	<u>191,376,852</u>	<u>7,355,295</u>	<u>(259,333)</u>	<u>(8,548,140)</u>	<u>189,924,674</u>
Less accumulated depreciation for:					
Production plant - Light and Power	(4,756,318)	(420,858)	-	(675,462)	(5,852,638)
Transmission plant - Light and Power	(2,308,251)	(96,796)	17,357	15,562	(2,372,128)
Distribution plant - Light and Power	(39,812,109)	(3,151,280)	168,526	(424,371)	(43,219,234)
General plant - Light and Power	(1,099,194)	(447,993)	251	15,954	(1,530,982)
Water utility plant	(11,670,186)	(334,399)	-	-	(12,004,585)
Gas utility plant	(2,267,305)	(710,380)	-	-	(2,977,685)
Fiber Optic utility plant	(373,967)	(178,721)	-	-	(552,688)
Total accumulated depreciation	<u>(62,287,330)</u>	<u>(5,340,427)</u>	<u>186,134</u>	<u>(1,068,317)</u>	<u>(68,509,940)</u>
Total capital assets, being depreciated, net					
Production plant - Light and Power	10,009,006	(420,858)	-	(675,462)	8,912,686
Transmission plant - Light and Power	4,192,212	(96,796)	(9,984)	(1,639,631)	2,445,801
Distribution plant - Light and Power	77,815,203	3,640,987	(63,215)	(7,557,164)	73,835,811
General plant - Light and Power	6,786,346	(245,456)	-	15,954	6,556,844
Water utility plant	5,211,154	(233,117)	-	149,233	5,127,270
Gas utility plant	22,177,682	(524,377)	-	-	21,653,305
Fiber Optic utility plant	2,897,919	(105,515)	-	90,613	2,883,017
Total	<u>129,089,522</u>	<u>2,014,868</u>	<u>(73,199)</u>	<u>(9,616,457)</u>	<u>121,414,734</u>
Business-type activities capital assets, net	<u>\$ 200,894,936</u>	<u>\$ 14,337,616</u>	<u>\$ (33,180,997)</u>	<u>\$ (9,856,303)</u>	<u>\$ 172,195,252</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 5 – CAPITAL ASSETS (CONTINUED)

In the current year, the Light and Power Fund reclassified \$9,856,303 of inventory previously recorded as capital assets as a result of an independent third party’s physical inventory taken over its capital assets.

In the current year, the Light and Power Fund sold part of land being developed for renewable energy for \$40,000,000 with cost basis of \$33,107,062 for a net gain of \$6,892,938.

Depreciation

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

Light and Power depreciation	\$ 4,116,927
Gas Fund depreciation	710,380
Other Enterprise Fund depreciation	<u>513,120</u>
Total depreciation expense - business-type functions	<u><u>\$ 5,340,427</u></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, 2010, \$506,425,000 remained outstanding consisting of the following:

- \$48,260,000 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
- \$414,400,000 City of Vernon Electric System Revenue Bonds, 2009 Series A

Outstanding at June 30, 2010, were \$48,260,000 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 \$83,732,205, payable through July 2036. For the current year, debt service and total incremental property tax revenues were \$3,416,456 and \$16,751,985, 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, 2010 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 debt service remaining on the bonds is \$116,932,423, payable through 2038. For the current year, debt service and total electric revenues were \$3,720,560 and \$118,589,706, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Fund (as those terms are defined in the Indenture of Trust). 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, 2010

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Outstanding at June 30, 2010 were \$414,400,000 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 debt service remaining on the bonds is \$552,516,647, payable through 2022. For the current year, debt service and total electric revenues were \$19,513,783 and \$118,589,706, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Fund (as those terms are defined in the Indenture of Trust). 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 \$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 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, 2010, \$14,189,474 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	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2010
<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	\$ 48,260,000
<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	3.000% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	414,400,000
<i>Premium</i>				933,458	724,665
<i>Discounts</i>					(3,782,997)
<i>Deferred amount on refunding</i>					(8,941,184)
<i>Total Revenue Bonds</i>				\$ 513,518,458	\$ 494,425,484

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2010, 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*
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	1,390,000	2,028,344
2016-2020	7,520,000	9,167,147
2021-2025	7,400,000	7,328,275
2026-2030	9,260,000	5,492,569
2031-2035	14,135,000	2,742,163
2036	3,460,000	86,500
Total requirements	<u>\$ 48,260,000</u>	<u>\$ 35,442,205</u>

*As of June 30, 2010, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.25% to 5.25%.

As of June 30, 2010, 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*
2011	\$ 265,000	\$ 3,710,755
2012	285,000	3,690,405
2013	305,000	3,668,575
2014	330,000	3,645,080
2015	355,000	3,592,355
2016-2020	2,520,000	17,408,713
2021-2025	5,175,000	15,553,483
2026-2030	7,955,000	12,525,079
2031-2035	12,220,000	7,872,520
2036-2038	14,355,000	1,500,458
Total requirements	<u>\$ 43,765,000</u>	<u>\$ 73,167,423</u>

*As of June 30, 2010, 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, 2010

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2009 Series A	
	Principal	Interest*
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	31,295,000	14,748,957
2016-2020	183,295,000	46,919,792
2021-2022	87,545,000	4,544,209
Total requirements	<u>\$ 414,400,000</u>	<u>\$ 138,116,646</u>

*As of June 30, 2010, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.000% 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, 2010:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
<u>Governmental activities:</u>					
Postemployment benefit liability	\$ 2,024,003	\$ 2,164,000	\$ (170,395)	\$ 4,017,608	\$ 170,395
Bonds payable	49,420,000	-	(1,160,000)	48,260,000	1,285,000
Bond premium	769,011	-	(44,346)	724,665	44,345
Notes payable	25,847,509	-	(11,658,035)	14,189,474	731,665
Claims payable	4,319,402	1,546,091	(831,534)	5,033,959	1,677,986
Compensated absences	1,917,115	5,972,913	(1,917,115)	5,972,913	1,990,971
	<u>\$ 84,297,040</u>	<u>\$ 9,683,004</u>	<u>\$ (15,781,425)</u>	<u>\$ 78,198,619</u>	<u>\$ 5,900,362</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 463,165,000	\$ -	\$ (5,000,000)	\$ 458,165,000	\$ 26,550,000
Bond discount	(4,098,088)	-	315,091	(3,782,997)	(315,091)
Deferred amount on refunding	(9,686,282)	-	745,098	(8,941,184)	(745,099)
Compensated absences	312,061	918,670	(312,061)	918,670	306,224
	<u>\$ 449,692,691</u>	<u>\$ 918,670</u>	<u>\$ (4,251,872)</u>	<u>\$ 446,359,489</u>	<u>\$ 25,796,034</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2010, 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%	\$ (18,059,693)
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%	(13,175,398)

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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 rate 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, 2010, the swap had a negative fair value of \$18,059,693. 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, 2010 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, 2010, 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. The City is obligated to post collateral to Morgan Stanley if the City's negative fair value in the aggregate exceeds \$20,000,000.

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 rate debt.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2010, the swap had a negative fair value of \$13,175,398. 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, 2010 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, 2010, 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. The City is obligated to post collateral to Morgan Stanley if the City's negative fair value in the aggregate exceeds \$20,000,000.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

C - Change in Fair Value of Derivative Instruments

In the current year, the City terminated its 2004 D and 2006 Series variable to fixed swaps and the natural gas commodity swap. The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2010, 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:

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2010</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ (5,382,625)	Derivative liability	\$ (18,059,693)	\$ 90,150,000
2004 Series B Bonds	Decrease in fair value	(4,228,105)	Derivative liability	(13,175,398)	83,575,000
2004 Series D Bonds	Increase in fair value	197,748			
2006 Series A Gas Bonds	Increase in fair value	1,270,748			
2006 Series B and C Gas Bonds	Increase in fair value	1,083,863			
Natural Gas Commodity Swap	Increase in fair value	548,224			
Derivative Contracts / Futures and Options	Decrease in fair value	(203,421)			

The investment income realized from the termination of the 2004 D and 2006 Series variable to fixed swaps and the natural gas commodity swap during the year was \$3,100,583. The net decrease in fair value of investments on the 2004 A and 2004 B swaps during the year was \$9,610,730. The change in fair value subsequent to June 30, 2010 is discussed in Note 15.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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 and retirees. The City is self-insured for its general liability, workers' compensation, and property liability. The City has chosen to establish risk financing in the General Fund at the beginning of this fiscal year, whereby assets are set aside for claim settlements associated with the above risks of loss up to certain limits (See Note 16).

The City has obtained various insurance policies that provide coverage for "Special Form Perils" against direct physical loss or damage, 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 \$228,817,864. Property & Boiler & Machinery Coverage is written through Travelers Insurance Company

Crime, which includes Employee Theft, Forgery Alteration, Computer Fraud, etc., coverage is also in force with a limit of \$1,000,000 for each line of coverage with a deductible of \$25,000. Crime coverage is written through Chartis Insurance.

Excess liability coverage is provided by a stand alone policy purchased by the City. Excess coverage is provided by the Everest National Insurance Company. Excess workers' compensation coverage is provided by a stand alone policy purchased through New York Marine and General Insurance Company.

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. York Insurance Services Group, Inc., which was formally known as 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. Workers' compensation and general liability loss run reports are prepared by York Insurance Services Group, Inc.

The insurance limits are as follows:

Type of Coverage	Self-Insured Retention	Limit	Excess Carrier
General Liability	\$2,000,000	\$20,000,000	Everest National Insurance Co
Excess Workers' Compensation	\$1,000,000	\$50,000,000	New York Marine & General Insurance Co
Property:	\$100,000 deductible	\$100,000,000	Travelers Insurance Co
Blanket Building & Contents		Included	Travelers Insurance Co
Flood Sublimit – Annual		\$25,000,000	Travelers Insurance Co
Electronic Data Processing			
Equipment:		Included	Travelers Insurance Co
Newly Constructed or			
Acquired		Included	Travelers Insurance Co
Machinery Breakdown		\$50,000,000	Travelers Insurance Co

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The City is self insured or pays the deductible stated above for general liability, workers' compensation, or property losses. 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 governmental activities 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	
	2010	2009
Claims payable, beginning of fiscal year	\$ 4,319,402	\$ 5,263,397
Incurred claims and change in estimates	1,546,091	812,276
Claims payments	(831,534)	(1,756,271)
Claims payable, end of fiscal year	\$ 5,033,959	\$ 4,319,402

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 are 8% for miscellaneous employees and 9% for safety employees. In prior years, employee contributions were subsidized by the City however, effective April 8, 2010 contributions were made by the employees. 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 and employees contribution to the PERS for the fiscal year ended June 30, 2010 was \$7,405,652 and \$542,793, respectively. City contribution rates as a percentage of covered payroll were 13.475% for miscellaneous plan members and 25.327% for safety plan members.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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, 2008.

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
2010	\$ 7,405,652	\$ 7,405,652	100%	-
2009	7,477,878	7,477,878	100%	-
2008	6,007,916	6,007,916	100%	-

The following schedules present the funded status as of June 30, 2009 based on actuarial assumptions consistent with the June 30, 2008 valuation described above (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)
6/30/2009	\$164,255,449	\$136,399,402	\$27,856,047	83.0%	\$15,011,719	185.6%

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)
6/30/2009	\$102,181,483	\$88,085,414	\$14,096,069	86.2%	\$13,658,374	103.2%

The schedules of funding progress, presented as required supplementary 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, 2010

NOTE 10 – DEFICITS IN FUND EQUITY

The General Fund has an unreserved fund balance deficit of \$10,987,848 at June 30, 2010, which will be recovered from future revenue increases, cost reductions, and transfers from other funds.

The Gas Enterprise Fund has a deficit of \$4,519,127 at June 30, 2010, which will be recovered from future operating revenues from customers.

The Fiber Optic Other Enterprise fund has a deficit of \$802,321 at June 30, 2010, which will be recovered from future operating revenues from customers.

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, 2010, a deferred gain of \$56,712,621 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. (See Note 13 for disclosure on uncertainties)

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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 2010 was \$3,297,442.

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, 2010, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2010, the outstanding note receivable was \$2,953,044. 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 \$314,450 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, 2010

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

Power Purchase Commitments

As of June 30, 2010, the City had the following long-term commitments to purchase power subject to certain conditions:

<u>Fiscal Year</u>	<u>Amount*</u>
2011	\$ 17,206,166
2012	21,468,581
2013	21,468,581
2014	21,468,581
2015	21,468,581
2016-2020	162,442,189
2021-2023	96,931,266
	<u>\$ 362,453,945</u>

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

Electric Rate Increase

Effective December 1, 2009, the City increased its electric rates 4.7% charged for electrical energy distributed and supplied by the City within its boundaries.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Resolution 9782 provided the payment of medical and dental insurance premiums for certain categories of retired employees during the 2008-2009 fiscal year. Resolution 9782 goes on to state that the City will provide a single-employer postemployment benefit plan consisting of medical and dental benefits to 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, before age 60, 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, 2010, 375 employees (286 active employees and 64 retired employees), participate in OPEB.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

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 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 \$170,395 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, 2010 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, 2010

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

Based on the July 1, 2008 actuarial valuation, the June 30, 2010 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$	2,024,003
Annual OPEB Cost		2,164,000
Employer contributions		<u>(170,395)</u>
Increase in NOO		1,993,605
NOO - End of Year	<u>\$</u>	<u>4,017,608</u>

The funded status of the OPEB plan as of July 1, 2008 and the ARC for the fiscal year ended June 30, 2010 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 and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress on page 64 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, 2010

NOTE 13– CONTINGENCIES

As of June 30, 2010, 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.

On February 16, 2006, the City’s Redevelopment Agency entered into a Basis Swap-Series 2005 with Lehman Brothers Holdings Inc. On September 15, 2008, Lehman Brothers filed a petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of the United States Bankruptcy Code. On December 16, 2008, the Bankruptcy Court entered an Order Pursuant to Section 105 and 365 of the Bankruptcy Code to Establish Procedures for the Settlement or Assumption or Assignment of Prepetition Derivative Contracts. On November 18, 2010, the City’s Redevelopment Agency entered into a Termination Agreement with Lehman Brothers in favor of Lehman Brothers in the amount of \$1,625,000 and recorded this liability as of June 30, 2010.

Uncertainties

The financial and operational effects of the 2008 sale of generation and transmission assets, while reducing the electric system’s debt burden and providing liquidity, puts the utility at some risks in terms of increased fixed-charge obligations and long-term power resource uncertainty.

On September 15, 2010, the Office of the Attorney General for the State of California began an investigation of the compensation paid from the City to various individuals who, at various times, have acted or had acted in the capacity of officials, officers and/or employees of the City. The City is cooperating fully with this inquiry.

A bill has been introduced into the California Assembly, which, if adopted, could dis-incorporate the City.

The impact or outcome of these matters on the City and any potential implications cannot presently be determined and therefore results in uncertainties at the City.

NOTE 14 – FUTURE GASB PRONOUNCEMENT

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

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 14 – FUTURE GASB PRONOUNCEMENT (CONTINUED)

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Specifically, it will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The City has not determined the impact of implementing this accounting standard.

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

NOTE 15 – SUBSEQUENT EVENTS

Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instruments outstanding at December 15, 2010, classified by type, and the change in fair value of such derivative instruments since June 30, 2010 are as follows:

	Change in Fair Value		Fair Value at December 15, 2010		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Increase in fair value	\$ 6,663,735	Derivative liability	\$ (11,395,958)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	4,233,047	Derivative liability	(8,942,351)	83,575,000

Credit Ratings

On December 9, 2010, Moody's Investors Service has put on a Watchlist for a possible downgrade, the A3 ratings on the City of Vernon's, Electric System Revenue Bonds, 2008 Taxable Series A and Electric System Revenue Bonds 2009 Series A.

On December 22, 2010, Standard and Poor’s lowered the rating of National Public Finance Guarantee, formally known as MBIA, from A to BBB. As a result of such rating action, the insured rating of the Vernon Redevelopment Agency 2005 Series was changed to BBB.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2010

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

Under generally accepted accounting principles, a government is to establish and maintain the minimum number of separate funds consistent with legal specifications and operational requirements. Using too many funds causes inflexibility and undue complexity in budgeting, accounting, and other phases of financial management, and is best avoided in the interest of efficient and economical financial administration. Use of internal service funds is typically an optional presentation and is not required.

Effective July 1, 2009, the City consolidated the following internal service funds with the General Fund in order to improve oversight and to reduce costs previously being recorded in those funds:

<u>Internal Service Funds</u>
Worker's Compensation Fund
Retirement Fund
Group Life Insurance Fund
Liability Insurance Fund
Group Medical Insurance Fund
Group Dental Insurance Fund

The Equipment Replacement Internal Service Fund was closed to the General Fund as of June 30, 2010.

The assets, liabilities, fund net assets and any related activity was consolidated into the General Fund at the beginning of the fiscal year and accordingly, there is nothing reported on the proprietary fund financial statements. The Equipment Replacement Internal Service Fund, however, was not consolidated into the General Fund until June 30, 2010. Therefore, a fund operating statement and statement of cash flows for the fiscal year is presented in the proprietary fund financial statements. Prospectively, any activity related to equipment replacement will be reflected in the General Fund.

As previously disclosed, the City follows all applicable GASB pronouncements and as well as any applicable private sector guidance issued on or before November 30, 1989. Those generally accepted accounting principles specifically discuss a change in accounting principle. The City followed generally accepted accounting principles in consolidating the internal service funds into the General Fund with the following adjustment to restate the beginning balance in the General Fund as follows:

General Fund	
Beginning fund balance	\$ 321,031
Adjustment for consolidation of internal service funds	4,319,403
Beginning fund balance, restated	<u>\$ 4,640,434</u>

Also during the fiscal year, the Industrial Development Fund, a Capital Projects fund, was consolidated into the General Fund, and effective July 1, 2010, any activity related to industrial development will be reflected in the General Fund.

NOTE 17 – EXCESS EXPENDITURES OVER APPROPRIATIONS

For the current year, the General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$5,716,689. The key reasons for this variance were excess expenditures over appropriations of \$2,948,547 of capital outlay and \$1,424,666 in General Government's legal and professional services expenditures.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 9,080,000	\$ 9,080,000	\$ 8,175,484	\$ (904,516)
Special assessments	800,000	800,000	1,090,346	290,346
Licenses and permits	1,050,200	1,050,200	1,351,739	301,539
Fines, forfeitures and penalties	185,000	185,000	306,919	121,919
Investment income	30,000	30,000	15,114	(14,886)
Intergovernmental revenues	920,500	920,500	2,725,165	1,804,665
Charges for services	3,392,661	3,392,661	3,590,166	197,505
Other revenues	1,393,000	1,393,000	1,098,835	(294,165)
Total revenues	16,851,361	16,851,361	18,353,768	1,502,407
EXPENDITURES:				
General government	18,900,301	18,900,301	20,324,967	(1,424,666)
Public safety	22,516,990	22,516,990	23,294,443	(777,453)
Public works	5,221,675	5,221,675	5,729,709	(508,034)
Health services	1,274,575	1,274,575	1,275,211	(636)
Principal retirement	-	-	57,353	(57,353)
Capital outlay	-	-	2,948,547	(2,948,547)
Total expenditures	47,913,541	47,913,541	53,630,230	(5,716,689)
Deficiency of revenues under expenditures	(31,062,180)	(31,062,180)	(35,276,462)	(4,214,282)
Other financing sources (uses):				
Sale of property	-	-	1,197	1,197
Transfers in / (out)	31,077,865	31,077,865	42,834,006	11,756,141
Net change	\$ 15,685	\$ 15,685	7,558,741	7,543,056
Reconciliation of GAAP basis fund balance				
Current year encumbrances			1,898,053	1,898,053
NET CHANGE IN FUND BALANCE			9,456,794	9,441,109
FUND BALANCE, BEGINNING OF YEAR, RESTATED			4,640,434	4,640,434
FUND BALANCE, END OF YEAR			\$ 14,097,228	\$ 14,081,543

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2010

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 2010. 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 \$47,913,541. The General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$5,716,689. The key reasons for this variance were excess expenditures over appropriations of \$2,948,547 of capital outlay and \$1,424,666 in General Government's legal and professional services expenditures.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2010

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)
6/30/2009	\$164,255,449	\$136,399,402	\$27,856,047	83.0%	\$15,011,719	185.6%
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%

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)
6/30/2009	\$102,181,483	\$88,085,414	\$14,096,069	86.2%	\$13,658,374	103.2%
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%

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%