

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2011

CITY OF VERNON
Annual Financial Report
Fiscal Year Ended June 30, 2011

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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, and each major fund of the City of Vernon, California (City), as of and for the fiscal year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting. 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, and each major fund of the City as of June 30, 2011, 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 (1) to the basic financial statements, effective July 1, 2010, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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

As discussed in Note (15) to the basic financial statements, on June 29, 2011, the California State Legislature enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California (Assembly Bill 1X 26) unless certain payments can be made to the State of California (Assembly Bill 1X 27). On December 29, 2011, the California Supreme Court (Court) largely upheld the legislation for the dissolution of redevelopment agencies. Furthermore, the Court invalidated Assembly Bill 1X 27. Accordingly, the Vernon Redevelopment Agency (Agency), a blended component unit of the City, was dissolved on February 1, 2012 per the guidelines for dissolution as set forth in the

legislation. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

As discussed in Note (16) to the basic financial statements, effective July 1, 2010, the City changed its method of accounting for activities reported in the Parcel Tax Fund and the Hazardous Waste Fund and consolidated these funds into the General Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and the schedules of funding progress for pension and other postemployment benefits plans on pages 3 through 17, pages 73 through 75 and page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Jini & O'Connell LLP

Los Angeles, California
March 21, 2012

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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, 2011.

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 19-20 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.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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. In the current fiscal year, all activities in the Hazardous Waste Fund and the Parcel Tax Fund have been consolidated and presented in the General Fund (See Note 16).

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 (See page 73).

The basic governmental funds financial statements can be found on pages 21-24 of this report.

Proprietary funds

The City's proprietary funds consist of enterprise 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.

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, Gas Fund, Water Fund, and the Fiber Optics Fund.

The basic proprietary funds financial statements can be found on pages 25-27 of this report.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Assets

The table below summarizes the City's net assets as of June 30, 2011 and June 30, 2010. The details of the current year's summary can be found on page 19 of this report.

City of Vernon
Net Assets
June 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010*	2011	2010*	2011	2010*
Assets:						
Current and other assets	\$ 70,395,407	\$ 72,296,519	\$ 376,757,194	\$ 442,796,774	\$ 447,152,601	\$ 515,093,293
Restricted assets	11,384,870	7,657,648	55,875,012	56,274,028	67,259,882	63,931,676
Capital assets	84,557,927	87,748,219	200,159,685	172,195,252	284,717,612	259,943,471
Total assets	166,338,204	167,702,386	632,791,891	671,266,054	799,130,095	838,968,440
Liabilities						
Current liabilities	13,818,498	11,685,468	76,006,740	86,284,199	89,825,238	97,969,667
Long-term liabilities	90,594,614	72,298,257	437,019,743	467,592,442	527,614,357	539,890,699
Total liabilities	104,413,112	83,983,725	513,026,483	553,876,641	617,439,595	637,860,366
Net Assets:						
Invested in capital assets, net of related debt	24,464,940	42,713,480	156,663,440	128,434,174	181,128,380	171,147,654
Restricted	827,807	462,585	-	-	827,807	462,585
Unrestricted	36,632,345	40,542,596	(36,898,032)	(11,044,761)	(265,687)	29,497,835
Total net assets	\$ 61,925,092	\$ 83,718,661	\$ 119,765,408	\$ 117,389,413	\$ 181,690,500	\$ 201,108,074

* The 2010 amounts were adjusted to conform to current year's presentation.

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$181,690,500 (*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 \$181,128,380 (99.7%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net assets, totaling \$827,807 (0.5%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net assets, totaling (\$265,687) (0.2%) represents a deficit in unrestricted net assets that is expected to be recovered from the City's future revenues.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Governmental activities, net assets:

- Current and other assets decreased \$1,901,112 from the prior year due primarily to a decrease in internal balances of \$17,982,129 offset by a decrease in cash and investments of \$12,609,669.
- Restricted assets increased \$3,727,222 from the prior year due primarily to increases in reserves for debt service associated with the issuance of the Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable) (See Note 6).
- Capital assets decreased \$3,190,292 from the prior year due primarily to current year's depreciation of \$3,244,869 (See Note 5).
- Current liabilities increased \$2,133,030 from the prior year due primarily to an increase in accounts payable of \$1,880,080 and bond interest payable of \$462,594.
- Long-term liabilities increased \$18,296,357 from the prior year due primarily to the issuance of \$19,490,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable) during the year (See Note 6).
- Unrestricted net assets decreased \$3,910,251 from the prior year due primarily to a decrease in investment in capital assets, net of related debt of \$18,248,540, an increase in restricted net assets of \$365,222, offset by a decrease in net assets from current year's activities of \$21,793,569.

Business-type activities, net assets:

- Current and other assets decreased \$66,039,580 from the prior year due primarily to a decrease in cash and investments of \$16,960,895, decrease in internal balances of \$17,982,129, and a decrease in prepaid natural gas of \$28,578,342.
- Capital assets increased \$27,964,433 from the prior year due primarily to an increase in intangible capital assets in the form of environmental emission credits that Light and Power received from the General Fund as repayment of advances (See Note 5).
- Current liabilities decreased \$10,277,459 from the prior year due primarily to a decrease in derivative liabilities of \$5,557,219 and a decrease in deferred gain from the sale of generation assets of \$5,738,399 during the year (See Notes 7 and 11).
- Long-term liabilities decreased \$30,572,699 from the prior year due primarily to a decrease in long-term bonds payable, net, of \$26,594,810 and a decrease in deferred gain from the sale of generation assets of \$3,985,174, due to annual amortization.
- Unrestricted net (deficit) decreased \$25,853,272 from the prior year due primarily to an increase in investment in capital assets, net of related debt, of \$28,229,267 offset by an increase in net assets from current year's activities of \$2,375,995.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 20 of this report.

City of Vernon
Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program Revenues						
Charges for services	\$ 6,670,751	\$ 6,428,482			\$ 6,670,751	\$ 6,428,482
Light and power			\$ 118,186,124	\$ 118,589,706	118,186,124	118,589,706
Gas			47,278,634	50,541,903	47,278,634	50,541,903
Water			6,145,505	6,466,837	6,145,505	6,466,837
Fiber Optics			211,002	181,492	211,002	181,492
Operating and capital grants and contributions	1,938,566	2,724,809	-	-	1,938,566	2,724,809
General Revenues						
Taxes	29,758,699	30,077,200	-	-	29,758,699	30,077,200
State allocations	4,152,596	3,746,152	-	-	4,152,596	3,746,152
Investment income (loss)	20,130	214,846	659,075	(20,247,978)	679,205	(20,033,132)
Other revenues	973,014	662,588	-	-	973,014	662,588
Total revenues	43,513,756	43,854,077	172,480,340	155,531,960	215,994,096	199,386,037
Expenses						
Governmental activities						
General government	30,997,386	34,544,828	-	-	30,997,386	34,544,828
Public safety	26,690,047	27,926,502	-	-	26,690,047	27,926,502
Public works	5,889,359	6,967,273	-	-	5,889,359	6,967,273
Health services	1,531,345	1,622,208	-	-	1,531,345	1,622,208
Interest on long-term debt	3,348,964	3,264,642	-	-	3,348,964	3,264,642
Business-type activities						
Light and Power			113,466,486	110,433,226	113,466,486	110,433,226
Gas			46,861,731	53,551,029	46,861,731	53,551,029
Water			6,159,188	5,932,895	6,159,188	5,932,895
Fiber Optics			467,164	540,391	467,164	540,391
Total expenses	68,457,101	74,325,453	166,954,569	170,457,541	235,411,670	244,782,994
Special Item						
Business-type activities						
Light and Power						
Gain on sale of land	-	-	-	6,892,938	-	6,892,938
Total special item	-	-	-	6,892,938	-	6,892,938
Change in net assets before transfers	(24,943,345)	(30,471,376)	5,525,771	(8,032,643)	(19,417,574)	(38,504,019)
Transfers	3,149,776	8,600,038	(3,149,776)	(8,600,038)	-	-
Change in net assets	(21,793,569)	(21,871,338)	2,375,995	(16,632,681)	(19,417,574)	(38,504,019)
Net assets- beginning of year	83,718,661	105,589,999	117,389,413	134,022,094	201,108,074	239,612,093
Net assets- end of year	\$ 61,925,092	\$ 83,718,661	\$ 119,765,408	\$ 117,389,413	\$ 181,690,500	\$ 201,108,074

Governmental activities' net assets decreased by \$21,793,569 and business-type activities' net assets increased by \$2,375,995 for a net decrease of \$19,417,574 for the City. The decrease in the governmental activities was caused by the governmental activities reporting a \$24,943,345 decrease in net assets before transfers and an \$3,149,776 transfer in from the business-type activities.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

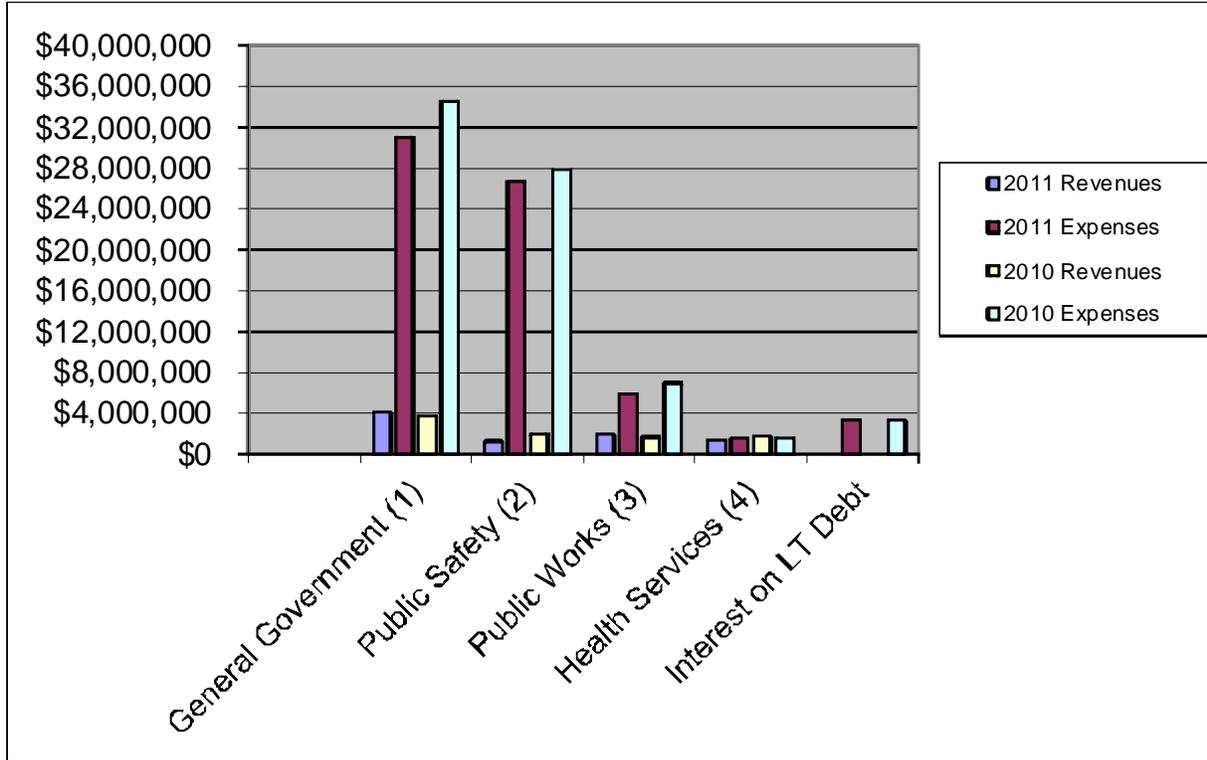
Governmental activities, changes in net assets:

Governmental activities decreased the City's net assets by \$21,793,569. This is a decrease of \$77,769 from the prior year. The key reasons for this decrease and change in net assets are as follows:

- In the current year, program expenses were \$5,868,352 lower than the prior year as follows:
 - In the prior year, the City's Redevelopment Agency Fund (Agency) incurred a \$3,624,181 "Supplemental Educational Revenue Augmentation Funds" revenue shift to the State.
 - In the prior year, the Agency incurred a non-recurring swap termination cost of \$1,625,000.
 - In the prior year, \$4,055,798 of program expenses were recorded to adjust the City's long-term compensated absences balance as follows:
 - General Government \$465,220.
 - Health Services \$209,228
 - Public Works \$712,840
 - Public Safety \$2,668,510
 - In the current year, \$4,688,957 of non-perpetuity environmental emission credits that had expired was written-off.
- In the current year, transfers in were \$5,450,262 lower than the prior year. The transfers in were lower than the prior year due to the limitation imposed by Vernon Charter per Resolution No. 2011-133. The transfers in during the current year were limited to enterprise fund's in-lieu franchise tax payments to the General Fund of \$3,149,776.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2011 and 2010

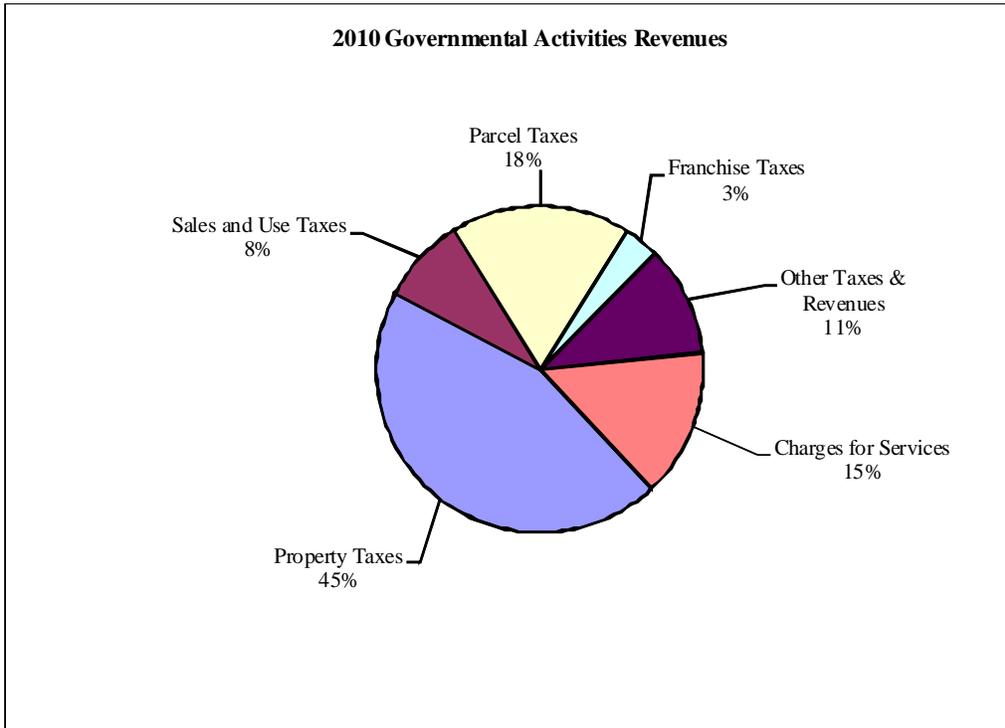
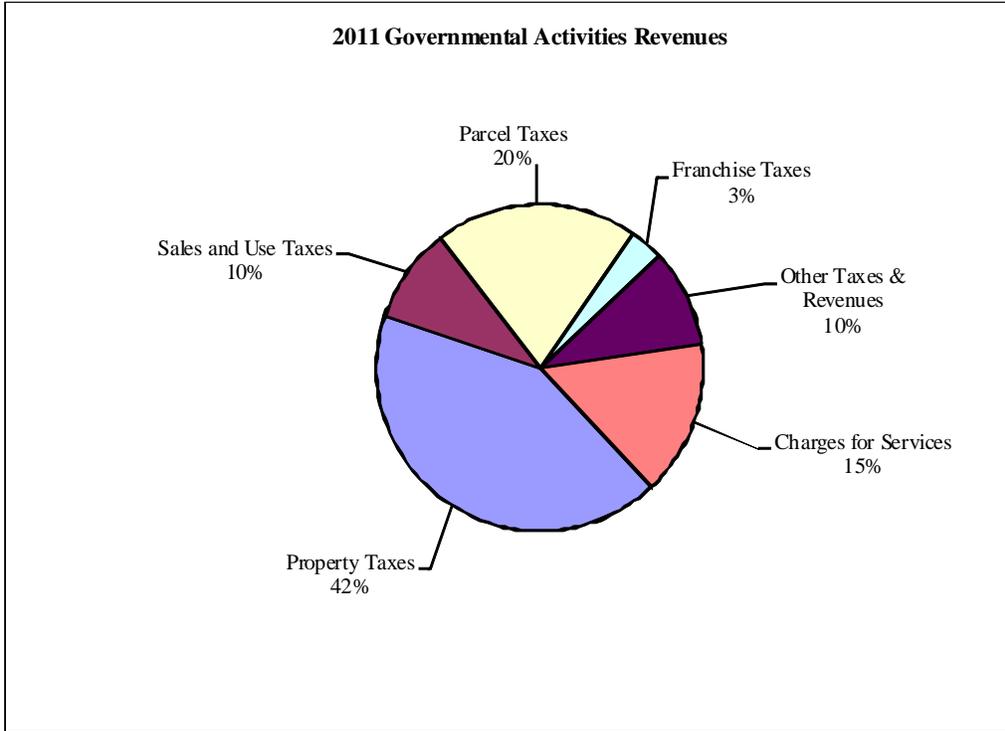


Governmental activities consist of the following departments:

- | (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 | | | |

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2011 and 2010



CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

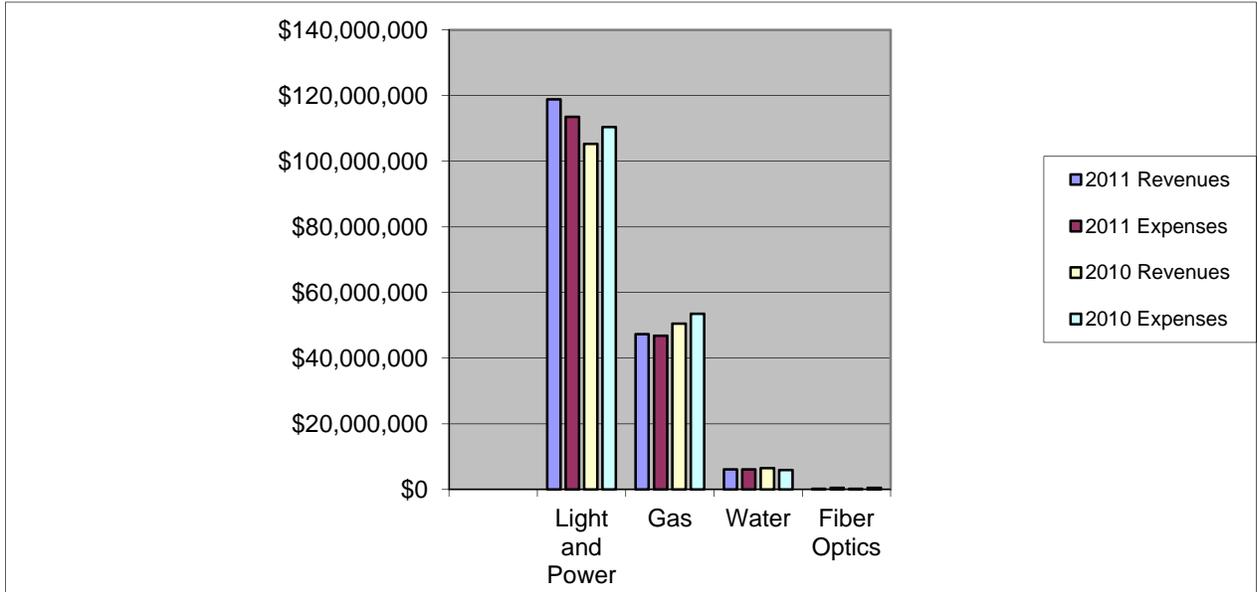
Business-type activities, changes in net assets:

Business-type activities increased the City's net assets by \$5,525,771 before transfers which is a \$13,558,414 increase from the prior year. The key reasons for this increase in change in net assets from the prior year are as follows:

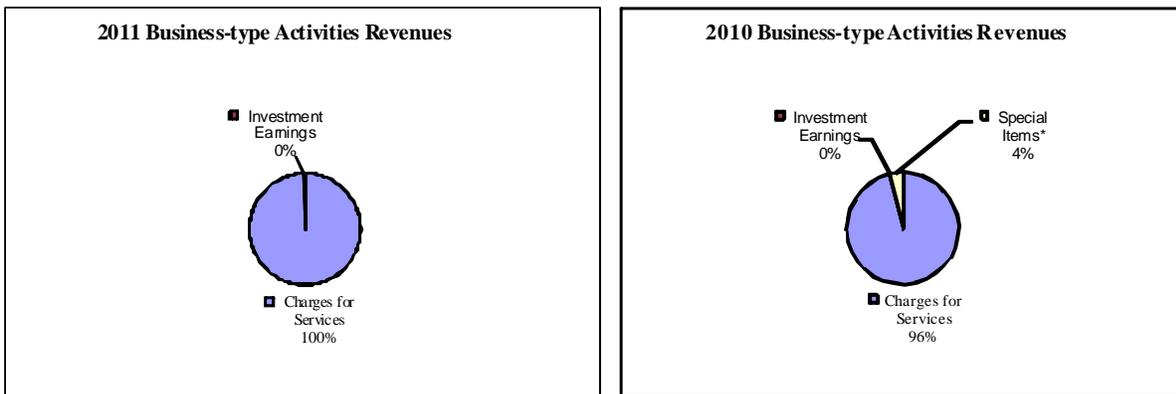
- Light and Power's investment loss was \$5,876,749 lower than the prior year mainly due to lower interest rate swaps payments made during the year (See Note 7).
- Light and Power's increase in fair value of investments was \$15,030,304 higher than the prior year due to a favorable market condition for its investment derivatives (See Note 7).
- Light and Power had a \$6,892,938 gain on sale of land in the prior year.
- Light and Power's cost of sales was \$3,724,101 higher than the prior year mainly due to higher capacity and transmission costs offset by lower energy and natural gas expense during the year.
- Gas Fund's charges for services and cost of sales were \$3,263,269 and \$6,699,638, respectively, lower than the prior year mainly due to lower natural gas price during the year.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2011 and 2010



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2011 and 2010



* Special item consists of gain on sale of land.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 21-24 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, the *nonspendable, restricted, committed, assigned, and unassigned fund balances* 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 \$61,065,313 (See page 21), a decrease of \$26,277,067 from the prior year. Approximately 62% of total fund balance amount, \$37,681,776, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 46% of the total fund balance amount, \$27,968,132, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$4,584,595), is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$7,809,740 (See page 21). At the end of the current fiscal year, the total fund balance was 14% 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 \$53,255,573 (See page 21). At the end of the current fiscal year, the total fund balance was 149% 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 \$2,505,632 (See page 25). Unrestricted net assets of the Gas Fund at the end of the year amounted to a deficit of \$25,120,559. Unrestricted net assets of the Water Fund at the end of the year amounted to a deficit of \$5,484,704. Unrestricted net assets of the Fiber Optics Fund at the end of the year amounted to a deficit of \$3,787,137. 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.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Total increase in net assets for the Light and Power Fund was \$2,228,937 (See page 24). Total increase in net assets for the Gas Fund was \$416,903. Total decrease in net assets for the Water Fund was \$13,683. Total decrease in net assets for the Fiber Optics Fund was \$256,162. 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 General Fund's total positive variance between the final budgeted amounts and actual amount for revenues was \$3,564,771. The key reasons for this variance were excess revenues over estimated revenues of \$1,658,837 of taxes and \$1,406,082 of intergovernmental revenues. The excess revenues over estimated revenues for taxes were mainly due to sales and use tax and parcel taxes. The excess revenues over estimated revenues for intergovernmental revenues were mainly due to federal and state grant for capital projects.

For the current year, the General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$14,713,945. The key reasons for this variance were excess expenditures over appropriations of \$1,448,931 of capital outlay, \$1,082,977 of public safety, and \$12,800,790 of general government. The excess expenditures over appropriations for capital outlay were mainly due to federal and state grant funded capital projects. The excess expenditures over appropriations for public safety were mainly due to salaries and benefits. The excess expenditures over appropriations for general government were mainly due to the cost of legal and professional services to prevent the City from being disincorporated (AB 46), increase in group insurance costs, and a write-off of environmental emission credits that had expired.

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, 2011, amounts to \$284,717,612 (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 and environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$24,774,141, due primarily to current year's additions of \$15,158,120 to Light and Power's renewable energy projects and distribution plant, less depreciation of \$8,796,050, offset by a reclassification of other assets to intangible capital assets of \$20,145,887, offset by a reclassification of land to land purchase deposit of \$26,200,000 (See Note 5).

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

- In the current year, the Redevelopment Agency Fund reclassified \$26,200,000 of land acquisition cost as a land purchase deposit and restated the June 30, 2010 land balance (See Note 5 and 17).
- In the current year, Light and Power's capital assets increased \$29,038,626 consisting of \$20,145,887 in intangible environmental emission credits, \$7,420,200 construction in progress for renewable energy, and \$6,130,981 addition to its transmission and distribution plants.

There were no significant construction commitments outstanding as of June 30, 2011.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Additional information on the City's capital assets can be found in Note 5 on pages 44-47 of this report.

Outstanding debt

As of June 30, 2011, the following debt remains outstanding:

- \$46,975,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005
- \$19,490,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable)
- \$43,500,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$388,115,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$13,467,757 Revolving Line of Credit with East West Bank

The Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005, 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 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable), were issued to (i) to finance the acquisition of one or more parcels of land, and certain redevelopment projects, in or benefiting the project area, (ii) to fund the reserve requirement for the Series 2011 Bonds, and (iii) to pay costs of issuance related to the Series 2011 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, 2011, the Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005, had an insured rating of BBB by S&P and Baa1 by Moody's. The Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable), had a rating of A- by S&P.
- On December 9, 2010, Moody's Investors Service 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 March 21, 2011, Moody's Investors Service affirmed the A3 ratings with negative outlook.
- On December 2, 2011, Moody's Investors Service downgraded the A3 ratings to Baa1 (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

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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, 2011, \$13,467,757 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, 2011 was due to the principal payments of \$1,285,000 on the Tax Allocation Bonds, \$26,550,000 on the Electric System Revenue Bonds, and \$721,717 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 48-52 of this report.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2011
(Unaudited)

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2012 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 11.6%. This compares favorably to the state's average unemployment rate of 11.8% but unfavorably to the national average unemployment rate of 9.2%.
- The occupancy rate of the City's central business district has remained at 96.7% for the current year.
- Inflationary trends in the region compare favorably to national indices.

CURRENTLY KNOWN FACTS

- On December 2, 2011, Moody's Investors Service downgraded the A3 ratings to Baa1 on the City of Vernon's, Electric System Revenue Bonds, 2008 Taxable Series A and Electric System Revenue Bonds 2009 Series A.
- On December 19, 2011, Moody's Investors Service lowered the rating of National Public Finance Guarantee Corporation ("NPF") to Baa2 from Baa1. The Redevelopment Agency Bonds are insured by NPF and the rating on the Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005, was lowered to Baa2.
- On June 29, 2011, the Governor of the State of California signed Assembly Bills 1X 26 as part of the State's budget package, which was upheld by the California Supreme Court on December 29, 2011. Assembly Bill 1X 26 dissolves all redevelopment agencies and community development agencies. As of June 29, 2011, the Agency cannot incur new obligations and debt and cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. However, the Agency is required to continue to make scheduled payments on bonds and other legally binding agreements and manage existing contracts, projects, and other agreements. The Agency was dissolved on February 1, 2012 (See Note 15).

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.

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CITY OF VERNON, CALIFORNIA
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 4,144,947	\$ 52,600,004	\$ 56,744,951
Receivables, net of allowances of \$50,000 for business-type activities	2,940,482	4,522,059	7,462,541
Accrued unbilled revenue	-	7,734,378	7,734,378
Accrued interest receivable	25,388	267,520	292,908
Inventories	587,242	11,000,009	11,587,251
Internal balances	(4,646,412)	4,646,412	-
Prepaid natural gas	-	282,990,560	282,990,560
Deposits and prepaid expenses	89,515	6,929,812	7,019,327
Restricted cash and investments	11,384,870	55,875,012	67,259,882
Note receivable	-	2,618,808	2,618,808
Bond issuance costs	2,262,355	3,447,632	5,709,987
Other assets	368,015	-	368,015
Land purchase deposit	26,200,000	-	26,200,000
Land held for resale	38,423,875	-	38,423,875
Accumulated redevelopment project costs			
Nondepreciable	24,834,844	-	24,834,844
Capital assets:			
Nondepreciable	13,598,417	78,300,448	91,898,865
Depreciable, net	46,124,666	121,859,237	167,983,903
Total assets	166,338,204	632,791,891	799,130,095
LIABILITIES:			
Accounts payable	5,497,650	8,464,545	13,962,195
Accrued wages and benefits	944,922	-	944,922
Customer deposits and funds held for others	147,720	640,336	788,056
Derivative liabilities	-	25,677,872	25,677,872
Bond interest payable	1,208,463	10,374,076	11,582,539
Note interest payable	56,116	-	56,116
Long-term liabilities:			
Due within one year:			
Postemployment benefit liability	290,000	-	290,000
Bonds payable, net	1,380,435	26,594,810	27,975,245
Notes payable	757,400	-	757,400
Deferred gain from sale of generation assets	-	3,945,235	3,945,235
Claims payable	1,675,477	-	1,675,477
Compensated absences	1,860,315	309,866	2,170,180
Due in more than one year:			
Postemployment benefit liability	5,926,000	-	5,926,000
Bonds payable, net	64,886,675	393,356,199	458,242,874
Notes payable	12,710,357	-	12,710,357
Deferred gain from sale of generation assets	-	43,043,813	43,043,813
Claims payable	3,350,953	-	3,350,953
Compensated absences	3,720,629	619,731	4,340,361
Total liabilities	104,413,112	513,026,483	617,439,595
NET ASSETS:			
Invested in capital assets, net of related debt	24,464,940	156,663,440	181,128,380
Restricted for:			
Grants	827,807	-	827,807
Unrestricted (deficit)	36,632,345	(36,898,032)	(265,687)
Total net assets	\$ 61,925,092	\$ 119,765,408	\$ 181,690,500

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
Year Ended June 30, 2011

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	\$ 30,997,386	\$ 3,776,533	\$ 344,023	\$ -	\$ (26,876,830)	\$ -	\$ (26,876,830)
Public safety	26,690,047	398,365	888,622	-	(25,403,060)	-	(25,403,060)
Public works	5,889,359	1,251,359	-	651,478	(3,986,522)	-	(3,986,522)
Health services	1,531,345	1,244,494	54,443	-	(232,408)	-	(232,408)
Interest on long-term debt	3,348,964	-	-	-	(3,348,964)	-	(3,348,964)
Total governmental activities	<u>68,457,101</u>	<u>6,670,751</u>	<u>1,287,088</u>	<u>651,478</u>	<u>(59,847,784)</u>	<u>-</u>	<u>(59,847,784)</u>
Business-type activities:							
Light and power	113,466,486	118,186,124	-	-	-	4,719,638	4,719,638
Gas	46,861,731	47,278,634	-	-	-	416,903	416,903
Water	6,159,188	6,145,505	-	-	-	(13,683)	(13,683)
Fiber optics	467,164	211,002	-	-	-	(256,162)	(256,162)
Total business-type activities	<u>166,954,569</u>	<u>171,821,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,866,696</u>	<u>4,866,696</u>
Total	<u>\$ 235,411,670</u>	<u>\$ 178,492,016</u>	<u>\$ 1,287,088</u>	<u>\$ 651,478</u>	<u>(59,847,784)</u>	<u>4,866,696</u>	<u>(54,981,088)</u>
General revenues:							
Property taxes					18,299,216	-	18,299,216
Parcel taxes					8,683,645	-	8,683,645
Franchise taxes					1,437,932	-	1,437,932
Business license taxes					1,328,563	-	1,328,563
Other license taxes					9,343	-	9,343
Investment income (loss)					20,130	(4,404,954)	(4,384,824)
Net increase in fair value of investments					-	5,064,029	5,064,029
State contribution - sales and use taxes					4,152,596	-	4,152,596
Gain on sale of property					5,483	-	5,483
Other revenues					967,531	-	967,531
Transfers					3,149,776	(3,149,776)	-
Total general revenues and transfers					<u>38,054,215</u>	<u>(2,490,701)</u>	<u>35,563,514</u>
Change in net assets					(21,793,569)	2,375,995	(19,417,574)
NET ASSETS, BEGINNING OF YEAR					<u>83,718,661</u>	<u>117,389,413</u>	<u>201,108,074</u>
NET ASSETS, END OF YEAR					<u>\$ 61,925,092</u>	<u>\$ 119,765,408</u>	<u>\$ 181,690,500</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Redevelopment Agency Fund	Hazardous Waste Fund	Parcel Tax Funds	Total Governmental Funds
ASSETS:					
Cash and investments	\$ 256,958	\$ 3,887,989	\$ -	\$ -	\$ 4,144,947
Receivables	1,929,122	1,011,360	-	-	2,940,482
Accrued interest receivable	4	25,384	-	-	25,388
Advance to other funds	5,365,241	-	-	-	5,365,241
Inventories	587,242	-	-	-	587,242
Restricted cash and investments	5,201,748	6,183,122	-	-	11,384,870
Deposits and prepaid expenses	89,515	-	-	-	89,515
Other assets	368,015	-	-	-	368,015
Land purchase deposit	-	26,200,000	-	-	26,200,000
Land held for resale	22,388,836	16,035,039	-	-	38,423,875
Total assets	<u>\$ 36,186,681</u>	<u>\$ 53,342,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,529,575</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 5,473,297	\$ 24,353	\$ -	\$ -	\$ 5,497,650
Accrued wages and benefits	944,922	-	-	-	944,922
Due to other funds	10,011,653	-	-	-	10,011,653
Customer deposits and funds held for others	84,752	62,968	-	-	147,720
Deferred revenue	11,862,317	-	-	-	11,862,317
Total liabilities	<u>28,376,941</u>	<u>87,321</u>	<u>-</u>	<u>-</u>	<u>28,464,262</u>
Fund balances:					
Nonspendable:					
Inventories	587,242	-	-	-	587,242
Other assets	368,015	-	-	-	368,015
Land purchase deposit	-	26,200,000	-	-	26,200,000
Land held for resale	10,526,519	-	-	-	10,526,519
Restricted for:					
Federal forfeiture funds	827,807	-	-	-	827,807
Redevelopment projects	-	20,818,506	-	-	20,818,506
Debt service	-	6,174,099	-	-	6,174,099
Customer deposits and funds held for others	84,752	62,968	-	-	147,720
Unassigned	(4,584,595)	-	-	-	(4,584,595)
Total fund balances	<u>7,809,740</u>	<u>53,255,573</u>	<u>-</u>	<u>-</u>	<u>61,065,313</u>
Total liabilities and fund balances	<u>\$ 36,186,681</u>	<u>\$ 53,342,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,529,575</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, 2011

Fund balances - total governmental funds (page 19)	\$61,065,313
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets and accumulated redevelopment project costs used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	84,557,927
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, such as land held for resale, are offset by deferred revenue in the governmental funds.	11,862,317
Unamortized bond issuance costs used in governmental activities do not consume current financial resources and therefore are not reported in the governmental funds.	2,262,355
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(5,580,944)
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.	(6,216,000)
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	(5,026,430)
Bonds payable	(66,465,000)
Bond interest payable	(1,208,463)
Unamortized bond premium	(680,319)
Unamortized bond discount	878,209
Note payable	(13,467,757)
Note interest payable	(56,116)
Net assets of governmental activities (page 19)	\$61,925,092

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
June 30, 2011

	General Fund	Redevelopment Agency Fund	Hazardous Waste Fund	Parcel Tax Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 17,483,177	\$ 15,384,609	\$ -	\$ -	\$ 32,867,786
Special assessments	1,008,957	-	-	-	1,008,957
Licenses and permits	1,842,781	-	-	-	1,842,781
Fines, forfeitures and penalties	276,925	-	-	-	276,925
Investment income (loss)	24,909	(4,779)	-	-	20,130
Intergovernmental revenues	1,947,465	-	-	-	1,947,465
Charges for services to enterprise funds	4,362,464	-	-	-	4,362,464
Other revenues	947,441	234,323	-	-	1,181,764
Total revenues	<u>27,894,119</u>	<u>15,614,153</u>	<u>-</u>	<u>-</u>	<u>43,508,272</u>
EXPENDITURES:					
Current:					
General government	21,506,272	31,747,890	-	-	53,254,162
Public safety	24,813,684	-	-	-	24,813,684
Public works	5,175,945	-	-	-	5,175,945
Health services	1,499,031	-	-	-	1,499,031
Capital outlay	1,448,931	-	-	-	1,448,931
Debt service:					
Principal retirement	721,717	1,285,000	-	-	2,006,717
Bond and note interest	702,809	2,216,725	-	-	2,919,534
Bond issuance cost	-	420,190	-	-	420,190
Total expenditures	<u>55,868,389</u>	<u>35,669,805</u>	<u>-</u>	<u>-</u>	<u>91,538,194</u>
Deficiency of revenues under expenditures	(27,974,270)	(20,055,652)	-	-	(48,029,922)
Other financing sources (uses)					
Sale of property	5,483	-	-	-	5,483
Proceeds from long-term debt	-	19,490,000	-	-	19,490,000
Bond discount	-	(892,405)	-	-	(892,405)
Transfers in	16,946,448	-	-	-	16,946,448
Transfers out	-	(13,796,671)	-	-	(13,796,671)
Total other financing sources (uses)	<u>16,951,931</u>	<u>4,800,924</u>	<u>-</u>	<u>-</u>	<u>21,752,855</u>
NET CHANGE IN FUND BALANCES	(11,022,339)	(15,254,728)	-	-	(26,277,067)
FUND BALANCES, BEGINNING OF YEAR, RESTATED	<u>18,832,079</u>	<u>68,510,301</u>	<u>-</u>	<u>-</u>	<u>87,342,380</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,809,740</u>	<u>\$ 53,255,573</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,065,313</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
June 30, 2011

Net change in fund balances - total governmental funds (page 23)		\$ (26,277,067)
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets	\$ 26,283,775	
Less current year depreciation	(3,244,869)	
Less capital asset deletion	<u>(29,199)</u>	23,009,707
Change in long-term compensated absences		391,969
Change in net postemployment benefits other than pension obligation.		(2,198,392)
Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.		
Change in unamortized bond issuance costs		(127,198)
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		
Bond issuance		(19,490,000)
Cost of issuance		420,190
Bond discount		892,405
Long-term debt repayments consume current financial resources of governmental funds, but repaying debt decreases long-term liabilities in the statement of net assets.		
Principal repayment on bonds		1,285,000
Principal repayment on notes		721,717
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in claims payable		7,529
Change in bond interest payable		(462,594)
Change in unamortized bond premium		44,346
Change in unamortized bond discount		(14,196)
Change in note interest payable		<u>3,015</u>
Change in net assets of governmental activities (page 20)		<u>\$ (21,793,569)</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2011

	Business-type Activities Enterprise Funds				Totals
	Light and Power Fund	Gas Fund	Water Fund	Fiber Optics Fund	
	Fund	Fund	Fund	Fund	
ASSETS:					
Current assets:					
Cash and investments	\$ 50,848,937	\$ 1,751,067	\$ -	\$ -	\$ 52,600,004
Accounts receivable, net of allowances of \$50,000	1,873,918	2,288,898	340,880	18,363	4,522,059
Accrued unbilled revenue	7,477,754	-	256,624	-	7,734,378
Accrued interest receivable	267,520	-	-	-	267,520
Bond issuance costs	246,533	-	-	-	246,533
Due from other funds	17,236,990	-	-	-	17,236,990
Inventories	10,564,158	427,620	-	8,231	11,000,009
Prepaid natural gas	28,631,088	-	-	-	28,631,088
Note receivable	200,060	-	-	-	200,060
Deposits and prepaid expenses	6,929,812	-	-	-	6,929,812
Total current assets	<u>124,276,770</u>	<u>4,467,585</u>	<u>597,504</u>	<u>26,594</u>	<u>129,368,453</u>
Noncurrent assets:					
Restricted cash and investments	55,875,012	-	-	-	55,875,012
Advances to other funds	25,144,192	-	-	-	25,144,192
Prepaid natural gas	254,359,472	-	-	-	254,359,472
Note receivable	2,418,748	-	-	-	2,418,748
Bond issuance costs	3,201,099	-	-	-	3,201,099
Capital assets:					
Nondepreciable	64,720,406	-	13,580,042	-	78,300,448
Depreciable, net	93,305,807	21,018,335	4,806,441	2,728,654	121,859,237
Total noncurrent assets	<u>499,024,736</u>	<u>21,018,335</u>	<u>18,386,483</u>	<u>2,728,654</u>	<u>541,158,208</u>
Total assets	<u>623,301,506</u>	<u>25,485,920</u>	<u>18,983,987</u>	<u>2,755,248</u>	<u>670,526,661</u>
LIABILITIES:					
Accounts payable	7,156,542	798,858	462,928	46,217	8,464,545
Customer deposits	440,375	18,000	181,961	-	640,336
Due to other funds	-	3,541,247	1,369,388	2,314,702	7,225,337
Derivative liabilities	25,677,872	-	-	-	25,677,872
Bond interest	10,374,076	-	-	-	10,374,076
Long-term liabilities:					
Due within one year:					
Deferred gain from sale of generation assets	3,945,235	-	-	-	3,945,235
Bonds payable, net	26,594,810	-	-	-	26,594,810
Compensated absences	229,416	7,488	68,756	4,206	309,866
Total current liabilities	<u>74,418,326</u>	<u>4,365,593</u>	<u>2,083,033</u>	<u>2,365,125</u>	<u>83,232,077</u>
Due in more than one year:					
Advances from other funds	-	25,207,575	3,861,664	1,440,194	30,509,433
Deferred gain from sale of generation assets	43,043,813	-	-	-	43,043,813
Bonds payable, net	393,356,199	-	-	-	393,356,199
Compensated absences	458,832	14,976	137,511	8,412	619,731
Total noncurrent liabilities	<u>436,858,844</u>	<u>25,222,551</u>	<u>3,999,175</u>	<u>1,448,606</u>	<u>467,529,176</u>
Total liabilities	<u>511,277,170</u>	<u>29,588,144</u>	<u>6,082,208</u>	<u>3,813,731</u>	<u>550,761,253</u>
NET ASSETS:					
Invested in capital assets, net of related debt	114,529,968	21,018,335	18,386,483	2,728,654	156,663,440
Unrestricted (deficit)	(2,505,632)	(25,120,559)	(5,484,704)	(3,787,137)	(36,898,032)
Total net assets (deficit)	<u>\$ 112,024,336</u>	<u>\$ (4,102,224)</u>	<u>\$ 12,901,779</u>	<u>\$ (1,058,483)</u>	<u>\$ 119,765,408</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
June 30, 2011

	Business-type Activities Enterprise Funds				Totals
	Light and Power Fund	Gas Fund	Water Fund	Fiber Optics Fund	
OPERATING REVENUES:					
Charges for services	\$ 118,186,124	\$ 47,278,634	\$ 6,145,505	\$ 211,002	\$ 171,821,265
Total operating revenues	<u>118,186,124</u>	<u>47,278,634</u>	<u>6,145,505</u>	<u>211,002</u>	<u>171,821,265</u>
OPERATING EXPENSES:					
Cost of sales	88,451,984	46,141,011	5,838,360	290,465	140,721,820
Depreciation and amortization	4,579,467	720,720	320,828	176,699	5,797,714
Total operating expenses	<u>93,031,451</u>	<u>46,861,731</u>	<u>6,159,188</u>	<u>467,164</u>	<u>146,519,534</u>
Operating income (loss)	25,154,673	416,903	(13,683)	(256,162)	25,301,731
NONOPERATING REVENUE (EXPENSES):					
Investment loss	(4,404,954)	-	-	-	(4,404,954)
Net increase in fair value of investments	5,064,029	-	-	-	5,064,029
Interest expense	(20,435,035)	-	-	-	(20,435,035)
Total nonoperating revenue (expenses), net	<u>(19,775,960)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,775,960)</u>
Income (loss) before transfers	5,378,713	416,903	(13,683)	(256,162)	5,525,771
Transfers out	(3,149,776)	-	-	-	(3,149,776)
Change in net assets	2,228,937	416,903	(13,683)	(256,162)	2,375,995
Net assets (deficit), beginning of the year	<u>109,795,399</u>	<u>(4,519,127)</u>	<u>12,915,462</u>	<u>(802,321)</u>	<u>117,389,413</u>
Net assets (deficit), end of the year	<u>\$ 112,024,336</u>	<u>\$ (4,102,224)</u>	<u>\$ 12,901,779</u>	<u>\$ (1,058,483)</u>	<u>\$ 119,765,408</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Cash Flows
Proprietary Funds
June 30, 2011

	Business-type Activities - Enterprise Funds				Total
	Light and Power Fund	Gas Fund	Water Fund	Fiber Optics Fund	
Cash flows from operating activities:					
Cash received from customers and City	\$ 116,140,460	\$ 45,920,996	\$ 5,733,172	\$ 304,930	\$ 168,099,558
Cash paid to suppliers for goods and services	(59,032,764)	(45,436,871)	(3,680,180)	(229,664)	(108,379,479)
Cash paid to City for administrative and overhead costs	(2,872,661)	-	(720,000)	-	(3,592,661)
Cash paid to employees for services	(3,923,869)	(255,731)	(1,332,992)	(57,729)	(5,570,321)
Net cash provided by (used in) operating activities	<u>50,311,166</u>	<u>228,394</u>	<u>-</u>	<u>17,537</u>	<u>50,557,097</u>
Cash flows from noncapital financing activities:					
Transfers of in-lieu taxes to City	(3,149,776)	-	-	-	(3,149,776)
Collection of note receivable	334,236	-	-	-	334,236
Net cash used in noncapital financing activities	<u>(2,815,540)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,815,540)</u>
Cash flows from capital and related financing activities:					
Repayment of bonds	(26,550,000)	-	-	-	(26,550,000)
Bond interest paid	(23,466,355)	-	-	-	(23,466,355)
Acquisition and construction of capital assets, net	(10,196,836)	(71,652)	-	(17,537)	(10,286,025)
Net cash provided by (used in) capital and related financing activities	<u>(60,213,191)</u>	<u>(71,652)</u>	<u>-</u>	<u>(17,537)</u>	<u>(60,302,380)</u>
Cash flows from investing activities:					
Purchases and sales of investments, net	(873,554)	-	-	-	(873,554)
Investment loss net of interest rate swap payments on investment derivatives	(4,344,629)	-	-	-	(4,344,629)
Net cash used in investing activities	<u>(5,218,183)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,218,183)</u>
Net increase (decrease) in cash and cash equivalents	(17,935,748)	156,742	-	-	(17,779,006)
Cash and cash equivalents, beginning of year	77,693,031	1,594,325	-	-	79,287,356
Cash and cash equivalents, end of year	<u>\$ 59,757,283</u>	<u>\$ 1,751,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,508,350</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 25,154,673	\$ 416,903	\$ (13,683)	\$ (256,162)	\$ 25,301,731
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	4,579,467	720,720	320,828	176,699	5,797,714
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable and due from City	(1,374,630)	(1,007,100)	(420,204)	102,159	(2,699,775)
Accrued unbilled revenue	(671,034)	-	7,871	-	(663,163)
Inventories	(186,774)	(350,538)	-	(8,231)	(545,543)
Prepaid expenses and deposits	3,921,843	-	-	-	3,921,843
Prepaid natural gas	28,578,342	-	-	-	28,578,342
Increase (decrease) in:					
Accounts payable	180,222	457,510	90,738	3,982	732,452
Accrued wages and benefits	(126,736)	(6,831)	(33,940)	(13,528)	(181,035)
Customer deposits	(52,260)	-	79,437	-	27,177
Compensated absences	31,626	(2,270)	(31,047)	12,618	10,927
Deferred gain from sale of generation assets	(9,723,573)	-	-	-	(9,723,573)
Net cash provided by (used in) operating activities	<u>\$ 50,311,166</u>	<u>\$ 228,394</u>	<u>\$ -</u>	<u>\$ 17,537</u>	<u>\$ 50,557,097</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets					
Cash and investments	\$ 50,848,937	\$ 1,751,067	\$ -	\$ -	\$ 52,600,004
Noncurrent restricted cash and investments	55,875,012	-	-	-	55,875,012
Total	106,723,949	1,751,067	-	-	108,475,016
Less: Investments with maturities of more than 90 days	(46,966,666)	-	-	-	(46,966,666)
Total cash and cash equivalents	<u>\$ 59,757,283</u>	<u>\$ 1,751,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,508,350</u>
Noncash Capital, Investing and Financing Activities					
Acquisition of capital assets in accounts payable	\$ 480,237	\$ 7,392	\$ 56,630	\$ 4,798	\$ 549,057
Increase in fair value of investments	5,064,029	-	-	-	5,064,029
Amortization of deferred gain from sale of generation assets	2,728,773	-	-	-	2,728,773
Advance from City	20,145,886	-	-	-	20,145,886

See accompanying notes to the basic financial statements.

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CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2011

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 (Agency)

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

On June 29, 2011, the Governor of the State of California signed Assembly Bill 1X 26 as part of the State's budget package, which was upheld by the California Supreme Court on December 29, 2011. Assembly Bill 1X 26 dissolves all redevelopment agencies and community development agencies. As of June 29, 2011, the Agency cannot incur new obligations and debt and cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. However, the Agency is required to continue to make scheduled payments on bonds and other legally binding agreements and manage existing contracts, projects, and other agreements. The Agency was dissolved on February 1, 2012 (See Note 15).

Separately issued financial statements for the Agency 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 Agency 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. The Authority Bonds were refunded in fiscal year 2009 and replaced with fixed rate Electric System bonds. 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.
- The *Water Fund* accounts for maintenance and operations of the City's water utility system. Revenue for this fund is primarily from charges for services. Even though the Water Fund does not meet the criteria to be presented as a major fund, the City has elected to present it as such.
- The *Fiber Optics Fund* accounts for maintenance and operations of the City's fiber optics utility system. Revenue for this fund is primarily from charges for services. Even though the Fiber Optics Fund does not meet the criteria to be presented as a major fund, the City has elected to present it as such.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances of uncollectibles were \$50,000 as of June 30, 2011. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventory costs are recorded as an expense when used.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 intangible assets with indefinite lives and 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

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. Interest 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 for both taxable and tax-exempt securities. For tax-exempt securities, interest income on unspent bond proceeds is also capitalized during the construction phase.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Balance

Effective July 1, 2010, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the fund financial statements, the governmental fund balance is classified in the following categories:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City's highest level of decision-making authority, its City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: ordinance).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council, or (b) a body (a budget, finance committee, or management (City-Wide Leadership team which consists of Department Heads)) to which the assigned amounts are to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) other than the General Fund, that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance – the residual classification for the General Fund and includes all amounts not contained in the other classifications. Governmental funds report residual negative balances as unassigned fund balance.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned

Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end are recorded as part of restricted or committed fund balances. At June 30, 2011, the encumbrance balances of the General Fund and Redevelopment Agency Fund were \$1,123,530 and \$10,472, respectively.

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 within 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 56,744,951
Restricted cash and investments	<u>67,259,882</u>
Total cash and investments	<u><u>\$ 124,004,833</u></u>

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	40,229,564
Investments	<u>83,773,969</u>
Total cash and investments	<u><u>\$ 124,004,833</u></u>

The City's Investment Policy

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

This Investment 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 (Continued)
June 30, 2011

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	\$50 million	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 (Continued)
June 30, 2011

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	\$50 million	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, 2011	Investment Maturities (in Months)					% of Total
		Less Than 12 Months	13 to 24 Months	25 to 36 Months	37 to 48 Months	49 to 60 Months	
Federal National							
Mortgage Association	\$ 4,898,932	\$ -	\$ 4,898,932	\$ -	\$ -	\$ -	5.85%
Federal Home Loan Bank	10,008,240	-	9,789,834	218,406	-	-	11.95%
Local Agency Investment Fund	536,296	536,296	-	-	-	-	0.64%
Mutual Fund	31,795,331	31,795,331	-	-	-	-	37.95%
United States Treasury Notes	36,535,170	2,169,953	22,098,844	12,266,373	-	-	43.61%
Total investments	\$ 83,773,969	\$ 34,501,580	\$ 36,787,610	\$ 12,484,779	\$ -	\$ -	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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, 2011	% of Total
In custody of Treasurer:				
Investments held by Treasurer:				
Local Agency Investment Fund	Not Rated	Not Rated	\$ 536,296	0.64%
Mutual Fund	Aaa / AAA	Aaa / AAA	41,433	0.05%
Total in custody of Treasurer			577,729	0.69%
In custody of Trustee:				
Investments held by Trustee:				
Federal Home Loan Bank	None	Aaa / AAA	10,008,240	11.95%
Federal National Mortgage Association	None	Aaa / AAA	4,898,932	5.85%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	31,753,898	37.90%
United States Treasury Notes	None	Aaa / AAA	36,535,170	43.61%
Total in custody of Trustee			83,196,240	99.31%
Total investments held by Treasurer and Trustee			\$ 83,773,969	100.00%

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. Government, U.S government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the City's investments in U. S. Treasury and federal agency securities.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the Agency may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a 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, 2011, the City's investments in any one issuer exceeding 5%, excluding mutual funds and U.S. Treasury securities were as follows:

Issuer	In Custody of	Fair Value as of June 30, 2011	% of Total
Federal Home Loan Bank	Trustee	\$ 10,008,240	5.85%
Federal National Mortgage Association	Trustee	4,898,932	11.95%

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 in excess of FDIC insurance (\$250,000) 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 \$40,229,564 and the bank balance was \$40,610,524. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2011, none of City's deposits with financial institutions in excess of federal depository insurance limit were held in uncollateralized accounts. \$40,110,524 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 (Continued)
June 30, 2011

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 \$536,296 at June 30, 2011. 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, 2011 was \$23,983,771,875. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$66,352,783,817 at June 30, 2011. Of this amount, 5.01% 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 0.65 years as of June 30, 2011. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2011 are as follows:

Receivables - Governmental Activities:	General Fund	Redevelopment Agency Fund	Total Governmental Activities
Accounts	\$ 15,576	\$ 87,358	\$ 102,934
Taxes	786,364	924,002	1,710,366
Notes or loans	74,210	-	74,210
Other	1,052,972	-	1,052,972
Total receivables	\$ 1,929,122	\$ 1,011,360	\$ 2,940,482

Receivables - Business-type Activities:	Light and Power Fund	Gas Fund	Water Fund	Fiber Optics Fund	Total Business-type Activities
Accounts	\$ 1,923,918	\$ 2,288,898	\$ 340,880	\$ 18,363	\$ 4,572,059
Allowances	(50,000)	-	-	-	(50,000)
Total receivables	\$ 1,873,918	\$ 2,288,898	\$ 340,880	\$ 18,363	\$ 4,522,059

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2011:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Fund	General Fund	\$ 10,011,653
	Gas Fund	3,541,247
	Water Fund	1,369,388
	Fiber Optics Fund	2,314,702
		<u>\$ 17,236,990</u>

Transactions between funds commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, and legal services). 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>
General Fund	Gas Fund	\$ 5,365,241
		<u>\$ 5,365,241</u>
Light and Power Fund	Gas Fund	\$ 19,842,334
	Water Fund	3,861,664
	Fiber Optics Fund	1,440,194
		<u>\$ 25,144,192</u>

Transactions between funds occur occasionally to fund capital projects on behalf of one another such as the City’s natural gas system and the development of the City’s base load electric generating station. The above balances represent interfund borrowings payable beyond one year.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 4 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Fund	\$ 3,149,776
		<u>\$ 3,149,776</u>
General Fund	Redevelopment Agency Fund	\$ 13,796,671
		<u>\$ 13,796,671</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 \$3,149,776 for in-lieu franchise taxes.

During the current year, the Redevelopment Agency Fund made an interfund reimbursement transfer of \$13,796,671 to the General Fund for prior years' public works costs benefiting the Agency's Industrial Redevelopment Project area.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010, As Restated	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2011
Governmental activities:					
<i>Capital assets, not being depreciated:</i>					
Accumulated redevelopment project costs - Agency	\$ -	\$ -	\$ -	\$ 24,834,844	\$ 24,834,844
Land - General Fund	11,656,842	-	-	-	11,656,842
Land - Agency	774,295	-	-	-	774,295
Total land	12,431,137	-	-	24,834,844	37,265,981
Construction in progress - General Fund	102,848	1,167,280	(29,199)	(73,649)	1,167,280
Total capital assets, not being depreciated	12,533,985	1,167,280	(29,199)	24,761,195	38,433,261
<i>Capital assets, being depreciated</i>					
Infrastructure - General Fund	26,453,864	-	-	73,651	26,527,515
Infrastructure - Agency	18,398,638	-	-	-	18,398,638
Building and Improvements - General Fund	14,833,705	-	-	-	14,833,705
Improvements Other Than Buildings - General Fund	10,590,587	-	-	-	10,590,587
Improvements Other Than Buildings - Agency	12,523	-	-	-	12,523
Machinery and Equipment - General Fund	21,192,351	281,650	-	-	21,474,001
Machinery and Equipment - Agency	24,585	-	-	-	24,585
Total capital assets, being depreciated	91,506,253	281,650	-	73,651	91,861,554
Less accumulated depreciation for:					
Infrastructure - General Fund	(20,593,448)	(528,949)	-	-	(21,122,397)
Infrastructure - Agency	(1,202,254)	(590,329)	-	-	(1,792,583)
Building and Improvements - General Fund	(5,074,760)	(375,845)	-	-	(5,450,605)
Improvements Other Than Building - General Fund	(3,031,673)	(276,202)	-	-	(3,307,875)
Improvements Other Than Building - Agency	(1,404)	(309)	-	-	(1,713)
Machinery and Equipment - General Fund	(12,586,300)	(1,471,847)	-	-	(14,058,147)
Machinery and Equipment - Agency	(2,180)	(1,388)	-	-	(3,568)
Total accumulated depreciation	(42,492,019)	(3,244,869)	-	-	(45,736,888)
Total capital assets, being depreciated, net					
Infrastructure - General Fund	5,860,416	(528,949)	-	73,651	5,405,118
Infrastructure - Agency	17,196,384	(590,329)	-	-	16,606,055
Building and Improvements - General Fund	9,758,945	(375,845)	-	-	9,383,100
Improvements Other Than Building - General Fund	7,558,914	(276,202)	-	-	7,282,712
Improvements Other Than Building - Agency	11,119	(309)	-	-	10,810
Machinery and Equipment - General Fund	8,606,051	(1,190,197)	-	-	7,415,854
Machinery and Equipment - Agency	22,405	(1,388)	-	-	21,017
Total	49,014,234	(2,963,219)	-	73,651	46,124,666
Governmental activities capital assets, net	\$ 61,548,219	\$ (1,795,939)	\$ (29,199)	\$ 24,834,846	\$ 84,557,927

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Land Purchase Deposit

The City, on behalf of the Agency, entered into a \$36,500,000 land purchase agreement on March 26, 2006. Pursuant to the land purchase agreement, the Agency had deposited \$26,200,000 into an escrow account of which the Seller has taken out \$25,600,000 as part of the purchase price and to complete its environmental cleanup of the property. As of June 30, 2011, \$600,000 remains in the escrow with the additional \$10,300,000 yet to be funded. In the current year, the Agency reclassified the \$26,200,000 of land acquisition cost as a land purchase deposit and restated the June 30, 2010 land balance (See Note 17).

Accumulated Redevelopment Project Costs

The City is developing the Southeast Region Energy Project (SREP), (formally the Vernon Power Plant) in a joint venture with the Agency. The City and the Agency intend to sell the SREP once the Project is completed and attains commercial operations. In prior years, the Agency purchased various energy and emission credits required for the development and operation of SREP. In the current year, the Agency assigned \$24,834,844 of energy and emission credits to the City in return for the City's development costs and licensing rights of \$24,834,844 associated with a joint development of SREP.

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,378,254
Public safety	1,072,762
Public works	769,881
Health services	<u>23,972</u>
Total depreciation expense - governmental functions	<u>\$ 3,244,869</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2011
<u>Business-type activities:</u>					
<i>Capital assets, not being depreciated:</i>					
Land - L&P	\$ 9,276,596	\$ -	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	-	467,640
Intangibles - Environmental credits - L&P	-	-	-	20,145,887	20,145,887
Intangibles - Water rights - Water	12,335,771	-	-	-	12,335,771
Construction in progress - L&P	27,959,849	7,420,200	-	(82,126)	35,297,923
Construction in progress - Water	733,956	56,630	(13,955)	-	776,631
Construction in progress - Gas	6,706	19,097	-	(25,803)	-
Total capital assets, not being depreciated	<u>50,780,518</u>	<u>7,495,927</u>	<u>(13,955)</u>	<u>20,037,958</u>	<u>78,300,448</u>
<i>Capital assets, being depreciated</i>					
Production plant - L&P	14,765,324	-	-	19,033	14,784,357
Transmission plant - L&P	4,817,929	70,184	-	-	4,888,113
Distribution plant - L&P	117,055,045	6,060,797	(328,330)	64,186	122,851,698
General plant - L&P	8,087,826	-	-	(1,086)	8,086,740
Water utility plant	17,131,855	-	-	-	17,131,855
Gas utility plant	24,630,990	59,947	-	25,803	24,716,740
Fiber Optic utility plant	3,435,705	22,335	-	-	3,458,040
Total capital assets, being depreciated	<u>189,924,674</u>	<u>6,213,263</u>	<u>(328,330)</u>	<u>107,936</u>	<u>195,917,543</u>
Less accumulated depreciation for:					
Production plant - L&P	(5,852,638)	(421,395)	-	(344)	(6,274,377)
Transmission plant - L&P	(2,372,128)	(96,472)	-	-	(2,468,600)
Distribution plant - L&P	(43,219,234)	(3,339,767)	2,815	127	(46,556,059)
General plant - L&P	(1,530,982)	(475,300)	-	217	(2,006,065)
Water utility plant	(12,004,585)	(320,828)	-	(1)	(12,325,414)
Gas utility plant	(2,977,685)	(720,720)	-	-	(3,698,405)
Fiber Optic utility plant	(552,688)	(176,699)	-	1	(729,386)
Total accumulated depreciation	<u>(68,509,940)</u>	<u>(5,551,181)</u>	<u>2,815</u>	<u>-</u>	<u>(74,058,306)</u>
Total capital assets, being depreciated, net					
Production plant - L&P	8,912,686	(421,395)	-	18,689	8,509,980
Transmission plant - L&P	2,445,801	(26,288)	-	-	2,419,513
Distribution plant - L&P	73,835,811	2,721,030	(325,515)	64,313	76,295,639
General plant - L&P	6,556,844	(475,300)	-	(869)	6,080,675
Water utility plant	5,127,270	(320,828)	-	(1)	4,806,441
Gas utility plant	21,653,305	(660,773)	-	25,803	21,018,335
Fiber Optic utility plant	2,883,017	(154,364)	-	1	2,728,654
Total	<u>121,414,734</u>	<u>662,082</u>	<u>(325,515)</u>	<u>107,936</u>	<u>121,859,237</u>
Business-type activities capital assets, net	<u>\$ 172,195,252</u>	<u>\$ 8,158,009</u>	<u>\$ (339,470)</u>	<u>\$ 20,145,894</u>	<u>\$ 200,159,685</u>

During the current year, the General Fund repaid \$20,145,887 of advances from L&P in the form of environmental emission credits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

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

Light and Power Fund	\$ 4,332,934
Gas Fund	720,720
Water Fund	320,828
Fiber Optics Fund	176,699
Total depreciation expense - business-type functions	<u>\$ 5,551,181</u>

NOTE 6 – LONG-TERM OBLIGATIONS

During the fiscal year 2011, a total of \$19,490,000 in bonds were issued and as of June 30, 2011, \$498,080,000 remained outstanding consisting of the following:

- \$46,975,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005
- \$19,490,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2011 (Federally Taxable)
- \$43,500,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$388,115,000 City of Vernon Electric System Revenue Bonds, 2009 Series A

Outstanding at June 30, 2011, were \$46,975,000 of Industrial Redevelopment Project Tax Allocation Bonds Series 2005. The 2005 Tax Allocation Bonds are special obligations of the Agency, which are secured by an irrevocable pledge of tax revenues payable to bondholders. The principal and interest remaining on the bonds is \$80,200,482, payable through September 2035. For the current year, debt service payments and total incremental property tax revenues were \$3,081,535 and \$15,384,609, 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.

During the fiscal year ended June 30, 2011, the Agency issued \$19,490,000 of 2011 Tax Allocation Bonds at a discount of \$892,405 and incurred costs of issuance of \$420,190. The 2011 Tax allocation Bonds are special obligations of the Agency, which are secured by an irrevocable pledge of tax revenues payable to bondholders. The principal and interest remaining on the bonds is \$36,837,575, payable through September 2030. For the current year, debt service and total incremental property tax revenues were \$420,190 and \$15,384,609, respectively. The Series 2011 Bonds were issued to (i) to finance the acquisition of one or more parcels of land, and certain redevelopment projects, in or benefiting the project area, (ii) to fund the reserve requirement for the Series 2011 Bonds, and (iii) to pay costs of issuance related to the Series 2011 Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Outstanding at June 30, 2011 were \$43,500,000 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 \$116,576,409, payable through 2038. For the current year, debt service and total electric revenues were \$3,975,755 and \$118,186,124, 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.

Outstanding at June 30, 2011 were \$388,115,000 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 \$506,476,046, payable through 2022. For the current year, debt service and total electric revenues were \$46,040,600 and \$118,186,124, 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, 2011, \$13,467,757 of the line of credit was used for the purposes of acquiring land held for resale.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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, 2011
<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	\$ 46,975,000
<i>RDA Industrial Redevelopment Project Tax Allocation Bonds, 2011 Series (Federally Taxable)</i>	09/01/30	3.000% - 9.250%	To begin 09/01/12: \$835,000 - \$1,170,000	\$ 19,490,000	\$ 19,490,000
<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	\$ 43,500,000
<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	388,115,000
<i>Premium</i>					680,319
<i>Discounts</i>					(4,346,115)
<i>Deferred amount on refunding</i>					(8,196,085)
<i>Total Revenue Bonds</i>				\$ 532,075,000	\$ 486,218,119

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2011, annual debt service requirements of governmental activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable - Series 2005	
	Principal	Interest*
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	1,520,000	1,962,544
2017-2021	7,720,000	8,822,491
2022-2026	7,300,000	6,972,026
2027-2031	10,020,000	5,046,720
2032-2036	15,215,000	2,012,875
Total requirements	<u>\$ 46,975,000</u>	<u>\$ 33,225,482</u>

* As of June 30, 2011, debt service was calculated at the actual fixed rates of the coupons ranging from 3.25% to 5.25%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable - Series 2011 (Federally Taxable)	
	Principal	Interest*
2012	\$ -	\$ 1,478,333
2013	835,000	1,478,231
2014	900,000	1,447,144
2015	985,000	1,403,341
2016	1,070,000	1,348,675
2017-2021	5,935,000	5,622,163
2022-2026	4,525,000	3,303,825
2027-2031	5,240,000	1,265,863
Total requirements	<u>\$ 19,490,000</u>	<u>\$ 17,347,575</u>

* As of June 30, 2011, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 3.00% to 9.25%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2011, 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*
2012	\$ 285,000	\$ 3,690,405
2013	305,000	3,668,575
2014	330,000	3,645,080
2015	355,000	3,619,735
2016	385,000	3,592,355
2017-2021	3,000,000	17,408,713
2022-2026	5,640,000	15,553,486
2027-2031	8,670,000	12,525,082
2032-2036	13,315,000	7,872,520
2037-2038	11,215,000	1,500,458
Total requirements	\$ 43,500,000	\$ 73,076,409

*As of June 30, 2011, debt service for 2008 Series A, was calculated based upon fixed coupon rates of 7.40% and 8.59%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2009 Series A	
	Principal	Interest*
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	32,970,000	13,071,088
2017-2021	192,975,000	37,242,479
2022	44,895,000	1,150,434
Total requirements	\$ 388,115,000	\$ 118,361,046

*As of June 30, 2011, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.000% to 5.125%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
<u>Governmental activities:</u>					
Postemployment benefit liability	\$ 4,017,608	\$ 2,368,787	\$ (170,395)	\$ 6,216,000	\$ 290,000
Bonds payable	48,260,000	19,490,000	(1,285,000)	66,465,000	1,380,000
Bond premium	724,665	-	(44,346)	680,319	44,345
Bond discount	-	(892,405)	14,196	(878,209)	(43,910)
Notes payable	14,189,474	-	(721,717)	13,467,757	757,400
Claims payable	5,033,959	648,983	(656,512)	5,026,430	1,675,477
Compensated absences	5,972,913	1,599,002	(1,990,971)	5,580,944	1,860,315
	<u>\$ 78,198,619</u>	<u>\$ 23,214,367</u>	<u>\$ (4,854,745)</u>	<u>\$ 96,558,241</u>	<u>\$ 5,963,627</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 458,165,000	\$ -	\$ (26,550,000)	\$ 431,615,000	\$ 27,655,000
Bond discount	(3,782,997)	-	315,091	(3,467,906)	(315,091)
Deferred amount on refunding	(8,941,184)	-	745,099	(8,196,085)	(745,099)
Compensated absences	918,670	317,151	(306,224)	929,597	309,866
	<u>\$ 446,359,489</u>	<u>\$ 317,151</u>	<u>\$ (25,796,034)</u>	<u>\$ 420,880,606</u>	<u>\$ 26,904,676</u>

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, 2011, 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%	\$ (14,504,270)
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%	(11,173,602)

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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.

Fair value: As of June 30, 2011, the swap had a negative fair value of \$14,504,270. 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, 2011 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, 2011, 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. At June 30, 2011, the City posted collateral of \$5,677,872 on the 2004 Series A Bonds and the 2004 Series B Bonds as the aggregate negative fair value of \$25,677,872 exceeded \$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.

Swap payments and associated debt: The debt associated with the swap, the 2004 Series A Bonds, has been redeemed.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

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.

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 0.119%. 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.

Fair value: As of June 30, 2011, the swap had a negative fair value of \$11,173,602. 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, 2011 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, 2011, 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. At June 30, 2011, the City posted collateral of \$5,677,872 on the 2004 Series A Bonds and the 2004 Series B Bonds as the aggregate negative fair value of \$25,677,872 exceeded \$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.

Swap payments and associated debt: The debt associated with the swap, the 2004 Series B Bonds, has been redeemed.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

C - Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2011, classified by type, and the change in fair value of such derivative instrument for the year then ended as reported in the current year financial statements are as follows:

	Change in Fair Value		Fair Value at June 30, 2011		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Increase in fair value	\$ 3,555,423	Derivative liability	\$ (14,504,270)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	2,001,796	Derivative liability	(11,173,602)	83,575,000

The net increase in fair value of investments on the 2004 A and 2004 B swaps during the year was \$5,557,219. The change in fair value subsequent to June 30, 2011 is discussed in Note 15.

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage, and providing health benefits to employees and retirees. The City is self-insured for its general liability, workers' compensation, and property liability. Beginning in fiscal 2010, the City chose to establish risk financing in the General Fund, whereby assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

The City has obtained various insurance policies that provide coverage for "Special Form Perils" against direct physical loss or damage, 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. In the most recent "Statement of Values" for the City, real and personal property total insured values equaled \$315,558,969. 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 8 – RISK MANAGEMENT (CONTINUED)

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. Athens Administrators, which was formerly known as York Insurance Services Group, Inc., 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 Athens Administrators.

The City is insured for pollution conditions that arise at city owned property with a limit of \$1,000,000 with a deductible of \$25,000.

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	
Flood Sublimit – Annual		\$25,000,000	
Electronic Data Processing Equipment: Newly Constructed or Acquired		Included \$5,000,000 sublimit with a 120 days reporting requirement	Travelers Insurance Co
Machinery Breakdown		\$50,000,000	Travelers Insurance Co
Pollution (City owned property)	\$25,000 deductible	\$1,000,000	Chubb Insurance (pollution legal liability and clean up)
Pollution (Waste Haulers and Landfills)		\$5,000,000	Great American
Crimes	\$25,000 deductible	\$1,000,000	Chartis Insurance

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 8 – RISK MANAGEMENT (CONTINUED)

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 activities combined are as follows:

	Fiscal Year Ended June 30	
	2011	2010
Claims payable, beginning of fiscal year	\$ 5,033,959	\$ 4,319,402
Incurred claims and change in estimates	648,983	1,546,091
Claims payments	(656,512)	(831,534)
Claims payable, end of fiscal year	\$ 5,026,430	\$ 5,033,959

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 9 – PENSION PLAN (CONTINUED)

The City and employees contribution to the PERS for the fiscal year ended June 30, 2011 was \$5,794,058 and \$1,864,275, respectively. City contribution rates as a percentage of covered payroll were 13.475% for miscellaneous plan members and 25.372% for safety plan members.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 9 – PENSION PLAN (CONTINUED)

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
2011	\$5,794,058	\$5,794,058	100%	
2010	7,405,652	7,405,652	100%	
2009	7,477,878	7,477,878	100%	

The following schedules present the funded status as of June 30, 2010 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)
6/30/2010	\$170,104,557	\$142,251,795	\$27,852,762	83.6%	\$14,221,759	195.8%

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)
6/30/2010	\$107,971,777	\$92,640,731	\$15,331,046	85.8%	\$12,685,952	120.9%

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 (Continued)
June 30, 2011

NOTE 10 – DEFICITS IN FUND EQUITY

The Gas Enterprise Fund has a net asset deficit of \$4,102,224 at June 30, 2011, which will be recovered from future operating revenues from customers.

The Fiber Optic Fund has a net asset deficit of \$1,058,483 at June 30, 2011, 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, 2011, a deferred gain of \$46,989,048 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).

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

Between 1983 and 2008, the Authority issued \$3.266 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 took its proportionate share of the power generated and its proportionate share of costs during fiscal year 2011 was \$3,470,345. The City expects no significant increases in costs related to its nuclear resources.

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, 2011, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2011, the outstanding note receivable was \$2,618,808. 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 \$334,236 due the City on the outstanding note receivable. The contract expires in September 2017.

Power Purchase Commitments

As of June 30, 2011 under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2012	\$ 21,470,765
2013	21,470,765
2014	21,470,765
2015	21,470,765
2016	21,470,765
2017-2021	175,887,158
2022-2023	62,041,921
	<u>\$ 345,282,904</u>

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Resolution 2010-193 provided the payment of medical and dental insurance premiums for certain categories of retired employees during the 2010-2011 fiscal year. Resolution 2010-193 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. However, the City’s plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No. 45. 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, 2011, 345 employees (277 active employees and 68 retired employees), participate in OPEB.

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, 2010, 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 \$145,057 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)	\$	25,475,000
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>25,475,000</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	29,361,889
UAAL as a % of covered payroll (a-b/c)		86.8%

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, 2010 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

Based on the July 1, 2010 actuarial valuation, the June 30, 2011 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 1,381,000
Interest on Normal Cost	62,000
Amortization	973,000
Interest on Amortization	44,000
Total ARC	<u>\$ 2,460,000</u>

Based on the July 1, 2010 actuarial valuation, the June 30, 2011 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 4,017,608
Annual OPEB Cost	2,488,000
Employer contributions	(145,057)
Adjustment	(144,551)
Increase in NOO	<u>2,198,392</u>
NOO - End of Year	<u>\$ 6,216,000</u>

The funded status of the OPEB plan as of July 1, 2010 and the ARC for the fiscal year ended June 30, 2011 was based on the following actuarial assumptions:

Valuation date:	July 1, 2010
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%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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

Healthcare cost trend rates:

Medical:	11% graded down by .5%
	Ultimate rate of 5%
Dental:	5% graded down by .5%
	Ultimate rate of 5%

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 74 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

NOTE 13– CONTINGENCIES

As of June 30, 2011, 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.

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.

In 2010, AB 46, an act to disincorporate the City and make it part of the unincorporated territory of Los Angeles County, was introduced into the State Assembly. AB 46 states it was motivated by a desire to eliminate corrupt practices by City officials, including misuse of public funds and excessive salaries. None of the persons accused of wrongdoing continue as City officials or employees and City salaries have been adjusted to more closely reflect salaries for comparable positions in other California cities. A companion bill, AB 781 was also introduced which, among other things, would have transferred the Electric System to a special district governed by the Board of Supervisors of Los Angeles County. The enactment of AB 781 was dependent on the enactment of AB 46. The City noted to the State Legislators that it believed AB 46 violated the provisions of the California Constitution providing that a vote of the City electorate was necessary to repeal a California city charter.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 13– CONTINGENCIES (CONTINUED)

Both bills were opposed by residents and businesses within the City as well as labor unions representing workers within the City. Both bills were passed by the State Assembly. In the Senate, Senator De Leon, who represents the City and was an original sponsor of AB 46, developed a list of reforms (described below), which the City could commit to undertake to avoid disincorporation. The City Council agreed to the reforms and neither AB 46 nor AB 781 was approved by the Senate. As a result, neither bill became law. The City Council placed before the electorate in November 2011 a series of Charter amendments to implement the reform program all of which were approved by the voters. The Charter amendments are now in effect and the City is in the process of implementing the reforms. The City cannot make any guarantees that there will not be any additional attempts to disincorporate the City or to require additional reforms in the future.

The City has recently been the subject of several investigations and audits by overseeing public bodies. The City has fully cooperated with such reviews of the City's policies and practices, and the City plans to continue cooperating with the ongoing investigations and audits or any other related or similar reviews of the City. The recent and/or ongoing audits and investigations include:

- *Attorney General Audit:* 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, including those who may have acted in the capacity of officials, officers and/or employees of the City. The City fully cooperated with the Office of the Attorney General and has not received subsequent communications.
- *State Legislature Audit:* In September 2011, the California State Legislature directed the State Auditor to conduct a performance audit of the City and its Light and Power Department. The audit will include, but is not limited to, a review of revenues and expenditures, contracting practices, City governance, and governance reform measures over the past five years, as well as a review of bond issuance and expenditures over the past seven years. The audit is ongoing.
- *Calpers Audit:* On December 6, 2010, the California Public Employees' Retirement System ("CalPERS") Office of Audit Services began an audit of the City's membership enrollment procedures, including how compensation is reported to CalPERS, to ensure that the City's practices and procedures are in compliance with applicable State law and regulation. The City believes it has provided all documents requested by the CalPERS Office of Audit Services, including employment contracts, rules and regulations, salary and wage agreements, board minutes, salary and benefit agreements, current employee roster listing of all City employees, personnel files, payroll journals and other personnel and payroll records, and copies of audits and management letters. The City believes CalPERS completed its review of the City's procedures and practices and the City is now waiting for CalPERS to complete its audit report. The City cannot predict the contents of the report and there can be no assurances that the report will not be critical of City practices.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 14 – FUTURE GASB PRONOUNCEMENTS

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

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the City’s fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the foregoing pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2013.

In June 2011, GASB issued Statement No. 64, *Derivatives Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for the City’s fiscal year ending June 30, 2012.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 15 – SUBSEQUENT EVENTS

Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instruments outstanding at February 29, 2012, classified by type, and the change in fair value of such derivative instruments since June 30, 2011 are as follows:

	Change in Fair Value		Fair Value at February 29, 2012		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ (14,021,834)	Derivative liability	\$ (28,526,104)	\$ 90,150,000
2004 Series B Bonds	Decrease in fair value	(7,340,466)	Derivative liability	(18,514,068)	83,575,000

Credit Ratings

On December 2, 2011, Moody's Investors Service downgraded the A3 ratings to Baa1 on the City of Vernon's, Electric System Revenue Bonds, 2008 Taxable Series A and Electric System Revenue Bonds 2009 Series A.

On December 19, 2011, Moody's Investor Service ("Moody's") lowered the rating of National Public Finance Guarantee Corporation ("NPFPG") to Baa2 from Baa1. The Bonds are insured by NPFPG and the rating on the Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005, was lowered to Baa2.

Interest Rate Swap Transactions

In September 2011, Morgan Stanley transferred its rights and obligations under the interest rate swap transaction in connection with the City's Electric System Revenue Bonds, 2004 Series B to Deutsche Bank AG. To evidence such transfer, the City and Deutsche Bank AG entered into a novation confirmation which incorporates, by reference, the terms and conditions of the ISDA Master Agreement, Schedule and Collateral Support Annex of the original interest rate swap transaction with Morgan Stanley in connection with the City's Electric System Revenue Bonds, 2004 Series B, with certain modifications including an option by Deutsche Bank to terminate the Deutsch Bank Swap Transaction in 2016. The transfer of rights and obligations by Morgan Stanley to Deutsche Bank AG had no impact to L&P other than the change in the requirement of posting collateral. Prior to September 2011, the City was obligated to post collateral to Morgan Stanley if the City's negative fair value in the aggregate exceeded \$20,000,000 (See Note 7). Subsequent to September 2011, the City is obligated to post collateral to Morgan Stanley if the City's negative fair value of the 2004 A swap exceeds \$20,000,000 and to Deutsche Bank AG if the City's negative fair value of the 2004 B swap exceeds \$20,000,000. The City has posted collateral of \$8,526,104 with Morgan Stanley as of February 29, 2012.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

Legislation Dissolving California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills 1X 26 and 27 as part of the State's budget package. Assembly Bill 1X 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill 1X 27 provides a means for redevelopment agencies to continue to exist and operate by means of a voluntary alternative redevelopment program.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court (Court) to overturn Assembly Bills 1X 26 and 27 on the grounds that these bills violate the California Constitution.

On December 29, 2011, the Court ruled that Assembly Bill 1X 26, the dissolution measure, is largely upheld and is a proper exercise of the legislative power vested in the Legislature by the State Constitution. A different conclusion was rendered with respect to Assembly Bill 1X 27, which was invalidated in its entirety by the Court. Accordingly, the Agency dissolved effective February 1, 2012 and transferred all assets and liabilities to the City as its Successor Agency in accordance with the guidelines for dissolution as set forth in Assembly Bill 1X 26. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

The following is a summary of the significant provisions of Assembly Bill 1X 26:

Assembly Bill 1X 26

Suspends Redevelopment Activity - As of June 29, 2011, the Agency cannot incur new obligations and debt. More specifically, the Agency cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. Agencies are required to continue to make scheduled payments on bonds and other legally binding agreements, and to manage existing contracts, projects, and other agreements.

Assembly Bill 1X 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1X 26.

Dissolves Redevelopment Agencies - Assembly Bill 1X 26 dissolves all redevelopment agencies and community development agencies. All assets and responsibilities for closing out the activities of the former agency are transferred to a "Successor Agency."

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

Creates Successor Agencies - The Successor Agency is presumed to be the sponsoring community of the redevelopment agency (i.e. the City). The City is the Successor Agency. The responsibility of a Successor Agency includes making payments and performing obligations of the former redevelopment agency in accordance with a schedule of enforceable obligations. Enforceable obligations include; bonds, loans, legally required payments, including payments for pension obligations, judgments or settlements, and other legally binding and enforceable agreements. A Successor Agency is required to dispose of the former agency's assets in an expeditious fashion, to transfer the housing functions to its sponsoring community, to wind down the affairs of the former agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board." The City of Vernon, as the Successor Agency, submitted an Enforceable Obligation Payment Schedule to the County of Los Angeles Auditor Controller in September 2011 and a Recognized Obligation Payment Schedule in February 2012.

Transfer of Housing Functions - The sponsoring community may choose to assume the housing functions and the housing assets of the dissolved agency. Should the sponsoring community choose not to assume these responsibilities, all assets and functions would be transferred to the local housing authority. In July 2007, the Southern California Association of Governments approved the final 2006-2014 Regional Housing Needs Assessment, which included a future housing need of zero in the City of Vernon and therefore the Transfer of Housing Functions is not applicable to the Successor Agency.

Creation of Oversight Boards - The Oversight Board, which is comprised of seven member representatives from local government bodies, is tasked with reviewing and approving the actions of the Successor Agency. Two of the seven members would be City representatives appointed by the Mayor--one of which must be an employee from the recognized employee organization representing the largest number of employees working for the redevelopment agency as of the date of dissolution. The remaining members are appointed by the County (2), the County Superintendent of Education (1), the Chancellor of California Community Colleges (1), and the largest special district taxing entity in the territorial jurisdiction of the former redevelopment agency which is eligible to receive property tax revenues pursuant to Section 34188. The Oversight Board is currently in the process of being created.

Utility Fund Presentation and Repayment of Interfund Receivables

On December 15, 2011, City Council adopted a resolution that in fiscal year 2012, the City will merge two of its enterprise funds, the Light and Power fund and the Gas fund for accounting and financial reporting purposes. Both are utility funds that provide power and gas utilities to the residents and businesses of the City. Over the course of time, these funds have accumulated both short-term and long-term interfund receivable and payable balances, by virtue of the impact of daily operations and the development of the Gas enterprise. The City's plan to merge these funds will result in the elimination of both short-term and long-term interfund receivables and payables.

The December 15, 2011 City Council resolution also adopted a 15-month repayment plan for all amounts owed L&P by the City's General Fund and Water Enterprise Fund.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

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.

During the current year, the City voters adopted an ordinance to expand the uses of the special parcel tax on warehouses, truck terminals, freight terminals, railroad facilities or other distribution facilities to include police and fire protection services. In order to apply the special parcel tax for the expanded purpose so adopted, which is also consistent with the uses of the Hazardous Waste Fund, the Hazardous Waste Fund and the Parcel Tax Fund were consolidated into the General Fund as of the beginning of the year in order to improve oversight and to reduce costs previously being recorded in the Hazardous Waste Fund and the Parcel Tax Fund.

The City followed generally accepted accounting principles in consolidating the Hazardous Waste Fund and the Parcel Tax Fund into the General Fund with the following adjustment to restate the beginning balance in the General Fund as follows:

General Fund	
Beginning fund balance	\$ 14,097,228
Adjustment for consolidation of special revenue funds	4,734,851
Beginning fund balance, restated	<u>\$ 18,832,079</u>

NOTE 17 – PRIOR PERIOD ADJUSTMENT

The City, on behalf of the Agency, entered into a \$36,500,000 land purchase agreement on March 26, 2006. Pursuant to the land purchase agreement, Agency had deposited \$26,200,000 into an escrow account of which the Seller has taken out \$25,600,000 as part of the purchase price and to complete its environmental cleanup of the property. As of June 30, 2011, \$600,000 remains in the escrow with the additional \$10,300,000 yet to be funded. In the current year, the Agency reclassified the \$26,200,000 of land acquisition cost as a land purchase deposit, which has resulted in a restatement of beginning fund balance.

At the fund level, generally accepted accounting principles require the previously reported land acquisition cost to be recorded as land purchase deposit since the purchase transaction has not closed. At the government-wide level, the nondepreciable capital asset was reclassified to land purchase deposit. Accordingly, there was no effect on the government-wide net assets.

The beginning fund balance of the Agency has been restated as follows:	
Beginning fund balance	\$ 42,310,301
Adjustment for land purchase deposit	26,200,000
Beginning fund balance, restated	<u>\$ 68,510,301</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2011

NOTE 18 – 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 \$14,713,945. The key reasons for this variance were excess expenditures over appropriations of \$1,448,931 of capital outlay, \$1,082,977 of public safety, and \$12,800,790 of general government. The excess expenditures over appropriations for capital outlay were mainly due to federal and state grant funded capital projects. The excess expenditures over appropriations for public safety were mainly due to salaries and benefits. The excess expenditures over appropriations for general government were mainly due to the cost of legal and professional services to prevent the City from being disincorporated (AB 46), increase in group insurance costs, and a write-off of environmental emission credits that had expired.

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CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 15,824,340	15,824,340	\$ 17,483,177	\$ 1,658,837
Special assessments	728,645	728,645	1,008,957	280,312
Licenses and permits	1,830,550	1,830,550	1,842,781	12,231
Fines, forfeitures and penalties	259,980	259,980	276,925	16,945
Investment income	18,600	18,600	24,909	6,309
Intergovernmental revenues	541,383	541,383	1,947,465	1,406,082
Charges for services	4,350,021	4,350,021	4,362,464	12,443
Other revenues	775,829	775,829	947,441	171,612
Total revenues	<u>24,329,348</u>	<u>24,329,348</u>	<u>27,894,119</u>	<u>3,564,771</u>
EXPENDITURES:				
General government	8,705,482	8,705,482	21,506,272	(12,800,790)
Public safety	23,730,707	23,730,707	24,813,684	(1,082,977)
Public works	5,735,337	5,735,337	5,175,945	559,392
Health services	1,558,418	1,558,418	1,499,031	59,387
Debt service	1,424,500	1,424,500	1,424,526	(26)
Capital outlay	-	-	1,448,931	(1,448,931)
Total expenditures	<u>41,154,444</u>	<u>41,154,444</u>	<u>55,868,389</u>	<u>(14,713,945)</u>
Deficiency of revenues under expenditures	<u>(16,825,096)</u>	<u>(16,825,096)</u>	<u>(27,974,270)</u>	<u>(11,149,174)</u>
Other financing sources (uses):				
Sale of property	1,200	1,200	5,483	4,283
Transfers in	3,213,600	3,213,600	16,946,448	13,732,848
Net change	<u>\$ (13,610,296)</u>	<u>\$ (13,610,296)</u>	<u>(11,022,339)</u>	<u>2,587,957</u>
NET CHANGE IN FUND BALANCE			(11,022,339)	2,587,957
FUND BALANCE, BEGINNING OF YEAR, RESTATED			<u>18,832,079</u>	<u>18,832,079</u>
FUND BALANCE, END OF YEAR			<u>\$ 7,809,740</u>	<u>\$ 21,420,036</u>

See accompanying note to the required supplementary information.

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CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2011

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;
- The budget is adopted on a modified accrual basis and 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. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2011. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount for revenues was \$3,564,771. The key reasons for this variance were excess revenues over estimated revenues of \$1,658,837 of taxes and \$1,406,082 of intergovernmental revenues. The excess revenues over estimated revenues for taxes were mainly due to sales and use tax and parcel taxes. The excess revenues over estimated revenues for intergovernmental revenues were mainly due to federal and state grant for capital projects.

For the current year, the General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$14,713,945. The key reasons for this variance were excess expenditures over appropriations of \$1,448,931 of capital outlay, \$1,082,977 of public safety, and \$12,800,790 of general government. The excess expenditures over appropriations for capital outlay were mainly due to federal and state grant funded capital projects. The excess expenditures over appropriations for public safety were mainly due to salaries and benefits. The excess expenditures over appropriations for general government were mainly due to the cost of legal and professional services to prevent the City from being disincorporated (AB 46), increase in group insurance costs, and a write-off of environmental emission credits that had expired.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2011

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)
6/30/2010	\$170,104,557	\$142,251,795	\$27,852,762	83.6%	\$14,221,759	195.8%
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%

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)
6/30/2010	\$107,971,777	\$92,640,731	\$15,331,046	85.8%	\$12,685,952	120.9%
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%

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 (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
7/01/2010	\$ -	\$25,475,000	\$25,475,000	00.0%	\$29,361,889	86.8%