

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2012



Certified Public Accountants.

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CITY OF VERNON
Annual Financial Report
Fiscal Year Ended June 30, 2012

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Sacramento

Walnut Creek

Oakland

Newport Beach

San Diego

Seattle

The Honorable City Council of
the City of Vernon, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (City), as of and for the fiscal year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, 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 14 to the basic financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the City, as the Successor Agency to the Vernon Redevelopment Agency, became responsible for overseeing the dissolution process and the wind down of redevelopment activity.

As discussed in Note 14 to the basic financial statements, the Successor Agency to the Vernon Redevelopment Agency transferred non-cash assets to the City from the former Agency. The State Department of Finance is in the process of making an ultimate determination on the enforceability of the transfers. Due to the uncertainties surrounding State Department of Finance review, the ultimate outcome of this matter cannot presently be determined, accordingly, no provision for any liability that may result has been recorded in the financial statements.

As discussed in Note 10 to the basic financial statements, the City's General Fund and Fiber Optic Enterprise Fund have fund balance/net assets deficits at June 30, 2012 of \$25.1 million and \$1.3 million, respectively. The City has described in Note 10 its short-term and long-term strategies to eliminate the deficits.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in black ink that reads "Macias Jini & O'Connell LLP". The signature is written in a cursive, flowing style.

Los Angeles, California
February 26, 2013

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
(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, 2012.

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 and Gas Department (collectively reported in the Light and Power Enterprise Fund), Water Department and Fiber Optic Department.

The government-wide financial statements include not only the City of Vernon (known as the *primary government*), but also blended component units. Certain blended component units, although legally separate entities are, in substance, part of the primary government's operations and are included as part of the primary government. In accordance with Assembly Bill 1X 26, the Vernon Redevelopment Agency (RDA) was dissolved on February 1, 2012. Accordingly, the final seven months of the activity of the RDA are reported as part of the primary government. After the date of its dissolution, the Successor Agency activities are reported in the Redevelopment Agency Private-Purpose Trust Fund, a fiduciary fund. While the Successor Agency is a component unit of the City, fiduciary funds are not presented in the government-wide financial statements as the resources are not available to support City programs.

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

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (See page 79).

The basic governmental funds financial statements can be found on pages 19-22 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 Enterprise, 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 Enterprise, Water Fund, and the Fiber Optics Fund.

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

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support City programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 26-27 of this report.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-77 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Assets

The table below summarizes the City's net assets as of June 30, 2012 and June 30, 2011. The details of the current year's summary can be found on page 17 of this report.

City of Vernon
Net Assets
June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ (14,165,346)	\$ 70,395,407	\$ 351,878,597	\$ 376,757,194	\$ 337,713,251	\$ 447,152,601
Restricted assets	4,221,257	11,384,870	116,557,692	55,875,012	120,778,949	67,259,882
Capital assets	40,701,086	84,557,927	191,407,482	200,159,685	232,108,568	284,717,612
Total assets	30,756,997	166,338,204	659,843,771	632,791,891	690,600,768	799,130,095
Liabilities						
Current liabilities	7,176,877	13,818,498	102,883,830	76,006,740	110,060,707	89,825,238
Long-term liabilities	21,275,239	90,594,614	476,906,524	437,019,743	498,181,763	527,614,357
Total liabilities	28,452,116	104,413,112	579,790,354	513,026,483	608,242,470	617,439,595
Net Assets:						
Invested in capital assets, net of related debt	40,701,086	24,464,940	144,576,620	156,663,440	185,277,706	181,128,380
Restricted	383,547	827,807	-	-	383,547	827,807
Unrestricted	(38,779,752)	36,632,345	(64,523,203)	(36,898,032)	(103,302,955)	(265,687)
Total net assets	\$ 2,304,881	\$ 61,925,092	\$ 80,053,417	\$ 119,765,408	\$ 82,358,298	\$ 181,690,500

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$82,358,298 (*net assets*). Fiscal year 2012 governmental activities beginning net assets balance was restated by \$12,335,771 related to transactions associated water rights between the General Fund and the Water Enterprise Fund. Fiscal year 2011 financial information has not been restated for these adjustments. Please see Note 18 for further details.

The category of the City's net assets with the largest balance totaling \$185,277,706 (225.0%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net assets, totaling \$383,547 (0.5%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net assets, totaling (\$103,302,955) (125.4%) represents a deficit in unrestricted net assets that is expected to be recovered from the City's future revenues and cost reduction.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Governmental activities, net assets:

- Current and other assets decreased \$84,560,753 from the prior year due primarily to a decrease in internal balances of \$25,468,528 (\$12,335,771 for restatement of water rights and \$13,275,757 for interfund transactions), decrease in land purchase deposit of \$26,200,000, and a decrease in accumulated redevelopment project costs of \$24,834,844 due to the dissolution of the Vernon Redevelopment Agency (see next item for details) and transfer of these amounts to the Successor Agency private-purpose trust fund.
- Restricted assets decreased \$7,163,613 from the prior year due primarily to the RDA being dissolved by Assembly Bill 1X 26 on February 1, 2012 (See Notes 1, 5, 6 and Statement of Fiduciary Net Assets on Page 26) resulting in the transfer of cash and investments held by fiscal agents for the RDA bonds. .
- Capital assets decreased \$43,856,841 from the prior year due primarily to the dissolution of the RDA and the related transfer of \$41,909,227 of net capital assets to the Successor Agency private-purpose trust fund.
- Current liabilities decreased \$6,641,621 from the prior year due primarily to a decrease in accounts payable of \$3,551,170, decrease in bond interest payable of \$1,208,463, and bonds payable, net, of \$1,380,435 due to the dissolution of the RDA.
- Long-term liabilities decreased \$69,319,375 from the prior year due primarily to the dissolution of the RDA and the related transfer of \$64,886,856 of net bonds payable to the Successor Agency private-purpose trust fund. Unrestricted net assets decreased \$75,412,097 from the prior year due primarily to an increase in investment in capital assets, net of related debt of \$16,236,146 primarily due to the dissolution of the RDA and related transfers of capital assets and capital-related debt, a decrease in restricted net assets of \$444,260, offset by a decrease in net assets from current year's activities of \$47,284,440.

Business-type activities, net assets:

- Current and other assets decreased \$24,878,597 from the prior year due primarily to a decrease in prepaid natural gas of \$28,631,088.
- Restricted assets increased by \$60,682,680 from the prior year due primarily to an increase in cash restricted for debt service and capital projects from the issuance of the 2012 Series bonds (See Note 6).
- Capital assets decreased \$8,752,203 from the prior year due primarily to capital asset deletions of \$17,356,840 and depreciation of \$5,863,180 offset by capital asset additions of \$14,467,817 (See the discussion of changes in capital assets in the Capital Assets and Debt Administration section).
- Current liabilities increased \$26,877,090 from the prior year due primarily to an increase in derivative liabilities of \$26,145,389 (See Note 7).
- Long-term liabilities increased \$39,886,781 from the prior year due primarily to the issuance of the 2012 Series bonds of \$72,740,000 offset by principal repayment on bonds of \$27,655,000 (See Note 6).
- Unrestricted net (deficit) increased \$27,625,171 from the prior year due primarily to a decrease in net assets from the current year's activities of \$39,711,991 offset by a decrease in investment in capital assets, net of related debt, of \$12,086,820 due to changes in capital assets and capital related debt previously discussed..

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(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 18 of this report.

City of Vernon
Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues						
Charges for services	\$ 6,206,121	\$ 6,670,751			\$ 6,206,121	\$ 6,670,751
Light and power			\$ 171,112,589	\$ 165,464,758	171,112,589	165,464,758
Water			6,577,793	6,145,505	6,577,793	6,145,505
Fiber Optics			257,196	211,002	257,196	211,002
Operating and capital grants and contributions	1,793,307	1,938,566	-	-	1,793,307	1,938,566
General Revenues						
Taxes	21,941,841	29,758,699	-	-	21,941,841	29,758,699
State allocations	4,665,854	4,152,596	-	-	4,665,854	4,152,596
Investment income (loss)	49,656	20,130	(31,440,034)	659,075	(31,390,378)	679,205
Other revenues	(2,341,918)	973,014	(1,090,004)	-	(3,431,922)	973,014
Total revenues	32,314,861	43,513,756	145,417,540	172,480,340	177,732,401	215,994,096
Expenses						
Governmental activities						
General government	19,527,049	30,997,386	-	-	19,527,049	30,997,386
Public safety	28,196,234	26,690,047	-	-	28,196,234	26,690,047
Public works	5,752,543	5,889,359	-	-	5,752,543	5,889,359
Health services	1,626,039	1,531,345	-	-	1,626,039	1,531,345
Interest on long-term debt	2,719,070	3,348,964	-	-	2,719,070	3,348,964
Business-type activities						
Light and Power			169,143,850	160,328,217	169,143,850	160,328,217
Water			6,375,865	6,159,188	6,375,865	6,159,188
Fiber Optics			462,726	467,164	462,726	467,164
Total expenses	57,820,935	68,457,101	175,982,441	166,954,569	233,803,376	235,411,670
Change in net assets before transfers	(25,506,074)	(24,943,345)	(30,564,901)	5,525,771	(56,070,975)	(19,417,574)
Transfers	9,147,090	3,149,776	(9,147,090)	(3,149,776)	-	-
Extraordinary Item						
Governmental activities						
Vernon Redevelopment Agency						
Extraordinary loss	(30,925,456)	-	-	-	(30,925,456)	-
Change in net assets	(47,284,440)	(21,793,569)	(39,711,991)	2,375,995	(86,996,431)	(19,417,574)
Net assets- beginning of year, as restated *	49,589,321	83,718,661	119,765,408	117,389,413	169,354,729	201,108,074
Net assets- end of year	\$ 2,304,881	\$ 61,925,092	\$ 80,053,417	\$ 119,765,408	\$ 82,358,298	\$ 181,690,500

* Fiscal year 2012 governmental activities beginning net assets balance was restated by \$12,335,771 as previously disclosed. Fiscal year 2011 financial information has not been restated for the adjustment made in 2012. Please see Note 18 for further details.

Governmental activities' net assets decreased by \$47,284,440 and business-type activities' net assets decreased by \$39,711,991 for a net decrease of \$86,996,431 for the City. The decrease in the governmental activities was caused by the governmental activities reporting a \$25,506,074 decrease in net assets before the extraordinary loss and transfers and a \$9,147,090 transfer in from the business-type activities and an extraordinary loss of \$30,925,456 related to the dissolution of the RDA and transfer of related assets and liabilities to the Successor Agency private-purpose trust fund.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

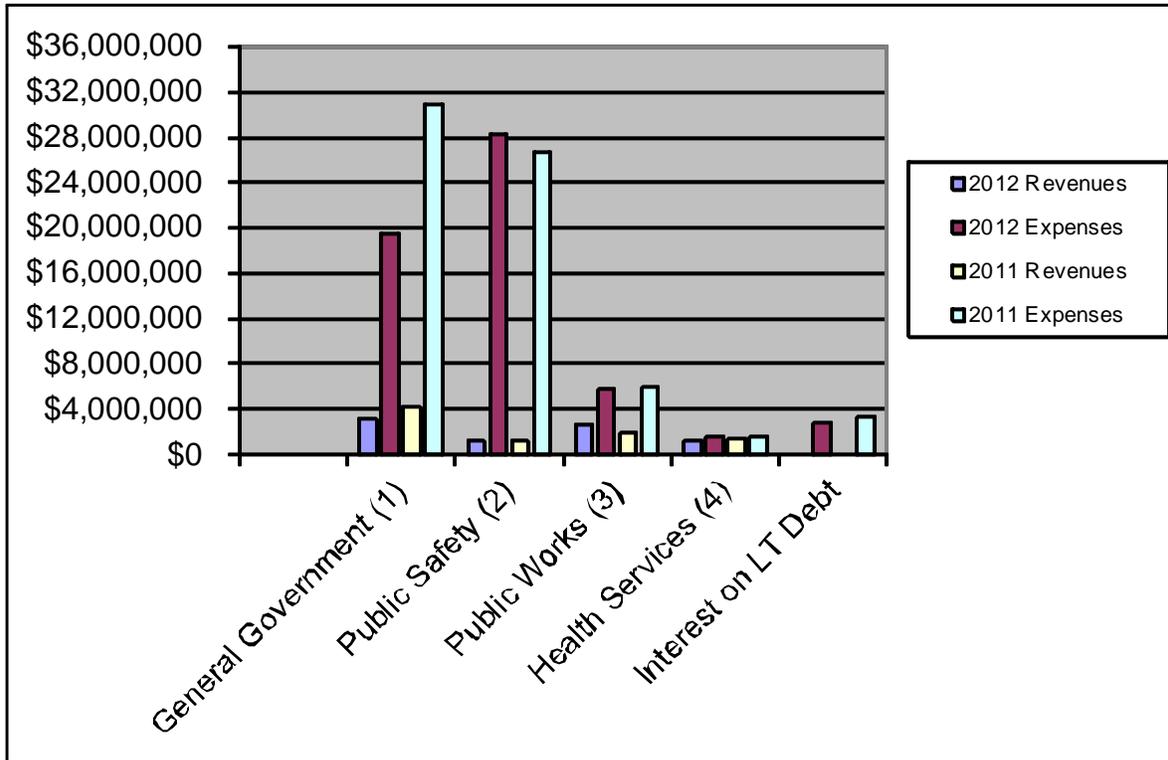
Governmental activities, changes in net assets:

Governmental activities decreased the City's net assets by \$47,284,440. This is a decrease of \$25,490,871 from the prior year. The key reasons for this decrease and change in net assets are as follows:

- In the current year, an extraordinary loss of \$30,925,456 was incurred for the dissolution of the RDA and related transfer of the related assets and liabilities to the Successor Agency private-purpose trust fund.
- In the current year, program revenues were \$-11,198,895 lower than the prior year as follows:
 -
 - During the current year, the RDA received \$7,533,560 of property taxes for the first seven months of operations prior to its dissolution on February 1, 2012, whereas in the prior year, the RDA received \$15,384,609 of property taxes for the entire fiscal year.
 - During the current year, the City incurred a \$-3,152,199 loss from its sale of land held for resale.
- In the current year, program expenses were \$10,636,166 lower than the prior year due primarily to a decrease in general government of \$11,470,337 offset by an increase in public safety of \$1,506,187. The decrease in general government was mainly due to the cost of defeated AB 46 (proposed dissolution of City) and the cost of writing-off expired environmental emission credits in the prior year. The increase in public safety was mainly due to salaries and benefits.
- In the current year, transfers in were \$5,997,314 higher than the prior year. The transfers in were higher than the prior year due to the change in the limitation imposed by Vernon Charter per Resolution No. 2011-133 to limit the amount of transfers from the Light and Power Fund to the General Fund which was removed by Resolution No. 2012-04.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2012 and 2011

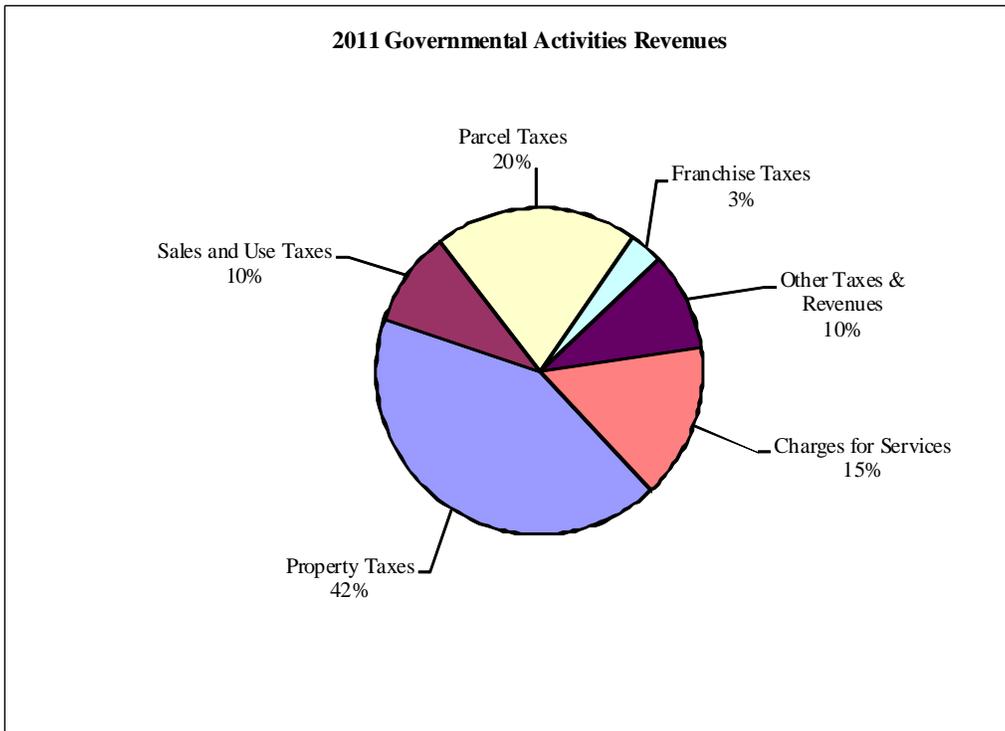
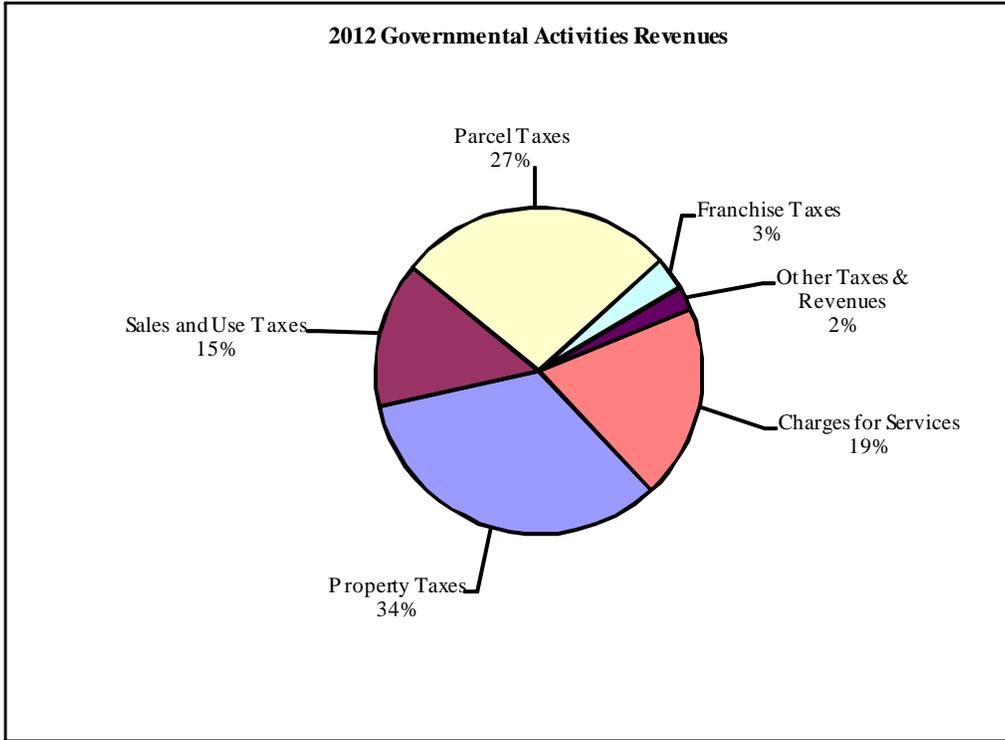


Governmental activities consist of the following departments:

(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, 2012
(Unaudited)

Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2012 and 2011

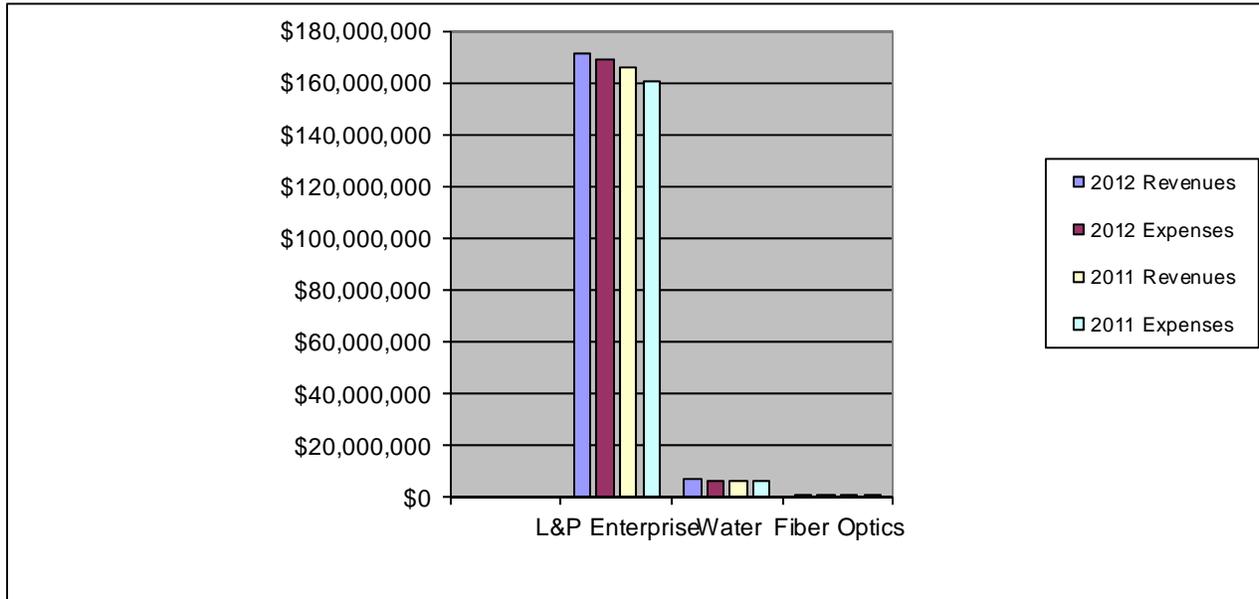


CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

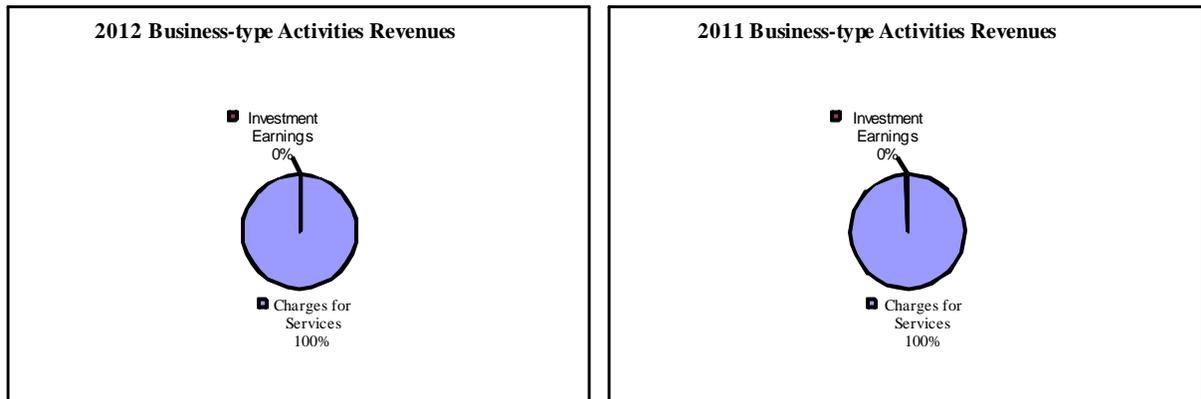
Business-type activities, changes in net assets:

Business-type activities decreased the City's net assets by \$30,564,901 before transfers, which is a \$36,090,672 decrease from the prior year. The key reason for this decrease was an increase in Light and Power Enterprise's investment loss of \$32,099,109 primarily related to the change in fair value of its interest rate swap derivative instruments as compared to the prior year.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2012 and 2011



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2012 and 2011



CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(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 financial statements can be found on pages 19-22 of this report.

Governmental funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, 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 a combined ending fund balance deficit of \$25,120,702 (See page 19), a decrease of \$73,850,244 from the prior year. Approximately 6% of total fund balance amount, \$1,494,266, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 2% of the total fund balance amount, \$449,852, constitutes *restricted fund balances*, 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, (\$27,064,820), 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 deficit was \$25,120,702 (See page 19). At the end of the current fiscal year, the total fund balance deficit was 44% as compared to the total expenditures for the year.

The Redevelopment Agency Fund was the capital projects fund of the City. During the current year, the Redevelopment Agency Fund was dissolved on February 1, 2012 and resulted in an extraordinary loss of \$53,239,048 upon transfer of the fund assets and liabilities to the Successor Agency private-purpose trust fund.

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 Enterprise at the end of the year amounted to a deficit of \$67,765,245 (See page 23). Unrestricted net assets of the Fiber Optic Fund at the end of the year amounted to a deficit of \$3,901,611. 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, 2012
(Unaudited)

Total decrease in net assets for the Light and Power Enterprise was \$39,708,389 (See page 24). Total increase in net assets for the Water Fund was \$201,298. Total decrease in net assets for the Fiber Optics Fund was \$205,530. 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 \$3,942,832. The key reasons for this variance were excess revenues over estimated revenues of \$1,133,400 of taxes and \$3,261,109 of charges for services offset by a deficiency of revenues under estimated revenues of \$132,464 for special assessments, \$246,850 for licenses and permits, and \$191,552 for charges for services.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$4,764,249. The key reasons for this variance were excess appropriations of \$6,985,875 for debt service and \$3,621,317 for capital outlay offset by an excess expenditures over appropriations of \$5,015,542 for general government and \$1,401,549 for public safety. The excess expenditures over appropriations for general government were mainly due to professional services, and the excess expenditures over appropriations for public safety were mainly due to salaries and benefits and claims expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$232,108,568 (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 environmental emission credits. The total decrease in the City's investment in capital assets for the current fiscal year was \$52,609,044, due primarily to dissolution of the RDA..

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

- On February 1, 2012, RDA capital assets of \$41,909,227, net of depreciation, were transferred over to the Vernon Redevelopment Successor Agency private-purpose trust fund.
- In the current year, the Water Fund adjusted \$12,335,771 of water rights as a restatement of its beginning net assets (See Note 17 for prior period adjustment).
- In the current year, the Light and Power Enterprise sold \$1,763,014 of its environmental credits at a loss of \$1,090,004.
- In the current year, the Light and Power Enterprise wrote-off \$3,258,055 of construction in progress costs associated with abandoned capital projects.
- In the current year, Light and Power Enterprise added \$6,087,800 to its electrical construction in progress, and \$7,850,463 to its electrical distribution plant.

There were no significant construction commitments outstanding as of June 30, 2012.

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

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

Outstanding debt

As of June 30, 2012, the following debt remains outstanding:

- \$43,215,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$360,745,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$37,640,000 City of Vernon Electric System Revenue Bonds, 2012 Series A
- \$35,100,000 City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B
- \$7,259,123 Revolving Line of Credit

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.

The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

The City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B were issued to provide funds to (i) refund the \$28,680,000 aggregate principal amount of 2009 Bonds maturing on August 1, 2012, (ii) to pay a portion of the Costs of the 2012 Project, and (iii) to pay costs of issuance of the 2012 Taxable Series B Bonds.

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

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, 2012, \$7,259,123 of the line of credit was used for the purposes of acquiring land held for resale.

Additional information on the City's long-term debt can be found in Note 6 on pages 47-53 of this report.

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2012
(Unaudited)

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2013 fiscal year.

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of adjacent communities is currently 10.4%. This compares favorably to the State of California's average unemployment rate of 10.7% but unfavorably to the national average unemployment rate of 8.2%.
- 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.

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, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 526,685	\$ 22,084,311	\$ 22,610,996
Receivables, net of allowances of \$150,000 for business-type activities	2,018,157	4,970,916	6,989,073
Accrued unbilled revenue	-	8,039,444	8,039,444
Accrued interest receivable	-	237,634	237,634
Inventories	628,111	10,166,803	10,794,914
Due from Successor Agency	18,932	-	18,932
Internal balances	(30,114,940)	30,114,940	-
Prepaid natural gas	-	254,359,472	254,359,472
Deposits and prepaid expenses	89,515	12,586,071	12,675,586
Restricted cash and investments	4,221,257	116,557,692	120,778,949
Note receivable	-	2,265,463	2,265,463
Bond issuance costs	-	4,595,363	4,595,363
Other assets	388,653	-	388,653
Deferred financing cost	-	2,458,180	2,458,180
Land held for resale	12,279,541	-	12,279,541
Capital assets:			
Nondepreciable	12,034,216	67,154,249	79,188,465
Depreciable, net	28,666,870	124,253,233	152,920,103
Total assets	<u>30,756,997</u>	<u>659,843,771</u>	<u>690,600,768</u>
LIABILITIES:			
Accounts payable	1,946,480	6,565,801	8,512,281
Accrued wages and benefits	1,361,789	-	1,361,789
Customer deposits and funds held for others	66,305	600,599	666,904
Derivative liabilities	-	51,823,261	51,823,261
Bond interest payable	-	11,770,481	11,770,481
Note interest payable	30,246	-	30,246
Long term liabilities:			
Due within one year:			
Postemployment benefit liability	290,000	-	290,000
Bonds payable, net	-	27,840,729	27,840,729
Note payable	454,000	-	454,000
Deferred gain from sale of generation assets	-	3,942,145	3,942,145
Claims payable	1,075,605	-	1,075,605
Compensated absences	1,952,452	340,814	2,293,266
Due in more than one year:			
Postemployment benefit liability	8,414,000	-	8,414,000
Bonds payable, net	-	437,165,016	437,165,016
Note payable	6,805,123	-	6,805,123
Deferred gain from sale of generation assets	-	39,059,880	39,059,880
Claims payable	2,151,211	-	2,151,211
Compensated absences	3,904,905	681,628	4,586,533
Total liabilities	<u>28,452,116</u>	<u>579,790,354</u>	<u>608,242,470</u>
NET ASSETS:			
Invested in capital assets, net of related debt	40,701,086	144,576,620	185,277,706
Restricted for:			
Grants	383,547	-	383,547
Unrestricted (deficit)	(38,779,752)	(64,523,203)	(103,302,955)
Total net assets	<u>\$ 2,304,881</u>	<u>\$ 80,053,417</u>	<u>\$ 82,358,298</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expenses) Revenues and Change in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
FUNCTION/PROGRAM ACTIVITIES:							
Governmental activities:							
General government	\$ 19,527,049	\$ 2,811,333	\$ 350,237	\$ -	\$ (16,365,479)	\$ -	\$ (16,365,479)
Public safety	28,196,234	774,356	374,787	-	(27,047,091)	-	(27,047,091)
Public works	5,752,543	1,498,608	-	1,031,327	(3,222,608)	-	(3,222,608)
Health services	1,626,039	1,121,824	36,956	-	(467,259)	-	(467,259)
Interest on long-term debt	2,719,070	-	-	-	(2,719,070)	-	(2,719,070)
Total governmental activities	<u>57,820,935</u>	<u>6,206,121</u>	<u>761,980</u>	<u>1,031,327</u>	<u>(49,821,507)</u>	<u>-</u>	<u>(49,821,507)</u>
Business-type activities:							
Light and power enterprise	169,143,850	171,112,589	-	-	-	1,968,739	1,968,739
Water	6,375,865	6,577,793	-	-	-	201,928	201,928
Fiber optics	462,726	257,196	-	-	-	(205,530)	(205,530)
Total business-type activities	<u>175,982,441</u>	<u>177,947,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,965,137</u>	<u>1,965,137</u>
Total	<u>\$ 233,803,376</u>	<u>\$ 184,153,699</u>	<u>\$ 761,980</u>	<u>\$ 1,031,327</u>	<u>(49,821,507)</u>	<u>1,965,137</u>	<u>(47,856,370)</u>
General revenues:							
Property taxes					10,808,670	-	10,808,670
Parcel taxes					8,805,171	-	8,805,171
Franchise taxes					1,043,813	-	1,043,813
Business license taxes					1,274,866	-	1,274,866
Other license taxes					9,321	-	9,321
Investment income (loss)					49,656	(4,830,521)	(4,780,865)
Net decrease in fair value of investments					-	(26,609,513)	(26,609,513)
State contribution - sales and use taxes					4,665,854	-	4,665,854
(Loss) on sale of property					(3,152,199)	(1,090,004)	(4,242,203)
Other revenues					810,281	-	810,281
Extraordinary loss					(30,925,456)	-	(30,925,456)
Transfers					9,147,090	(9,147,090)	-
Total general revenues, extraordinary loss, and transfers					<u>2,537,067</u>	<u>(41,677,128)</u>	<u>(39,140,061)</u>
Change in net assets					(47,284,440)	(39,711,991)	(86,996,431)
NET ASSETS, BEGINNING OF YEAR, RESTATED					<u>49,589,321</u>	<u>119,765,408</u>	<u>169,354,729</u>
NET ASSETS, END OF YEAR					<u>\$ 2,304,881</u>	<u>\$ 80,053,417</u>	<u>\$ 82,358,298</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Balance Sheet
Governmental Funds
June 30, 2012

	General Fund	Redevelopment Agency Fund	Total Governmental Funds
ASSETS:			
Cash and investments	\$ 526,685	\$ -	\$ 526,685
Receivables	2,018,157	-	2,018,157
Due from Successor Agency	18,932	-	18,932
Inventories	628,111	-	628,111
Restricted cash and investments	4,221,257	-	4,221,257
Deposits and prepaid items	89,515	-	89,515
Other assets	388,653	-	388,653
Land held for resale	12,279,541	-	12,279,541
Total assets	<u>\$ 20,170,851</u>	<u>\$ -</u>	<u>\$ 20,170,851</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
Accounts payable	\$ 1,946,480	\$ -	\$ 1,946,480
Accrued wages and benefits	1,361,789	-	1,361,789
Advance from other funds	30,114,940	-	30,114,940
Customer deposits and funds held for others	66,305	-	66,305
Deferred revenue	11,802,039	-	11,802,039
Total liabilities	<u>45,291,553</u>	<u>-</u>	<u>45,291,553</u>
Fund balances:			
Nonspendable:			
Inventories	628,111	-	628,111
Other assets	388,653	-	388,653
Land held for resale	477,502	-	477,502
Restricted for:			
Federal forfeiture funds	383,547	-	383,547
Customer deposits and funds held for others	66,305	-	66,305
Unassigned	(27,064,820)	-	(27,064,820)
Total fund balances (deficit)	<u>(25,120,702)</u>	<u>-</u>	<u>(25,120,702)</u>
Total liabilities and fund balances (deficit)	<u>\$ 20,170,851</u>	<u>\$ -</u>	<u>\$ 20,170,851</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, 2012

Fund balances - total governmental funds (page 19)	\$	(25,120,702)
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.		40,701,086
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.		11,802,039
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(5,857,357)
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.		(8,704,000)
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		(3,226,816)
Note payable		(7,259,123)
Note interest payable		(30,246)
		(13,516,185)
Net assets of governmental activities (page 17)	\$	2,304,881

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General Fund	Redevelopment Agency Fund	Total Governmental Funds
REVENUES:			
Taxes	\$ 18,153,693	\$ 7,533,560	\$ 25,687,253
Special assessments	887,536	-	887,536
Licenses and permits	1,605,150	-	1,605,150
Fines, forfeitures and penalties	287,448	-	287,448
Investment income	15,918	33,738	49,656
Intergovernmental revenues	1,803,639	-	1,803,639
Charges for services	4,128,109	-	4,128,109
Other revenues	579,336	454,959	1,034,295
Total revenues	<u>27,460,829</u>	<u>8,022,257</u>	<u>35,483,086</u>
EXPENDITURES:			
Current:			
General government	15,799,857	4,870,910	20,670,767
Public safety	26,837,729	-	26,837,729
Public works	5,006,132	-	5,006,132
Health services	1,603,094	-	1,603,094
Capital outlay:			
General government	131,968	7,875	139,843
Public safety	277,599	-	277,599
Public works	679,875	-	679,875
Debt service:			
Principal retirement	6,208,634	1,380,000	7,588,634
Bond and note interest	606,822	1,830,877	2,437,699
Total expenditures	<u>57,151,710</u>	<u>8,089,662</u>	<u>65,241,372</u>
Deficiency of revenues under expenditures	(29,690,881)	(67,405)	(29,758,286)
Other financing sources (uses)			
Transfers in	9,147,090	50,880	9,197,970
Transfers out	(50,880)	-	(50,880)
Total other financing sources	<u>9,096,210</u>	<u>50,880</u>	<u>9,147,090</u>
Extraordinary (loss)	<u>-</u>	<u>(53,239,048)</u>	<u>(53,239,048)</u>
NET CHANGE IN FUND BALANCES	(20,594,671)	(53,255,573)	(73,850,244)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR, RESTATED	<u>(4,526,031)</u>	<u>53,255,573</u>	<u>48,729,542</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (25,120,702)</u>	<u>\$ -</u>	<u>\$ (25,120,702)</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, 2012

Net change in fund balances - total governmental funds (page 21) \$ (73,850,244)

Amounts reported for governmental activities in the statement of activities are different because:

Expenditures for capital assets	\$ 1,097,317	
Less current year depreciation	(2,879,106)	
Less capital asset deletion	<u>(165,825)</u>	(1,947,614)

Change in long-term compensated absences (276,413)

The effect of various miscellaneous transactions involving land held for resale (i.e., sales, trade-ins, and donations) is to decrease net assets.

Sale of and loss on land held for resale (60,278)

Change in net postemployment benefits other than pension obligation. (2,488,000)

Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental funds.

Change in unamortized bond issuance costs (82,360)

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	1,380,000
Principal repayment on notes	6,208,634

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	1,799,614
Change in bond interest payable	(307,495)
Change in unamortized bond premium	25,868
Change in unamortized bond discount	(25,614)
Change in note interest payable	25,870

Extraordinary loss associated with transfers to the Successor Agency for the dissolution of the former Redevelopment Agency.

22,313,592

Change in net assets of governmental activities (page 18) \$ (47,284,440)

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Net Assets (Deficit)
Proprietary Funds
June 30, 2012

	Business-type Activities Enterprise Funds			Totals
	Light and Power Enterprise	Water Fund	Fiber Optic Fund	
ASSETS:				
Current assets:				
Cash and investments	\$ 22,084,311	\$ -	\$ -	\$ 22,084,311
Accounts receivable, net of allowances of \$150,000	4,447,350	499,143	24,423	4,970,916
Accrued unbilled revenue	7,783,005	256,439	-	8,039,444
Accrued interest receivable	237,634	-	-	237,634
Bond issuance costs	340,079	-	-	340,079
Inventories	10,166,803	-	-	10,166,803
Prepaid natural gas	28,549,572	-	-	28,549,572
Note receivable	200,060	-	-	200,060
Deposits and prepaid expenses	12,586,071	-	-	12,586,071
Deferred financing cost	146,583	-	-	146,583
Total current assets	<u>86,541,468</u>	<u>755,582</u>	<u>24,423</u>	<u>87,321,473</u>
Noncurrent assets:				
Restricted cash and investments	116,557,692	-	-	116,557,692
Advances to other funds	26,871,907	7,119,606	-	33,991,513
Prepaid natural gas	225,809,900	-	-	225,809,900
Note receivable	2,065,403	-	-	2,065,403
Bond issuance costs	4,255,284	-	-	4,255,284
Deferred financing cost	2,311,597	-	-	2,311,597
Capital assets:				
Nondepreciable	65,784,049	1,370,200	-	67,154,249
Depreciable, net	117,025,781	4,589,854	2,637,598	124,253,233
Total noncurrent assets	<u>560,681,613</u>	<u>13,079,660</u>	<u>2,637,598</u>	<u>576,398,871</u>
Total assets	<u>647,223,081</u>	<u>13,835,242</u>	<u>2,662,021</u>	<u>663,720,344</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	6,085,265	443,233	37,303	6,565,801
Customer deposits	513,245	87,354	-	600,599
Derivative liabilities	51,823,261	-	-	51,823,261
Bond interest	11,770,481	-	-	11,770,481
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Bonds payable, net	27,840,729	-	-	27,840,729
Compensated absences	269,779	66,983	4,053	340,814
Total current liabilities	<u>102,244,905</u>	<u>597,570</u>	<u>41,356</u>	<u>102,883,830</u>
Noncurrent liabilities:				
Advances from other funds	-	-	3,876,573	3,876,573
Deferred gain from sale of generation assets	39,059,880	-	-	39,059,880
Bonds payable, net	437,165,016	-	-	437,165,016
Compensated absences	539,557	133,965	8,105	681,628
Total noncurrent liabilities	<u>476,764,453</u>	<u>133,965</u>	<u>3,884,678</u>	<u>480,783,097</u>
Total liabilities	<u>579,009,358</u>	<u>731,535</u>	<u>3,926,034</u>	<u>583,666,927</u>
NET ASSETS:				
Invested in capital assets, net of related debt	135,978,968	5,960,054	2,637,598	144,576,620
Unrestricted (deficit)	(67,765,245)	7,143,653	(3,901,611)	(64,523,203)
Total net assets (deficit)	<u>\$ 68,213,723</u>	<u>\$ 13,103,707</u>	<u>\$ (1,264,013)</u>	<u>\$ 80,053,417</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Totals
	Light and Power Enterprise	Water Fund	Fiber Optic Fund	
OPERATING REVENUES:				
Charges for services	\$ 171,112,589	\$ 6,577,793	\$ 257,196	\$ 177,947,578
Total operating revenues	<u>171,112,589</u>	<u>6,577,793</u>	<u>257,196</u>	<u>177,947,578</u>
OPERATING EXPENSES:				
Cost of sales	138,542,159	6,057,901	284,478	144,884,538
Depreciation and amortization	5,660,274	317,964	178,248	6,156,486
Total operating expenses	<u>144,202,433</u>	<u>6,375,865</u>	<u>462,726</u>	<u>151,041,024</u>
Operating income (loss)	<u>26,910,156</u>	<u>201,928</u>	<u>(205,530)</u>	<u>26,906,554</u>
NONOPERATING REVENUE (EXPENSES):				
Investment loss	(4,830,521)	-	-	(4,830,521)
Net decrease in fair value of investments	(26,609,513)	-	-	(26,609,513)
Interest expense	(21,183,362)	-	-	(21,183,362)
Loss on sale of environmental credits	(1,090,004)	-	-	(1,090,004)
Legal settlement	(500,000)	-	-	(500,000)
Capital asset write-off	(3,258,055)	-	-	(3,258,055)
Total nonoperating revenue (expenses), net	<u>(57,471,455)</u>	<u>-</u>	<u>-</u>	<u>(57,471,455)</u>
Income (loss) before transfers	(30,561,299)	201,928	(205,530)	(30,564,901)
Transfers out	<u>(9,147,090)</u>	<u>-</u>	<u>-</u>	<u>(9,147,090)</u>
Change in net assets	(39,708,389)	201,928	(205,530)	(39,711,991)
Net assets (deficit), beginning of the year	107,922,112	12,901,779	(1,058,483)	119,765,408
Net assets (deficit), end of the year	<u>\$ 68,213,723</u>	<u>\$ 13,103,707</u>	<u>\$ (1,264,013)</u>	<u>\$ 80,053,417</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Business-type			Total
	Activities - Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optic Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 181,083,061	\$ 6,404,828	\$ 381,044	\$ 187,868,933
Cash paid to suppliers for goods and services	(139,679,401)	(4,642,402)	(241,755)	(144,563,558)
Cash paid to employees for services	(4,566,422)	(1,535,120)	(52,097)	(6,153,639)
Net cash provided by operating activities	<u>36,837,238</u>	<u>227,306</u>	<u>87,192</u>	<u>37,151,736</u>
Cash flows from noncapital financing activities:				
Transfers to City	(9,147,090)	-	-	(9,147,090)
Collection of note receivable	353,345	-	-	353,345
Net cash used in noncapital financing activities	<u>(8,793,745)</u>	<u>-</u>	<u>-</u>	<u>(8,793,745)</u>
Cash flows from capital and related financing activities:				
Proceeds from bond issuance	71,607,505	-	-	71,607,505
Repayment of bonds	(27,655,000)	-	-	(27,655,000)
Bond interest paid	(22,364,755)	-	-	(22,364,755)
Acquisition and construction of capital assets, net	(13,729,064)	(227,306)	(87,192)	(14,043,562)
Net cash provided by (used in) capital and related financing activities	<u>7,858,686</u>	<u>(227,306)</u>	<u>(87,192)</u>	<u>7,544,188</u>
Cash flows from investing activities:				
Purchases and sales of investments, net	(1,674,203)	-	-	(1,674,203)
Investment loss net of interest rate swap payments on investment derivatives	(4,800,635)	-	-	(4,800,635)
Net cash used in investing activities	<u>(6,474,838)</u>	<u>-</u>	<u>-</u>	<u>(6,474,838)</u>
Net increase in cash and cash equivalents	29,427,341	-	-	29,427,341
Cash and cash equivalents, beginning of year	61,508,350	-	-	61,508,350
Cash and cash equivalents, end of year	<u>\$ 90,935,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,935,691</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 26,910,156	\$ 201,928	\$ (205,530)	\$ 26,906,554
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	5,660,274	317,964	178,248	6,156,486
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(284,534)	(158,263)	(6,060)	(448,857)
Advance to (from) City	(13,239,547)	(14,887)	121,677	(13,132,757)
Accrued unbilled revenue	(305,251)	185	-	(305,066)
Inventories	824,975	-	8,231	833,206
Deposits and prepaid expenses	(5,656,259)	-	-	(5,656,259)
Prepaid natural gas	28,631,088	-	-	28,631,088
Increase (decrease) in:				
Accounts payable	(1,870,135)	(19,695)	(8,914)	(1,898,744)
Customer deposits	54,870	(94,607)	-	(39,737)
Compensated absences	98,624	(5,319)	(460)	92,845
Deferred gain from sale of generation assets	(3,987,023)	-	-	(3,987,023)
Net cash provided by operating activities	<u>\$ 36,837,238</u>	<u>\$ 227,306</u>	<u>\$ 87,192</u>	<u>\$ 37,151,736</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets				
Cash and investments	\$ 22,084,311	\$ -	\$ -	\$ 22,084,311
Noncurrent restricted cash and investments	116,557,692	-	-	116,557,692
Total	138,642,003	-	-	138,642,003
Less: Investments with maturities of more than 90 days	(47,706,312)	-	-	(47,706,312)
Total cash and cash equivalents	<u>\$ 90,935,691</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,935,691</u>
Noncash Capital, Investing and Financing Activities				
Acquisition of capital assets in accounts payable	\$ 911,884	\$ 45,760	\$ 30,242	\$ 987,886
Decrease in fair value of investments	26,609,513	-	-	26,609,513
Amortization of deferred gain from sale of generation assets	3,987,023	-	-	3,987,023
Loss on sale of environmental credits	1,090,004	-	-	1,090,004
Capital asset write-off	3,258,055	-	-	3,258,055

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2012

	Vernon Redevelopment Successor Agency Private-Purpose Trust Fund
ASSETS:	
Current assets:	
Cash and investments	\$ 7,234,119
Taxes receivable	22,364
Other receivable	70,758
Bond issuance costs	141,189
Total current assets	7,468,430
Noncurrent assets:	
Restricted cash and investments	6,267,477
Bond issuance costs	1,979,977
Land purchase deposit	26,200,000
Land held for resale	16,035,039
Accumulated redevelopment project costs	
Nondepreciable	24,838,594
Capital assets:	
Nondepreciable	774,295
Depreciable, net	16,049,432
Total noncurrent assets	92,144,814
Total assets	99,613,244
LIABILITIES:	
Current liabilities:	
Accounts payable	932,335
Due to City	18,932
Customer deposits	42,968
Bond interest	1,206,176
Bonds payable, net, current portion	1,995,435
Total current liabilities	4,195,846
Noncurrent liabilities:	
Bonds payable, net	62,891,240
Total noncurrent liabilities	62,891,240
Total liabilities	67,087,086
Total net assets held in trust for dissolution of former Redevelopment Agency	\$ 32,526,158

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Five Months Ended June 30, 2012

	Vernon Redevelopment Successor Agency Private-Purpose Trust Fund
ADDITIONS:	
Property tax increment	\$ 4,561,033
Investment earnings	65,857
Other revenues	276,892
Total additions	4,903,782
DEDUCTIONS:	
Community development	1,793,893
Interest on long-term debt	1,509,187
Total deductions	3,303,080
Extraordinary gain	30,925,456
Change in net assets	32,526,158
Net assets, beginning of year	-
Net assets, end of year	\$ 32,526,158

See accompanying notes to the basic financial statements.

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CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2012

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. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. Each blended component unit as described below has a June 30 year-end. The City has no discretely presented component units.

Blended Component Units

Vernon Redevelopment Agency (Agency)

The Vernon Redevelopment Agency (Agency) was activated September 16, 1986, by action of the Vernon City Council pursuant to the Community Redevelopment Law of California, as codified in Part I of Division 24 of the State of California Health and Safety Code. The Agency had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. Additionally, the Agency had the right of eminent domain to facilitate acquisition of property. The Agency's Governing Board was the Vernon City Council.

On June 29, 2011, the Governor of the State of California signed Assembly Bill 1X 26 (AB 1X 26) as part of the State's budget package, which was upheld by the California Supreme Court on December 29, 2011. On February 1, 2012, the Agency was dissolved pursuant to -AB 1X 26. Successor agencies, as defined in AB 1X 26, were designated as successors to the former redevelopment agencies on February 1, 2012. The City of Vernon elected to serve as the successor agency of the Vernon Redevelopment Agency. Pursuant to AB 1X 26, the Successor Agency of the former Vernon Redevelopment Agency assumed all authority, rights, powers, duties, and obligations previously vested with the former Vernon Redevelopment Agency. The final seven months of the Agency's activities from July 1, 2011 through January 31, 2012 are reported as part of the primary government. The Successor Agency is a separate legal entity from the City and its first five months from February 1, 2012 through June 30, 2012 are reported within the Vernon Redevelopment Private-Purpose Trust Fund, a fiduciary fund which is not reported as part of the primary government. There is no separate Component Unit Financial Report prepared for the Successor Agency.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Enterprise. 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 Enterprise for financial reporting purposes.

Basis of Presentation

Government-wide Financial Statements

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

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*, *proprietary*, and *fiduciary* – 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental fund:

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

The *Vernon Redevelopment Agency* was activated September 16, 1986, by action of the Vernon City Council pursuant to the Community Redevelopment Law of California. The Agency has had the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. Additionally, the Agency has had the right of eminent domain to facilitate acquisition of property. The principal objectives of the Agency were 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. 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. On February 1, 2012, the Agency was dissolved pursuant to Assembly Bill 1X 26.

The City reports the following major enterprise funds:

- The *Light and Power Enterprise* accounts for the maintenance and operations of the City's electric utility plant and gas utility system. Revenues for these funds are 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, proprietary, and fiduciary 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Additionally, the City reports a *fiduciary private-purpose trust fund*, which accounts for assets held by the Successor Agency for the dissolution of the former Agency in accordance with State of California law.

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 government-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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$150,000 as of June 30, 2012. 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.

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, proprietary and fiduciary 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

Deferred/Unearned Revenue

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

Long-term Obligations

Certain of the City's governmental fund obligations not currently due and payable at year-end are reported in the government-wide statement of net assets. Long-term debt and other obligations financed by proprietary or fiduciary funds are reported as liabilities in the appropriate proprietary fund, fiduciary 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, which approximates the effective interest 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

The City complies with 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).

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, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end have not been reported as part of assigned fund balances since the General Fund had a deficit unassigned fund balance. At June 30, 2012, the encumbrance balance of the General Fund was \$1,331,772.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Property Taxes

The County of Los Angeles (County) levies, collects and apportions property taxes for all taxing jurisdictions 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, 2012

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	Primary Government	Fiduciary Fund
Cash and investments	\$ 22,610,996	\$ 7,234,119
Restricted cash and investments	120,778,949	6,267,477
Total cash and investments	\$ 143,389,945	\$ 13,501,596

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	25,617,746	7,234,119
Investments	117,770,899	6,267,477
Total cash and investments	\$ 143,389,945	\$ 13,501,596

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, 2012

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.

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	AA/Aa

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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, 2012	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
<u>Primary Government:</u>					
Federal Home Loan Bank	\$ 16,896,052	\$ 4,666,450	\$ 9,762,163	\$ 2,467,439	14.3%
Federal National Mortgage Association	19,321,682	-	9,732,033	9,589,649	16.4%
Local Agency Investment Fund	538,276	538,276	-	-	0.5%
Mutual Funds	40,702,445	40,702,445	-	-	34.6%
United States Treasury Notes	40,312,444	29,362,142	2,453,174	8,497,128	34.2%
Total Investments	\$ 117,770,899	\$ 75,269,313	\$ 21,947,370	\$ 20,554,216	100.0%
<u>Fiduciary Fund:</u>					
Federal Home Loan Bank	\$ 1,161,374	\$ 224,155	\$ 937,219	\$ -	18.5%
Federal National Mortgage Association	2,322,107	239,518	934,493	1,148,096	37.1%
Mutual Funds	1,697,572	1,697,572	-	-	27.1%
United States Treasury Notes	1,086,424	9,019	235,017	842,388	17.3%
Total Investments	\$ 6,267,477	\$ 2,170,264	\$ 2,106,729	\$ 1,990,484	100.0%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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, 2012	% of Total
<u>Primary Government:</u>				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	25,617,746	17.9%
Local Agency Investment Fund	None	Not Rated	538,276	0.4%
Total in custody of Treasurer			26,157,322	18.3%
In custody of Trustee:				
Federal Home Loan Bank	None	Aaa / AA+	16,896,052	11.8%
Federal National Mortgage Association	None	Aaa / AA+	19,321,682	13.5%
Mutual Funds	Aaa / AAA	Aaa / AA+	40,702,445	28.4%
United States Treasury Notes	None	Aaa / AA+	40,312,444	28.0%
Total in custody of Trustee			117,232,623	81.7%
Total cash and investments held by Treasurer and Trustee			\$ 143,389,945	100.0%

Fiduciary Fund:

In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 7,234,119	53.6%
Total in custody of Treasurer			7,234,119	53.6%
In custody of Trustee:				
Federal Home Loan Bank	None	Aaa / AA+	1,161,374	8.6%
Federal National Mortgage Association	None	Aaa / AA+	2,322,107	17.2%
Mutual Funds	Aaa / AAA	Aaa / AA+	1,697,572	12.6%
United States Treasury Notes	None	Aaa / AA+	1,086,424	8.0%
Total in custody of Trustee			6,267,477	46.4%
Total cash and investments held by Treasurer and Trustee			\$ 13,501,596	100.0%

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 federal agency securities.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City 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, 2012, the City's investments in any one issuer exceeding 5%, were as follows:

Issuer	In Custody of	Fair Value as of June 30, 2012	% of Total
<u>Primary Government:</u>			
Federal Home Loan Bank	Trustee	\$ 16,896,052	14.3%
Federal National Mortgage Association	Trustee	\$ 19,321,682	16.4%
<u>Fiduciary Fund:</u>			
Federal Home Loan Bank	Trustee	\$ 1,161,374	18.5%
Federal National Mortgage Association	Trustee	\$ 2,322,107	37.1%

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 and Fiduciary Fund's deposits were \$25,617,746 and \$7,234,119, respectively. The bank balances were \$25,468,534 and \$7,234,223, respectively. The difference between the bank balances and the carrying amounts represent outstanding checks and deposits in transit. As of June 30, 2012, none of City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$24,968,534 and \$6,734,223 were 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, 2012

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 \$538,276 at June 30, 2012. 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, 2012 was \$21.9 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$60.5 billion at June 30, 2012. Of this amount, 2.75% 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 0.74 years as of June 30, 2012. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2012 are as follows:

Receivables - Governmental Activities:	General Fund/ Governmental Activities
Accounts receivables	\$ 23,756
Taxes receivable	1,154,490
Loans receivable	59,660
Settlement receivable	780,251
Total receivables	\$ 2,018,157

Receivables - Business-type Activities:	Light and Power Enterprise	Water Fund	Fiber Optic Fund	Total Business-type Activities
Accounts receivables	\$ 4,597,350	\$ 499,143	\$ 24,423	\$ 5,120,916
Less: Allowances for uncollectible accounts	(150,000)	-	-	(150,000)
Total receivables, net	\$ 4,447,350	\$ 499,143	\$ 24,423	\$ 4,970,916

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2012:

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Enterprise	General Fund	\$ 26,871,907
		<u>\$ 26,871,907</u>
Water Fund	General Fund	\$ 3,243,033
	Fiber Optic Fund	3,876,573
		<u>\$ 7,119,606</u>

Transactions between funds commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, and legal services) and 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. On November 6, 2012, City Council of the City of Vernon adopted Resolution No. 2012-215 to extend the repayment term of the General Fund to the Light and Power Enterprise from 15 months to a period of 10 years.

Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Light & Power Fund	\$ 9,147,090
		<u>\$ 9,147,090</u>
Redevelopment Agency Fund	General Fund	\$ 50,880
		<u>\$ 50,880</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 and for the payment of in-lieu franchise taxes.

During the current year, the Light and Power Enterprise transferred a total of \$3,506,321 for in-lieu franchise taxes, and \$5,640,769 for operating transfers.

During the current year, the General Fund made a \$50,880 operating transfer to the Redevelopment Agency Fund.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2012
Governmental activities:					
<i>Capital assets, not being depreciated:</i>					
Accumulated redevelopment project costs - Agency	\$ 24,834,844	\$ 3,750	\$ -	\$ (24,838,594)	\$ -
Land - General Fund	11,656,842	-	(165,825)	-	11,491,017
Land - Agency	774,295	-	-	(774,295)	-
Total land	<u>37,265,981</u>	<u>3,750</u>	<u>(165,825)</u>	<u>(25,612,889)</u>	<u>11,491,017</u>
Construction in progress - General Fund	1,167,280	167,489	-	(791,570)	543,199
Total capital assets, not being depreciated	<u>38,433,261</u>	<u>171,239</u>	<u>(165,825)</u>	<u>(26,404,459)</u>	<u>12,034,216</u>
<i>Capital assets, being depreciated</i>					
Infrastructure - General Fund	26,527,515	524,854	-	781,967	27,834,336
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	17,433	-	-	10,608,020
Improvements Other Than Buildings - Agency	12,523	-	-	(12,523)	-
Machinery and Equipment - General Fund	21,474,001	379,666	-	9,603	21,863,270
Machinery and Equipment - Agency	24,585	4,125	-	(28,710)	-
Total capital assets, being depreciated	<u>91,861,554</u>	<u>926,078</u>	<u>-</u>	<u>(17,648,301)</u>	<u>75,139,331</u>
Less accumulated depreciation for:					
Infrastructure - General Fund	(21,122,397)	(523,287)	-	-	(21,645,684)
Infrastructure - Agency	(1,792,583)	(344,358)	-	2,136,941	-
Building and Improvements - General Fund	(5,450,605)	(375,846)	-	-	(5,826,451)
Improvements Other Than Building - General Fund	(3,307,875)	(276,444)	-	-	(3,584,319)
Improvements Other Than Building - Agency	(1,713)	(180)	-	1,893	-
Machinery and Equipment - General Fund	(14,058,147)	(1,357,860)	-	-	(15,416,007)
Machinery and Equipment - Agency	(3,568)	(1,131)	-	4,699	-
Total accumulated depreciation	<u>(45,736,888)</u>	<u>(2,879,106)</u>	<u>-</u>	<u>2,143,533</u>	<u>(46,472,461)</u>
Total capital assets, being depreciated, net					
Infrastructure - General Fund	5,405,118	1,567	-	781,967	6,188,652
Infrastructure - Agency	16,606,055	(344,358)	-	(16,261,697)	-
Building and Improvements - General Fund	9,383,100	(375,846)	-	-	9,007,254
Improvements Other Than Building - General Fund	7,282,712	(259,011)	-	-	7,023,701
Improvements Other Than Building - Agency	10,810	(180)	-	(10,630)	-
Machinery and Equipment - General Fund	7,415,854	(978,194)	-	9,603	6,447,263
Machinery and Equipment - Agency	21,017	2,994	-	(24,011)	-
Total	<u>46,124,666</u>	<u>(1,953,028)</u>	<u>-</u>	<u>(15,504,768)</u>	<u>28,666,870</u>
Governmental activities capital assets, net	<u>\$ 84,557,927</u>	<u>\$ (1,781,789)</u>	<u>\$ (165,825)</u>	<u>\$ (41,909,227)</u>	<u>\$ 40,701,086</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 1,095,438
Public safety	1,014,312
Public works	746,411
Health services	22,945
Total depreciation expense - governmental functions	<u>\$ 2,879,106</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2011	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2012
<u>Fiduciary activities:</u>					
<i>Capital assets, not being depreciated:</i>					
Accumulated redevelopment project costs	\$ -	\$ -	\$ -	\$ 24,838,594	\$ 24,838,594
Land	-	-	-	774,295	774,295
Total capital assets, not being depreciated	-	-	-	25,612,889	25,612,889
<i>Capital assets, being depreciated</i>					
Infrastructure	-	-	-	18,398,638	18,398,638
Improvements Other Than Buildings	-	-	-	12,523	12,523
Machinery and Equipment	-	-	-	28,710	28,710
Total capital assets, being depreciated	-	-	-	18,439,871	18,439,871
Less accumulated depreciation for:					
Infrastructure	-	(245,970)	-	(2,136,941)	(2,382,911)
Improvements Other Than Buildings	-	(129)	-	(1,893)	(2,022)
Machinery and Equipment	-	(807)	-	(4,699)	(5,506)
Total accumulated depreciation	-	(246,906)	-	(2,143,533)	(2,390,439)
Total capital assets, being depreciated, net					
Infrastructure	-	(245,970)	-	16,261,697	16,015,727
Improvements Other Than Buildings	-	(129)	-	10,630	10,501
Machinery and Equipment	-	(807)	-	24,011	23,204
Total	-	(246,906)	-	16,296,338	16,049,432
Governmental activities capital assets, net	\$ -	\$ (246,906)	\$ -	\$ 41,909,227	\$ 41,662,321

Depreciation expense charged to the fiduciary fund was \$246,906.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011 As Restated	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2012
Business-type activities:					
<i>Capital assets, not being depreciated:</i>					
Land - Electric	\$ 9,276,596	\$ -	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	-	467,640
Intangibles - Environmental credits - Electric	20,145,887	-	(1,763,014)	-	18,382,873
Construction in progress - Electric	35,297,923	6,087,800	(3,258,055)	(32,360)	38,095,308
Construction in progress - Water	776,631	135,532	-	(9,603)	902,560
Construction in progress - Gas	-	29,272	-	-	29,272
Total capital assets, not being depreciated	<u>78,300,448</u>	<u>6,252,604</u>	<u>(5,021,069)</u>	<u>(41,963)</u>	<u>67,154,249</u>
<i>Capital assets, being depreciated</i>					
Production plant - Electric	14,784,357	61,421	-	32,360	14,878,138
Transmission plant - Electric	4,888,113	-	-	-	4,888,113
Distribution plant - Electric	122,851,698	7,850,463	-	-	130,702,161
General plant - Electric	8,086,740	47,009	-	-	8,133,749
Water utility plant	17,131,855	91,774	-	9,603	17,233,232
Gas utility plant	24,716,740	77,354	-	-	24,794,094
Fiber Optic utility plant	3,458,040	87,192	-	-	3,545,232
Total capital assets, being depreciated	<u>195,917,543</u>	<u>8,215,213</u>	<u>-</u>	<u>41,963</u>	<u>204,174,719</u>
Less accumulated depreciation for:					
Production plant - Electric	(6,274,377)	(422,918)	-	-	(6,697,295)
Transmission plant - Electric	(2,468,600)	(98,184)	-	-	(2,566,784)
Distribution plant - Electric	(46,556,059)	(3,651,164)	-	-	(50,207,223)
General plant - Electric	(2,006,065)	(467,149)	-	-	(2,473,214)
Water utility plant	(12,325,414)	(317,964)	-	-	(12,643,378)
Gas utility plant	(3,698,405)	(727,553)	-	-	(4,425,958)
Fiber Optic utility plant	(729,386)	(178,248)	-	-	(907,634)
Total accumulated depreciation	<u>(74,058,306)</u>	<u>(5,863,180)</u>	<u>-</u>	<u>-</u>	<u>(79,921,486)</u>
Total capital assets, being depreciated, net					
Production plant - Electric	8,509,980	(361,497)	-	32,360	8,180,843
Transmission plant - Electric	2,419,513	(98,184)	-	-	2,321,329
Distribution plant - Electric	76,295,639	4,199,299	-	-	80,494,938
General plant - Electric	6,080,675	(420,140)	-	-	5,660,535
Water utility plant	4,806,441	(226,190)	-	9,603	4,589,854
Gas utility plant	21,018,335	(650,199)	-	-	20,368,136
Fiber Optic utility plant	2,728,654	(91,056)	-	-	2,637,598
Total	<u>121,859,237</u>	<u>2,352,033</u>	<u>-</u>	<u>41,963</u>	<u>124,253,233</u>
Business-type activities capital assets, net	<u>\$ 200,159,685</u>	<u>\$ 8,604,637</u>	<u>\$ (5,021,069)</u>	<u>\$ -</u>	<u>\$ 191,407,482</u>

In fiscal 2009, the Water Fund erroneously recorded \$12,335,771 of water rights when implementing GASB 51, *Accounting and Financial Reporting for Intangible Assets*. In the current year, the City corrected this error as a prior period adjustment by restating the beginning balance of capital assets and net assets (See Note 17).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

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

Light and Power	\$ 5,366,968
Water	317,964
Fiber Optic	<u>178,248</u>
Total depreciation expense - business-type functions	<u><u>\$ 5,863,180</u></u>

NOTE 6 – LONG-TERM OBLIGATIONS

During the fiscal year 2012, a total of \$72,740,000 in bonds were issued and as of June 30, 2012, \$476,700,000 remained outstanding consisting of the following:

- \$43,215,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$360,745,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$37,640,000 City of Vernon Electric System Revenue Bonds, 2012 Series A
- \$35,100,000 City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B

Outstanding at June 30, 2012, were \$43,215,000 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 \$112,601,004, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,965,028 and \$128,453,559, 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 Enterprise (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, 2012, were \$360,745,000 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 \$460,431,696, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$46,585,330 and \$128,453,559, 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 Enterprise (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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Outstanding at June 30, 2012, were \$37,640,000 of City of Vernon Electric System Revenue Bonds, 2012 Series A. The 2012 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 \$88,536,358, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$910,770 and \$128,453,559, respectively. Under the Indenture of Trust dated September 1, 2008, as amended and supplemented through January 1, 2012, 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 Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

Outstanding at June 30, 2012, were \$35,100,000 of City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B. The 2012 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 \$62,285,604, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$1,045,702 and \$128,453,559, respectively. Under the Indenture of Trust dated September 1, 2008, as amended and supplemented through January 1, 2012, 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 Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B were issued to provide funds to (i) refund the \$28,680,000 aggregate principal amount of 2009 Bonds maturing on August 1, 2012, (ii) to pay a portion of the Costs of the 2012 Project, and (iii) to pay costs of issuance of the 2012 Taxable Series B 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, 2012, \$7,259,123 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, 2012

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
<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	\$ 43,215,000
<i>City of Vernon Electric System Revenue Bonds, 2009 Series A</i>	08/01/21	2.500% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	360,745,000
<i>City of Vernon Electric System Revenue Bonds, 2012 Series A</i>	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
<i>City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B</i>	08/01/26	6.250% - 6.500%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
<i>Premium</i>					195,803
<i>Discounts</i>					(4,439,072)
<i>Deferred amount on refunding</i>					(7,450,986)
<i>Total Revenue Bonds</i>				<u>\$ 535,905,000</u>	<u>\$ 465,005,745</u>

On February 1, 2012, the Vernon Redevelopment Agency dissolved pursuant to AB 1X 26 and industrial redevelopment project tax allocation bonds of \$64,886,856 were transferred to the Vernon Redevelopment Successor Agency fiduciary fund. The bonds bear interest at rates between 3% to 9.25%.

Outstanding at June 30, 2012, were \$45,595,000 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 \$76,648,786, payable through September 2035. For the current year, debt service payments and total incremental property tax revenues were -\$3,551,694 and -\$12,094,593, respectively. The Series 2005 Bonds were issued to (i) to finance various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area, (ii) to fund the reserve requirement for the Series 2005 Bonds, and (iii) to pay costs of issuance related to the Series 2005 Bonds.

Outstanding at June 30, 2012 were \$19,490,000 of Industrial Redevelopment Project Tax Allocation Bonds Series 2011. 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 -\$35,359,241, payable through September 2030. For the current year, debt service and total incremental property tax revenues were -\$1,487,333 and -\$12,094,593, 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, 2012

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2012, annual debt service requirements of business-type activities to maturity are as follows:

Fiscal year ending June 30:	Electric System Revenue Bonds 2008 Taxable Series A	
	Principal	Interest*
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	415,000	3,562,755
2018-2022	3,530,000	17,141,726
2023-2027	6,145,000	15,047,321
2028-2032	9,445,000	11,747,043
2033-2037	14,510,000	6,677,435
2038	7,795,000	683,979
Total requirements	\$ 43,215,000	\$ 69,386,004

*As of June 30, 2012, 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*
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	34,740,000	11,300,625
2018-2022	203,130,000	27,092,288
Total requirements	\$ 360,745,000	\$ 99,686,696

* As of June 30, 2012, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.500% to 5.125%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2013	\$ -	\$ 2,031,394
2014	-	2,031,394
2015	-	2,031,394
2016	-	2,031,394
2017	-	2,031,394
2018-2022	-	10,156,968
2023-2027	-	10,156,968
2028-2032	5,960,000	9,316,295
2033-2037	7,715,000	7,513,692
2038-2042	23,965,000	3,595,465
Total requirements	<u>\$ 37,640,000</u>	<u>\$ 50,896,358</u>

* As of June 30, 2012, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 5.000% to 5.500%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Taxable Series B	
	Principal	Interest*
2013	\$ -	\$ 2,222,900
2014	-	2,222,900
2015	-	2,222,900
2016	-	2,222,900
2017	-	2,222,900
2018-2022	-	11,114,500
2023-2027	35,100,000	4,956,604
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 27,185,604</u>

*As of June 30, 2012, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 6.250% to 6.500%.

Fiscal year ending June 30:	Note Payable	
	Principal	Interest *
2013	\$ 454,000	\$ 352,403
2014	6,805,123	275,557
	<u>\$ 7,259,123</u>	<u>\$ 627,960</u>

*As of June 30, 2012, debt service on the note payable was calculated based upon the effective annual rate of 5.116%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2012, annual debt service requirements of fiduciary activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable	
	Principal	Interest*
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	1,630,000	1,891,944
2018-2022	7,840,000	8,457,347
2023-2027	7,200,000	6,631,244
2028-2032	10,960,000	4,556,700
2033-2036	12,625,000	1,316,875
	\$ 45,595,000	\$ 31,053,786

* As of June 30, 2012, debt service was calculated at the actual fixed rates of the coupons ranging from 3.50% to 5.25%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable - 2011 Series	
	Principal	Interest*
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	1,150,000	1,284,750
2018-2022	6,420,000	5,154,838
2023-2027	3,825,000	2,927,856
2028-2031	4,305,000	824,406
Total requirements	\$ 19,490,000	\$ 15,869,241

*As of June 30, 2012, 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, 2012

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, 2012:

	Balance June 30, 2011	Additions	Reductions	Adjustments / Transfers	Balance June 30, 2012	Amounts Due Within One Year
<u>Governmental activities:</u>						
Postemployment benefit liability	\$ 6,216,000	\$ 2,634,022	\$ -	\$ (146,022)	\$ 8,704,000	\$ 290,000
Bonds payable	66,465,000	-	(1,380,000)	(65,085,000)	-	-
Bond premium	680,319	-	(25,868)	(654,451)	-	-
Bond discount	(878,209)	-	25,614	852,595	-	-
Notes payable	13,467,757	-	(6,208,634)	-	7,259,123	454,000
Claims payable	5,026,430	143,884	(1,943,498)	-	3,226,816	1,075,605
Compensated absences	5,580,944	276,413	-	-	5,857,357	1,952,452
	<u>\$ 96,558,241</u>	<u>\$ 3,054,319</u>	<u>\$ (9,532,386)</u>	<u>\$ (65,032,878)</u>	<u>\$ 25,047,296</u>	<u>\$ 3,772,057</u>
<u>Business-type activities:</u>						
Bonds payable	\$ 431,615,000	\$ 72,740,000	\$ (27,655,000)	\$ -	\$ 476,700,000	\$ 28,985,000
Bond premium	-	199,159	(3,356)	-	195,803	6,713
Bond discount	(3,467,906)	(1,331,654)	360,488	-	(4,439,072)	(405,885)
Deferred amount on refunding	(8,196,085)	-	745,099	-	(7,450,986)	(745,099)
Compensated absences	929,597	1,450,322	(1,357,477)	-	1,022,442	340,814
	<u>\$ 420,880,606</u>	<u>\$ 73,057,827</u>	<u>\$ (27,910,246)</u>	<u>\$ -</u>	<u>\$ 466,028,187</u>	<u>\$ 28,181,543</u>
<u>Fiduciary activities:</u>						
Bonds payable	\$ -	\$ -	\$ -	\$ 65,085,000	\$ 65,085,000	\$ 1,995,000
Bond premium	-	-	(18,477)	654,451	635,974	44,345
Bond discount	-	-	18,296	(852,595)	(834,299)	(43,910)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (181)</u>	<u>\$ 64,886,856</u>	<u>\$ 64,886,675</u>	<u>\$ 1,995,435</u>

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired derivative instruments to reduce its overall exposure to interest rate risk and to achieve a lower cost of capital. As of June 30, 2012, 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%	\$ (31,723,975)
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%	(20,099,286)
			<u>\$ 173,725,000</u>				<u>\$ (51,823,261)</u>

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, 2012, the swap had a negative fair value of \$31,723,975. 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, 2012 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, 2012, 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 exceeds \$20,000,000. At June 30, 2012, the City posted collateral of \$12,569,301 on the 2004 Series A Bonds as the negative fair value of \$31,723,975 exceeded \$20,000,000.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

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

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

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

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. 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 the City other than the change in the requirement of posting collateral. The City is obligated to post collateral to Deutsche Bank AG if the City's negative fair value of the 2004 B swap exceeds \$20,000,000.

Fair value: As of June 30, 2012, the swap had a negative fair value of \$20,099,286. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

Credit risk: As the swap's fair value as of June 30, 2012 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, 2012, the swap counterparty, Deutsche Bank AG, 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 Deutsche Bank AG if the City's negative fair value exceeds \$20,000,000. At June 30, 2012, the City had not posted any collateral on the 2004 Series B Bonds.

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.

C - Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2012, 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, 2012		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ (17,219,705)	Derivative liability	\$ (31,723,975)	\$ 90,150,000
2004 Series B Bonds	Decrease in fair value	(8,925,684)	Derivative liability	(20,099,286)	83,575,000
Total		\$ (26,145,389)		\$ (51,823,261)	\$ 173,725,000

The net decrease in fair value of investments on the 2004 A and 2004 B swaps during the year was \$26,145,389. The change in fair value subsequent to June 30, 2012 is discussed in Note 15.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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. 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 National Union (AIG) Insurance.

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

The City is self-insured for the first \$1,000,000 of workers' compensation claims and for the first \$2,000,000 of its general liability coverage. Athens Administrators, 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The insurance limits are as follows:

Type of Coverage	Self-Insured Retention	Limit	Excess Carrier
General Liability	\$2,000,000	\$20,000,000	Starr Indemnity & Liability Company
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 Flood Sublimit – Annual		Included \$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
Boiler & Machinery Breakdown	\$100,000 EXCEPT \$250,000 for all Internal Combustion Engines	\$50,000,000	Travelers Insurance Co
Pollution (City owned property)	\$25,000 deductible	\$1,000,000	Evanston Insurance Co (pollution legal liability and clean up)
Pollution (Waste Haulers and Landfills)	\$25,000 deductible	\$5,000,000	Evanston Insurance Co
Crime	\$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.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 8 – RISK MANAGEMENT (CONTINUED)

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	
	2012	2011
Claims payable, beginning of fiscal year	\$ 5,026,430	\$ 5,033,959
Incurred claims and change in estimates	143,884	648,983
Claims payments	(1,943,498)	(656,512)
Claims payable, end of fiscal year	\$ 3,226,816	\$ 5,026,430

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. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration.

The City and employees contribution to the PERS for the fiscal year ended June 30, 2012 was \$5,974,098 and \$2,161,306, respectively. City contribution rates as a percentage of covered payroll were 16.323% for miscellaneous plan members and 29.911% 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, 2009.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 9 – PENSION PLAN (CONTINUED)

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 7.50% a year, compounded annually; (b) overall payroll growth of 3.00%, compounded annually; and (c) a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

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

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

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Amount Contributed	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 5,974,098	\$ 5,974,098	100%	-
6/30/2011	5,794,058	5,794,058	100%	-
6/30/2010	7,405,652	7,405,652	100%	-

The following schedules present the funded status as of June 30, 2011 based on actuarial assumptions consistent with the June 30, 2009 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)
6/30/2011	\$ 169,856,987	\$ 149,229,083	\$ 20,627,904	87.9%	\$ 12,554,538	164.3%

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)
6/30/2011	\$ 108,107,278	\$ 97,157,504	\$ 10,949,774	89.9%	\$ 10,779,349	101.6%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, provide 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, 2012

NOTE 10 – DEFICITS IN FUND EQUITY

The General Fund has a fund balance deficit of \$ 25,120,702 at June 30, 2012, which will be recovered from future revenue increases, cost reductions, and transfers from other funds. The City has adopted several short-term and long-term strategies to continue operations and eliminate the deficit, such as continued borrowing from enterprise funds, the sale of water rights for \$6.0 million in January 2013, a land parcel is available for sale, proposed utility user tax, proposed increase of business license tax, proposed increase in parcel tax and an early retirement program for senior staff, which will reduce future General Fund expenditures.

The Fiber Optic Fund has a net asset deficit of \$1,264,013 at June 30, 2012, which will be recovered from future operating revenues from customers.

NOTE 11 – LIGHT AND POWER ENTERPRISE 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, 2012, a deferred gain of \$43,002,025 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

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

Between 1983 and 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 2012 was \$4,734,528. 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, 2012, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2012, the outstanding note receivable was \$2,265,463. 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 \$353,345 due the City on the outstanding note receivable. The contract expires in September 2017.

Power Purchase Commitments

As of June 30, 2012 under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

Fiscal Year	Amount*
2013	\$ 21,473,855
2014	21,473,855
2015	21,473,855
2016	21,473,855
2017	36,017,284
2018-2022	174,799,418
2023	27,146,619
	<u>\$323,858,741</u>

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

Light and Power Enterprise

On December 15, 2011, City Council adopted a resolution to merge two enterprise funds, the Light and Power Department 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 merged these funds to eliminate both short-term and long-term receivables and payables.

A Segment Information

Both the Light and Power Enterprise and the Gas Enterprise are reported in a single fund. However, investors in the debt rely solely on the revenue generated by the individual activities for repayment. Financial information of both enterprises is presented below:

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
Current assets:				
Cash and investments	\$ 21,991,438	\$ 92,873	\$ -	\$ 22,084,311
Accounts receivable, net of allowances of \$150,000	2,977,064	1,470,286	-	4,447,350
Accrued unbilled revenue	7,783,005	-	-	7,783,005
Accrued interest receivable	237,634	-	-	237,634
Bond issuance costs	340,079	-	-	340,079
Inventories	9,857,602	309,201	-	10,166,803
Prepaid natural gas	28,549,572	-	-	28,549,572
Note receivable	200,060	-	-	200,060
Deposits and prepaid expenses	12,586,071	-	-	12,586,071
Deferred financing cost	146,583	-	-	146,583
Total current assets	<u>84,669,108</u>	<u>1,872,360</u>	<u>-</u>	<u>86,541,468</u>
Noncurrent assets:				
Restricted cash and investments	116,557,692	-	-	116,557,692
Advances to other funds	51,308,907	-	(24,437,000)	26,871,907
Prepaid natural gas	225,809,900	-	-	225,809,900
Note receivable	2,065,403	-	-	2,065,403
Bond issuance costs	4,255,284	-	-	4,255,284
Deferred financing cost	2,311,597	-	-	2,311,597
Capital assets:				
Nondepreciable	65,754,777	29,272	-	65,784,049
Depreciable, net	96,657,645	20,368,136	-	117,025,781
Total noncurrent assets	<u>564,721,205</u>	<u>20,397,408</u>	<u>(24,437,000)</u>	<u>560,681,613</u>
Total assets	<u>649,390,313</u>	<u>22,269,768</u>	<u>(24,437,000)</u>	<u>647,223,081</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	4,818,587	1,266,678	-	6,085,265
Customer deposits	450,245	63,000	-	513,245
Derivative liabilities	51,823,261	-	-	51,823,261
Bond interest	11,770,481	-	-	11,770,481
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Bonds payable, net	27,840,729	-	-	27,840,729
Compensated absences	258,929	10,850	-	269,779
Total current liabilities	<u>100,904,377</u>	<u>1,340,528</u>	<u>-</u>	<u>102,244,905</u>
Noncurrent liabilities:				
Advances from other funds	-	24,437,000	(24,437,000)	-
Deferred gain from sale of generation assets	39,059,880	-	-	39,059,880
Bonds payable, net	437,165,016	-	-	437,165,016
Compensated absences	517,858	21,699	-	539,557
Total noncurrent liabilities	<u>476,742,754</u>	<u>24,458,699</u>	<u>(24,437,000)</u>	<u>476,764,453</u>
Total liabilities	<u>577,647,131</u>	<u>25,799,227</u>	<u>(24,437,000)</u>	<u>579,009,358</u>
NET ASSETS:				
Invested in capital assets, net of related debt	115,581,559	20,397,409	-	135,978,968
Unrestricted (deficit)	(43,838,377)	(23,926,868)	-	(67,765,245)
Total net assets (deficit)	<u>\$ 71,743,182</u>	<u>\$ (3,529,459)</u>	<u>\$ -</u>	<u>\$ 68,213,723</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
OPERATING REVENUES:			
Charges for services	\$ 128,453,559	\$ 42,659,030	\$ 171,112,589
Total operating revenues	<u>128,453,559</u>	<u>42,659,030</u>	<u>171,112,589</u>
OPERATING EXPENSES:			
Cost of sales	97,183,447	41,358,712	138,542,159
Depreciation and amortization	4,932,721	727,553	5,660,274
Total operating expenses	<u>102,116,168</u>	<u>42,086,265</u>	<u>144,202,433</u>
Operating income	26,337,391	572,765	26,910,156
NONOPERATING REVENUE (EXPENSES):			
Investment loss	(4,830,521)	-	(4,830,521)
Net decrease in fair value of investments	(26,609,513)	-	(26,609,513)
Interest expense	(21,183,362)	-	(21,183,362)
Loss on sale of environmental credits	(1,090,004)	-	(1,090,004)
Legal settlement	(500,000)	-	(500,000)
Capital asset write-off	(3,258,055)	-	(3,258,055)
Total nonoperating revenue (expenses), net	<u>(57,471,455)</u>	<u>-</u>	<u>(57,471,455)</u>
Income (loss) before transfers	(31,134,064)	572,765	(30,561,299)
Transfers out	(9,147,090)	-	(9,147,090)
Change in net assets	(40,281,154)	572,765	(39,708,389)
Net assets (deficit), beginning of the year	<u>112,024,336</u>	<u>(4,102,224)</u>	<u>107,922,112</u>
Net assets (deficit), end of the year	<u>\$ 71,743,182</u>	<u>\$ (3,529,459)</u>	<u>\$ 68,213,723</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 141,798,822	\$ 39,284,239	\$ 181,083,061
Cash paid to suppliers for goods and services	(99,117,704)	(40,561,697)	(139,679,401)
Cash paid to employees for services	(4,292,312)	(274,110)	(4,566,422)
Net cash provided by (used in) operating activities	<u>38,388,806</u>	<u>(1,551,568)</u>	<u>36,837,238</u>
Cash flows from noncapital financing activities:			
Transfers to City	(9,147,090)	-	(9,147,090)
Collection of note receivable	353,345	-	353,345
Net cash used in noncapital financing activities	<u>(8,793,745)</u>	<u>-</u>	<u>(8,793,745)</u>
Cash flows from capital and related financing activities:			
Proceeds from bond issuance	71,607,505	-	71,607,505
Repayment of bonds	(27,655,000)	-	(27,655,000)
Bond interest paid	(22,364,755)	-	(22,364,755)
Acquisition and construction of capital assets, net	(13,654,723)	(74,341)	(13,729,064)
Net cash provided by (used in) capital and related financing activities	<u>7,933,027</u>	<u>(74,341)</u>	<u>7,858,686</u>
Cash flows from investing activities:			
Purchases and sales of investments, net	(1,641,918)	(32,285)	(1,674,203)
Investment loss net of interest rate swap payments on investment derivatives	(4,800,635)	-	(4,800,635)
Net cash used in investing activities	<u>(6,442,553)</u>	<u>(32,285)</u>	<u>(6,474,838)</u>
Net increase (decrease) in cash and cash equivalents	31,085,535	(1,658,194)	29,427,341
Cash and cash equivalents, beginning of year	59,757,283	1,751,067	61,508,350
Cash and cash equivalents, end of year	<u>\$ 90,842,818</u>	<u>\$ 92,873</u>	<u>\$ 90,935,691</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 26,337,391	\$ 572,765	\$ 26,910,156
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,932,721	727,553	5,660,274
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(1,103,146)	818,612	(284,534)
Advance to (from) City	(8,927,725)	(4,311,822)	(13,239,547)
Accrued unbilled revenue	(305,251)	-	(305,251)
Inventories	706,556	118,419	824,975
Prepaid expenses and deposits	(5,656,259)	-	(5,656,259)
Prepaid natural gas	28,631,088	-	28,631,088
Increase (decrease) in:			
Accounts payable	(2,337,955)	467,820	(1,870,135)
Customer deposits	9,870	45,000	54,870
Compensated absences	88,539	10,085	98,624
Deferred gain from sale of generation assets	(3,987,023)	-	(3,987,023)
Net cash provided by (used in) operating activities	<u>\$ 38,388,806</u>	<u>\$ (1,551,568)</u>	<u>\$ 36,837,238</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets			
Cash and investments	\$ 21,991,438	\$ 92,873	\$ 22,084,311
Noncurrent restricted cash and investments	116,557,692	-	116,557,692
Total	138,549,130	92,873	138,642,003
Less: Investments with maturities of more than 90 days	(47,706,312)	-	(47,706,312)
Total cash and cash equivalents	<u>\$ 90,842,818</u>	<u>\$ 92,873</u>	<u>\$ 90,935,691</u>
Noncash Capital, Investing and Financing Activities			
Acquisition of capital assets in accounts payable	\$ 872,207	\$ 39,677	\$ 911,884
Decrease in fair value of investments	26,609,513	-	26,609,513
Amortization of deferred gain from sale of generation assets	3,987,023	-	3,987,023
Loss on sale of environmental credits	1,090,004	-	1,090,004
Capital asset write-off	3,258,055	-	3,258,055

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

B. Pledged Revenues

The Light and Power Enterprise has pledged future electric revenues for the repayment of its revenue bonds (See Note 6 regarding long-term obligations).

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

City Council Resolution 2011-107 provided the payment of medical and dental insurance premiums for certain categories of retired employees during the 2011-2012 fiscal year. It provides a single-employer postemployment benefit plan consisting of HMO medical and dental benefits to employees who retire at age sixty (60) or later with twenty (20) years of service. Alternatively, employees who retire before the age of sixty (60) with thirty (30) years of service, must pay the full medical and dental premium cost and upon reaching the age of 60, the City will pay the premium for the HMO medical and dental plans. City Council Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services has been with the City of Vernon. City Council Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, which provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. The City's plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No 45. The City may terminate its unvested OPEB. As of June 30, 2012, 346 employees (278 active employees and 68 retired employees), participate in the 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 \$146,022 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)		25,475,000
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	29,361,889
UAAL as a % of covered payroll (a-b/c)		86.8%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

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.

Based on the July 1, 2010 actuarial valuation, the June 30, 2012 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><u>\$ 2,460,000</u></u>

Based on the July 1, 2010 actuarial valuation, the June 30, 2012 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 6,216,000
Annual OPEB Cost	2,488,000
Employer contributions	(146,022)
Adjustment	146,022
Increase in NOO	<u>2,488,000</u>
NOO - End of Year	<u><u>\$ 8,704,000</u></u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

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

The funded status of the OPEB plan as of July 1, 2010 and the ARC for the fiscal year ended June 30, 2012 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%
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 73 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 13– CONTINGENCIES

As of June 30, 2012, 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

Sale of Generation and Transmission Assets

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.

State Assembly Bill 46

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. 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.

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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 14 - SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER RDA

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that had previously reported its redevelopment agency within the reporting entity of the City as a blended component unit of the primary government.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. The City of Vernon has elected to serve as the Successor Agency to the Redevelopment Agency of the City of Vernon by default by not electing to not to serve as a successor agency.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). The Successor Agency established the Oversight Board on April 30, 2012.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill. The Agency transferred non-cash assets of \$24,834,844 to the City on March 1, 2011. The Department of Finance has not issued a determination letter of the City non-housing assets due diligence review as of the date of this report. Due to the uncertainties surrounding the State Department of Finance review, the ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability that may result has been recorded in the financial statements.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. Prior to that date, the final seven months of the activity of the redevelopment agency continued to be reported as part of the City’s primary government. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City. The transfer of the assets and liabilities of the former redevelopment agency as of February 1, 2012 from the governmental fund of the City to the fiduciary fund was reported in the governmental funds as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of February 1, 2012 was reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust fund as an extraordinary gain.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 14 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER RDA (CONTINUED)

Because of the different measurement focus of the governmental funds (*current financial resource measurement focus*) and the measurement focus of the trust funds (*economic resource measurement focus*), the extraordinary loss recognized in the governmental funds was not the same amount as the extraordinary loss that was recognized in the government-wide financial statements and the offsetting extraordinary gain reported in the fiduciary fund financial statements.

The difference between the extraordinary loss recognized in the fund financial statements and the extraordinary gain recognized in the fiduciary fund financial statements is reconciled as follows:

Reconciliation of the Extraordinary Loss Reported in Governmental Fund to the Extraordinary Gain Recognized in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund Financial Statements	
Total extraordinary loss reported in governmental funds - increase to net assets of the Successor Agency Trust Fund	\$ 53,239,048
Capital assets recorded in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	41,909,227
Long-term debt and bond interest payable reported in the government-wide financial statements - decrease to net assets of the Successor Agency Trust Fund	(66,402,814)
Deferred bond issuance costs reported in the government-wide financial statements - increase to net assets of the Successor Agency Trust Fund	<u>2,179,995</u>
Net increase to net assets of the Successor Agency Trust Fund as a result of initial transfers	<u>\$ 30,925,456</u>

On August 30, 2012, the Successor Agency submitted their recognized obligation payment schedule (ROPS) covering enforceable obligations payable from the period January 1, 2013 through June 30, 2013. On October 14, 2012, the State reviewed and approved the ROPS. Notwithstanding, the Los Angeles County-Auditor Controller remitted \$2,628,602 less than the amount of the enforceable obligations approved by the State on the ROPS for the period of January 1, 2013 to June 30, 2013. On January 14, 2013, the Oversight Board determined there are no funds to remit under the due diligence review procedures in Health & Safety Code sections 34179.5 and 34179.6.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 15 – 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 March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Application of this statement is effective for the City’s fiscal year ending June 30, 2014.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 15 – FUTURE GASB PRONOUNCEMENTS (CONTINUED)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statement relates to accounting and financial reporting and does not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statement would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 16 – SUBSEQUENT EVENTS

Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instruments outstanding at February 20, 2013, classified by type, and the change in fair value of such derivative instruments since June 30, 2012 are as follows:

	Change in Fair Value		Fair Value at February 20, 2013		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Increase in fair value	\$ 14,655,828	Derivative liability	\$ (17,068,147)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	2,812,286	Derivative liability	(17,287,000)	83,575,000
Total		<u>\$ 17,468,114</u>		<u>\$ (34,355,147)</u>	<u>\$ 173,725,000</u>

Interest Rate Swap Transactions

In September 2012, the City effectively terminated the portion of the cash flow exchanges under the 2004 Series A Swap scheduled to occur through December 1, 2015 by paying a termination amount of \$9,490,000 and entering into an amended and restated confirmation with a new effective date of December 1, 2015.

Public Agency Retirement System (PARS)

On November 6, 2012, City Council approved the PARS Supplementary Retirement Plan as an early retirement incentive program. There were sixty two employees that were eligible to participate in the plan. On January 10, 2013, City Council approved the funding of this program. There were thirty five employees that requested to participate in the plan. As of January 31, 2013, twenty-two employees have retired as a result of this program and an additional thirteen employees are scheduled to retire by June 30, 2013.

The total cost of the PARS Supplementary Retirement Plan is \$5.1 million. It is paid out over a five year period commencing February 10, 2013. The payments are made on a semi-annual basis with the final payment due on July 10, 2017. A post analysis reflects that only 9.5 full time equivalent employees will be refilled. The projected net savings after the PARS payments is \$1.9 million over 1 year, \$5.2 million over 3 years, and \$8.2 million over 5 years. Additional savings are expected to continue beyond the five year analysis period.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 16 – SUBSEQUENT EVENTS (CONTINUED)

Resolution of Audits by Oversight Bodies

State Legislature Audit: The State Auditor issued her report to the City on June 28, 2012, which provided approximately 25 recommendations, many of which were very similar to those previously issued by the City's Independent Reform Monitor and former Attorney General John Van de Kamp, and Senator Kevin de Leon. The State Auditor's recommendations, including the status and documentation of the City's implementation of each, were added to the January 31, 2013 update to the City of Vernon Good Governance Reform Implementation Matrix. Each recommendation has been assigned to a respective department head, as identified in the matrix. As required by the State Auditor, the City submitted a 60-day response (August 27, 2012), and a 6-month response (January 31, 2013) regarding its implementation progress. A one-year response is due on June 28, 2013, and the City expects to have fully implemented all of the State Auditor's recommendations by that time, or shortly thereafter.

CalPERS Audit: CalPERS issued its audit report to the City on April 27, 2012, which included 10 findings and related recommendations. The City has corrected several of the issues identified in the report as follows, and continues to work with CalPERS to resolve any remaining issues.

On October 16, 2012, the City adopted a correction resolution to its current contract with CalPERS, as provided by CalPERS, to eliminate the inclusion of Local Prosecutors as local safety members as adopted in February 2005. The correction resolution revokes the provision as of its 2005 effective date as if it had never been incorporated into the City's contract in the first place. No members of the City Attorney's Office retired from CalPERS during the time the provision was in effect.

In April 2011, the City implemented the Payroll Module in its ERP system (EDEN), which ensures that, for CalPERS reporting purposes, premium and specialty pay are reported under their proper pay codes, and limits reportable compensation for individuals to the limits established by the federal Internal Revenue Code to prevent the possibility of over-reporting.

California State 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 any final report or subsequent communications since January 2011. The City believes this matter is closed and does not anticipate any further activity on this matter.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements (Continued)
June 30, 2012

NOTE 17 – EXCESS EXPENDITURES OVER APPROPRIATIONS

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$4,764,249. The key reasons for this variance were excess appropriations of \$6,985,875 for debt service and \$3,621,317 for capital outlay offset by an excess expenditures over appropriations of \$5,015,542 for general government and \$1,401,549 for public safety. The excess expenditures over appropriations for general government were mainly due to professional services, and the excess expenditures over appropriations for public safety were mainly due to salaries and benefits and claims expenditures.

NOTE 18 – PRIOR PERIOD ADJUSTMENT

In fiscal 2009, the City recorded \$12,335,771 of water rights in the Water Fund as a result of implementing GASB 51, *Accounting and Financial Reporting for Intangible Assets*. In fiscal 2009, the City also recorded a reimbursement transfer of \$12,335,771 from the Water Fund to the General Fund to purchase the water rights from the General Fund at an estimated fair value as of that date. In the current year, the City corrected these errors as prior period adjustments due to its finding that the City's General Fund acquired the water rights when it purchased the land and such rights were not acquired separately from the land. The value of the land and associated water rights are reported at historical cost in governmental activities in the government-wide statement of net assets.

At the fund level, nondepreciable capital assets were reduced by \$12,335,771 and the interfund receivable balance of the Water Fund was increased by the same amount. The \$12,335,771 of reimbursement transfer that the General Fund had received for its sale of water rights to the Water Fund was adjusted to the General Fund's beginning fund balance by increasing the advance from Water Fund.

At the City-wide level, governmental activities' beginning net assets were reduced by \$12,335,771 for the reimbursement transfer governmental activities had received for its sale of water rights to the business-type activities. There was no change to the beginning net assets for the business-type activities as the reduction of \$12,335,771 of water rights was offset by a corresponding increase in the interfund receivable balance.

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CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 17,020,293	\$ 17,020,293	\$ 18,153,693	\$ 1,133,400
Special assessments	1,020,000	1,020,000	887,536	(132,464)
Licenses and permits	1,852,000	1,852,000	1,605,150	(246,850)
Fines, forfeitures and penalties	235,030	235,030	287,448	52,418
Investment income	18,600	18,600	15,918	(2,682)
Intergovernmental revenues	1,838,601	1,838,601	1,803,639	(34,962)
Charges for services	867,000	867,000	4,128,109	3,261,109
Other revenues	666,473	666,473	579,336	(87,137)
Total revenues	<u>23,517,997</u>	<u>23,517,997</u>	<u>27,460,829</u>	<u>3,942,832</u>
EXPENDITURES:				
General government	10,784,315	10,784,315	15,799,857	(5,015,542)
Public safety	25,436,180	25,436,180	26,837,729	(1,401,549)
Public works	5,375,142	5,375,142	5,006,132	369,010
Health services	1,808,232	1,808,232	1,603,094	205,138
Debt service	13,801,331	13,801,331	6,815,456	6,985,875
Capital outlay	4,710,759	4,710,759	1,089,442	3,621,317
Total expenditures	<u>61,915,959</u>	<u>61,915,959</u>	<u>57,151,710</u>	<u>4,764,249</u>
Deficiency of revenues under expenditures	<u>(38,397,962)</u>	<u>(38,397,962)</u>	<u>(29,690,881)</u>	<u>8,707,081</u>
Other financing sources (uses):				
Transfers in	<u>12,239,030</u>	<u>12,239,030</u>	<u>9,096,210</u>	<u>(3,142,820)</u>
NET CHANGE IN FUND BALANCE	(26,158,932)	(26,158,932)	(20,594,671)	5,564,261
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	<u>(4,526,031)</u>	<u>(4,526,031)</u>	<u>(4,526,031)</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ (30,684,963)</u></u>	<u><u>\$ (30,684,963)</u></u>	<u><u>\$ (25,120,702)</u></u>	<u><u>\$ 5,564,261</u></u>

See accompanying note to the required supplementary information.

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CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2012

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 -offers to purchase 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 –unassigned fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by the -City’s net assets. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2012. Encumbrances carried forward from the prior year are reflected in the original budget.
- The City’s legal level of budgetary control is at the departmental level.

For the current year, the General Fund’s total positive variance between the final budgeted amounts and actual amount for revenues was \$3,942,832. The key reasons for this variance were excess revenues over estimated revenues of \$1,133,400 of taxes and \$3,261,109 for charges for services offset by a deficiency of revenues under estimated revenues of \$132,464 for special assessments, \$246,850 for licenses and permits, and \$191,552 for charges for services.

For the current year, the General Fund’s total positive variance between the final budgeted amount and actual amount for expenditures was \$4,764,249. The key reasons for this variance were excess appropriations of \$6,985,875 for debt service and \$3,621,317 for capital outlay offset by an excess expenditures over appropriations of \$5,015,542 for general government and \$1,401,549 for public safety. The excess expenditures over appropriations for general government were mainly due to professional services, and the excess expenditures over appropriations for public safety were mainly due to salaries and benefits and claims expenditures.

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CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2012

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)
6/30/2011	\$169,856,987	\$149,229,083	\$20,627,904	87.9%	\$12,554,538	164.3%
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%

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)
6/30/2011	\$108,107,278	\$97,157,504	\$10,949,774	89.9%	\$10,779,349	101.6%
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%

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%