

**VERNON PUBLIC UTILITIES
(THE ELECTRIC, GAS, WATER, AND
FIBER OPTICS ENTERPRISE FUNDS OF THE
CITY OF VERNON)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021



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**CITY OF VERNON
VERNON PUBLIC UTILITIES
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INTRODUCTORY SECTION

Introduction

A message from Abraham Alemu, General Manager of Vernon Public Utilities

While the past couple of years have presented historic challenges on a global scale, the City of Vernon and Vernon Public Utilities (VPU) have exhibited strength and resilience by continuing to provide safe, reliable and affordable services during the challenges caused by the COVID-19 pandemic. VPU seamlessly provided the electric, water, gas and fiber utilities to its residents and business community who are vital in manufacturing and distributing goods throughout the region. Recently, VPU established an impressive goal of providing the lowest electric rates in the State of California by 2030 in order to support customer competitiveness and enable community businesses to thrive as the economic engine in Southeast Los Angeles.

In the past year, VPU has continued to complete major infrastructure upgrade projects to meet the increasing needs of its business and industrial community – many of whom manufacture essential goods and products throughout the United States, such as cold storage, food packaging and steel production. These necessary enhancements to the VPU infrastructure foster improvement projects, which increased reliability and help the utility to meet system adequacy requirements, including substation equipment upgrades, automated metering, voltage upgrades, and proactive utility pole replacement and financing initiatives. In addition, the electric infrastructure upgrades support the utility's Water Division Capital Improvement Projects (CIPs) aimed at creating sustainable water affordability and independence for Vernon residential and business customers. During the past year, the Department was able to drastically reduce its need to purchase water from imported sources and is serving water from the City's groundwater sources, which results in significant cost savings for the utility and to its customers.

As VPU enters its third year of a 4-year voter-approved electric rate increase, the utility will continue to use this funding to promote programs and projects that will support increased reliability, resilience, and low rates. VPU will also consider and analyze new technologies in an evolving energy landscape to bring renewable, environmentally conscious programs to businesses and residents. Moving forward, VPU has wide-scale transportation electrification plans to help advance customer adoption and play a role in the utility's long-term energy resources planning and deployment of green offerings.

VPU is well-positioned to maintain a strong financial performance into the long-term future and has made notable strides towards achieving and exceeding its Renewable Portfolio Standard (RPS) and greenhouse gas (GHG) reduction goals. VPU is actively considering a Solar plus Energy Storage Purchase Power Agreement (PPA), which will be the largest PPA in its portfolio. Additionally, the City recently re-acquired the Malburg Generating Station, a 134-megawatt natural gas-fired, combined-cycle facility. With this resource back within the utility's ownership and operation, VPU now has the control and capability to reduce ongoing operating costs and address the City's long-term needs for local power generation. Both projects play a critical role in achieving the long-term goals established in Integrated Resource Plan (IRP).

As part of the repurchase, the utility's electric financial ratings were reassessed by Moody's and S&P. VPU received an upgraded credit rating from Moody's and both agencies gave VPU a stable/positive outlook. This rating upgrade is a testament, among other factors, to the utility's commitment to foster strong management fundamentals and maintain fiscal strength.

FY 2020-2021 Vernon Public Utilities at a Glance

ELECTRIC	
Service area	5 square miles
Service meters	2,011 meters
Number of poles	4,144
Number of substations	8
Peak load	191.37 MW (August 2020)

WATER	
Service area	4.2 square miles
Service meters	1,840 meters
Number of miles of water mains	49
Number of active wells	8
Number of reservoirs	8
Total reservoir capacity (gallons)	16.375 MG
Number of booster stations	3
Average day demand	18.73-acre feet
Maximum day peak factor	1.67

GAS	
Service area	5 square miles
Service meters	118
Number of miles of gas distribution	44
Number of miles of gas transmission	7.3
Number of regulating stations	2
Peak month in decatherms (Month Year)	803,433 (October, 2020)
Average month in decatherms	722,600

Major Initiatives and Accomplishments

Department Wide

- Earned the American Public Power Association (APPA) RP3 Diamond Level Recognition of Operational Excellence in the key areas of Reliability, Safety, Workforce Development, System Improvement
- Served as an elected Board Member on the California Utilities Emergency Association Board of Directors
- Annual benchmarking study ranks VPU electric reliability top 10% nationwide
- Secured Electric System Revenue Bonds at low rates to fund Capital Improvement Projects and to refund existing outstanding bonds
- Successful implementation of a Utility Operations Trainee program, which ensures robust cross-training and a strong succession plan.

Electric Division

- Completed replacement of the 7kV Leonis Substation Number 3 Bank, which has been in service from 1957, to 16kV Substation Distribution Transformer.
- Completed replacement of the Leonis Substation Number 4 Bank transformer, which in service since the 1960's.
- Completed replacement of Vernon Substation #1 Bank 6.9kV circuit breaker and #7 aux bank 480v circuit breaker.
- Work in progress for 16kV re-configuration with balanced load and 4 new circuits
- Work in progress for 7kV to 16kV Conversion
- Established 9-year Electric Meter Replacement Program and have made a significant advancement to meet department goals.

Resource Division

- Vernon Power Plant's maximum output was increased from 134MW to 139MW
- Completed agreements with 3 new gas counterparties
- Sold excess capacity rights at Mead-Adelanto Transmission Line

Water Division

- Completed major rehabilitation of Wells 15 and 17, and minor rehabilitation of Well 21
- Imported water was not purchased in Calendar Year 2021
- Replaced the main on 50th Street between Soto Street and Boyle Avenue to enable pumping the full capacity of new Well 22, which is currently under construction
- Rehabilitation of the 3 – 1 MG reservoirs located at Pumping Plant 3 is halfway to completion, with one tank complete and back in service, and the second tank is well underway.
- Continued implementation of a program to automate the efficient and safe operation of water production, storage, and conveyance facilities
- Ongoing investment into Advanced Metering Infrastructure (AMI)
- Completed a Water Master Plan

Gas Division

- Increased staff count to safely respond to emergencies and give the ability to proactively perform preventative maintenance on gas infrastructure
- The 5-member VPU Gas Division was honored as one of American Public Gas Association's (APGA) Safety Contest winners for 2020.
- 5 new Vernon businesses connected to the Vernon Gas System, for a total of 130 customers.

Customer Service

- Placed a moratorium on late fees, halted disconnections, and helped customers with outstanding balances as part of COVID-19 relief program for customers.
- Working towards integrating a new CIS billing system that will provide automation to several manual processes and connectivity to the City's financial system

Compliance

- Served in APPA's Reliable Public Power Provider grading panel
- Reliability Metrics benchmarked among the highest in the country in 2020
 - System Average Interruption Duration Index (SAIDI) in the top quartile across the US (38 min v. 101 min)
 - System Average Interruption Frequency Index (SAIFI) in the second quartile in the US (0.71 vs 1.03)
 - Customer Average Interruption Frequency Index (CAIDI) in the top decile across the US (54 min vs 105 min)
- Developed an Electric Physical Security Plan approved by Vernon Police Department and adopted by City Council in alignment with California Public Utilities Commission Decision 19-01-018.
- Completed Risk and Resilience Assessment of the Water Division in compliance with the US Environmental Protection Agency's America's Water Infrastructure Act of 2018.
- Updated VPU's Emergency Response Plan.
- Performed an internal reliability assessment of the electric utility using the American Public Power Association's Reliable Public Power Provider program in the key areas of safety, reliability, workforce development, and system improvement.
- Implemented a Compliance Management Software for utility-wide compliance deadlines
- Successfully advocated for proposed rule amendments with the South Coast Air Quality Management District.
- In conjunction with the Public Works department, developed a 4-year City-wide Heavy Duty Vehicle Replacement Program.

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and the Members of the City Council
City of Vernon, California

Report on the Financial Statements

We have audited the accompanying financial statements of Vernon Public Utilities (VPU), of the City of Vernon, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Vernon Public Utilities of the City of Vernon, California, as of June 30, 2021, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Vernon Public Utilities and do not purport to, and do not, present fairly the financial position of the City of Vernon, California as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the City's net pension liability, schedule of plan contributions, schedule of proportionate share of the City's net OPEB liability, and schedule of OPEB contributions, identified as required supplementary information (RSI) 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.

Other Information

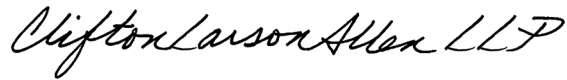
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the VPU's financial statements. The supplementary information consisting of combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and the Members of the City Council
City of Vernon, California

The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2022, on our consideration of the City's internal control over the 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
March 3, 2022

**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

The management of the Vernon Public Utilities (VPU), the electric, gas, water, and fiber optics utilities of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the VPU for the fiscal year ended June 30, 2021. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the VPU's basic financial statements. Included as part of the financial statements are three separate statements.

The *statement of net position* presents information on the VPU's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, with the difference between the two reported as net position.

The *statement of revenues, expenses and changes in net position* presents information showing how the VPU's net position changed during the most recent fiscal year. Financial results are recorded using the accrual basis of accounting. Under this method, all changes in net position are reported as soon as the underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses reported in this statement for some items may affect cash flows in a future fiscal period (examples include billed but uncollected revenues and employee earned but unused vacation leave).

The *statement of cash flows* reports cash receipts, cash payments, and net changes in cash and cash equivalents from operations, noncapital financing, capital, and related financing, and investing activities.

The *notes to the basic financial statements* provide additional information that is essential to fully understand the data provided in the financial statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the VPU's net position as of the current fiscal year ended June 30, 2021 and prior fiscal year ended June 30, 2020. The details of the current year's summary can be found on pages 11-12 of this report.

City of Vernon Vernon Public Utilities Net Position June 30, 2021 and 2020				
	2021	2020	Change	
			Change	%
Assets:				
Current and other assets	\$ 174,666,191	\$ 193,387,820	\$ (18,721,629)	-10%
Restricted assets	56,392,885	66,575,492	(10,182,607)	-15%
Capital assets	257,253,484	249,059,098	8,194,386	3%
Total assets	488,312,560	509,022,410	(20,709,850)	-4%
Deferred Outflows of Resources	5,874,605	6,955,752	(1,081,147)	-16%
Liabilities:				
Current liabilities	47,659,116	49,637,390	(1,978,274)	-4%
Long term liabilities	290,506,033	310,779,916	(20,273,883)	-7%
Total liabilities	338,165,149	360,417,306	(22,252,157)	-6%
Deferred Inflows of Resources	8,616,511	12,173,804	(3,557,293)	-29%
Net Position:				
Net investment in capital assets	148,442,763	159,733,492	(11,290,729)	-7%
Restricted for debt services	23,894,665	23,932,142	(37,477)	0%
Unrestricted (deficit)	(24,931,923)	(40,278,582)	15,346,659	-38%
Total net position	\$ 147,405,505	\$ 143,387,052	\$ 4,018,453	3%

**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

The assets and deferred outflows of resources of the VPU exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$147,405,505 (*net position*).

The category of the VPU's net position with the largest balance totaling \$148,442,763 represents resources that are invested in capital assets, net of related debt.

The second category restricted for debt services totaling \$23,894,665 represents resources that are subject to external restrictions on how they can be used, in this case bond debt.

The remaining category of net position, totaling \$(24,931,923) represents a deficit in unrestricted net position that is expected to be recovered from the VPU's future revenues.

Activities, net position:

- Current and other assets decreased \$18,721,629 from the prior year mainly due to a decrease in prepaid natural gas of \$25,646,420 and in advances to other City funds of \$2,270,995 offset by an increase in cash and cash equivalents of \$8,825,552.
- Restricted assets decreased by \$10,182,607 from the prior year mainly due to the drawdowns funding the capital improvement projects.
- Capital assets increased \$8,194,386 from the prior year mainly due to acquisitions of new equipment and facility improvements of \$17.7 million, offset by depreciation of \$9,486,682 (See Note 5).
- Deferred outflows of resources decreased by \$1,081,147 due to a decrease in amortization of deferred bond refunding costs by \$3,509,672 offset by an increase in deferred outflow related to pension of \$2,353,572.
- Current liabilities decreased \$1,978,274 mainly due to a decrease in bonds payable by \$4,305,000 offset by an increase in accounts payable of \$1,995,320 and bond interest payable \$160,140.
- Long-term liabilities decreased by \$20,273,883 from the prior year mainly due to bonds payable of \$29,520,000 (see Note 6) and partially offset by an increase in net pension liability (see Note 8).
- Deferred inflows of resources decreased by \$3,557,293 mainly due to the amortization of deferred gain from sale of generation assets by \$3,687,769.
- Net investment in capital assets decreased by \$11,290,729 from the prior year, which is attributable to the increase in capital assets, net of capital bonds payable and use of restricted bond proceeds for construction of capital assets.
- The unrestricted net deficit decreased by \$15,346,659 from the prior year due primarily to an increase in the change in net position by \$4,018,453 and the decrease in net investment in capital assets by \$11,290,729.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

Changes in Net Position

The table below summarizes the VPU's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 13 of this report.

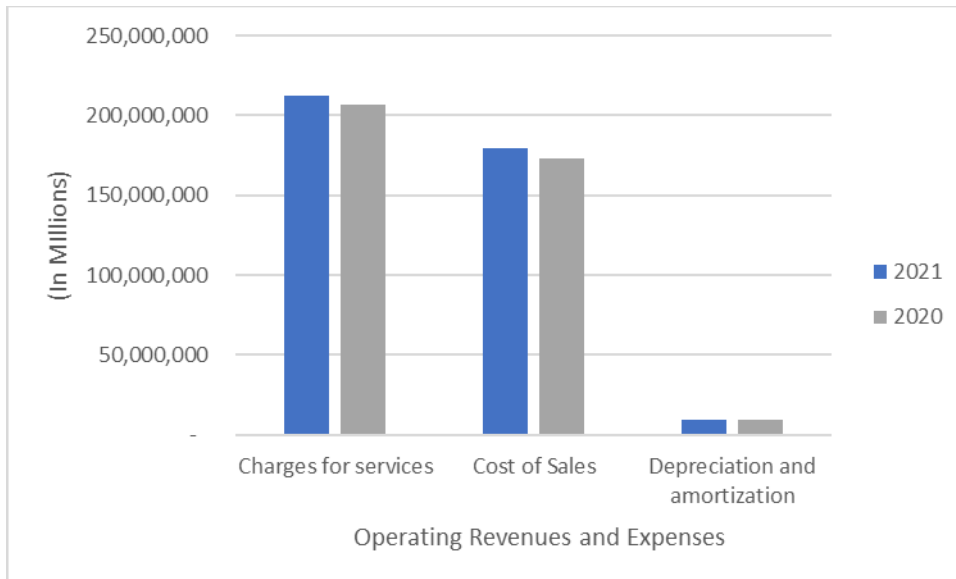
City of Vernon
Vernon Public Utilities
Net Position
June 30, 2021 and 2020

	2021	2020	Change	
			Change	%
Operating Revenues:				
Charges for services	\$ 212,205,129	\$ 206,547,293	\$ 5,657,836	3%
Operating Expenses:				
Cost of sales	179,468,776	172,638,405	6,830,371	4%
Depreciation and amortization	9,486,682	9,179,733	306,949	3%
Total operating expenses	188,955,458	181,818,138	7,137,320	4%
Operating income	23,249,671	24,729,155	(1,479,484)	-6%
Nonoperating revenues (expenses):				
Investment income	69,606	1,016,527	(946,921)	-93%
Net increase/(decrease) in fair value of investments	(3,033)	2,036	(5,069)	-249%
Interest expense	(19,297,791)	(19,311,031)	13,240	0%
Gain (loss) on sale of assets	(19,231,218)	(424,922)	424,922	-100%
Net nonoperating revenues (expenses)	(19,231,218)	(18,717,390)	(513,828)	3%
Change in net position	4,018,453	6,011,765	(1,993,312)	-33%
Net position - beginning of year	143,387,052	137,375,287	6,011,765	4%
Net position - end of year	\$ 147,405,505	\$ 143,387,052	\$ 4,018,453	3%

**CITY OF VERNON
 VERNON PUBLIC UTILITIES
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2021**

The VPU's income before transfers of \$28,031,391, less allocations to the City of \$4,781,720, resulted in an increase in net position of \$4,018,453 during the current year. The VPU expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, and revenues from renewable energy projects.

The VPU's activities increased net position by \$4,018,453 which is \$1,993,312 lower than the prior year. The key reason for this change was due to a decrease in operating income.



**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The VPU's investment in capital assets as of June 30, 2021 amounted to \$249,059,098 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the VPU's investment in capital assets for the current fiscal year was \$17,681,068, offset by depreciation of \$9,486,682, for a net increase of \$8,194,386.

Additional information on the VPU's capital assets can be found in Note 5 of this report.

Outstanding debt

As of June 30, 2021, the following debt remains outstanding:

- \$38,840,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable 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
- \$111,720,000 City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A
- \$43,335,000 City of Vernon Electric System Revenue Bonds, 2020 Series A

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, 2012 Series A were issued to provide funds to 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.

The City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue Bonds, 2009 Series A; (ii) finance the costs of certain capital improvements to the City's Electric System by reimbursing the Electric System for the prior payment of such costs from the Light and Power Fund; (iii) fund a deposit to the Debt Service Reserve Fund; and (iv) pay costs of issuance of the 2015 Bonds.

The City of Vernon Electric System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Electric System of the City, (ii) to refund all of the City's outstanding Electric System Revenue Bonds, 2009 Series A, and (iii) to pay costs of issuance of the 2020 Bonds.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2021**

The City of Vernon Water System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Water System of the City, (ii) purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund in satisfaction of the Reserve Requirement, and (iii) to pay costs of issuance of the 2020 Bonds.

As of June 30, 2021, the ratings on all Electric System Revenue Bonds of the City changed from the prior year to BBB+ rating by S&P and Baa2 rating by Moody's and the ratings on all Water Revenue Bonds is AA by S&P and not rated by Moody's.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the VPU and the City's budget for the 2022 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 10.5%, which is higher than the State of California's average unemployment rate of 7.7%, and the national average unemployment rate of 5.9%.
- Inflationary trends in the region compare favorably to national indices.
- The occupancy rate of the City's central business district ranges between 96% and 98%.

REQUESTS FOR INFORMATION

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

**CITY OF VERNON
VERNON PUBLIC UTILITIES
STATEMENT OF NET POSITION
JUNE 30, 2021**

	<u>Vernon Public Utilities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 146,360,319
Accounts Receivable, Net of Allowance	7,096,905
Accrued Unbilled Revenue	16,978,805
Accrued Interest Receivable	2,361
Prepaid Items	16,312
Total Current Assets	<u>170,454,702</u>
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	56,392,885
Advances to Other City Funds	2,117,993
Prepaid Items	1,012,402
Deposits	1,081,094
Capital Assets:	
Nondepreciable	64,785,212
Depreciable, Net	<u>192,468,272</u>
Total Noncurrent Assets	<u>317,857,858</u>
Total Assets	488,312,560
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to OPEB Liability	680,773
Deferred Outflows Related to Pensions	4,901,360
Deferred Amount on Refunding	<u>292,472</u>
Total Deferred Outflows of Resources	<u>5,874,605</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2021**

	<u>Vernon Public Utilities</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 14,079,041
Accrued Wages and Benefits	616,131
Customer Deposits	504,539
Bond Interest Payable	6,710,902
Bonds Payable	25,215,000
Note Payable	139,535
Compensated Absences	393,968
Total Current Liabilities	<u>47,659,116</u>
Noncurrent Liabilities:	
Bonds Payable	262,080,864
Note Payable	1,220,930
Compensated Absences	787,935
Other Postemployment Benefit Liability	3,433,306
Net Pension Liability	22,982,998
Total Noncurrent Liabilities	<u>290,506,033</u>
Total Liabilities	338,165,149
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to OPEB Liability	1,496,988
Deferred Inflows Related to Pensions	563,607
Deferred Gain from Sale of Generation Assets	6,555,916
Total Deferred Inflows of Resources	<u>8,616,511</u>
NET POSITION	
Net Investment in Capital Assets	148,442,763
Restricted for Debt Service	23,894,665
Unrestricted (Deficit)	<u>(24,931,923)</u>
Total Net Position	<u><u>\$ 147,405,505</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

	<u>Vernon Public Utilities</u>
OPERATING REVENUES	
Charges for Services	\$ 212,205,129
Total Operating Revenues	<u>212,205,129</u>
OPERATING EXPENSES	
Cost of Sales	179,468,776
Depreciation	9,486,682
Total Operating Expenses	<u>188,955,458</u>
OPERATING INCOME	23,249,671
NONOPERATING REVENUES (EXPENSES)	
Investment Income	69,606
Net Decrease in Fair Value of Investments	(3,033)
Interest Expense	<u>(19,297,791)</u>
Total Nonoperating Expenses	<u>(19,231,218)</u>
CHANGE IN NET POSITION	4,018,453
Net Position - Beginning of Year	<u>143,387,052</u>
NET POSITION - END OF YEAR	<u><u>\$ 147,405,505</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

	<u>Vernon Public Utilities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 211,940,439
Cash Paid to Suppliers for Goods and Services	(143,796,855)
Cash Paid to Employees for Services	(5,421,172)
Cash Paid to City for Services	(4,781,720)
Net Cash Provided by Operating Activities	<u>57,940,692</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Repayment of Bonds	(29,520,000)
Bond Interest Paid	(15,645,730)
Proceeds from Note Payable	761,280
Payment of Note Payable	(139,535)
Net Acquisition of Capital Assets	(17,681,068)
Net Cash Used by Capital and Related Financing Activities	<u>(62,225,053)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payment from (Provided to) Other City Funds	<u>2,859,095</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,859,095</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	<u>68,211</u>
Net Cash Provided by Investing Activities	<u>68,211</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(1,357,055)
Cash and Cash Equivalents - Beginning of Year	<u>204,110,259</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 202,753,204</u></u>
COMPOSITION OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	\$ 146,360,319
Restricted Cash and Investments	<u>56,392,885</u>
Total	<u><u>\$ 202,753,204</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

	<u>Vernon Public Utilities</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ 23,249,671
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	9,486,682
Change in Operating Assets and Liabilities:	
Accounts Receivable	(719,208)
Accrued Unbilled Revenue	438,168
Due from Other Funds	(588,100)
Prepaid Expenses and Deposits	(90,832)
Prepaid Natural Gas	25,646,420
Deferred Outflows of Resources	(2,428,525)
Accounts Payable	1,995,320
Accrued Wages and Benefits	48,861
Due to Other City Funds	(2,471)
Customer Deposits	16,350
Compensated Absences	113,127
Other Postemployment Benefit Liability	41,898
Net Pension Liability	4,290,624
Deferred Inflows of Resources	<u>(3,557,293)</u>
Net Cash Provided by Operating Activities	<u>\$ 57,940,692</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Vernon Public Utilities (VPU) of the City of Vernon, California (the City), and do not present fairly the financial position and results of the operations of the City. The VPU accounts for the independent operations and the maintenance of the City's electric, gas, water, and fiber optics utilities. A fund, or utility, administered by the VPU is an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves, and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For additional information regarding the City of Vernon, refer to the City's annual financial report.

Ordinance No. 1242, adopted May 16, 2017, requires each utility of the City to be independent with its assets, liabilities, and equities segregated, budgeted, and accounted for in separate funds. Ordinance No. 1240, adopted March 21, 2017, consolidates all utilities-related services under the management of the stand-alone entity "Vernon Public Utilities" for better oversight and management of the day-to-day activities of such independent utilities. Each of the City's utilities, namely the electric, gas, water, and fiber optics utilities, were established by the City under and by virtue of the City Charter and the City Code enacted in 1988. Prior to July 1, 2016, the electric and gas utilities were consolidated and reported as the Light & Power Enterprise for financial reporting purposes. Ordinance No. 1242 continues to require each utility to be independent with its assets, liabilities, and equities segregated, budgeted, and accounted for in separate funds, while Ordinance No. 1240 enables the consolidated financial reporting of those independent utilities for better oversight and management.

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

A. Basis of Presentation

The VPU's 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.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation (Continued)

The VPU distinguishes *operating* revenues and expenses from *nonoperating* items. *Operating* revenues, such as charges for services, result from exchange transactions associated with the sale of electricity, gas, and water. 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.

B. Pooled Cash

Part of the VPU's operating cash balance is pooled with other City funds for deposit purposes. The share of each fund in the pooled cash account is recorded in each of the funds' books of accounts, and interest income is apportioned to the participating funds based on the relationship of their average monthly balances to the total of the pooled cash.

C. Cash Deposits and Investments

For purposes of the statement of cash flows, the VPU considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents. Investment transactions are recorded on the settlement 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 VPU 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.

D. Receivables/Payables

Short-term City interfund receivables and payables are classified as "due from other City funds" and "due to other City funds", respectively, on the statement of net position. Long-term City interfund receivables and payables are classified as "advances to/from other City funds," respectively, on the statement of net position.

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible accounts were \$1,072,323 as of June 30, 2021. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying statement of net position.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Prepaid Items

The VPU entered into an agreement for the purchase and sale of natural gas in 2006 with Citigroup Energy Inc. for a specified quantity of gas to be delivered to the VPU in accordance with the terms of the agreement. As full compensation for the total contract quantity to be delivered, VPU made a prepayment which is amortized over the life of the agreement based on the monthly contract quantities to be delivered. The agreement was in effect until May 31, 2021. As of June 30, 2021, the prepayment was fully amortized.

The VPU also made a prepayment to Southern California Public Power Authority (SCPPA) for the VPU's share of SCPPA's payoff of the Hoover Center and Air Slots debt. This prepaid amount is amortized over the life of the debt based on the annual debt service obligations. See Note 10 for further information regarding SCPPA.

F. Deposits

The VPU has deposits in SCPPA's Project Stabilization Fund for use within SCPPA's project purposes at the VPU's discretion. At June 30, 2021, the amount of deposits totaled \$1,081,094.

G. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if the actual historical cost is not available. Contributed capital assets are recorded at their estimated acquisition value at the date contributed. Capital assets include land, intangible assets, construction in progress, and plant assets including building, improvements, and machinery and equipment. 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. Intangible assets with an indefinite useful life are not amortized but are evaluated annually for any impairment.

The estimated useful lives are as follows:

Utility Plant	3 to 50 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 statement of revenues, expenses, and changes in net position.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Compensated Absences

Accumulated vacation is accrued when incurred. Upon termination of employment, the VPU will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate.

I. Deferred Outflows and Inflows of Resources

The VPU recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as consumption of net position by the VPU that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the VPU that is applicable to a future reporting period. On June 30, 2021, the VPU has deferred outflows of resources representing deferred amounts on bond refunding, pension-related transactions, and other postemployment benefit-related transactions, and deferred inflows of resources representing the deferred gain from the sale of generation assets, pension-related transactions, and other postemployment benefit-related transactions.

J. Long-Term Obligations

Bond discounts and premiums and deferred amounts on refunding are amortized over the life of the bonds using the straight-line method.

K. Net Position

The VPU financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- **Net Investment in Capital Assets** – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of liabilities that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- **Restricted Net Position** – 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 Position** – This category represents net position of the VPU not restricted for any project or other purpose.

The VPU'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 position are available is to use restricted resources first.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plan and additions to/deductions from the Pension Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the City's OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2021, are classified in the accompanying statement of net position as follows:

Cash and Cash Equivalents	\$ 146,360,319
Restricted Cash and Cash Equivalents	56,392,885
Total Cash and Cash Equivalents	<u>\$ 202,753,204</u>

Cash and cash equivalents as of June 30, 2021, consist of the following:

Equity in the City's Pooled Cash	\$ 33,418,587
Deposits with Financial Institutions	55,422,686
Short-Term Investments	113,911,931
Total Cash and Cash Equivalents	<u>\$ 202,753,204</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Equity in the Cash Pool of the City of Vernon

The VPU has equity in the cash pool managed by the City. The VPU is a voluntary participant in that pool and the pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The VPU has not adopted an investment policy separate from that of the City. The amount of the VPU's cash in this pool is reported in the accompanying financial statements based upon the VPU's pro rata share of the amount calculated by the City. The balance available for withdrawal is based on the accounting records maintained by the City.

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 to manage the City's investment program 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 the 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
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (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 the 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
U.S. Treasury Bonds	5 Years	None	None	None
State and Local Agency Bonds	5 Years	None	None	None
Securities of the U.S. Government, or its Agencies	5 Years	None	None	None
Certain Asset-Backed Securities	5 Years	20%	None	AA
Negotiable 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	\$75 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 trustees 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 the 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 its 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	\$75 Million	None
Investment Contracts	None	None	None	None

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (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 has no specific limitations with respect to this metric. Information about the sensitivity of the fair values of the VPU's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in the following table that shows the distribution of the VPU's investments by maturity:

Investment Type	Fair Value as of 6/30/2021	Investment Maturities (in Months)		
		Less than 12 Months	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund Held by Trustee:	\$ 633,506	\$ 633,506	\$ -	\$ -
Money Market Mutual Funds	113,278,425	113,278,425	-	-
Total investments	<u>\$ 113,911,931</u>	<u>\$ 113,911,931</u>	<u>\$ -</u>	<u>\$ -</u>

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.

Investment Type	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2021
Local Agency Investment Fund Held by Trustee:	Not Rated	Not Rated	\$ 633,506
Money Market Mutual Funds	Aaa / AAA	Aaa / AAA	113,278,425
Total investments			<u>\$ 113,911,931</u>

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 the bond trustee that the trustee may invest in one issuer that is 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, 2021, there were no investments held by the VPU that exceeded 5% in any one issuer, excluding money market mutual funds.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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 the FDIC insurance amount of \$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 June 30, 2021, all of the VPU's deposits were insured or collateralized as required by Section 53652 of the California Government Code.

Local Agency Investment Fund (LAIF)

The VPU also maintained cash balances with the state of California Local Agency Investment Fund (LAIF). LAIF is an external investment pool sponsored by the state of California. 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 VPU's position in the pool.

Fair Value Measurement

The VPU categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that the government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The VPU's investments in money market mutual funds and LAIF are not subject to categorization in the fair value hierarchy.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 3 ACCOUNTS RECEIVABLES

The VPU's receivables at June 30, 2021, are as follows:

Accounts Receivables	\$ 8,169,228
Less: Allowance for Uncollectible Accounts	<u>(1,072,323)</u>
Total Receivables, Net	<u><u>\$ 7,096,905</u></u>

NOTE 4 INTERNAL TRANSACTIONS

Transactions between the VPU and the City commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, legal services, and capital projects).

Advances to Other City Funds

The following table summarizes the VPU's advances to the other City funds at June 30, 2021:

Advances to Other City Funds - July 1, 2020	\$ 4,388,988
Advance Repaid by City Funds During the Year	<u>(2,270,995)</u>
Advances to Other City Funds - June 30, 2021	<u><u>\$ 2,117,993</u></u>

The advances between the other City funds and the VPU does not accrue interest due to the nature of the City's operational relationship and capital projects funded by the VPU that benefits both. On November 6, 2012, the City adopted Resolution No. 2012-215 extending the repayment term of the loan to the City from 15 months to a period of over 10 years.

The City's General Fund allocates certain administrative and overhead costs to the VPU which the VPU financial statements include as part of the cost of sales. The allocated costs for the year ended June 30, 2021, were \$3,738,862.

Transfers from (to) City

The VPU's electric retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City's General Fund. For the current year, the VPU transferred to the City's General Fund \$4,781,720 in lieu of franchise tax. This amount is reported in the accompanying financial statements as part of operating expenses.

Under the City Charter and the VPU's electric revenue bond indentures, the VPU's electric utility is allowed to transfer up to 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. However, no additional transfers were made for the year ended June 30, 2021.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 5 CAPITAL ASSETS

Capital asset activity of the VPU for the fiscal year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital Assets, Not Being Depreciated:					
Electric Utility - Land	\$ 4,240,129	\$ -	\$ -	\$ -	\$ 4,240,129
Water Utility - Water	467,640	-	-	-	467,640
Electric Utility - Intangibles - Environmental Credits	1,163,811	-	-	-	1,163,811
Electric Utility - Construction in Progress	54,130,254	147,961	-	-	54,278,215
Water Utility - Construction in Progress	3,668,700	1,633,512	(53,057)	(613,738)	4,635,417
Total Capital Assets, Not Being Depreciated	63,670,534	1,781,473	(53,057)	(613,738)	64,785,212
Capital Assets, Being Depreciated:					
Electric Utility - Production Plant	16,189,303	-	-	-	16,189,303
Electric Utility - Transmission Plant	4,888,113	-	-	-	4,888,113
Electric Utility - Distribution Plant	243,879,181	14,571,998	-	-	258,451,179
Electric Utility - General Plant	9,258,248	256,553	-	73,132	9,587,933
Water Utility Plant	22,025,313	1,104,609	-	635,431	23,765,353
Gas Utility Plant	26,954,200	19,492	-	-	26,973,692
Fiber Optic Utility Plant	4,161,378	-	-	-	4,161,378
Total Capital Assets, Being Depreciated	327,355,736	15,952,652	-	708,563	344,016,951
Less Accumulated Depreciation for:					
Electric Utility - Production Plant	(10,295,956)	(461,537)	-	-	(10,757,493)
Electric Utility - Transmission Plant	(3,332,436)	(92,145)	-	-	(3,424,581)
Electric Utility - Distribution Plant	(94,007,029)	(7,219,909)	-	-	(101,226,938)
Electric Utility - General Plant	(5,670,594)	(405,380)	-	(73,132)	(6,149,106)
Water Utility Plant	(15,312,877)	(389,185)	-	(21,693)	(15,723,755)
Gas Utility Plant	(10,417,468)	(725,458)	-	-	(11,142,926)
Fiber Optic Utility Plant	(2,930,812)	(193,068)	-	-	(3,123,880)
Total Accumulated Depreciation	(141,967,172)	(9,486,682)	-	(94,825)	(151,548,679)
Total Capital Assets, Being Depreciated, Net:					
Electric Utility - Production Plant	5,893,347	(461,537)	-	-	5,431,810
Electric Utility - Transmission Plant	1,555,677	(92,145)	-	-	1,463,532
Electric Utility - Distribution Plant	149,872,152	7,352,089	-	-	157,224,241
Electric Utility - General Plant	3,587,654	(148,827)	-	-	3,438,827
Water Utility Plant	6,712,436	715,424	-	613,738	8,041,598
Gas Utility Plant	16,536,732	(705,966)	-	-	15,830,766
Fiber Optic Utility Plant	1,230,566	(193,068)	-	-	1,037,498
Total	185,388,564	6,465,970	-	613,738	192,468,272
Total Capital Assets, Net	\$ 249,059,098	\$ 8,247,443	\$ (53,057)	\$ -	\$ 257,253,484

The VPU's total depreciation expense for the year was \$9,486,682, broken down as follows:

Electric Fund	\$ 8,178,971
Gas Fund	725,458
Water Fund	389,185
Fiber Optics Fund	193,068
Total Depreciation Expense	\$ 9,486,682

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS

As of June 30, 2021, outstanding debt obligations consisted of the following:

\$43,765,000 Electric System Revenue Bonds (2008 Taxable Series A)

At June 30, 2021, \$38,840,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$76,291,541, payable through fiscal year 2039. For the current year, debt service and net electric revenues were \$4,238,508 and \$33,789,939, 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.

\$37,640,000 Electric System Revenue Bonds (2012 Series A)

At June 30, 2021, \$37,640,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$71,100,228, payable through fiscal year 2042. For the current year, debt service and net electric revenues were \$2,031,394 and \$33,789,939, 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, 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.

\$35,100,000 Electric System Revenue Bonds (2012 Taxable Series B)

At June 30, 2021, \$35,100,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$43,205,713, payable through fiscal year 2027. For the current year, debt service and net electric revenues were \$2,222,900 and \$33,789,939, 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, 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.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

\$111,720,000 Electric System Revenue Bonds (2015 Taxable Series A)

At June 30, 2021, \$111,720,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$129,227,536, payable through fiscal year 2027. For the current year, debt service and net electric revenues were \$5,087,518 and \$33,789,939, 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, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue Bonds, 2009 Series A; (ii) finance the Costs of certain Capital Improvements to the City's Electric System by reimbursing the Electric System for the prior payment of such Costs from the Light and Power Fund; (iii) fund a deposit to the Debt Service Reserve Fund; and (iv) pay costs of issuance of the 2015 Bonds.

\$71,990,000 Electric System Revenue Bonds (2020 Series A)

At June 30, 2021, \$43,335,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$55,915,875, payable through fiscal year 2038. For the current year, debt service and net electric revenues were \$31,148,179 and \$33,789,939, 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, 2020 Series A were issued to provide funds to (i) to finance the acquisition and construction of certain capital improvements to the Electric System of the City, (ii) to refund all of the City's outstanding Electric System Revenue Bonds, 2009 Series A, and (iii) to pay costs of issuance of the 2020 Bonds.

\$14,840,000 Water System Revenue Bonds (2020 Series A)

At June 30, 2021, \$14,840,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of water revenues payable to bondholders. The debt service remaining on the bonds is \$25,868,013, payable through fiscal 2051. For the current year, debt service and net water revenues were \$437,232 and \$2,328,135, respectively. Under the Indenture of Trust dated May 6, 2020, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Water Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Water System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Water System of the City, (ii) purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund in satisfaction of the Reserve Requirement, and (iii) to pay costs of issuance of the 2020 Bonds.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

A summary of bonds payable under the VPU is as follows:

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2021
Electric System:					
City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A	07/01/38	7.40% - 8.59%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 38,840,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series A	08/01/41	5.00% - 5.50%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B	08/01/26	6.25% - 6.50%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A	08/01/26	4.05% - 4.85%	To begin 08/01/23: \$15,925,000 - \$22,540,000	111,720,000	111,720,000
City of Vernon Electric System Revenue Bonds, 2020 Taxable Series A	08/01/50	5.00%	To begin 08/03/20: \$1,525,000 - \$28,655,000	71,990,000	43,335,000
Premiums					7,189,882
Discounts					<u>(1,923,931)</u>
Total Electric System Revenue Bonds					271,900,951
Water System:					
City of Vernon Water System Revenue Bonds, 2020 Taxable Series A	08/01/50	5.00%	To begin 08/01/21: \$240,000 - \$3,785,000	14,840,000	14,840,000
Premium					<u>554,913</u>
Total Water System Revenue Bonds					<u>15,394,913</u>
Total Revenue Bonds					<u>\$ 287,295,864</u>

Note Payable – Direct Borrowing

In May 2019, the City entered into an agreement with Water Replenishment District of Southern California (WRD) for assistance with the construction of a new groundwater well or rehabilitation of an existing groundwater well. The promissory note is unsecured and has no interest basis for an amount not to exceed \$1,500,000. As of June 30, 2021, WRD has disbursed all of the funds under the agreement to the City. The note is payable in quarterly principal payments commencing September 1, 2020, in an amount which, together with all quarterly payments, will be sufficient to fully amortize the principal balance of the note by the maturity date of April 1, 2031.

Upon an event of default, WRD may declare any or all of the outstanding and unpaid principal balance immediately due and payable, without presentment, demand, protest, notice of protest, notice of acceleration or of intention to accelerate or any other notice, declaration or act of any kind, all of which are hereby expressly waived by the City.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Service Requirements

As of June 30, 2021, annual debt service requirements of the VPU to maturity are as follows:

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2008 Taxable Series A	
	Principal	Interest
2022	\$ 945,000	\$ 3,295,768
2023	1,025,000	3,211,157
2024	1,120,000	3,119,029
2025	1,220,000	3,018,526
2026	1,330,000	2,909,004
2027-2031	8,670,000	12,525,079
2032-2036	13,315,000	7,872,520
2037-2040	11,215,000	1,500,458
Total Requirements	<u>\$ 38,840,000</u>	<u>\$ 37,451,541</u>

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2012 Taxable Series A	
	Principal	Interest
2022	\$ -	\$ 2,031,394
2023	-	2,031,394
2024	-	2,031,394
2025	-	2,031,394
2026	-	2,031,394
2027-2031	4,645,000	9,707,094
2032-2036	7,315,000	8,086,266
2037-2041	18,560,000	5,314,100
2042-2045	7,120,000	195,800
Total Requirements	<u>\$ 37,640,000</u>	<u>\$ 33,460,228</u>

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2012 Taxable Series B	
	Principal	Interest
2022	\$ -	\$ 2,222,900
2023	6,165,000	2,030,244
2024	6,565,000	1,632,431
2025	6,990,000	1,208,838
2026	7,440,000	753,250
2027-2030	7,940,000	258,050
Total Requirements	<u>\$ 35,100,000</u>	<u>\$ 8,105,713</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Service Requirements (Continued)

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2015 Taxable Series A	
	<u>Principal</u>	<u>Interest</u>
2022	\$ -	\$ 5,087,518
2023	22,540,000	4,580,368
2024	23,520,000	3,596,938
2025	24,585,000	2,530,618
2026	25,780,000	1,341,193
2027-2030	15,295,000	370,904
Total Requirements	<u>\$ 111,720,000</u>	<u>\$ 17,507,536</u>

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2020 Taxable Series A	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 24,030,000	\$ 1,566,000
2023	-	965,250
2024	-	965,250
2025	-	965,250
2026	-	965,250
2027-2031	4,815,000	4,473,125
2032-2036	9,820,000	2,444,250
2037-2040	4,670,000	236,500
Total Requirements	<u>\$ 43,335,000</u>	<u>\$ 12,580,875</u>

<u>Fiscal Year Ending June 30,</u>	Water System Revenue Bonds 2020 Taxable Series A	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 240,000	\$ 587,975
2023	250,000	575,725
2024	265,000	562,850
2025	275,000	549,350
2026	-	542,475
2027-2031	1,985,000	2,662,750
2032-2036	2,180,000	2,161,625
2037-2041	2,680,000	1,625,900
2042-2046	3,180,000	1,163,225
2047-2051	3,785,000	596,138
Total Requirements	<u>\$ 14,840,000</u>	<u>\$ 11,028,013</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Service Requirements (Continued)

<u>Fiscal Year Ending June 30,</u>	<u>Note Payable- Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 139,535	\$ -
2023	139,535	-
2024	139,535	-
2025	139,535	-
2026	139,535	-
2027-2031	662,791	-
Total Requirements	<u>\$ 1,360,465</u>	<u>\$ -</u>

Changes in Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2021:

	<u>Balance</u>			<u>Amounts</u>	
	<u>June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Due Within</u> <u>One Year</u>
Other Debt - Bonds Payable	\$ 310,995,000	\$ -	\$ (29,520,000)	\$ 281,475,000	\$ 25,215,000
Bond Premium	8,209,211	-	(464,416)	7,744,795	-
Bond Discount	(2,370,596)	-	446,665	(1,923,931)	-
Note Payable- Direct Borrowing	738,720	761,280	(139,535)	1,360,465	139,535
Compensated Absences (Note 1)	1,068,776	648,598	(535,471)	1,181,903	393,968
Total	<u>\$ 318,641,111</u>	<u>\$ 1,409,878</u>	<u>\$ (30,212,757)</u>	<u>\$ 289,838,232</u>	<u>\$ 25,748,503</u>

Expense Stabilization Fund

The VPU maintains an Expense Stabilization Fund held by a Trustee in such amounts, at such times and from sources as shall be determined by the City in its sole discretion. If an Event of Default under the Indenture has occurred and is continuing, the Trustee shall transfer all moneys in this fund to the debt service funds as provided in the Indenture. Moneys on deposit in this Fund may be withdrawn by the City at any time that no Event of Default exists under the Indenture. As at June 30, 2021, this fund has a balance of \$13,917,555.

Right to Accelerate Upon Default

Notwithstanding anything contrary in the Indenture or in the Bonds, upon the occurrence of an Event of Default, the Trustee may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, and shall, at the direction of the Owners of a majority in principal amount of Outstanding Bonds (other than Bonds owned by or on behalf of the City) by written notice to the City, declare the principal of the Outstanding Bonds and the interest thereon to be immediately due and payable, whereupon such principal and interest shall, without further action, become and be immediately due and payable.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Credit Ratings

As of June 30, 2021, the ratings on all Electric System Revenue Bonds is BBB+ by S&P and Baa2 by Moody's and the ratings on all Water System Revenue Bonds is AA by S&P and not rated by Moody's.

NOTE 7 RISK MANAGEMENT

The VPU is in the City's self-insurance program as part of its policy to self-insure certain levels of risk within separate lines of coverage to maximize cost savings.

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, and natural disasters. The City utilizes insurance policy(s) to transfer these risks. Each policy has either self-insured retention or deductible, which are parts of the City's Risk Financing Program. These expenses are paid on a cash basis as they are incurred. There have been no significant settlements or reductions in insurance coverage during the past three fiscal years.

Starting in Fiscal 2010, the City chose to establish Risk Financing in the General Fund, whereby assets are set aside for claim-litigation settlements associated with the above-mentioned risks up to their self-insured retentions or policy deductibles. Athens Administrators Inc. is the Third-Party Administrator for the City's workers' compensation program and they provide basic services for general liability claims and litigation.

The insurance limits for the fiscal year 2021 are as follows:

Insurance Type	Program Limits	Deductible/SIR (Self-Insured Retention)
Excess Liability Insurance	\$20,000,000	\$2,000,000 SIR per occurrence
D and O Employment Practice	\$2,000,000	\$150,000 SIR non-safety; \$150,000 SIR safety
Excess Workers Compensation	\$50,000,000	\$1,500,000 SIR per occurrence for presumptive loss
Employer's Liability	\$1,000,000	\$1,000,000 SIR per occurrence for all employees
Commercial Property Insurance	\$100,000,000 \$25,000,000 Flood Sublimit	\$25,000 except: \$250,000 power stations \$1.5/kVA transfers, subject to a \$250,000 minimum \$500,000 named transformers
Employee Dishonest - Crime	\$1,000,000	\$25,000
Pollution - Site Owned	\$5,000,000	\$25,000 for non-utility locations, divested locations and scheduled storage tanks \$50,000 for utility locations \$100,000 for natural gas pipeline
Cyber Liability	\$3,000,000	\$100,000
Contractors Equipment/Auto Physical Damage	\$10,000,000 Maximum Loss Per Occurrence \$1,000,000 Equipment Limit-loss or damage to any one piece	\$5,000
Residential Property Insurance	\$8,023,126 Blanket Building Limit \$89,013 Blanket Business Personal Property Limit	\$2,500
Terrorism and Sabotage	\$100,000,000 Policy Aggregate \$5,000,000 Active Shooter and Malicious Attack Per Occurrence/Aggregate \$5,000,000 Terrorism and Sabotage Liability Per Occurrence/Aggregate	N/A

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 7 RISK MANAGEMENT (CONTINUED)

The City has numerous claims and pending litigations, which generally involve accidents and/or liability or damage to City property. The balance of claims/litigations against the City is in the opinion of management, ordinary routine matters, incidental to the normal business conducted by the City. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate dispositions of such proceedings are not expected to have a material adverse effect on the VPU's financial position, results of operations or cash flows. Further information regarding the City's self-insurance program may be found in the City's Annual Financial Report.

NOTE 8 PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked a minimum of 1,000 hours in a fiscal year are eligible to participate in the City's agent multiple-employer defined benefit pension Safety and Miscellaneous Plans administered by the California Public Employees' Retirement System (CalPERS) that acts as a common investment and administrative agent for participating public entities within the state of California. The City allocates the costs of these Plans across all City departments. The VPU's proportionate share of the net pension liability of these Plans is reported as a cost-sharing plan in the financial statements. Benefits vest after five years of service. Employees who retire at the minimum retirement age with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on a percentage of an employee's average compensation for his or her highest consecutive 12 or 36 months of compensation for each year of credited service.

Benefits Provided

Miscellaneous members hired prior to January 1, 2013, with five years of credited service may retire at age 55 based on a benefit factor derived from the 2.7% at 55 Miscellaneous formula or may retire between ages 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 based on a benefit factor derived from the 2% at 62 Miscellaneous formula or may retire between age 52 and 61 with reduced retirement benefits. The benefit factor increases to a maximum of 2.5% at age 67. Safety members with five years of credited service may retire at age 50 based on a benefit factor derived from the 3% at 50 Safety formula for sworn Police and Fire Department employees. New Safety members (PEPRA) with five years of credited service may retire at age 57 based on a benefit factor derived from the 2.7% at 57 Safety (PEPRA) formula or may retire between age 50 and 56 with reduced retirement benefits for new Safety (PEPRA) members of both Police and Fire Departments. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute provided through a contract between the City and CalPERS.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

A. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

The Plans' provisions and benefits in effect for the measurement date of June 30, 2020, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	2.7%@55	2%@62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50	52
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates	8.000%	6.250%
Required Employer Contribution Rates:		
Normal Cost Rate	11.758%	11.758%
Payment of Unfunded Liability	\$ 3,185,676	\$ -

	Safety	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	3.0%@50	2.7%@57
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50	50
Monthly Benefits, as a % of Eligible Compensation	3.000%	2.0% to 2.7%
Required Employee Contribution Rates	9.000%	12.750%
Required Employer Contribution Rates:		
Normal Cost Rate	23.164%	23.164%
Payment of Unfunded Liability	\$ 5,885,793	\$ 12,792

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute to the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2021, the VPU's share of employer contributions made to the plans was \$2,127,550.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

Actuarial Assumptions

The net pension liability of each of the Plans is measured as of June 30, 2020, using an annual actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

	Miscellaneous	Safety
Valuation Date	June 30, 2019	June 30, 2019
Measurement Date	June 30, 2020	June 30, 2020
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.625%	2.625%
Payroll Growth	2.875%	2.875%
Projected Salary Increase	(1)	(1)
Mortality Rate Table	(2)	(2)
Post-Retirement Benefit Increase	(3)	(3)

- (1) Varies by entry age and service.
- (2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.
- (3) The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Long-Term Expected Rate of Return (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00 %	4.80%	5.98%
Fixed Income	28.00	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.00	6.30%	7.23%
Real Assets	13.00	3.75%	4.93%
Liquidity	1.00	0.00%	-0.92%
Total	100.00 %		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Proportionate Share of Net Pension Liability – Allocation of the City’s Pension Plans to the VPU

The VPU’s net pension liability for the Plans is measured as the proportionate share of the combined net pension liability of the City’s miscellaneous and safety agent multiple-employer plans. The VPU’s proportionate share of the combined net pension liability was based on the VPU’s current year share of contributions to the pension plans relative to the City’s total current year contributions to the pension plans.

The VPU’s proportionate share of the combined net pension liability for the pension plans as of the measurement date ended June 30, 2019 and 2020 were as follows:

	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Proportionate Share
Balance at June 30, 2019 (MD)	\$ 69,314,512	\$ 50,622,138	\$ 18,692,374	15.47%
Balance at June 30, 2020 (MD)	87,452,632	64,469,634	22,982,998	16.99%
Net Changes during 2019-20	<u>\$ 18,138,120</u>	<u>\$ 13,847,496</u>	<u>\$ 4,290,624</u>	<u>1.52%</u>

Pension Expense and Deferred Outflows and Inflows of Resources

For the measurement period ended June 30, 2020, the VPU recognized its proportionate share of the combined pension expense of the Plans which totaled, \$2,265,671. At June 30, 2021, the VPU reported its proportionate share of the Plans’ combined deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 2,145,491	\$ -
Differences Between Actual and Expected Experience	1,621,199	-
Change in Assumptions	-	(58,663)
Net Differences Between Projected and Actual Earnings on Plan Investments	603,494	-
Differences Between Employer Contributions And Proportionate Share of Contributions	-	(306,183)
Change in Employer's Proportion	531,176	(198,761)
Total	<u>\$ 4,901,360</u>	<u>\$ (563,607)</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Pension Expense and Deferred Outflows and Inflows of Resources (Continued)

\$2,145,491 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
2022	\$ 252,442	\$ 356,173	\$ 608,615
2023	217,527	554,884	772,411
2024	148,707	386,008	534,715
2025	101,973	169,295	271,268
2026	-	5,253	5,253
Thereafter	-	-	-

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the VPU's proportionate share of the Plans' combined net pension liability, calculated using a discount rate of 7.15%, as well as what the VPU's proportionate share of the Plans' combined net pension liability would be if it were calculated using a discount rate that is a 1-percentage point lower or a 1-percentage point higher than the current rate:

1% Decrease	<u>Total</u>
Net Pension Liability	6.15%
	\$ 35,087,609
Current Discount Rate	7.15%
Net Pension Liability	\$ 22,982,998
1% Increase	8.15%
Net Pension Liability	\$ 13,061,469

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Subsequent Events

There were no subsequent events that would materially affect the results of this disclosure.

Payable to the Pension Plan

At June 30, 2021, the VPU had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2021.

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The other postemployment benefits (OPEB) described in the following paragraphs relate to the City's OPEB plan. The VPU's share of the net pension liability of the City's OPEB Plan is reported as a cost-sharing plan in these financial statements since the VPU's operations are handled by City employees who are eligible to participate in the City's OPEB plan.

Benefits Provided

Retiree medical and dental benefits are established through the City's Fringe Benefits and Salary Resolution as well as individual memoranda of understanding between the City and the City's various employee bargaining groups. Generally, the City will provide postemployment benefit plan for the employee only to those who retire at age sixty (60) or later with twenty (20) years of continuous uninterrupted service, up to the age of sixty-five (65). Alternatively, employees who retire before the age of sixty (60) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of sixty (60), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65).

Resolution 2012-217 granted specific retiree medical benefits to employees who retired during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service.

Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a nonvested right for employees who continue to be employed by the City on or after July 1, 2013, but will be a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Funding Policy and Contributions

The City has established an irrevocable OPEB trust with assets dedicated to paying future retiree medical benefits. The City intends to contribute 100% or more of the actuarially determined contribution for the explicit subsidy liability only. The portion of the liability due to the implicit subsidy is not prefunded but is paid as benefits come due. For the fiscal year ended June 30, 2021, the VPU's proportionate share of contributions made was \$531,940 (\$328,130 contributed to the OPEB trust, \$144,918 paid for retiree premiums, and the estimated implied subsidy of \$58,892).

Net OPEB Liability

The City's net OPEB liability is measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown on the next page.

Actuarial Assumptions

The valuation has been prepared on a closed group basis. Assumptions such as age-related healthcare claims, healthcare trends, retiree participation rates, and spouse coverage, were selected based on demonstrated plan experience and the best estimate of expected future experience.

Explicit subsidy benefit payments by employee group were allocated based on expected benefit payments. The following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

Funding Method	Entry age normal level percent of pay cost method
Inflation	2.25%
Salary Increases	2.75% annual increases
Long-Term Return on Assets	6.25% net of investment expenses
Discount Rate	6.25%
Healthcare Cost Trend Rates	6.7% for FY2021, gradually decreasing over several decades to ultimate rate of 3.8% in FY76 and later years
Mortality	2017 CalPERS Experience Study. Tables include 15 years of static mortality improvement using 90% of scale MP-2016

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
CERBT Strategy 1:		
Equity	59.00 %	4.90%
Fixed Income	25.00	1.40%
TIPS	5.00	0.57%
Commodities	3.00	1.88%
REITs	8.00	4.43%
Total	<u>100.00 %</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that City's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Change of Assumptions

Medical trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

Allocation of the Net OPEB Liability

The VPU's proportionate share of the net OPEB liability as of the measurement dates ended June 30, 2019 and 2020 was as follows:

	<u>Increase (Decrease)</u>			<u>Proportionate Share</u>
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability (Asset)</u>	
Balance at June 30, 2019 (MD)	\$ 4,051,812	\$ 660,404	\$ 3,391,408	15.47%
Balance at June 30, 2020 (MD)	<u>4,622,908</u>	<u>1,189,602</u>	<u>3,433,306</u>	16.99%
Net Changes during FY 2019-20	<u>\$ 571,096</u>	<u>\$ 529,198</u>	<u>\$ 41,898</u>	<u>1.52%</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the VPU's proportionate share of the net OPEB liability if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (6.50%)
Net OPEB Liability	\$ 3,986,406	\$ 3,433,306	\$ 2,972,271

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the VPU's proportionate share of the net OPEB liability if it were calculated using a healthcare cost trend rates that are 1% point lower (5.9% decreasing to an ultimate rate of 3.0%) or 1% point higher (7.9% decreasing to an ultimate rate of 5.0%) than the current rate:

	Healthcare Trend Rate		
	1% Decrease	Current Rate	1% Increase
Net OPEB Liability	\$ 3,250,429	\$ 3,433,306	\$ 3,619,709

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2021, the VPU recognized its proportionate share of the OPEB expense(revenue) of \$(231,199). At June 30, 2021, the VPU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions Between Measurement Date and Reporting Date	\$ 531,940	\$ -
Difference Between Expected and Actual Liability	29,296	(659,328)
Changes of Assumptions	82,385	(837,660)
Net Differences Between Projected and Actual Earnings on Investments	37,152	-
Total	\$ 680,773	\$ (1,496,988)

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB (Continued)

The \$531,940 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2022	\$ (327,878)
2023	(327,878)
2024	(328,017)
2025	(328,544)
2026	(37,985)
Thereafter	2,147

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Payable to the OPEB Plan

At June 30, 2021, the VPU had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2021.

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS

Bicent Agreements

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.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Bicent Agreements (Continued)

Asset Sale (Continued)

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, 2021, a deferred gain of \$6,555,916 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 11 for disclosure on uncertainties).

Power Purchase Commitments

As of June 30, 2021, under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

<u>Fiscal Year Ending June 30,</u>	<u>Amount*</u>
2022	<u>\$ 34,904,231</u>
2023	<u>27,146,619</u>
Total	<u><u>\$ 62,050,850</u></u>

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

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 for sale to its participants. The joint powers agreement has a term expiring in 2030 or such later date as all bonds and notes of SCPPA and interest thereon have been paid in full or adequate provisions for payments have been made. A copy of SCPPA's audited financial statements can be reviewed on their website at www.scppa.org or can be obtained by written request at 225 South Lake Avenue, Suite 1250, Pasadena, CA 91101.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Southern California Public Power Authority (Continued)

Take or Pay Contract

The Authority's interests or entitlements in natural gas, generation, and transmission projects are jointly owned with other utilities. Under these arrangements, a participating member has an undivided interest in a utility plant and is responsible for its proportionate share of the costs of construction and operation and is entitled to its proportionate share of the energy, available transmission capacity, or natural gas produced. Each joint plant participant, including the Authority, is responsible for financing its share of construction and operating costs. The City has the following "take or pay" contract with the Authority:

Palo Verde Project

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 the fiscal year 2021 was \$2,771,758. The City expects no significant increases in costs related to its nuclear resources.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Southern California Public Power Authority (Continued)

Power Purchase Commitments

The Authority has entered into power purchase agreements with project participants. These agreements are substantially “take-and-pay” contracts where there may be other obligations not associated with the delivery of energy. The City has entered into power purchase agreements with the Authority related to the following projects:

Astoria 2 Solar Project

On July 23, 2014, the Authority entered into a power purchase agreement with Recurrent Energy for solar energy from the Astoria 2 Solar Project. SCPPA is entitled to 35 MW of photovoltaic generating capacity from commercial operation to December 31, 2021 and 45 MW of generating capacity from January 1, 2022 until the expected expiration date of December 31, 2036. The commercial operation date was December 2016. Power and Water Resources Pooling Authority, Lodi, Corona, Moreno Valley, and Rancho Cucamonga, are each buying the output of a separate portion of the facility, which is located in Kern County, California. SCPPA has purchase options in the 10th, 15th, and 20th Contract Years. The project is forecasted to start at a capacity factor of 31% with a 0.5% annual degradation. ACES Power Marketing is the third-party scheduling coordinator for the project. The City contracted to purchase 57.1429% until December 31, 2021, and 66.6667% thereafter, of the output. The City’s proportionate share of costs during the current fiscal year was \$2,276,622.

Puente Hills Landfill Gas-to-Energy Project

On June 25, 2014, the Authority entered into a power purchase agreement with County Sanitation District No. 2 of Los Angeles County for 46 MW of the electric generation from a landfill gas to energy facility, located at Whittier, California. The project began deliveries to the Authority on January 1, 2017 for a term of 10 years. The City contracted to purchase 23.2558% of the output. The City’s proportionate share of costs during the current fiscal year was \$1,585,536.

Antelope DSR 1 Solar Project

On July 16, 2015, the Authority, entered into a power purchase agreement with Antelope DSR 1, LLC for 50 MW solar photovoltaic generating capacity from the Antelope DSR 1 Solar Facility. The facility is located near Lancaster, California, and commercial operation occurred on December 16, 2016 for a term of 20 years. The City contracted to purchase 50.00% of the output. The City’s proportionate share of costs during the current fiscal year was \$1,689,552.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 11 CONTINGENCIES

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.

NOTE 12 SUBSEQUENT EVENTS

In December 2021, the City issued \$183,815,000 in Electric System Revenue Bonds, 2021 Series A and \$52,070,000 in Electric System Revenue Bonds, 2022 Series A. The 2021 Series A bonds provide funds to finance the acquisition of Malburg Generating Station (MGS), the deposit to the Debt Service Reserve Fund, and the cost of issuance of the 2021 Bonds. The City made the determination to reacquire MGS on December 15, 2021 to achieve potential costs savings and other resource management benefits. In addition to any potential savings, the City expects there to be other benefits associated with the acquisition of the MGS, which includes having control of the facility and the site, providing the City with flexibility with respect to MGS operations and MGS's role in the City's resource portfolio. The 2022 Series A bonds provide funds to refund and defease all of the outstanding 2012A Bonds, a portion of the 2012B bonds and pay the cost of issuance of the 2022 bonds. The defeasance of the 2012 A Bonds and portion of the 2021 Series B bonds will result in total debt service cash flow savings of \$18,509,369 and an economic gain of \$15,309,641.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF VERNON
VERNON PUBLIC UTILITIES
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CITY'S MISCELLANEOUS AND SAFETY COST SHARING PLAN
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Measurement Date	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Plan's Proportion of the Net Pension Liability	16.99%	15.47%	14.86%	15.55%	15.41%
Plan's Proportionate Share of the Net Pension Liability	\$ 22,982,998	\$ 18,692,374	\$ 16,866,107	\$ 17,052,279	\$ 14,675,830
Plan's Covered Payroll	4,203,972	4,418,536	4,577,147	4,210,103	2,026,477
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	546.70%	423.04%	368.49%	405.03%	724.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.79%	76.15%	77.68%	77.85%	78.91%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

There were no significant changes in assumptions.

From fiscal year June 30, 2019 to June 30, 2020:

There were no significant changes in assumptions.

From fiscal year June 30, 2020 to June 30, 2021:

The inflation rate was increased from 2.5% to 2.625%

The payroll growth rate was reduced from 3.00% to 2.875%.

* Fiscal year 2017 was the first year the City allocated a portion of the net pension liability to the VPU, therefore only five years are shown.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
SCHEDULE OF PLAN CONTRIBUTIONS
CITY'S MISCELLANEOUS AND SAFETY COST SHARING PLAN
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Actuarially Determined Contribution	\$ 2,145,491	\$ 1,908,522	\$ 1,622,690	\$ 1,475,490	\$ 1,403,235
Contributions in Relation to the Actuarially Determined Contribution	<u>(2,145,491)</u>	<u>(1,908,522)</u>	<u>(1,622,690)</u>	<u>(1,475,490)</u>	<u>(1,403,235)</u>
Contribution: Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 3,902,610	\$ 4,203,972	\$ 4,418,536	\$ 4,577,147	\$ 4,210,103
Contributions as a Percentage of Covered Payroll	54.98%	45.40%	36.72%	32.24%	33.33%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Methods and Assumptions Used to Determine Contribution Rates:					
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.625%	2.625%	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)
Investment Rate of Return	7.25% (3)	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)
Mortality	(4)	(4)	(4)	(4)	(4)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

* Fiscal year 2017 was the first year the City allocated a portion of the net pension liability to the VPU, therefore only five years are shown.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Measurement Date	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Plan's Proportion of the Net OPEB Liability	16.99%	15.47%	14.86%	10.71%
Plan's Proportionate Share of the Net OPEB Liability	\$ 3,433,306	\$ 3,391,408	\$ 3,432,725	\$ 3,887,475
Plan's Covered-Employee Payroll	4,944,915	5,228,211	3,587,387	3,588,945
Plan's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	69.43%	64.87%	95.69%	108.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	25.70%	16.30%	8.62%	2.83%

Notes to Schedule:

Changes in Assumptions:

The discount rate was changed from 2.85% to 3.58% for the measurement period ended June 30, 2017. The discount rate for the measurement periods ended June 30, 2018 and 2019 was 6.50%. The discount rate for the measurement period ended June 30, 2020 was reduced to 6.25%.

The mortality, retirement, disability, and termination rates for the measurement periods ended June 30, 2017 and 2018 were based on the CalPERS 1997-2011 Experience Study and CalPERS 1997-2015 Experience Study, respectively.

The mortality improvement rates for the measurement periods ended June 30, 2017 and 2018 were based on the Scale MP-2016 and Scale-2018, respectively.

In the June 30, 2018 measurement period, the pre-65 waived retiree re-election was updated to be 10% after age 65.

* Fiscal year 2018 was the first year of implementation, therefore only four years are shown.

**CITY OF VERNON
VERNON PUBLIC UTILITIES
SCHEDULE OF OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Actuarially Determined Contribution	\$ 328,130	\$ 298,886	\$ 400,166	\$ 288,398
Contributions in Relation to the Actuarially Determined Contribution	<u>(531,940)</u>	<u>(605,820)</u>	<u>(444,230)</u>	<u>(221,199)</u>
Contribution: Deficiency (Excess)	<u>\$ (203,810)</u>	<u>\$ (306,934)</u>	<u>\$ (44,064)</u>	<u>\$ 67,199</u>
Covered Payroll	\$ 5,385,241	\$ 4,944,915	\$ 5,228,211	\$ 3,587,387
Contributions as a Percentage of Covered Payroll	6.09%	6.04%	7.65%	8.04%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2018	6/30/2016	6/30/2016
Methods and Assumptions Used to Determine Contribution Rates:				
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)
Amortization Period	28 years	27 years	27 Years	29 Years
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value
Inflation	2.25%	2.50%	2.50%	2.75%
Healthcare Trend Rates	(6)	(3)	(3)	(2)
Investment Rate of Return	6.25%	6.50%	7.00%	7.00%
Mortality	(5)	(5)	(5)	(4)

- (1) Level percentage of payroll, closed.
- (2) 8.50% trending down to 5.00%.
- (3) 6.90% trending down to 4.00%.
- (4) CalPERS December 2014 experience study
- (5) CalPERS December 2017 experience study
- (6) 6.70% trending down to 3.80%.

* Fiscal year 2018 was the first year of implementation, therefore four years year are shown.

SUPPLEMENTARY INFORMATION

**CITY OF VERNON
VERNON PUBLIC UTILITIES
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2021**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Eliminating Entry	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 123,485,481	\$ 7,853,003	\$ 14,159,051	\$ 862,784	\$ -	\$ 146,360,319
Accounts Receivable, Net of Allowance	5,723,729	363,909	977,524	31,743	-	7,096,905
Accrued Unbilled Revenue	14,521,973	1,337,998	1,118,834	-	-	16,978,805
Accrued Interest Receivable	2,321	-	40	-	-	2,361
Due from Other City Funds	593,486	-	-	-	(593,486)	-
Prepaid Items	16,312	-	-	-	-	16,312
Total Current Assets	<u>144,343,302</u>	<u>9,554,910</u>	<u>16,255,449</u>	<u>894,527</u>	<u>(593,486)</u>	<u>170,454,702</u>
Noncurrent Assets:						
Restricted Cash and Cash Equivalents	45,052,746	-	11,340,139	-	-	56,392,885
Advances to Other City Funds	27,193,955	-	2,117,993	-	(27,193,955)	2,117,993
Prepaid Items	1,012,402	-	-	-	-	1,012,402
Deposits	1,081,094	-	-	-	-	1,081,094
Capital Assets:						
Nondepreciable	59,682,155	-	5,103,057	-	-	64,785,212
Depreciable, Net	<u>167,558,410</u>	<u>15,830,766</u>	<u>8,041,598</u>	<u>1,037,498</u>	<u>-</u>	<u>192,468,272</u>
Total Noncurrent Assets	<u>301,580,762</u>	<u>15,830,766</u>	<u>26,602,787</u>	<u>1,037,498</u>	<u>(27,193,955)</u>	<u>317,857,858</u>
Total Assets	445,924,064	25,385,676	42,858,236	1,932,025	(27,787,441)	488,312,560
DEFERRED OUTFLOWS OF RESOURCES						
Deferred Outflows Related to OPEB Liability	481,702	55,094	138,270	5,707	-	680,773
Deferred Outflows Related to Pensions	3,468,111	396,660	995,501	41,088	-	4,901,360
Deferred Amount on Refunding	292,472	-	-	-	-	292,472
Total Deferred Outflows of Resources	<u>4,242,285</u>	<u>451,754</u>	<u>1,133,771</u>	<u>46,795</u>	<u>-</u>	<u>5,874,605</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
COMBINING STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2021**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Eliminating Entry	Totals
LIABILITIES						
Current Liabilities:						
Accounts Payable	\$ 12,570,395	\$ 50,606	\$ 1,416,554	\$ 41,486	\$ -	\$ 14,079,041
Accrued Wages and Benefits	449,380	50,090	112,211	4,450	-	616,131
Due to Other City Funds	-	-	593,486	-	(593,486)	-
Customer Deposits	430,597	13,558	60,384	-	-	504,539
Bond Interest Payable	6,463,412	-	247,490	-	-	6,710,902
Bonds Payable	24,975,000	-	240,000	-	-	25,215,000
Note Payable	-	-	139,535	-	-	139,535
Compensated Absences	350,799	7,928	34,397	844	-	393,968
Total Current Liabilities	<u>45,239,583</u>	<u>122,182</u>	<u>2,844,057</u>	<u>46,780</u>	<u>(593,486)</u>	<u>47,659,116</u>
Noncurrent Liabilities:						
Advances from Other City Funds	-	23,226,257	-	3,967,698	(27,193,955)	-
Bonds Payable	246,925,951	-	15,154,913	-	-	262,080,864
Note Payable	-	-	1,220,930	-	-	1,220,930
Compensated Absences	701,597	15,856	68,794	1,688	-	787,935
Net Other Postemployment Benefit Liability	2,429,343	277,852	697,329	28,782	-	3,433,306
Net Pension Liability	<u>16,262,340</u>	<u>1,859,979</u>	<u>4,668,011</u>	<u>192,668</u>	<u>-</u>	<u>22,982,998</u>
Total Noncurrent Liabilities	<u>266,319,231</u>	<u>25,379,944</u>	<u>21,809,977</u>	<u>4,190,836</u>	<u>(27,193,955)</u>	<u>290,506,033</u>
Total Liabilities	311,558,814	25,502,126	24,654,034	4,237,616	(27,787,441)	338,165,149
DEFERRED INFLOWS OF RESOURCES						
Deferred Inflows Related to OPEB						
Liability	1,059,241	121,149	304,049	12,549	-	1,496,988
Deferred Inflows Related to Pensions	398,798	45,612	114,473	4,724	-	563,607
Deferred Gain from Sale of Generation Assets	<u>6,555,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,555,916</u>
Total Deferred Inflows of Resources	8,013,955	166,761	418,522	17,273	-	8,616,511
NET POSITION						
Net Investment in Capital Assets	124,297,278	15,816,827	7,303,813	1,024,845	-	148,442,763
Restricted for Debt Service	23,894,665	-	-	-	-	23,894,665
Unrestricted (Deficit)	<u>(17,598,363)</u>	<u>(15,648,284)</u>	<u>11,615,638</u>	<u>(3,300,914)</u>	<u>-</u>	<u>(24,931,923)</u>
Total Net Position	<u>\$ 130,593,580</u>	<u>\$ 168,543</u>	<u>\$ 18,919,451</u>	<u>\$ (2,276,069)</u>	<u>\$ -</u>	<u>\$ 147,405,505</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Totals
OPERATING REVENUES					
Charges for Services	\$ 184,828,389	\$ 16,154,140	\$ 10,741,694	\$ 480,906	\$ 212,205,129
Total Operating Revenues	<u>184,828,389</u>	<u>16,154,140</u>	<u>10,741,694</u>	<u>480,906</u>	<u>212,205,129</u>
OPERATING EXPENSES					
Cost of Sales	155,820,170	14,857,233	8,413,559	377,814	179,468,776
Depreciation	8,178,971	725,458	389,185	193,068	9,486,682
Total Operating Expenses	<u>163,999,141</u>	<u>15,582,691</u>	<u>8,802,744</u>	<u>570,882</u>	<u>188,955,458</u>
OPERATING INCOME (LOSS)	20,829,248	571,449	1,938,950	(89,976)	23,249,671
NONOPERATING REVENUES (EXPENSES)					
Investment Income	57,190	5,334	6,660	422	69,606
Net Decrease in Fair Value of Investments	(3,033)	-	-	-	(3,033)
Interest Expense	(18,723,613)	-	(574,178)	-	(19,297,791)
Total Nonoperating Revenues (Expenses)	<u>(18,669,456)</u>	<u>5,334</u>	<u>(567,518)</u>	<u>422</u>	<u>(19,231,218)</u>
CHANGE IN NET POSITION	2,159,792	576,783	1,371,432	(89,554)	4,018,453
Net Position (Deficit) - Beginning of Year	<u>128,433,788</u>	<u>(408,240)</u>	<u>17,548,019</u>	<u>(2,186,515)</u>	<u>143,387,052</u>
NET POSITION (DEFICIT) - END OF YEAR	<u>\$ 130,593,580</u>	<u>\$ 168,543</u>	<u>\$ 18,919,451</u>	<u>\$ (2,276,069)</u>	<u>\$ 147,405,505</u>

**CITY OF VERNON
VERNON PUBLIC UTILITIES
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Received from Customers	\$ 184,984,914	\$ 16,007,270	\$ 10,472,143	\$ 476,112	\$ 211,940,439
Cash Paid to Suppliers for Goods and Services	(122,185,221)	(14,273,190)	(7,036,017)	(302,427)	(143,796,855)
Cash Paid to Employees for Services	(3,850,277)	(279,866)	(1,260,208)	(30,821)	(5,421,172)
Cash Paid to City for Services	(4,781,720)	-	-	-	(4,781,720)
Net Cash Provided by Operating Activities	54,167,696	1,454,214	2,175,918	142,864	57,940,692
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Repayment of Bonds	(29,520,000)	-	-	-	(29,520,000)
Bond Interest Paid	(15,208,498)	-	(437,232)	-	(15,645,730)
Proceeds from Note Payable	-	-	761,280	-	761,280
Payment of Note Payable	-	-	(139,535)	-	(139,535)
Net Acquisition of Capital Assets	(14,976,512)	(19,492)	(2,685,064)	-	(17,681,068)
Net Cash Provided (Used) by Capital and Related Financing Activities	(59,705,010)	(19,492)	(2,500,551)	-	(62,225,053)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment from (Provided to) Other City Funds	185,639	14,361	2,859,095	(200,000)	2,859,095
Net Cash Provided (Used) by Noncapital Financing Activities	185,639	14,361	2,859,095	(200,000)	2,859,095
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment Income	55,712	5,334	6,743	422	68,211
Cash Provided by Investing Activities	55,712	5,334	6,743	422	68,211
CHANGE IN CASH AND CASH EQUIVALENTS					
	(5,295,963)	1,454,417	2,541,205	(56,714)	(1,357,055)
Cash and Cash Equivalents - Beginning of Year	173,834,190	6,398,586	22,957,985	919,498	204,110,259
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 168,538,227	\$ 7,853,003	\$ 25,499,190	\$ 862,784	\$ 202,753,204
COMPOSITION OF CASH AND CASH EQUIVALENTS					
Cash and Cash Equivalents	\$ 123,485,481	\$ 7,853,003	\$ 14,159,051	\$ 862,784	\$ 146,360,319
Restricted Cash and Investments	45,052,746	-	11,340,139	-	56,392,885
Total	\$ 168,538,227	\$ 7,853,003	\$ 25,499,190	\$ 862,784	\$ 202,753,204

**CITY OF VERNON
VERNON PUBLIC UTILITIES
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating Income (Loss)	\$ 20,829,248	\$ 571,449	\$ 1,938,950	\$ (89,976)	\$ 23,249,671
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation	8,178,971	725,458	389,185	193,068	9,486,682
Change in Operating Assets and Liabilities:					
Accounts Receivable	(761,728)	255,444	(208,130)	(4,794)	(719,208)
Accrued Unbilled Revenue	901,103	(402,314)	(60,621)	-	438,168
Due from Other Funds	(588,100)	-	-	-	(588,100)
Prepaid Expenses and Deposits	(90,832)	-	-	-	(90,832)
Prepaid Natural Gas	25,646,420	-	-	-	25,646,420
Deferred Outflows of Resources	(1,723,107)	(219,034)	(464,944)	(21,440)	(2,428,525)
Accounts Payable	1,996,698	(11,141)	(9,391)	19,154	1,995,320
Accrued Wages and Benefits	54,690	2,425	(8,559)	305	48,861
Due to Other City Funds	(2,161)	(310)	-	-	(2,471)
Customer Deposits	17,150	-	(800)	-	16,350
Compensated Absences	203,182	(262)	(90,688)	895	113,127
Other Postemployment Benefit Liability	34,730	27,585	(21,932)	1,515	41,898
Net Pension Liability	3,063,985	480,585	703,672	42,382	4,290,624
Deferred Inflows of Resources	(3,592,553)	24,329	9,176	1,755	(3,557,293)
Net Cash Provided by Operating Activities	<u>\$ 54,167,696</u>	<u>\$ 1,454,214</u>	<u>\$ 2,175,918</u>	<u>\$ 142,864</u>	<u>\$ 57,940,692</u>

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