

**CITY OF VERNON**  
**ANNUAL COMPREHENSIVE FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2021**



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## **INTRODUCTORY SECTION**



4305 Santa Fe Avenue, Vernon, California  
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City of Vernon, California  
Finance Department

March 3, 2022  
To the Honorable Mayor and City Council  
Vernon, California

In accordance with the Charter of the City of Vernon (City), please accept submission of the Annual Financial Report for the fiscal year ended June 30, 2021. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the City. We believe the data included is accurate in all material aspects, and is presented in a manner designed to fairly set forth the financial position and operational achievements of the City, as measured by the financial activity of its various funds. In addition, all disclosures necessary to enable the reader to gain a maximum understanding of the City's financial activities have been included.

Vernon's City Charter requires an annual audit of the City's financial statements by an independent Certified Public Accountant. Accordingly, this year's audit was completed by CliftonLarsonAllen LLP. The auditors' report on the basic financial statements is included in the financial section of this report. Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the City's basic financial statements. MD&A complements this letter of transmittal and, as such, should be read in conjunction.

### **ECONOMIC CONDITION AND OUTLOOK**

Since it was founded in 1905, Vernon has maintained a business-friendly environment, thus allowing the City to remain one of Southern California's prime locations for industry of all types. Vernon offers businesses a range of advantages compared to nearby cities in L.A. County. Features such as lower permit fees; lower electricity, water and natural gas utility rates; excellent City services tailored to specific business needs; easy access to major transportation hubs; and proximity to a substantially skilled workforce enable business and industry to thrive in Vernon.

Vernon is the industrial heart of Southern California. Major manufacturers, processors and distributors have made Vernon their home for more than a century. Vernon businesses employ more than 50,000 men and women from nearby communities throughout the Greater Los Angeles area. There are 1,800 businesses that call Vernon home. These include food processors, fashion apparel manufacturers, furniture manufacturers, electronics manufacturers, paper products producers and business logistics companies.

Vernon is a key contributor to the diverse Los Angeles County economy. After several years of slow and steady growth, the economy is finally shifting into a higher gear as it continues to recover from the Impact of the most recent recession. Job growth is contributing to the flourishing local economy, as well as at the state and national levels. Vernon is largely industrial and does not maintain an unemployment rate tally 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%. The occupancy rate of the City 's central business district ranges between 96% and 98%.

The City will continue to build on the successes and achievements realized in the current year and remains committed to serving its customers. The City's main revenue sources consisting of utilities fees, property and parcel taxes, business license taxes, and sales and use tax, have all sustained steady growth this year. As the City moves into fiscal year 2022, we are optimistic about continued growth but will remain attentive to the prevailing economic climate and mindful of managing enhanced services within the limits of our adopted budget.

Additionally, the City continues to make strides in developing its community relationships. With seasonal community outreach events, it is connecting with Vernon residents and those residents in neighboring communities in the southeast region. The City has begun circulating a Resident Newsletter and is also active on its social media platforms, focusing on dissemination of information that is relevant to the community, ensuring that its population is well-informed on City matters. By forging these connections with community members, the City is confident that the bi-directional conversations that result will allow it to better serve the needs of its constituents.

### **Vernon's Fashionable Business Resources**

Vernon serves a major center for Southern California's fashion industry. Vernon is home to more than 10% of fashion-related jobs in Los Angeles County. The fashion industry accounts for approximately 15% of Vernon's businesses. The availability of specialized office and warehouse space in Vernon makes the City a top site for apparel, textile design, storage and manufacturing companies in the fashion industry. More than 265 fashion industry companies engaged in design, dyeing, cutting, sewing, importing and distribution are located in Vernon. Fashion industry businesses prosper in Vernon because they do not need to leave Vernon to connect with most of their key business partners. Fashion industry companies have quick access to Los Angeles, Orange County and the Inland Empire for their product distribution channels and can easily utilize national and international trade routes through nearby freeways, railroads and ports. Vernon's low taxes, lower cost power and water rates, and business- friendly municipal services are why the fashion industry calls Vernon its home.

### **Powering Business Competitiveness**

The City of Vernon Public Utilities Department (VPU) serves as an essential resource to the City's business and residential community, providing dependable, high-quality utility services at very competitive rates. VPU offers electricity, natural gas, water, and fiber optic services to Vernon based businesses and residents, often at a cost savings compared to neighboring utility providers. The City- owned electric, natural gas, water, and fiber optic distribution systems have a strong, established history of reliability, capable of efficiently and successfully serving the needs of the City's unique largely industrial community.

The electric utility provides businesses reliable and competitive electrical services. The electric utility has operated for more than 80 years. Its electrical power and distribution system helps guarantee uninterrupted electrical service for Vernon's businesses. Electricity costs for large businesses are comparable and less than power costs from competing utility providers in the Los Angeles region, depending on the customer type and service being provided.

Vernon's natural gas distribution system offers significant advantages for businesses. Vernon's natural gas transportation rates are less than those offered by a large private natural gas utility in the same service area. Vernon's natural gas is distributed through a robust network of more than 44 miles gas distribution pipelines.

Vernon has 35 miles of fiber optic cable spanning its five-square miles, offering businesses "dark fiber" and "lit fiber" data services. Vernon's advanced network of fiber optic cable provides businesses new high-speed methods to virtually connect their buildings and offices to the Internet at lower costs with high reliability.

Vernon's water utility offers large industrial users water rates that are among the lowest in Southern California. Vernon maintains reliable water sources to serve a customer base that uses a high volume of water. Vernon supplies most of the water it sells from City-owned wells and purchases the remaining water supplies from regional agencies through agreements with the Metropolitan Water District of Southern California (MWD).

### **Safeguarding the Environment**

Vernon is one of four cities in the State of California with a health department. Vernon's Health and Environmental Control Department regulates industrial operations conducted in the City.

Since Vernon maintains a municipal health authority, local businesses are able to deal directly with the City health department officials to address important environmental issues, which help businesses streamline the monitoring and enforcement of health-related Federal laws, and State, LA County and Municipal ordinances, rules and regulations.

Vernon is focused on protecting the environment. Accordingly, Vernon has in place strict ordinances governing the practices of heavy manufacturers, food processors, garment manufacturers, and hazardous waste storage and disposal. Each function in a manner that allows the City to effectively serve the community in protecting public health.

Vernon manages several special programs and operations to safeguard the public's health and safety and protect the City's environment. Among these are the following: Certified Unified Program Agency, Accidental Release Prevention, Animal/Vector Control, Food Inspection Program, Garment Manufacturing Program, Hazardous Materials Monitoring, Hazardous Waste, Public/Employee Health Education, Solid Waste Management, Storm Water Control, Above Ground Storage Tank Inspection, Underground Storage Tank Inspection, and Water Quality programs. Each of these programs is designed to ensure a safe environment for residents and the business community.

### **Public Safety**

Creating a safe environment for residents and businesses to thrive is a key factor to Vernon's success. The City's skilled Police and Fire Department personnel are some of the best in their respective fields. Expeditious response times and community engagement are hallmarks of their exceptional service.

The mission of the Vernon Police Department (VPD) is to provide swift, skillful and responsive law enforcement services to the people and businesses of our community through the application of proactive problem-solving strategies and the development of equal partnerships with the people served. Officers seek to ensure a sense of well-being in the community and they are guided by their commitment to working closely with the industrial population. VPD is dedicated to maintaining the highest degree of professionalism and ethical standards in its pursuit of this mission, ever mindful of the need to safeguard the individual liberties of all members of the community.

VPD responds to emergency calls in less than four minutes. Vernon police officers are specially trained and outfitted with the latest technology to investigate offenses unique to an industrial community. Using mobile computer terminals in their patrol cars, officers can query criminal databases from the field and connect seamlessly with the Department's advanced communications center, which is fully integrated with its records management and E911 systems. With its specialized units, the VPD maintains an effective community policing strategy.

The Vernon Fire Department continues to be the leader in "exclusively Industrial" firefighting among its peers and has been awarded a Class 1 Public Classification rating by the Insurances Services Office (ISO), an organization that independently evaluates municipal fire protection efforts in communities throughout the United States. The Class 1 rating is the highest possible score that agencies in California can receive. A total of 10 such departments in California and 58 departments nationally have achieved this prestigious, significant ranking. Vernon Fire Department team members are public servant oriented and take immense pride in the superior service provided to the community.

The City maintains four stations within the City's five square-miles that enable its firefighters and paramedics to achieve an average emergency response time of three minutes. Vernon's firefighters are highly trained to manage complex emergency incidents and equipped to deal with industrial fires and toxic hazards. The Fire Department consists of seven main Divisions which are key to its successful operation: Fire Suppression, Emergency Medical Services (EMS), Emergency Management, Fire Apparatus & Equipment, Training & Safety, Hazardous Materials and Administration. These divisions function in a manner that allows the department to effectively serve the community in emergency and non-emergency situations.

Vernon's Police and Fire Departments serve as a major emergency response and disaster preparedness resource for the Greater Los Angeles region. Vernon works closely with L.A. County and municipal public safety agencies in neighboring cities to offer essential public safety resources and assistance at times of an emergency through mutual aid agreements. Vernon consistently provides more police and fire emergency response mutual aid coverage than that which the City requests through these agreements. Vernon's specialized emergency service of hazardous materials and search-and-rescue units frequently lend their expertise at major public safety incidents throughout Southern California.

## **MAJOR INITIATIVES**

Under the direction of the Mayor and City Council, City management identifies the priorities that shape the path leading into the City's future. City initiatives are reevaluated regularly, and new goals are frequently vetted to ensure that City efforts are consistent with the priorities of our policy body and the community. The City strives each year to better fulfill its mission of delivering outstanding municipal services that are responsive, comprehensive, and beneficial to the entire community by continuing its tradition of fostering innovation, ingenuity, and opportunity within its operations. City staff remains focused on actions that achieve the primary goals of tending to the public's needs, building neighborhood connections, and governing for results that strengthen our community. The City's dedication to improvement and modernization has created an environment where City of Vernon residents and businesses are dialed in and able to collaborate with staff, voice their concerns, and have access to a plethora of information on the City and their chosen topic(s) of interest. As these relationships flourish, businesses and residents alike are able to enjoy all that Vernon has to offer while also participating in guiding Vernon down its path into the future.



1. Vernon is very committed to meeting its debt service coverages. In order to address the budget deficit historically present in the General Fund, the City placed on the ballot a measure to increase the Utility Users Tax from 1% to 6% which passed in April 2019. The passage of this measure will effectively eliminate operating transfers from its enterprise activities to the General Fund. To minimize the burden on the business community, an equivalent discount has been provided to Vernon's electric, gas, water, and fiber optics utility customers.
2. Vernon has the capacity to expand its services as new businesses emerge and as existing businesses flourish and expand. An attractive, business friendly approach is extended to customers in the form of discounts that are available for large electricity consumers. Revenue sharing mechanisms have also been implemented to help stimulate both growth and retention. The City's Good Governance and Reform initiatives provide a tangible demonstration of the overarching commitment to sound governance and best business practices.
3. Vernon is a party to a long-term pre-paid natural gas agreement with Citigroup Energy, Inc. ("CEI"), which obligates Vernon to take natural gas for 15 years (from 2006 to 2021). At the end of 2015, the credit rating of Citigroup, Inc., CEI's parent and guarantor under the pre-paid agreement ("Citigroup"), was downgraded. Vernon believed this downgrade triggered a credit support obligation under the agreement. CEI and Citigroup disagreed. In March 2016, the City brought an action for declaratory relief in federal district court against, among others, Citigroup and CEI, alleging that the defendants had breached the pre-paid agreement. In August 2016, the parties entered into a confidential settlement agreement and ended the litigation. Under the terms of the settlement agreement, Vernon does not believe it has any exposure under the pre-paid agreement should either CEI or Citigroup fail to perform.
4. Based upon the City's electric debt service schedule, there will be a significant reduction in debt service starting in 2027. With input from business and residential communities, the City continues to evaluate its position and initiatives to ensure that electric rates remain competitive and that infrastructure needs are being addressed.
5. The inherent governance challenges in the City, due to a very small residential population, continues to be addressed by its residents, businesses, Chamber of Commerce, and City Council. Over the past 5 years, the public has become much more engaged in the political process and continues to keep a watchful eye on all important issues facing the City. The disincorporation controversy raised by assembly bill 46 in 2011 has been addressed with the whole-hearted adoption of key reforms and comprehensive implementation of best practices in all City operations.
6. The State of California Joint Legislative Audit Committee (JLAC) is no longer pursuing the disincorporation of the City. Vernon has addressed all outstanding JLAC recommendations effective July 2018. Emphatically committed to good governance and transparency, the City is proud of its success in satisfying each reform that JLAC recommended. As a result, the City moves forward with clear, concise, and comprehensive policies and procedures that uphold best practices.
7. The shutdown of the Exide recycled battery plant operation has been and will continue to be under State of California oversight. The Department of Toxic Substances Control is completely responsible for monitoring the site and all related cleanup on a continual basis. The State of California has established funding for the Exide plant cleanup effort collected through a fee on each battery recycled along with any restitution from Exide which remains a global company. There is no direct impact on City operations and Exide does not pose a concern to existing Vernon businesses.

8. Vernon's electric rates remain competitive, and in many cases, lower than adjacent municipal and investor owned utilities. However, in many respects, Vernon's electric utility services continue to outperform its neighboring peers thanks to a higher reliability rating and greater customer satisfaction. In fact, VPU's electric reliability ranked in the top 10% nationwide in a recent benchmarking study.

## **FINANCIAL INFORMATION**

Management of the City is responsible for establishing and maintaining internal control designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

This report consists of management's representations concerning the finances of the City. As a result, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management asserts that, to the best of their knowledge and belief, this financial report is complete and reliable in all material respects.

## **BUDGETARY CONTROLS**

The City maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of all governmental funds and proprietary funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level.

## **RELEVANT FINANCIAL POLICIES**

Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2021, the City's overall total net position was \$211.9 million. This consisted of a positive governmental net position of \$64.5 million and business-type net position of \$147.4 million. By continuing to develop sound fiscal management plans, the City intends to maintain an overall positive net position.

## **ACKNOWLEDGMENTS**

The preparation of this report on a timely basis is a team effort involving many dedicated people across the entire organization. I would like to extend a special thanks to the talented finance professionals throughout the City, led by Joaquin Leon, Deputy City Treasurer, Angela Melgar, Finance Manager and Jessica Alcaraz, Financial Services Administrator. Appreciation is also expressed to Carlos Fandino, City Administrator; Zaynah Moussa, Interim City Attorney; Abraham Alemu, General Manager of Public Utilities; Michael Earl, Human Resource Director, and Diana Figueroa, Administrative Analyst.

In closing, without the leadership and support of the City Council, the preparation and results presented within this report would not have been conceivable. Their steadfast leadership has made possible the implementation of the City's important, innovative concepts in fiscal management discussed herein.

Should you have any questions regarding the documentation provided, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in blue ink that reads "Scott Williams". The signature is written in a cursive style with a long, sweeping underline.

Scott Williams  
Director of Finance/City Treasurer

## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise the City's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Honorable Mayor and  
Members of the City Council  
City of Vernon

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison schedule, the schedules of changes in net pension liability and related ratios and schedules of pension contributions related to the City's miscellaneous and safety pension plans, and the schedule of changes in net OPEB liability and related ratios related to the City's other postemployment benefits plan, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 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 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  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2021.

**OVERVIEW OF BASIC FINANCIAL STATEMENTS**

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

***Government-wide financial statements***

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

The *statement of net position* presents information on all of the City'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*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and health services. The business-type activities of the City is administered by the Vernon Public Utilities which consists of the Electric, Gas, Water, and Fiber Optics utilities.

The government-wide financial statements include not only the City of Vernon (known as the *primary government*), but also blended component units. Certain blended component units, although legally separate entities are, in substance, part of the primary government's operations and are included as part of the primary government. Fiduciary funds are not presented in the government-wide financial statements as the resources are not available to support City programs.

The government-wide financial statements can be found on pages 16-18 of this report.

***Fund financial statements***

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

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

**Governmental funds**

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (see page 75).

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

**Proprietary funds**

The City's proprietary funds consist of enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Vernon Public Utilities which consists of the Electric, Gas, Water, and Fiber Optics utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Vernon Public Utilities. Segment information for each of the Electric, Gas, Water, and Fiber Optics utilities are presented in Note 9 on pages 68-70.

The basic proprietary funds financial statements can be found on pages 23-27 of this report.

**Fiduciary funds**

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

The basic fiduciary funds financial statements can be found on pages 28-29 of this report.

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30-73 of this report.



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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

***City's Net Position***

The table below summarizes the City's net position as of June 30, 2021 and June 30, 2020. The details of the current year's summary can be found on page 16 of this report.

**City of Vernon  
Net Position  
June 30, 2021 and 2020**

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
<b>Assets:</b>						
Current and other assets	\$ 15,676,741	\$ 8,852,317	\$ 174,666,191	\$ 193,387,820	\$ 190,342,932	\$ 202,240,137
Restricted assets	5,070,045	3,289,382	56,392,885	66,575,492	61,462,930	69,864,874
Capital assets	165,326,345	172,018,391	257,253,484	249,059,098	422,579,829	421,077,489
Total assets	<u>186,073,131</u>	<u>184,160,090</u>	<u>488,312,560</u>	<u>509,022,410</u>	<u>674,385,691</u>	<u>693,182,500</u>
<b>Deferred Outflows of Resources</b>						
Deferred outflows related to pensions	23,952,913	13,918,552	4,901,360	2,547,788	28,854,273	16,466,340
Deferred outflows related to OPEB liability	3,326,931	3,309,587	680,773	605,820	4,007,704	3,915,407
Deferred amount on bond refunding	-	-	292,472	3,802,144	292,472	3,802,144
Total deferred outflows of resources	<u>27,279,844</u>	<u>17,228,139</u>	<u>5,874,605</u>	<u>6,955,752</u>	<u>33,154,449</u>	<u>24,183,891</u>
<b>Liabilities:</b>						
Current liabilities	3,779,531	3,619,282	21,910,613	19,689,942	25,690,144	23,309,224
Long term liabilities	135,010,934	131,325,331	316,254,536	340,724,893	451,265,470	472,050,224
Total liabilities	<u>138,790,465</u>	<u>134,944,613</u>	<u>338,165,149</u>	<u>360,414,835</u>	<u>476,955,614</u>	<u>495,359,448</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pensions	2,754,345	1,283,734	563,607	234,987	3,317,952	1,518,721
Deferred inflows related to OPEB liability	7,315,776	9,260,506	1,496,988	1,695,132	8,812,764	10,955,638
Deferred gain from sale of generation assets	-	-	6,555,916	10,243,685	6,555,916	10,243,685
Total deferred outflows of resources	<u>10,070,121</u>	<u>10,544,240</u>	<u>8,616,511</u>	<u>12,173,804</u>	<u>18,686,632</u>	<u>22,718,044</u>
<b>Net Position:</b>						
Net investment in capital assets	165,326,345	170,034,582	148,442,763	159,733,492	313,769,108	329,768,074
Restricted	4,146,007	3,289,382	23,894,665	23,932,142	28,040,672	27,221,524
Unrestricted (deficit)	<u>(104,979,963)</u>	<u>(117,424,588)</u>	<u>(24,931,923)</u>	<u>(40,278,582)</u>	<u>(129,911,886)</u>	<u>(157,703,170)</u>
Total net position	<u>\$ 64,492,389</u>	<u>\$ 55,899,376</u>	<u>\$ 147,405,505</u>	<u>\$ 143,387,052</u>	<u>\$ 211,897,894</u>	<u>\$ 199,286,428</u>

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$211,897,894 (net position).

The category of the City's net position with the largest balance totaling \$313,769,108 represents resources that are invested in capital assets, net of the related debt.

The second-largest category of net position, totaling \$28,040,672 represents the City's restricted assets, which are restricted for employee flexible spending account, grants and debt service.

The last remaining category of net position, totaling (\$129,911,886) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

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

**Governmental activities, net position:**

- Current and other assets increased by \$6,824,424 from the prior year due to increase in cash and cash equivalents of \$4,905,979, and internal balances of \$2,268,524 offset by a decrease in inventory of \$754,900 and taxes receivable of \$259,969.
- Restricted assets increased by \$1,780,663 from the prior year mainly due to an increase in restricted cash and investments balance for streets improvements.
- Capital assets decreased by \$6,692,046 from the prior year mainly due to depreciation of \$5,000,142 offset by the acquisition of machinery and equipment and infrastructure and building upgrades and improvements as well as the liquidation & disposal of fire department's assets.
- Deferred outflows of resources for pension costs increased by \$10,034,361 from the prior year mainly due to a change in current year's contribution to the pension that will be applied as a reduction in net pension liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net pension liability.
- Deferred outflows of resources for other postemployment benefits (OPEB) increased by \$17,344 from the prior year due a change in current year contribution to the OPEB plan that will be applied as a reduction in net OPEB liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net OPEB liability.
- Current liabilities increased by \$160,249 from the prior year mainly due to a increase in accounts payable of \$369,212 and unearned revenue of \$239,956 offset by a decrease in accrued wages of \$460,405
- Long-term liability increased by \$3,685,603 from the prior year mainly due to increase in net pension liability \$10,201,394 offset by a decrease in other postemployment benefit liability and in liabilities due in more than 1 year of \$1,748,700 and \$2,013,330, respectively.
- Deferred inflows of resources for pension actuarial increased by \$1,470,611 from the prior year due to changes in total pension liability that are to be recognized as an increase in pension expenses in future fiscal years. These balances arise from changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the plan's net pension liability.

**Governmental activities, net position (continued):**

- Deferred inflows of resources for OPEB decreased by \$1,944,730 from the prior year mainly due to changes in actuarial assumptions and the difference between actual and expected experience.
- Net investment in capital assets decreased by \$4,708,237 from the prior year which is equivalent to the decrease in capital assets, net of capital lease obligations during the current year.
- Restricted net position increased by \$856,625 from the prior year mainly due to a decrease in the restricted designation placed on street improvement account and asset forfeiture account.

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

- The unrestricted net deficit decreased by \$12,444,625 from the prior year mainly due to the current year's change in net position of \$8,593,013 offset by a decrease in net investment in capital assets of \$4,708,237.

**Business-type 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 \$15.9 million, offset by depreciation of \$9,486,682 (See Note 5).
- Deferred outflows of resources decreased by \$1,081,147 due to the decrease in amount on bond refunding of \$3,509,672 offset by an increase in deferred pensions of \$2,353,572.
- Current liabilities increased \$2,220,671 mainly due to an increase in accounts payable of \$1,995,320 and bond interest payable \$160,140.
- Long-term liabilities decreased by \$24,470,357 from the prior year mainly due to bonds payable (see Note 6).
- 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.
- 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  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Changes in Net Position**

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

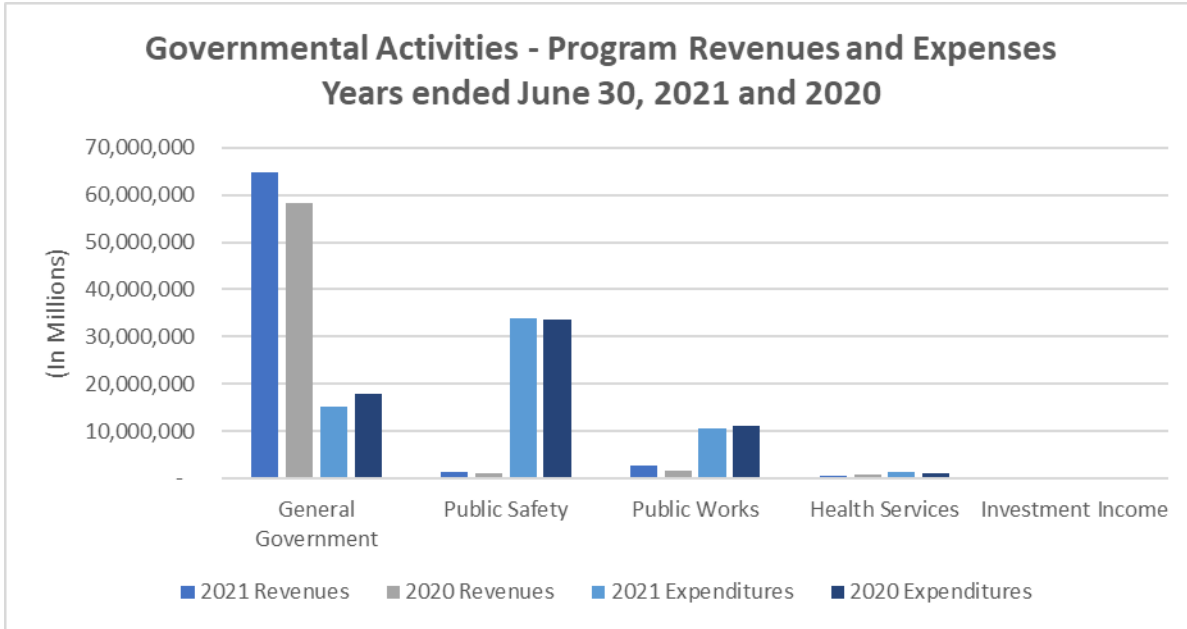
**City of Vernon  
Statement of Activities  
Years ended June 30, 2021 and 2020**

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 6,470,901	\$ 6,501,983		\$ -	\$ 6,470,901	\$ 6,501,983
Vernon public utilities			212,205,129	206,547,293	212,205,129	206,547,293
Operating and capital grants and contributions	2,103,424			-	2,103,424	-
General revenues						
Taxes	39,163,804	30,280,868		-	39,163,804	30,280,868
State allocations	14,445,575	9,557,747		-	14,445,575	9,557,747
Investment income (loss)	70,480	137,738	69,606	1,018,563	140,086	1,156,301
Gain (loss) on the sale of land and assets	-	-	-	(424,922)	-	(424,922)
Other revenues	2,531,566	3,535,926		-	2,531,566	3,535,926
Total revenues	<u>64,785,750</u>	<u>50,014,262</u>	<u>212,274,735</u>	<u>207,140,934</u>	<u>277,060,485</u>	<u>257,155,196</u>
<b>Expenses:</b>						
Governmental activities						
General government	15,238,548	13,870,221	-	-	15,238,548	13,870,221
Public safety	33,919,854	32,482,216	-	-	33,919,854	32,482,216
Public works	10,468,302	9,573,948	-	-	10,468,302	9,573,948
Health services	1,280,046	291,510	-	-	1,280,046	291,510
Interest on long-term debt	67,707	76,131	-	-	67,707	76,131
Business-type activities						
Vernon public utilities		-	203,474,562	196,546,385	203,474,562	196,546,385
Total expenses	<u>60,974,457</u>	<u>56,294,026</u>	<u>203,474,562</u>	<u>196,546,385</u>	<u>264,449,019</u>	<u>252,840,411</u>
Change in net position before transfers	3,811,293	(6,279,764)	8,800,173	10,594,549	12,611,466	4,314,785
<b>Transfers:</b>						
Interfund transfers	4,781,720	4,582,784	(4,781,720)	(4,582,784)	-	-
Net Transfers	<u>4,781,720</u>	<u>4,582,784</u>	<u>(4,781,720)</u>	<u>(4,582,784)</u>	<u>-</u>	<u>-</u>
Change in net position	8,593,013	(1,696,980)	4,018,453	6,011,765	12,611,466	4,314,785
Net position - beginning of year	55,899,376	57,596,356	143,387,052	137,375,287	199,286,428	194,971,643
Net position - end of year	<u>\$ 64,492,389</u>	<u>\$ 55,899,376</u>	<u>\$ 147,405,505</u>	<u>\$ 143,387,052</u>	<u>\$ 211,897,894</u>	<u>\$ 199,286,428</u>

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

**Governmental activities, changes in net position:**

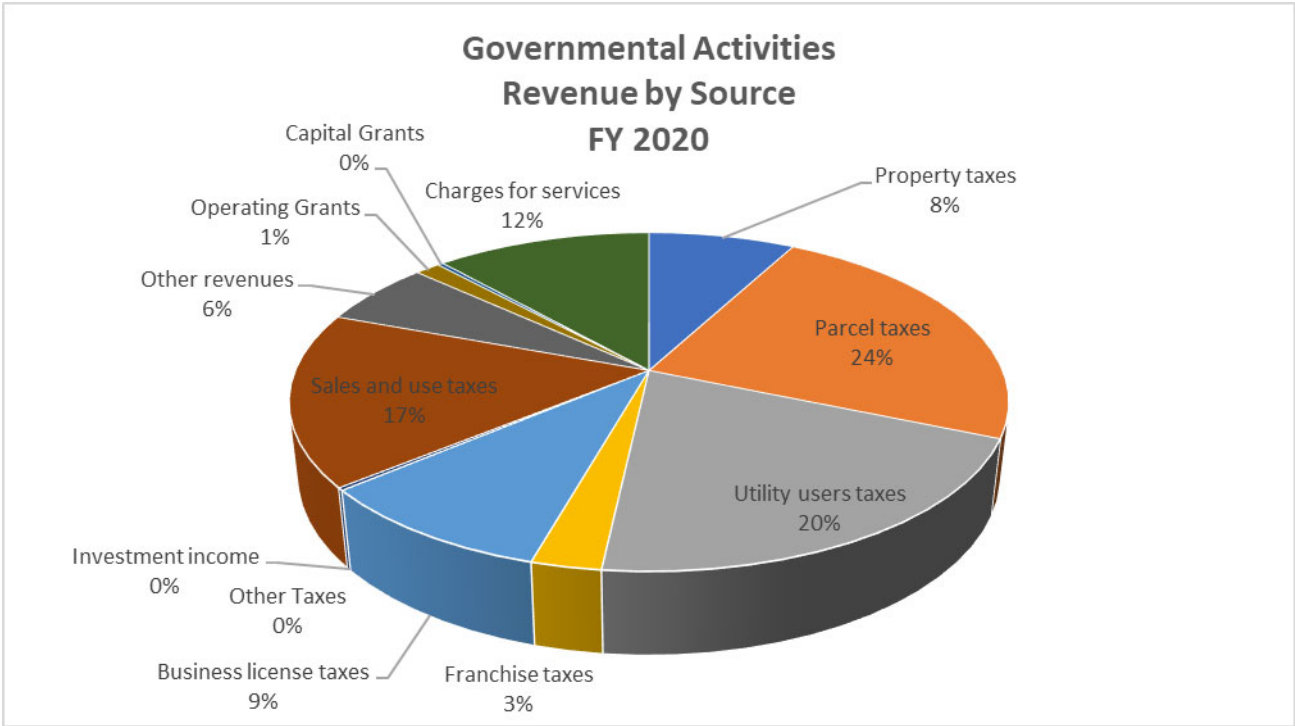
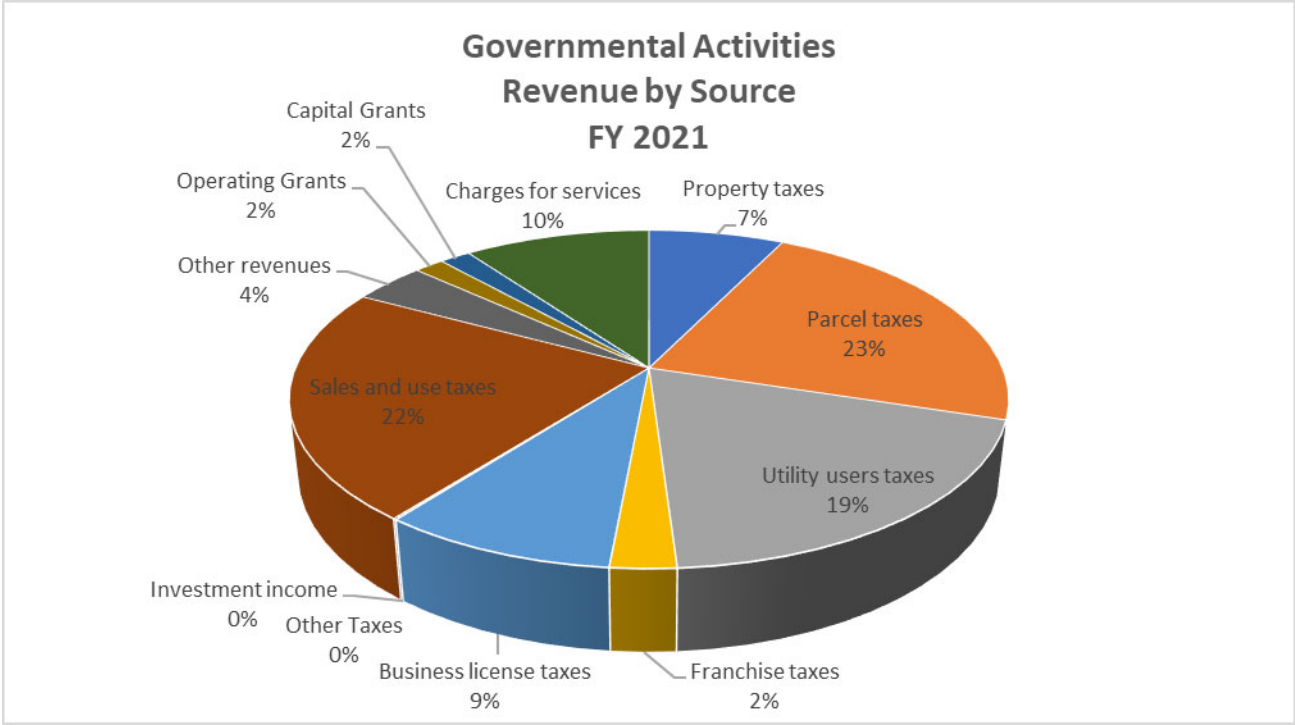
Governmental activities' net position increased by \$8,593,013 and business-type activities' net position increased by \$4,018,453 for a net increase of \$12,611,466 for the City.



Governmental activities consist of the following departments:

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

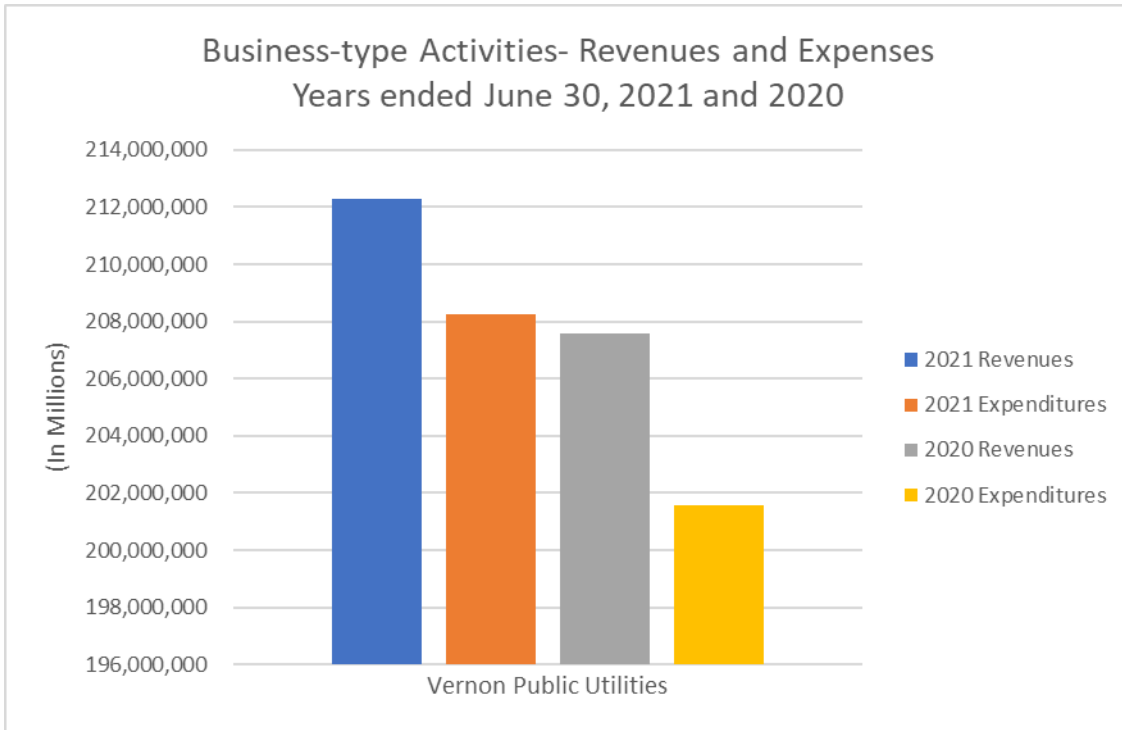
**CITY OF VERNON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**



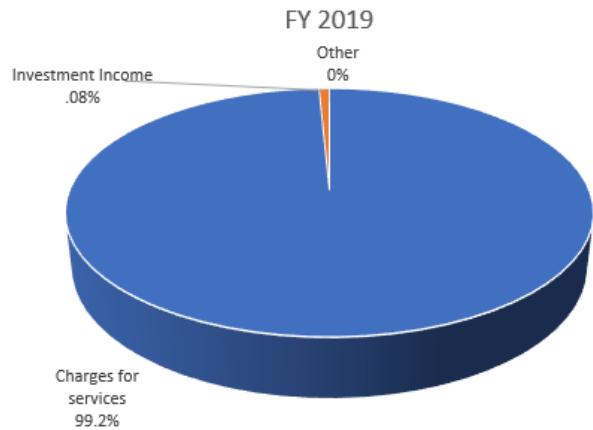
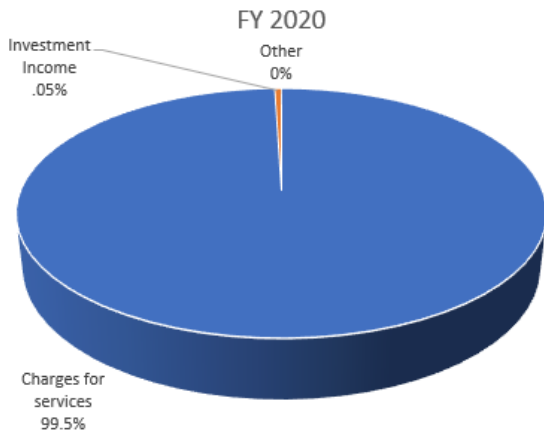
**CITY OF VERNON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2021**

**Business-type activities, changes in net position:**

Business-type activities increased the City's net position by \$8,800,173 before transfers which is a \$1,794,376 decrease from the prior year. The key reason for this decrease was due to an increase in the cost of sale by \$6,928,177 and offset by an increase in revenues by \$5,657,836.



**Business Activities  
Revenues by Source**



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

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

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

***Governmental funds***

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

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balances of \$16,967,255 (see page 19), an increase of \$8,444,838 from the prior year. Approximately 0.03% of the total fund balance amount, \$51,672, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 24.5% of the total fund balance amount, \$4,146,007, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, \$12,769,576 is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$16,967,255 (see page 21). At the end of the current fiscal year, the total fund balance represents 27.5% of the total expenditures for the year.

***Proprietary funds***

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

Unrestricted net position for the Vernon Public Utilities at the end of the year amounted to a deficit balance of \$24,931,923 (see page 24). This deficit balance in unrestricted net position is primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

The total increase in net position for the Vernon Public Utilities was \$4,018,453 (see page 25). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



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

**GENERAL FUND AND BUDGETARY HIGHLIGHTS**

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$10,010,644. The key reasons for this variance were due to higher actual revenues than projected of \$8,919,741 and lower actual expenditures than appropriated by \$818,174.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$8,919,741. The main reason for the variance, overall revenues came in higher than expected in most categories especially taxes by \$1,374,948 and \$8,935,173 respectively offset by a decrease in other revenues and intergovernmental revenues by \$288,926 and \$153,981 respectively.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$818,174. The key reasons for this variance were due to higher appropriations than actual expenditures of \$4,152,475 in capital outlay offset by an increase in public safety of \$5,300,440.

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount for other financing sources was \$272,729. The key reason for this variance was due to a gain on sale of asset by \$486,009 offset by a lower amount transferred by the Electric Fund by \$213,280 than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital assets***

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021, amounts to \$313,769,108 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utility system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total decrease in the City's investment in capital assets for the current fiscal year was \$15,998,966, less depreciation of \$14,486,824, for a net increase of \$1,502,340 (See Note 4).

There were no significant construction commitments outstanding as of June 30, 2021.

Additional information on the City's capital assets can be found in Note 4 on pages 45-47 of this report.

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

***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
- \$14,840,000 City of Vernon Water 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 (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

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

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.

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 City's long-term debt can be found in Note 5 on pages 47-53 of this report.

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

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

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

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 14,406,423	\$ 146,360,319	\$ 160,766,742
Accounts Receivable, Net of Allowance	9,928	7,096,905	7,106,833
Taxes Receivable	3,316,784	-	3,316,784
Notes and Loans Receivable	6,033	-	6,033
Other Receivables	3,894	-	3,894
Accrued Unbilled Revenue	-	16,978,805	16,978,805
Accrued Interest Receivable	-	2,361	2,361
Internal Balances	(2,117,993)	2,117,993	-
Inventories	51,672	-	51,672
Prepaid Expenses	-	1,028,714	1,028,714
Deposits	-	1,081,094	1,081,094
Restricted Cash and Investments	5,070,045	56,392,885	61,462,930
Capital Assets:			
Nondepreciable	64,855,535	64,785,212	129,640,747
Depreciable, Net	100,470,810	192,468,272	292,939,082
Total Assets	<u>186,073,131</u>	<u>488,312,560</u>	<u>674,385,691</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to Pensions	23,952,913	4,901,360	28,854,273
Deferred Outflows Related to OPEB Liability	3,326,931	680,773	4,007,704
Deferred Amount on Bond Refunding	-	292,472	292,472
Total Deferred Outflows of Resources	<u>27,279,844</u>	<u>5,874,605</u>	<u>33,154,449</u>
<b>LIABILITIES</b>			
Accounts Payable	1,109,748	14,079,041	15,188,789
Accrued Wages and Benefits	1,438,922	616,131	2,055,053
Customer Deposits	200,475	504,539	705,014
Bond Interest Payable	-	6,710,902	6,710,902
Unearned Revenue	1,030,386	-	1,030,386
Noncurrent Liabilities:			
Due Within One Year	2,129,351	25,748,503	27,877,854
Due in More than One Year	3,785,276	264,089,729	267,875,005
Net Other Postemployment Benefit Liability	16,778,544	3,433,306	20,211,850
Net Pension Liability	112,317,763	22,982,998	135,300,761
Total Liabilities	<u>138,790,465</u>	<u>338,165,149</u>	<u>476,955,614</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflows Related to Pensions	2,754,345	563,607	3,317,952
Deferred Inflows Related to OPEB Liability	7,315,776	1,496,988	8,812,764
Deferred Gain from Sale of Generation Assets	-	6,555,916	6,555,916
Total Deferred Inflows of Resources	<u>10,070,121</u>	<u>8,616,511</u>	<u>18,686,632</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	165,164,750	148,442,763	313,607,513
Restricted for:			
Employee Flexible Spending Account	25,090	-	25,090
Street Improvements	3,601,571	-	3,601,571
Asset Forfeiture Funds	519,346	-	519,346
Debt Service	-	23,894,665	23,894,665
Unrestricted (Deficit)	(104,818,368)	(24,931,923)	(129,750,291)
Total Net Position	<u>\$ 64,492,389</u>	<u>\$ 147,405,505</u>	<u>\$ 211,897,894</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
Governmental Activities:				
General Government	\$ 15,238,548	\$ 8,779,549	\$ 1,989	\$ -
Public Safety	33,919,854	182,912	1,027,418	-
Public Works	10,468,302	1,647,017	5,460	1,068,557
Health Services	1,280,046	643,143	-	-
Interest on Long Term Debt	67,707	-	-	-
Total Governmental Activities	<u>60,974,457</u>	<u>11,252,621</u>	<u>1,034,867</u>	<u>1,068,557</u>
Business-Type Activities:				
Electric	182,725,787	184,828,389	-	-
Gas	15,582,691	16,154,140	-	-
Water	9,376,922	10,741,694	-	-
Fiber Optics	570,882	480,906	-	-
Total Business-Type Activities	<u>208,256,282</u>	<u>212,205,129</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 269,230,739</u>	<u>\$ 223,457,750</u>	<u>\$ 1,034,867</u>	<u>\$ 1,068,557</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON  
STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED JUNE 30, 2021**

Function/Program Activities	Net (Expenses) Revenues and Change in Net Position		Total
	Governmental Activities	Business-Type Activities	
<b>PRIMARY GOVERNMENT</b>			
Governmental Activities:			
General Government	\$ (6,457,010)	\$ -	\$ (6,457,010)
Public Safety	(32,709,524)	-	(32,709,524)
Public Works	(7,747,268)	-	(7,747,268)
Health Services	(636,903)	-	(636,903)
Interest on Long Term Debt	(67,707)	-	(67,707)
Total Governmental Activities	<u>(47,618,412)</u>	<u>-</u>	<u>(47,618,412)</u>
Business-Type Activities:			
Electric	-	2,102,602	2,102,602
Gas	-	571,449	571,449
Water	-	1,364,772	1,364,772
Fiber Optics	-	(89,976)	(89,976)
Total Business-Type Activities	<u>-</u>	<u>3,948,847</u>	<u>3,948,847</u>
Total Primary Government	(47,618,412)	3,948,847	(43,669,565)
General Revenues:			
Property Taxes	4,700,085		4,700,085
Parcel Taxes	14,651,097	-	14,651,097
Utility Users Taxes	12,367,272	-	12,367,272
Franchise Taxes	1,622,649	-	1,622,649
Business License Taxes	5,810,837	-	5,810,837
Other Taxes	11,864	-	11,864
Investment Income	70,480	69,606	140,086
State Contribution - Sales and Use Taxes	14,445,575	-	14,445,575
Other Revenues	2,531,566	-	2,531,566
Total General Revenues	<u>56,211,425</u>	<u>69,606</u>	<u>56,281,031</u>
<b>CHANGE IN NET POSITION</b>	8,593,013	4,018,453	12,611,466
Net Position - Beginning of Year	<u>55,899,376</u>	<u>143,387,052</u>	<u>199,286,428</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 64,492,389</u>	<u>\$ 147,405,505</u>	<u>\$ 211,897,894</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON  
BALANCE SHEET – GOVERNMENTAL FUND  
JUNE 30, 2021**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 14,406,423
Accounts Receivable, Net of Allowance	9,928
Taxes Receivable	3,316,784
Notes and Loans Receivable	6,033
Other Receivables	3,894
Inventories	51,672
Restricted Cash and Investments	<u>5,070,045</u>
Total Assets	<u><u>\$ 22,864,779</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 1,109,748
Accrued Wages and Benefits	1,438,922
Unearned Revenue	1,030,386
Customer Deposits	200,475
Advances from Other Funds	<u>2,117,993</u>
Total Liabilities	5,897,524
<b>FUND BALANCE</b>	
Nonspendable:	
Inventories	51,672
Restricted for:	
Employee Flexible Spending Account	25,090
Street Improvements	3,601,571
Asset Forfeiture Funds	519,346
Unassigned	<u>12,769,576</u>
Total Fund Balance	<u>16,967,255</u>
Total Liabilities and Fund Balance	<u><u>\$ 22,864,779</u></u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON  
RECONCILIATION TO THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES  
JUNE 30, 2021**

Fund Balance - Governmental Fund	\$ 16,967,255
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	165,326,345
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund	
Compensated Absences	(2,505,255)
Claims Payable	(3,409,372)
Net pension and other post-employment benefit (OPEB) liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental fund. Deferred outflows and inflows of resources related to the pension and OPEB liabilities applicable to the City's governmental activities are only reported in the government-wide financial statements	
Deferred Outflows of Resources for Pensions	23,952,913
Deferred Outflows of Resources for OPEB	3,326,931
Deferred Inflows of Resources for Pensions	(2,754,345)
Deferred Inflows of Resources for OPEB	(7,315,776)
Net Pension Liability	(112,317,763)
Net OPEB Liability	<u>(16,778,544)</u>
Net Position of Governmental Activities	<u>\$ 64,492,389</u>

See accompanying Notes to Financial Statements.



**CITY OF VERNON  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2021**

	<u>General Fund</u>
<b>REVENUES</b>	
Taxes	\$ 53,677,257
Special Assessments	1,524,362
Licenses and Permits	2,083,795
Fines, Forfeitures, and Penalties	136,899
Investment Income	70,480
Intergovernmental Revenues	1,364,950
Charges for Services	9,577,442
Other Revenues	1,132,285
Total Revenues	<u>69,567,470</u>
 <b>EXPENDITURES</b>	
Current:	
General Government	15,129,409
Public Safety	34,754,653
Public Works	7,054,990
Health Services	1,357,199
Capital Outlay	3,312,390
Total Expenditures	<u>61,608,641</u>
Excess of Revenues Over Expenditures	7,958,829
 <b>OTHER FINANCING SOURCES (USES)</b>	
Sale of General Capital Assets	<u>486,009</u>
 <b>CHANGE IN FUND BALANCE</b>	8,444,838
Fund Balance - Beginning of Year	<u>8,522,417</u>
 <b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 16,967,255</u></u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE**  
**STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES**  
**YEAR ENDED JUNE 30, 2021**

Net Change in Fund Balance - Total Governmental Fund \$ 8,444,838

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as a depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.

Capital Outlay	3,312,390
Depreciation Expense	(5,000,142)
Loss on Disposal of Capital Assets	(5,004,294)

Principal payment of long term debt uses current financial resources but is not reported in the Statement of Activities

Principal Payment of Capital Lease Obligation	1,983,809
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:

Change in Net Pension Liability	(10,201,394)
Change in Net OPEB Liability	1,748,700
Change in Deferred Outflows Related to Pensions	10,034,361
Change in Deferred Outflows Related to OPEB	17,344
Change in Deferred Inflows Related to Pensions	(1,470,611)
Change in Deferred Inflows Related to OPEB	1,944,730
Change in Compensated Absences	2,352,574
Change in Claims Payable	430,708

Change in Net Position of Governmental Activities	\$ 8,593,013
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**CITY OF VERNON**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS**  
**JUNE 30, 2021**

	Business-Type Activities Enterprise Funds				Totals
	Electric Fund	Gas Fund	Water Fund	Nonmajor Fiber Optics Fund	
<b>ASSETS</b>					
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 Funds	593,486	-	-	-	593,486
Prepaid Expenses	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>171,048,188</u>
Noncurrent Assets					
Restricted Cash and Investments	45,052,746	-	11,340,139	-	56,392,885
Advances to Other Funds	27,193,955	-	2,117,993	-	29,311,948
Prepaid Expenses	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	167,558,410	15,830,766	8,041,598	1,037,498	192,468,272
Total Noncurrent Assets	<u>301,580,762</u>	<u>15,830,766</u>	<u>26,602,787</u>	<u>1,037,498</u>	<u>345,051,813</u>
Total Assets	445,924,064	25,385,676	42,858,236	1,932,025	516,100,001
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Outflows Related to Pensions	3,468,111	396,660	995,501	41,088	4,901,360
Deferred Outflows Related to OPEB Liability	481,702	55,094	138,270	5,707	680,773
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>5,874,605</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON**  
**STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)**  
**JUNE 30, 2021**

	Business-Type Activities				Totals
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor Fiber Optics Fund	
<b>LIABILITIES</b>					
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 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>48,252,602</u>
Noncurrent Liabilities					
Advances from Other 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
Other Postemployment Benefit Liability	2,429,343	277,852	697,329	28,782	3,433,306
Net Pension Liability	16,262,340	1,859,979	4,668,011	192,668	22,982,998
Total Noncurrent Liabilities	<u>266,319,231</u>	<u>25,379,944</u>	<u>21,809,977</u>	<u>4,190,836</u>	<u>317,699,988</u>
Total Liabilities	311,558,814	25,502,126	24,654,034	4,237,616	365,952,590
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Inflows Related to Pensions	398,798	45,612	114,473	4,724	563,607
Deferred Inflows Related to OPEB Liability	1,059,241	121,149	304,049	12,549	1,496,988
Deferred Gain from Sale of Generation Assets	6,555,916	-	-	-	6,555,916
Total Deferred Inflows of Resources	<u>8,013,955</u>	<u>166,761</u>	<u>418,522</u>	<u>17,273</u>	<u>8,616,511</u>
<b>NET POSITION</b>					
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)	(17,598,363)	(15,648,284)	11,615,638	(3,300,914)	(24,931,923)
Total Net Position	<u>\$ 130,593,580</u>	<u>\$ 168,543</u>	<u>\$ 18,919,451</u>	<u>\$ (2,276,069)</u>	<u>\$ 147,405,505</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION – PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	Business-Type Activities Enterprise Funds				Totals
	Electric Fund	Gas Fund	Water Fund	Nonmajor Fiber Optics Fund	
<b>OPERATING REVENUES</b>					
Charges for Services	\$ 184,828,389	\$ 16,154,140	\$ 10,741,694	\$ 480,906	\$ 212,205,129
Total Operating Revenue	184,828,389	16,154,140	10,741,694	480,906	212,205,129
<b>OPERATING EXPENSES</b>					
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	163,999,141	15,582,691	8,802,744	570,882	188,955,458
<b>OPERATING INCOME (LOSS)</b>	20,829,248	571,449	1,938,950	(89,976)	23,249,671
<b>NONOPERATING REVENUES (EXPENSES)</b>					
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)	(18,669,456)	5,334	(567,518)	422	(19,231,218)
<b>CHANGE IN NET POSITION</b>	2,159,792	576,783	1,371,432	(89,554)	4,018,453
Net Position (Deficit) - Beginning of Year	128,433,788	(408,240)	17,548,019	(2,186,515)	143,387,052
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ 130,593,580</u>	<u>\$ 168,543</u>	<u>\$ 18,919,451</u>	<u>\$ (2,276,069)</u>	<u>\$ 147,405,505</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2021**

	Business-Type Activities				Totals
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor Fiber Optics Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
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)	(6,447,917)	(302,427)	(143,208,755)
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	2,764,018	142,864	58,528,792
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
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 Used by Capital and Related Financing Activities	(59,705,010)	(19,492)	(2,500,551)	-	(62,225,053)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Advance (from) to Other Funds	185,639	14,361	2,270,995	(200,000)	2,270,995
Net Cash Provided (Used) by Noncapital Financing Activities	185,639	14,361	2,270,995	(200,000)	2,270,995
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
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
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(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
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 168,538,227</u>	<u>\$ 7,853,003</u>	<u>\$ 25,499,190</u>	<u>\$ 862,784</u>	<u>\$ 202,753,204</u>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS</b>					
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	<u>\$ 168,538,227</u>	<u>\$ 7,853,003</u>	<u>\$ 25,499,190</u>	<u>\$ 862,784</u>	<u>\$ 202,753,204</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2021**

	Business-Type Activities				Totals
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor Fiber Optics Fund	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
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 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 Funds	(2,161)	(310)	588,100	-	585,629
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>\$ 2,764,018</u>	<u>\$ 142,864</u>	<u>\$ 58,528,792</u>

See accompanying Notes to Financial Statements.

**CITY OF VERNON  
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2021**

	<u>Redevelopment Successor Agency Trust Fund</u>
<b>ASSETS</b>	
Other Receivable	\$ 119
Restricted Cash and Investments	<u>20,667,571</u>
Total Assets	<u>20,667,690</u>
<b>LIABILITIES</b>	
Customer Deposits	42,968
Bond Interest Payable	807,400
Long-Term Debt:	
Due Within One Year	3,385,000
Due in More than One Year	<u>38,712,761</u>
Total Liabilities	<u>42,948,129</u>
<b>NET POSITION (DEFICIT)</b>	
Total Net Position Held in Trust for Dissolution of Former Redevelopment Agency	<u><u>\$ (22,280,439)</u></u>

See accompanying Notes to Financial Statements.



**CITY OF VERNON  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2021**

	Redevelopment Successor Agency Trust Fund
<b>ADDITIONS</b>	
Property Tax Increment	\$ 6,176,105
Investment Earnings	2,635
Total Additions	6,178,740
<b>DEDUCTIONS</b>	
Community Development	699,618
Interest on Long-Term Debt	2,489,555
Total Deductions	3,189,173
<b>CHANGE IN NET POSITION</b>	2,989,567
Net Position (Deficit) Held in Trust- Beginning of Year	(25,270,006)
<b>NET POSITION (DEFICIT) HELD IN TRUST- END OF YEAR</b>	<b>\$ (22,280,439)</b>

See accompanying Notes to Financial Statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. For the fiscal year ended June 30, 2021, the City transferred its fire department operations to Los Angeles County, California. See Note 4 and Note 7 for further details on how the transfer impacted the City's capital assets and safety pension plan, respectively.

**B. Basis of Presentation**

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government. It is the City's policy to make eliminations to minimize the double counting of internal activities, except for services rendered by governmental activities to business-type activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties. Effective February 1, 2012, due to AB 1X 26, the dissolution of Redevelopment Agencies throughout California, the activities of the dissolved Vernon Redevelopment Agency are recorded in the Vernon Redevelopment Successor Agency trust fund which is a component unit of the City.

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (Continued)**

Government-Wide Financial Statements (Continued)

Separate financial statements are provided for governmental fund, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major individual governmental fund and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

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

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

The City reports one major governmental fund:

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

The City reports three major enterprise funds:

- The *Electric Fund* accounts for the maintenance and operations of the City's electric utility plant. Revenues for this fund are primarily from charges for services.
- The *Gas Fund* accounts for the maintenance and operations of the City's gas utility plant. Revenues for this funds are primarily from charges for services.
- The *Water Fund* accounts for the maintenance and operations of the City's water utility plant. Revenues for this fund are primarily from charges for services.

The City also reports a fiber optics nonmajor enterprise fund for the maintenance and operation of the City's fiber optics utility plant.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (Continued)**

Fund Financial Statements (Continued)

The City reports one fiduciary fund:

- **Vernon Redevelopment Successor Agency Private-Purpose Trust Fund** – This is a fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities and activities of the Successor Agency to the Dissolved Vernon Redevelopment Agency. Unlike the limited reporting typically utilized for Agency Funds, the Private-Purpose Trust Fund reports a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual – that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property, sales, and other taxes are considered available and are accrued when received within 60 days after fiscal year-end. Additionally, all other revenue sources are considered available and are accrued when received within 60 days of year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental fund statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation (Continued)**

Fund Financial Statements (Continued)

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City maintains a separate fund to report the activities of the Successor Agency to the Dissolved Redevelopment Agency. These assets do not belong to the City. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

**C. Cash and Investments**

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

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

**D. Receivables/Payables**

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible 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 financial statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Inventories**

All inventories are valued at cost, or estimated historical costs when historical information is unavailable, using the first-in/first-out (FIFO) method. Inventory costs in the governmental funds are recorded as an expenditure when used and are reported under the consumption method of accounting. Inventory costs in the proprietary funds are recorded as an expense or capitalized into capital assets when used.

**F. Prepaid Items**

The City 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 Electric Fund in accordance with the terms of the agreement. As full compensation for the total contract quantity to be delivered, the City 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 City also made a prepayment to Southern California Public Power Authority (SCPPA) for the City'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 9 for further information regarding SCPPA.

**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 valued at their acquisition value on the date contributed. Capital assets include intangible assets with indefinite lives and public domain (infrastructure) general capital assets consisting of certain improvements including roads and bridges, sidewalks, curbs and gutters, and traffic light systems. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide and proprietary funds statements.

The estimated useful lives are as follows:

Infrastructure	10 to 50 Years
Utility Plant and Buildings	25 to 50 Years
Improvements	10 to 20 Years
Machinery and Equipment	3 to 35 Years

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Capital Assets (Continued)**

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in net financial position.

**H. Compensated Absences**

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

**I. Deferred Outflows and Inflows of Resources**

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time.

The City has the following items that qualify for reporting as deferred outflows of resources:

- Deferred outflows related to pension and OPEB plans equal to employer contributions made after the measurement date of the pension and OPEB liabilities.
- Deferred outflows related to pension and OPEB plans for differences between expected and actual experiences and for changes in employer's proportion and differences between employer's contributions and the proportionate share of employer contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and OPEB benefits through the plans.
- Deferred outflows related to OPEB plans for changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the plans.
- Deferred outflows related to pension and OPEB plans resulting from the net difference between projected and actual earnings on plan investments. These amounts are amortized over five years.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Deferred Outflows and Inflows of Resources (Continued)**

- Deferred amount on bond refunding which is amortized over the life of refunding debt.

The statement of net position and the governmental fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred inflows related to pension and OPEB plans for changes in assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and OPEB benefits through the plans.
- Deferred inflows related to OPEB plans for differences between expected and actual experiences. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB benefits through the plans.
- Deferred inflows related to pension plans for changes in employer's proportion and differences between employer's contributions and the proportionate share of employer contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pension benefits through the plans.
- Deferred inflows related to the deferred gain from the sale of generation assets. These amounts are amortized over the lives of the related sale agreements.

**J. Long-Term Obligations**

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

**K. Net Position**

The government-wide financial statements and proprietary fund financial statements utilize a net position presentation. Net position is categorized as follows:



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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Net Position (Continued)**

- **Net Investment in Capital Assets** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- **Restricted Net 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 the net position of the City not reported in other categories.

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

**L. Fund Balance**

In the fund financial statements, the governmental fund balance is classified in the following categories:

- **Nonspendable Fund Balance** – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories, prepaid amounts, and long-term notes receivable.
- **Restricted Fund Balance** – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed Fund Balance** – includes amounts that can only be used for the specific purposes determined by formal action of the City's highest level of decision-making authority, its City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example, ordinance).
- **Unassigned Fund Balance** – includes the residual classification for the General Fund and includes all amounts not contained in the other classifications.

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

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Encumbrances**

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, canceled or discharged. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as a component of unassigned fund balance. Unencumbered appropriations lapse at year-end.

**N. Use of Estimates**

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

**O. Property Taxes**

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

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

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

**P. 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) and PARS plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and PARS. 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.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. 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 Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2 CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2021, are classified in the accompanying financial statements as follows:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 160,766,742	\$ -	\$ 160,766,742
Restricted Cash and Cash Equivalents	61,462,930	20,667,571	82,130,501
Total Cash and Cash Equivalents	<u>\$ 222,229,672</u>	<u>\$ 20,667,571</u>	<u>\$ 242,897,243</u>

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

Cash on Hand	\$ 1,300
Deposits with Financial Institutions	123,417,314
Investments	119,478,629
Total Cash and Investments	<u>\$ 242,897,243</u>

**The City's Investment Policy**

The City's Investment Policy sets forth the investment guidelines for all funds of the City. The Investment Policy conforms to the California Government Code Section 53600 et. seq. The authority to manage the City's investment program is derived from the City Council. Pursuant to Section 53607 of the California Government Code, the City Council annually, appoints the City Treasurer 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.

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

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**The City's Investment Policy (Continued)**

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

**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 Obligations	5 Years	None	None	None
U.S. Agency Securities	5 Years	None	None	None
Local Agency Bonds	5 Years	None	None	AA
CA State and Local Agency Bonds	5 Years	30%	None	None
Bankers' Acceptances	180 Days	40%	30%	None
Commercial Paper	270 Days	25%	10%	(1)
Negotiable Certificates of Deposit	5 Years	30%	None	None
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 Days	20%	None	None
Medium-Term Notes	5 Years	30%	None	A
Mutual Funds Investing in Eligible Securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 Years	20%	None	AA
State Administered Pool Investment	N/A	None	None	None

(1) Highest letter and numerical rating by a nationally recognized statistical ratings organization.

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

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

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**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
U.S. Treasury Obligations	None	None	None	None
U.S. Agency Securities	None	None	None	None
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 Year	None	None	None
Commercial Paper	None	None	None	(1)
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	\$50 Million	None
Investment Contracts	None	None	None	None

(1) Highest letter and numerical rating by a nationally recognized statistical ratings organization.

**Disclosure Relating to Interest Rate Risk**

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

Investment Type	Fair Value as of 6/30/2021	Investment Maturities		
		(in Months)		
		Less than 12 Months	13 to 24 Months	25 to 60 Months
Investments:				
Local Agency Investment Fund	\$ 633,506	\$ 633,506	\$ -	\$ -
Investments with Fiscal Agent:				
Money Market Mutual Funds	118,845,123	118,845,123	-	-
Total Investments	<u>\$ 119,478,629</u>	<u>\$ 119,478,629</u>	<u>\$ -</u>	<u>\$ -</u>

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

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Disclosures Relating to Credit Risk**

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

**Concentration of Credit Risk**

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that 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 City that exceeded 5% in any one issuer, excluding the investments in money market mutual funds.

**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 year-end, the carrying amounts of the City's deposits were \$123,417,314. The bank balances were \$123,572,101, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2021, the City's deposits with financial institutions were either FDIC-insured or collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

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

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Local Agency Investment Fund (LAIF)**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the state of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not rated.

**Fair Value Measurement**

The City categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices of similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The fair value of the City's investments in the Local Agency Investment Fund and the money market mutual funds are not subject to the fair value hierarchy requirement.

<u>Investment Type</u>	<u>Minimum Required Rating</u>	<u>Credit Rating Moody's / S&amp;P</u>	<u>Fair Value as of June 30, 2020</u>
Investments:			
Local Agency Investment Fund	Not Rated	Not Rated	\$ 633,506
Investments with Fiscal Agent:			
Money Market Mutual Funds	Aaa / AAA	Aaa / AAA	<u>118,845,123</u>
Total Investments			<u>\$ 119,478,629</u>

**NOTE 3 INTERFUND TRANSACTIONS**

Interfund receivables and payables were as follows at June 30, 2021:

**Due to/from Other Funds**

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Electric Enterprise Fund	Water Enterprise Fund	<u>\$ 593,486</u>

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

**NOTE 3 INTERFUND TRANSACTIONS (CONTINUED)**

**Due to/from Other Funds (Continued)**

The interfund balances resulted from borrowing of cash for temporary purposes. All balances are expected to be reimbursed within the subsequent year.

**Advances to/from Other Funds**

Receivable Fund	Payable Fund	Amount
Electric Enterprise Fund	Gas Enterprise Fund	\$ 23,226,257
	Fiber Optics Enterprise Fund	3,967,698
Water Enterprise Fund	General Fund	2,117,993
Total		\$ 29,311,948

The advance between the Electric Enterprise Fund and the Gas and Fiber Optics Enterprise Funds do not accrue interest due to the nature of the City's operational relationship and capital projects funded by the Electric Enterprise Fund that benefit all City operations. On November 6, 2012, the City adopted Resolution No. 2012-215 extending the repayment term of the advance from 15 months to a period of over 10 years.

The advance between the Water Enterprise Fund and the General Fund does not accrue interest due to the nature of the City's operational relationship and capital projects funded by the Water Fund that benefit both. On November 6, 2012, the City adopted Resolution No. 2012-215 extending the repayment term of the advance from 15 months to a period of over 10 years.



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

**NOTE 4 CAPITAL ASSETS**

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

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 62,140,108	\$ 1,429,000	\$ -	\$ 63,569,108
Construction in Progress	1,226,404	170,807	(110,784)	1,286,427
Total Capital Assets, Not Being Depreciated	63,366,512	1,599,807	(110,784)	64,855,535
Capital Assets, Being Depreciated:				
Infrastructure	158,949,660	18,367	-	158,968,027
Building and Improvements	16,711,672	-	-	16,711,672
Improvements Other than Buildings	11,433,237	580,684	(33,672)	11,980,249
Machinery and Equipment	32,641,910	1,131,900	(13,494,263) *	20,279,547
Total Capital Assets, Being Depreciated	219,736,479	1,730,951	(13,527,935)	207,939,495
Less: Accumulated Depreciation for:				
Infrastructure	(71,567,687)	(3,567,204)	-	(75,134,891)
Building and Improvements	(8,821,597)	(394,249)	-	(9,215,846)
Improvements Other than Buildings	(5,946,979)	(322,589)	40,826	(6,228,742)
Machinery and Equipment	(24,748,337)	(716,100)	8,575,231	(16,889,206)
Total Accumulated Depreciation	(111,084,600)	(5,000,142)	8,616,057	(107,468,685)
Total Capital Assets, Being Depreciated, Net:				
Infrastructure	87,381,973	(3,548,837)	-	83,833,136
Building and Improvements	7,890,075	(394,249)	-	7,495,826
Improvements Other than Buildings	5,486,258	258,095	7,154	5,751,507
Machinery and Equipment	7,893,573	415,800	(4,919,032)	3,390,341
Total	108,651,879	(3,269,191)	(4,911,878)	100,470,810
Governmental Activities Capital Assets, Net				
	<u>\$ 172,018,391</u>	<u>\$ (1,669,384)</u>	<u>\$ (5,022,662)</u>	<u>\$ 165,326,345</u>

\* On October 1, 2020, the City transferred its fire department operations to Los Angeles County, California. As a result, \$13,433,110 of machinery and equipment related to the Vernon Fire Department was donated or sold during fiscal year 2021. See Note 10 for further information.

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 677,381
Public Safety	371,892
Public Works	3,950,869
Total Depreciation Expense - Governmental Functions	<u>\$ 5,000,142</u>

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

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

Capital asset activity of business-type activities for the fiscal year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
<b>Business-Type Activities:</b>				
<b>Capital Assets, Not Being Depreciated:</b>				
Electric Utility - Land	\$ 4,240,129	\$ -	\$ 8,953,465	\$ 13,193,594
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	(8,953,465)	45,324,750
Water Utility - Construction in Progress	3,668,700	1,633,512	(666,795)	4,635,417
Total Capital Assets, Not Being Depreciated	63,670,534	1,781,473	(666,795)	64,785,212
<b>Capital Assets, Being Depreciated</b>				
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
<b>Less: Accumulated Depreciation for:</b>				
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)	(7,220,094)	-	(101,227,123)
Electric Utility - General Plant	(5,670,594)	(405,195)	(73,132)	(6,148,921)
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)
<b>Total Capital Assets, Being Depreciated, Net:</b>				
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	7,351,904	-	157,224,056
Electric Utility - General Plant	3,587,654	(148,642)	-	3,439,012
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
<b>Business-Type Activities Capital Assets, Net</b>				
	<u>\$ 249,059,098</u>	<u>\$ 8,247,443</u>	<u>\$ (53,057)</u>	<u>\$ 257,253,484</u>

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

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

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

Electric Fund	\$ 8,178,971
Gas Fund	725,458
Water Fund	389,185
Fiber Optics Fund	<u>193,068</u>
Total Depreciation Expense - Business- Type Functions	<u>\$ 9,486,682</u>

**NOTE 5 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 Bond Indenture of Trust, 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 Bond Indenture of Trust, 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.

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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**\$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 Bond Indenture of Trust, 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.

**\$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 Bond Indenture of Trust, 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.

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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**\$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.

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

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2021
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					<u>271,900,951</u>
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><u>\$ 287,295,864</u></u>

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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**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.

**Business-Type Activities Debt Service Requirements**

As of June 30, 2021, annual debt service requirements of business-type activities to maturity are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Electric System Revenue Bonds 2008 Taxable Series A</u>	
	<u>Principal</u>	<u>Interest</u>
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>	<u>Electric System Revenue Bonds 2012 Taxable Series A</u>	
	<u>Principal</u>	<u>Interest</u>
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>

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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements (Continued)**

<u>Fiscal Year Ending June 30,</u>	Electric System Revenue Bonds 2012 Taxable Series B	
	<u>Principal</u>	<u>Interest</u>
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>

<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>

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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements (Continued)**

<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>

<u>Fiscal Year Ending June 30,</u>	Note Payable	
	<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:

	Balance			Amounts	
	<u>June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Due Within One Year</u>
Governmental Activities:					
Claims Payable (Note 6)	\$ 3,840,080	\$ 836,537	\$ (1,267,245)	\$ 3,409,372	\$ 1,294,266
Compensated Absences	4,857,829	114,653	(2,467,227) *	2,505,255	835,085
Capital Lease Obligation (Note 12)	1,983,809	-	(1,983,809)	-	-
Total	<u>\$ 10,681,718</u>	<u>\$ 951,190</u>	<u>\$ (5,718,281)</u>	<u>\$ 5,914,627</u>	<u>\$ 2,129,351</u>
Business-Type Activities:					
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)	-
Notes Payable - Direct Borrowing	738,720	761,280	(139,535)	1,360,465	139,535
Compensated Absences	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>

\* \$974,651 represents the cash-out portion of remaining leave hours after transferring the City's fire department to Los Angeles County. See Note 10 for further details.



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

**NOTE 5 LONG-TERM OBLIGATIONS (CONTINUED)**

**Expense Stabilization Fund**

The City 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. In the event of default under the Indenture shall have occurred and is continuing, the Trustee shall transfer all moneys in the 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 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.

**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.

**Line of Credit**

As at June 30, 2021, the City does not have a line of credit with a financial institution.

**NOTE 6 RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees, 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 our Risk Financing Program. 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 the Risk Financing Program 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 our Third Party Administrator for the City's workers' compensation program and they provide basic services for general liability claims and litigation.

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

**NOTE 6 RISK MANAGEMENT (CONTINUED)**

The insurance limits for the fiscal year 2021 are as follows (amounts in thousands):

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

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 City's financial position, results of operations or cash flows.

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

	2021	2020
Claims Payable, Beginning of Fiscal Year	\$ 3,840,080	\$ 3,214,775
Incurred Claims and Change in Estimates	836,537	1,309,962
Claims Payments	(1,267,245)	(684,657)
Claims Payable, End of Fiscal Year	<u>\$ 3,409,372</u>	<u>\$ 3,840,080</u>

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

**NOTE 7 PENSION PLANS**

The following is a summary of pension related items for the year ended June 30, 2021:

	Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
Miscellaneous	\$ 46,618,461	\$ 9,272,328	\$ (49,948)	\$ 8,691,162
Safety	88,682,300	19,581,945	(3,268,004)	3,903,316
Total	<u>\$ 135,300,761</u>	<u>\$ 28,854,273</u>	<u>\$ (3,317,952)</u>	<u>\$ 12,594,478</u>

**A. General Information About the Pension Plans**

On October 1, 2020, the City transferred its fire department operations to Los Angeles County, California. The City's full-time safety (police and fire personnel) employees were converted from the City's agent multiple-employer defined benefit pension plan to a cost-sharing defined benefit pension plan during the fiscal year ended June 30, 2021. See Note 10 for further information.

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 cost-sharing and agent multiple-employer defined benefit pension Safety and Miscellaneous Plans, respectively, 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. 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  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 7 PENSION PLAN (CONTINUED)**

**A. General Information About the Pension Plans (Continued)**

Benefits Provided (Continued)

The Plans' provisions and benefits in effect as of 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%	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	\$ -

Employees Covered

At June 30, 2021, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive Employees or Beneficiaries Currently Receiving Benefits	221	248
Inactive Employees Entitled to But Not Yet Receiving Benefits	211	148
Active Employees	154	42
Total	<u>586</u>	<u>438</u>

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

**NOTE 7 PENSION PLAN (CONTINUED)**

**A. General Information About the Pension Plans (Continued)**

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.

Contributions for the fiscal year ended June 30, 2021, included \$9,071,469 for the UAL and \$3,559,021 for the normal cost rate resulting in a total amount paid of \$12,630,490.

**B. Net Pension Liability**

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. 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.

Actuarial Assumptions

The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
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 lessor of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

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

**NOTE 7 PENSION PLAN (CONTINUED)**

**B. Net Pension Liability (Continued)**

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.

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:

<u>Asset Class (a)</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10 (b)</u>	<u>Real Return Years 11+ (c)</u>
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00	1.00%	2.62%
Inflation Assets	0.00	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	<u>100.00%</u>		

(a) In the CalPERS ACFR, 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.

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

**NOTE 7 PENSION PLAN (CONTINUED)**

**B. Net Pension Liability (Continued)**

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.

Subsequent Events

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

**C. Changes in the Net Pension Liability**

The changes in the Net Pension Liability for the Miscellaneous Plan over the measurement period follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>Miscellaneous Plan:</b>			
Balance at June 30, 2019 (Measurement Date)	\$ 175,949,364	\$ 133,986,834	\$ 41,962,530
Changes in the Year:			
Service Cost	2,905,980	-	2,905,980
Interest on the Total Pension Liability	12,502,379	-	12,502,379
Changes in Assumptions	-	-	-
Differences Between Expected and Actual Experience	1,316,307	-	1,316,307
Contribution - Employer	-	4,501,532	(4,501,532)
Contribution - Employee	-	1,271,580	(1,271,580)
Net Investment Income	-	6,484,512	(6,484,512)
Benefit Payments, Including Refunds of Employee Contributions	(7,720,453)	(7,720,453)	-
Administrative Expenses	-	(188,889)	188,889
Net Changes	<u>9,004,213</u>	<u>4,348,282</u>	<u>4,655,931</u>
Balance at June 30, 2020 (Measurement Date)	<u>\$ 184,953,577</u>	<u>\$ 138,335,116</u>	<u>\$ 46,618,461</u>

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

**NOTE 7 PENSION PLAN (CONTINUED)**

**C. Changes in the Net Pension Liability (Continued)**

The City reported a net pension liability for its proportionate share of the net pension liability of the safety plan as of June 30, 2021, in the amount of \$88,682,300.

The City's net pension liability for the safety plan is measured as the proportionate share of the net pension liability of the CalPERS cost sharing pool. The City's net pension liability of the Plan is measured as of June 30, 2020, and the total pension liability for the safety plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020, using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for the safety plan as of June 30, 2019 and 2020 measurement dates was as follows:

	<u>Safety</u>
Proportion - June 30, 2019	0.00000%
Proportion - June 30, 2020	<u>1.33110%</u>
Change - Increase (Decrease)	<u><u>1.33110%</u></u>

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

The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is a one percentage point lower or a one percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 73,079,036	\$ 133,481,479
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 46,618,461	\$ 88,682,300
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 24,971,929	\$ 51,920,851



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

**NOTE 7 PENSION PLAN (CONTINUED)**

**C. Changes in the Net Pension Liability (Continued)**

Pension Plan Fiduciary Net Position

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

**D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the measurement period ended June 30, 2020, the City recognized pension expense of \$8,691,162 related to the miscellaneous plan and \$3,903,316 related to the safety plan. At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$ 4,979,905	\$ -	\$ 7,650,585	\$ -	\$ 12,630,490	\$ -
Differences Between Expected and Actual Experience	2,667,104	-	6,876,885	-	9,543,989	-
Change in Assumptions	-	(49,948)	-	(295,403)	-	(345,351)
Net Differences Between Projected and Actual Earnings on Plan Investments	1,625,319	-	1,927,446	-	3,552,765	-
Change in Employer's Proportion and Differences Between the Employer's Contributions and the Employer's Proportionate Share of Contributions	-	-	3,127,029	(2,972,601)	3,127,029	(2,972,601)
<b>Total</b>	<b>\$ 9,272,328</b>	<b>\$ (49,948)</b>	<b>\$ 19,581,945</b>	<b>\$ (3,268,004)</b>	<b>\$ 28,854,273</b>	<b>\$ (3,317,952)</b>

The \$12,630,490 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 ended June 30, 2022. 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	\$ 1,486,131	\$ 2,096,792	\$ 3,582,923
2023	1,280,583	3,266,604	4,547,187
2024	875,442	2,272,431	3,147,873
2025	600,319	996,643	1,596,962
2026	-	30,887	30,887

**E. Payable to the Pension Plan**

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

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**A. General Information About the OPEB Plan**

Plan Description

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.

Benefits Provided

Generally, the City will provide a 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 fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65).

Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services have been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire 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, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association Memorandum of Understanding and the Vernon Police Officers' Benefit Association Memorandum of Understanding. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be non-vested right for employees who continue to be employed by the City on or after July 1, 2013, but will become 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 cost in accordance with GASB Statement No 75. The City may terminate its unvested OPEB in the future.

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**A. General Information About the OPEB Plan (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 year ended June 30, 2021, the City contributed \$1,931,700 to the trust, paid \$853,133 for retiree premiums, and the estimated implied subsidy was \$346,693, resulting in a total contribution of \$3,131,526.

Employees Covered by Benefit Terms

At June 30, 2021, the following employees were covered by the benefit terms:

<u>Category</u>	<u>Count</u>
Active Employees	208
Inactive Employees or Beneficiaries Currently Receiving Benefit Payments	115

**B. 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 below.

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.

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

Actuarial Assumptions (Continued)

The total OPEB liability in the June 30, 2019, actuarial valuation was rolled forward to the June 30, 2020, measurement date using standard actuarial techniques. 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

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100.00%	

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

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 in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2019 (Measurement Date)	\$ 26,186,840	\$ 4,268,189	\$ 21,918,651
Changes in the Year:			
Service Cost	565,922	-	565,922
Interest on the Total OPEB Liability	1,699,197	-	1,699,197
Differences Between Actual and Expected Experience	206,148	-	206,148
Changes in Assumptions	579,724	-	579,724
Changes of Benefit Terms	(800,265)	-	-
Investment Income	-	44,684	(44,684)
Contribution - Employer	-	3,915,406	(3,915,406)
Benefit Payments	(1,222,538)	(1,222,538)	-
Administrative Expenses	-	(2,563)	2,563
Net Changes	<u>1,028,188</u>	<u>2,734,989</u>	<u>(1,706,801)</u>
Balance at June 30, 2020 (Measurement Date)	<u>\$ 27,215,028</u>	<u>\$ 7,003,178</u>	<u>\$ 20,211,850</u>

Change of Assumptions

There were no changes of assumptions.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

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

The following presents the City's 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		
	One Percent Decrease (5.25%)	Current Rate (6.25%)	One Percent Increase (7.25%)
	Net OPEB liability	\$ 23,467,948	\$ 20,211,850

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

The following presents the City's net OPEB liability if it were calculated using a healthcare cost trend rates that are 1% point lower (5.7% decreasing to an ultimate rate of 3.8%) or 1% point higher (7.7% decreasing to an ultimate rate of 5.8 %) than the current rate:

	Healthcare Trend Rate		
	One Percent Decrease	Current Rate	One Percent Increase
	Net OPEB liability	\$ 19,135,252	\$ 20,211,850

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

For the year ended June 30, 2021, the City recognized OPEB expense(revenue) of \$(810,447). At June 30, 2021, the City 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	\$ 3,131,526	\$ -
Difference Between Expected and Actual Experience	172,464	(3,881,457)
Changes in Assumptions	484,998	(4,931,307)
Net Differences Between Projected and Actual Earnings on Investments	218,716	-
Total	\$ 4,007,704	\$ (8,812,764)

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

**NOTE 8 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

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

The \$3,131,526 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. 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	\$ (1,930,214)
2023	(1,930,624)
2024	(1,939,275)
2025	(1,925,483)
2026	(223,615)
Thereafter	12,624

Payable to the OPEB Plan

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

**NOTE 9 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  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 9 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, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 10 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	\$ 34,904,231
2023	27,146,619
Total	<u>\$ 62,050,850</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](http://www.scppa.org) or can be obtained by written request at 225 South Lake Avenue, Suite 1250, Pasadena, CA 91101.



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

**NOTE 9 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.

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:

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

**NOTE 9 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

**Southern California Public Power Authority (Continued)**

Power Purchase Commitments (Continued)

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. SCPA 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. SCPA 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.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**Sale of Generation and Transmission Assets**

The financial and operational effects of the 2008 sale of generation and transmission assets described in Note 9, Bicent Agreements, 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.

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

**NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Contract with Los Angeles County Fire Department**

The City contracted with the County of Los Angeles (“LA County”) for Fire services on May 20, 2020, setting forth the terms and conditions under which LA county will provide fire protection, paramedic, and incidental services in the City for the next ten years. The City is to pay LA County the annual fee on a monthly basis. During the initial five-year period, the annual fee limitation shall not exceed four percent per fiscal year, during the sixth year of the agreement the annual fee limitation shall be the average of the preceding four years’ percentage increases plus one percent. During the seventh year of the agreement and each subsequent fiscal year, the annual fee limitation shall be the average of the immediately preceding five years’ percentage increases in the Annual Fee plus one percent. Additionally, there are conversion costs that will be paid in thirty-six equal payments. The agreement shall remain in effect for a minimum of ten years, subsequently it will ne renewed for one-year periods. Either party may terminate this agreement any time after the expiration of the initial ten-year period term upon one year’s written notice.

The following was the contract cost for the fiscal year ending June 30, 2021 totaled \$10,869,276.

**NOTE 11 SUCCESSOR AGENCY DISCLOSURES**

The accompanying financial statements also include the Private-Purpose Trust Fund for the Successor Agency to the City’s former Redevelopment Agency (Successor Agency). The City, as the Successor Agency, serves in a fiduciary capacity, as the custodian for the assets and to wind down the affairs of the former Redevelopment Agency. Its assets are held in trust for the benefit of the taxing entities within the former Redevelopment Agency’s boundaries and as such, are not available for the use of the City.

Disclosures related to the certain assets and long-term liabilities of the Successor Agency are as follows:

**Capital Assets**

Effective February 1, 2012, due to AB 1X 26, Redevelopment Agencies throughout California has been dissolved. The activities of the dissolved Vernon Redevelopment Agency have been recorded in the Vernon Redevelopment Successor Agency fiduciary fund. In accordance with the Successor Agency’s long-range plan to wind down the affairs of the Successor Agency, all capital assets of the Successor Agency were either written-off or transferred over to the City restricted for government purpose use.

**Long-Term Liabilities**

The long-term liabilities of the Successor Agency at June 30, 2021, were as follows:

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due Within One Year
Bonds Payable	\$ 45,405,000	\$ -	\$ (3,105,000)	\$ 42,300,000	\$ 3,385,000
Bond Premium	281,211	-	(44,345)	236,866	-
Bond Discount	(483,015)	-	43,910	(439,105)	-
Total	<u>\$ 45,203,196</u>	<u>\$ -</u>	<u>\$ (3,105,435)</u>	<u>\$ 42,097,761</u>	<u>\$ 3,385,000</u>

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

**NOTE 11 SUCCESSOR AGENCY DISCLOSURES (CONTINUED)**

**\$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2005**

At June 30, 2021, \$32,535,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$48,130,831, payable through fiscal 2036. For the current year, debt service amounted to \$3,337,888. The bonds were issued to (i) finance various redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay costs of issuance of the Series 2005 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.25% to 5.25%.

**\$19,490,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2011**

At June 30, 2021, \$9,765,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$14,334,688, payable through fiscal 2031. For the current year, debt service amounted to \$2,323,225. The bonds were issued to (i) finance the acquisition of one or more parcels of land, and certain redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund a deposit to the reserve account sufficient to meet the reserve requirement, and (iii) pay costs of issuance of the Series 2011 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.00% to 9.25%.

The following schedule shows the debt service requirements to maturity for the bonds as of June 30, 2021:

<u>Fiscal Year Ending June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 3,385,000	\$ 2,344,225	\$ 5,729,225
2023	1,845,000	2,174,497	4,019,497
2024	2,015,000	2,053,091	4,068,091
2025	2,195,000	1,922,319	4,117,319
2026	2,385,000	1,781,719	4,166,719
2027 - 2031	15,260,000	7,876,794	23,136,794
2032 - 2036	15,215,000	2,012,875	17,227,875
Total	<u>\$ 42,300,000</u>	<u>\$ 20,165,519</u>	<u>\$ 62,465,519</u>

**NOTE 12 CAPITAL LEASE OBLIGATIONS**

On July 24, 2015, the City entered into a 10-year lease agreement to finance two Pierce PUC Triple Combo Pumpers for the fire department. Lease payments of \$158,059 are due annually. In addition, on August 9, 2017, the City entered into a 10-year lease agreement to finance a Pierce Aerial Mounted Apparatus for the fire department. Lease payments of \$165,146 are due annually.

On August 4, 2020, the City paid the termination value of the leases totaling \$1,780,160 in order to transfer the equipment to Los Angeles County Fire Department free and clear of any encumbrances.

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

**NOTE 13 SUBSEQUENT EVENT**

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**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 44,742,084	\$ 44,742,084	\$ 53,677,257	\$ 8,935,173
Special Assessments	1,205,000	1,205,000	1,524,362	319,362
Licenses and Permits	1,774,966	1,774,966	2,083,795	308,829
Fines, Forfeitures, and Penalties	189,288	189,288	136,899	(52,389)
Investment Income	86,700	86,700	70,480	(16,220)
Intergovernmental Revenues	1,518,931	1,518,931	1,364,950	(153,981)
Charges for Services	9,922,829	9,922,829	9,577,442	(345,387)
Other Revenues	1,421,211	1,421,211	1,132,285	(288,926)
Total Revenues	<u>60,861,009</u>	<u>60,861,009</u>	<u>69,567,470</u>	<u>8,706,461</u>
<b>EXPENDITURES</b>				
Current:				
General Government	15,106,014	15,503,015	15,129,409	373,606
Public Safety	29,417,913	29,454,213	34,754,653	(5,300,440)
Public Works	8,513,947	8,513,947	7,054,990	1,458,957
Health Services	1,490,775	1,490,775	1,357,199	133,576
Capital Outlay	6,332,360	7,464,865	3,312,390	4,152,475
Total Expenditures	<u>60,861,009</u>	<u>62,426,815</u>	<u>61,608,641</u>	<u>818,174</u>
Excess (Deficiency) of Revenues Over Expenditures	-	(1,565,806)	7,958,829	9,524,635
<b>OTHER FINANCING SOURCES</b>				
Gain on Sale of Assets	-	-	486,009	486,009
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>486,009</u>	<u>486,009</u>
<b>CHANGE IN FUND BALANCE</b>	-	(1,565,806)	8,444,838	10,010,644
Fund Balance (Deficit) - Beginning of Year	<u>8,522,417</u>	<u>8,522,417</u>	<u>8,522,417</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u><u>\$ 8,522,417</u></u>	<u><u>\$ 6,956,611</u></u>	<u><u>\$ 16,967,255</u></u>	<u><u>\$ 10,010,644</u></u>

See accompanying Note to Required Supplementary Information.

**CITY OF VERNON**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2021**

**NOTE 1 BUDGET**

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund.
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year.
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability.
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end.
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during the fiscal year 2019. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$10,010,644. The key reason for this variance was due to higher-than-expected taxes of \$8,935,173 and a favorable variance in actual expenditures than projected by \$818,174.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$8,919,741. There were several reasons for the variance, overall revenues came in higher than expected in most categories especially taxes and other revenues offset by a decrease in license and permits and intergovernmental revenues.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$818,174. The key reasons for this variance were due to higher appropriations than actual expenditures of \$4,152,475 in capital outlay, \$1,458,957 in public works, \$373,606 in general government, \$133,576 in health services, and \$(5,300,440) in public safety.

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount for other financing sources was \$272,729. The key reason for this variance was due to a gain on sale of assets of \$486,009.



**CITY OF VERNON**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
**AND RELATED RATIOS – MISCELLANEOUS PLAN**  
**LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Period	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
Total Pension Liability:				
Service Cost	\$ 2,905,980	\$ 2,991,388	\$ 2,826,440	\$ 2,432,788
Interest on Total Pension Liability	12,502,379	11,863,069	11,053,679	10,383,859
Changes of Assumptions	-	-	(549,432)	9,321,776
Differences Between Expected and Actual Experience	1,316,307	3,767,030	3,059,775	(711,339)
Benefit Payments, Including Refunds of Employee Contributions	(7,720,453)	(6,652,881)	(6,166,082)	(6,145,366)
Net Change in Total Pension Liability	9,004,213	11,968,606	10,224,380	15,281,718
Total Pension Liability - Beginning of Year	175,949,364	163,980,758	153,756,378	138,474,660
Total Pension Liability - End of Year (a)	<u>\$ 184,953,577</u>	<u>\$ 175,949,364</u>	<u>\$ 163,980,758</u>	<u>\$ 153,756,378</u>
Plan Fiduciary Net Position:				
Contributions - Employer	\$ 4,501,532	\$ 3,908,165	\$ 3,380,432	\$ 3,629,603
Contributions - Employee	1,271,580	1,357,537	1,214,616	1,245,990
Net Investment Income	6,484,512	8,077,977	9,803,260	11,857,647
Benefit Payments, Including Refunds of Employee Contributions	(7,720,453)	(6,652,881)	(6,166,082)	(6,145,366)
Plan to Plan Resource Movement	-	-	(296)	1,118
Administrative Expenses	(188,889)	(90,906)	(186,518)	(161,327)
Other Miscellaneous Income (1)	-	296	(354,202)	-
Net Change in Plan Fiduciary Net Position	4,348,282	6,600,188	7,691,210	10,427,665
Plan Fiduciary Net Position - Beginning of Year	133,986,834	127,386,646	119,695,436	109,267,771
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 138,335,116</u>	<u>\$ 133,986,834</u>	<u>\$ 127,386,646</u>	<u>\$ 119,695,436</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 46,618,461</u>	<u>\$ 41,962,530</u>	<u>\$ 36,594,112</u>	<u>\$ 34,060,942</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.79%	76.15%	77.68%	77.85%
Covered Employee Payroll	\$ 15,399,491	\$ 15,996,725	\$ 15,146,241	\$ 13,440,076
Net Pension Liability as Percentage of Covered - Employee Payroll	302.73%	262.32%	241.61%	253.43%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no 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:

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017

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

There were no changes in assumptions.

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

There were no changes in assumptions.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.

**CITY OF VERNON  
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS – MISCELLANEOUS PLAN (CONTINUED)  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:			
Service Cost	\$ 2,129,659	\$ 1,962,270	\$ 1,955,694
Interest on Total Pension Liability	9,969,103	9,447,012	9,609,274
Changes of Assumptions	-	(2,466,126)	-
Differences Between Expected and Actual Experience	1,046,363	(9,700,904)	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(5,748,657)</u>	<u>(5,680,624)</u>	<u>(2,388,449)</u>
Net Change in Total Pension Liability	7,396,468	(6,438,372)	9,176,519
Total Pension Liability - Beginning of Year	<u>131,078,192</u>	<u>137,516,564</u>	<u>128,340,045</u>
Total Pension Liability - End of Year (a)	<u>\$ 138,474,660</u>	<u>\$ 131,078,192</u>	<u>\$ 137,516,564</u>
Plan Fiduciary Net Position:			
Contributions - Employer	\$ 3,140,644	\$ 2,340,002	\$ 1,825,732
Contributions - Employee	1,095,824	1,054,426	1,015,741
Net Investment Income	583,692	2,337,855	16,045,243
Benefit Payments, Including Refunds of Employee Contributions	(5,748,657)	(5,680,624)	(2,388,449)
Plan to Plan Resource Movement	(780)	18	-
Administrative Expenses	(67,200)	(124,052)	-
Other Miscellaneous Income (1)	-	-	-
Net Change in Plan Fiduciary Net Position	(996,477)	(72,375)	16,498,267
Plan Fiduciary Net Position - Beginning of Year	<u>110,264,248</u>	<u>110,336,623</u>	<u>93,838,356</u>
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 109,267,771</u>	<u>\$ 110,264,248</u>	<u>\$ 110,336,623</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 29,206,889</u>	<u>\$ 20,813,944</u>	<u>\$ 27,179,941</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.91%	84.12%	80.24%
Covered Employee Payroll	\$ 13,150,103	\$ 11,708,057	\$ 11,084,188
Net Pension Liability as Percentage of Covered - Employee Payroll	222.10%	177.77%	245.21%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no 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:

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017

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

There were no changes in assumptions.

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

There were no changes in assumptions.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.

**CITY OF VERNON  
SCHEDULE OF PENSION CONTRIBUTIONS – MISCELLANEOUS PLAN  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Contractually Required Contribution (Actuarially Determined)	\$ 4,979,905	\$ 4,500,718	\$ 3,908,165	\$ 3,380,432
Contributions in Relation to the Actuarially Determined Contributions	<u>(4,979,905)</u>	<u>(4,500,718)</u>	<u>(3,908,165)</u>	<u>(3,380,432)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 15,355,968	\$ 15,399,491	\$ 15,996,725	\$ 15,146,241
Contributions as a Percentage of Covered Payroll	32.43%	29.23%	24.43%	22.32%
Notes to Schedule:				
Valuation Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015
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)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.625%	2.625%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)
Investment Rate of Return	7.25% (3)	7.25% (3)	7.375% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (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) 2.0% at 55, 2.7% at 55, 2% at 60, and 2.0% at 62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.

**CITY OF VERNON  
SCHEDULE OF PENSION CONTRIBUTIONS – MISCELLANEOUS PLAN (CONTINUED)  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually Required Contribution (Actuarially Determined)	\$ 3,629,603	\$ 3,140,644	\$ 2,340,002
Contributions in Relation to the Actuarially Determined Contributions	<u>(3,629,603)</u>	<u>(3,140,644)</u>	<u>(2,340,002)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 13,440,076	\$ 13,150,103	\$ 11,708,057
Contributions as a Percentage of Covered Payroll	27.01%	23.88%	19.99%
Notes to Schedule:			
Valuation Date	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:			
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	15 Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)
Investment Rate of Return	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)
Mortality	(5)	(5)	(5)

- (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) 2.0% at 55, 2.7% at 55, 2% at 60, and 2.0% at 62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.

**CITY OF VERNON  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – SAFETY PLAN  
 LAST TEN FISCAL YEARS \***

<u>Fiscal Year Ended</u>	<u>Safety 2021</u>
Measurement Period	June 30, 2020
Plan's Proportion of the Net Pension Liability	1.331100%
Plan's Proportionate Share of the Net Pension Liability	\$ 88,682,300
Plan's Covered Payroll	\$ 11,770,766
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	753.41%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	69.13%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 10,280,295

Notes to Schedule:

\*Fiscal year 2021 was the first year the City's Safety Plan was converted from an Agent Multiple Plan to a Cost Sharing Plan therefore only one year is shown.

**CITY OF VERNON**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY**  
**AND RELATED RATIOS – SAFETY PLAN**  
**LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability:						
Service Cost	\$ 4,287,003	\$ 4,414,740	\$ 4,144,398	\$ 3,454,025	\$ 3,388,157	\$ 3,448,760
Interest on Total Pension Liability	18,414,262	17,691,261	16,898,830	16,325,879	15,777,736	15,255,372
Changes of Benefit Terms	-	-	-	-	-	-
Changes of Assumptions	-	(1,533,898)	14,134,794	-	(3,878,396)	-
Differences Between Expected and Actual Experience	(364,199)	2,008,618	(1,380,683)	(2,430,394)	(2,400,883)	-
Benefit Payments, Including Refunds of Employee Contributions	(12,139,668)	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Net Change in Total Pension Liability	10,197,398	11,588,305	23,649,440	7,613,208	3,416,556	9,065,009
Total Pension Liability - Beginning of Year	261,832,661	250,244,356	226,594,916	218,981,708	215,565,152	206,500,143
Total Pension Liability - End of Year (a)	<u>\$ 272,030,059</u>	<u>\$ 261,832,661</u>	<u>\$ 250,244,356</u>	<u>\$ 226,594,916</u>	<u>\$ 218,981,708</u>	<u>\$ 215,565,152</u>
Plan Fiduciary Net Position:						
Contributions - Employer	\$ 7,011,540	\$ 6,109,373	\$ 5,476,196	\$ 5,116,412	\$ 4,147,441	\$ 3,234,539
Contributions - Employee	1,239,891	1,302,308	1,212,646	1,222,561	1,167,329	1,092,012
Net Investment Income	12,275,401	14,666,919	17,760,401	760,559	3,525,241	24,855,525
Benefit Payments, Including Refunds of Employee Contributions	(12,139,668)	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Plan to Plan Resource Movement	-	(431)	(1,118)	780	24	-
Administrative Expenses	(131,969)	(272,124)	(237,068)	(99,525)	(191,323)	-
Other Miscellaneous Income (1)	431	(516,768)	-	-	-	-
Net Change in Plan Fiduciary Net Position	8,255,626	10,296,861	14,063,158	(2,735,515)	(821,346)	19,542,953
Plan Fiduciary Net Position - Beginning of Year	184,928,220	174,631,359	160,568,201	163,303,716	164,125,062	144,582,109
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 193,183,846</u>	<u>\$ 184,928,220</u>	<u>\$ 174,631,359</u>	<u>\$ 160,568,201</u>	<u>\$ 163,303,716</u>	<u>\$ 164,125,062</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 78,846,213</u>	<u>\$ 76,904,441</u>	<u>\$ 75,612,997</u>	<u>\$ 66,026,715</u>	<u>\$ 55,677,992</u>	<u>\$ 51,440,090</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.02%	70.63%	69.78%	70.86%	74.57%	76.14%
Covered - Employee Payroll	\$ 13,737,311	\$ 14,292,273	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785	\$ 12,510,920
Net Pension Liability as Percentage of Covered - Employee Payroll	573.96%	538.08%	544.77%	509.00%	437.01%	411.16%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no 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:

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017

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

There were no changes in assumptions.

\* Fiscal year 2015 was the first year of implementation. Additionally, fiscal year 2021 was the first year the City's Safety Plan was converted from an Agent

**CITY OF VERNON  
SCHEDULE OF PENSION CONTRIBUTIONS – SAFETY PLAN  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Contractually Required Contribution (Actuarially Determined)	\$ 7,650,585	\$ 7,834,050	\$ 7,011,540	\$ 6,109,373
Contributions in Relation to the Actuarially Determined Contributions	<u>(7,650,585)</u>	<u>(7,834,050)</u>	<u>(7,011,540)</u>	<u>(6,109,373)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 7,618,673	\$ 11,770,766	\$ 13,737,311	\$ 14,292,273
Contributions as a Percentage of Covered Payroll	100.42%	66.56%	51.04%	42.75%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2017	6/30/2016	6/30/2015
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)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.625%	2.625%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)
Investment Rate of Return	7.25% (3)	7.25% (3)	7.375% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)

- (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) 3.0% at 50, 3.0% at 55, and 2.7% at 57
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.

**CITY OF VERNON  
SCHEDULE OF PENSION CONTRIBUTIONS – SAFETY PLAN (CONTINUED)  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2017	June 30, 2016	June 30, 2015
Contractually Required Contribution (Actuarially Determined)	\$ 5,476,196	\$ 5,116,412	\$ 4,147,441
Contributions in Relation to the Actuarially Determined Contributions	<u>(5,476,196)</u>	<u>(5,116,412)</u>	<u>(4,147,441)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785
Contributions as a Percentage of Covered Payroll	39.45%	39.44%	32.55%

Notes to Schedule:

Valuation Date	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:			
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	15 Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)
Investment Rate of Return	7.50% (3)	7.50% (3)	7.50% (3)
Retirement Age	(4)	(4)	(4)
Mortality	(5)	(5)	(5)

- (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) 3.0% at 50, 3.0% at 55, and 2.7% at 57
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the first year of implementation and therefore only seven years are shown.



**CITY OF VERNON**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**LAST TEN FISCAL YEARS \***

Fiscal Year End	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB Liability:</b>				
Service Cost	\$ 565,922	\$ 549,137	\$ 1,204,747	\$ 1,166,825
Interest on Total OPEB Liability	1,699,197	1,641,230	2,063,052	1,879,025
Differences Between Expected and Actual Experience	206,148	-	(6,680,583)	-
Assumption Changes	579,724	(124,861)	(7,657,196)	(770,716)
Change of Benefit Terms	(800,265)	-	-	-
Benefit Payments	(1,222,538)	(1,158,450)	(1,006,087)	(838,818)
Net Change in Total OPEB Liability	1,028,188	907,056	(12,076,067)	1,436,316
Total OPEB Liability - Beginning of Year	26,186,840	25,279,784	37,355,851	35,919,535
Total OPEB Liability - End of Year (a)	<u>\$ 27,215,028</u>	<u>\$ 26,186,840</u>	<u>\$ 25,279,784</u>	<u>\$ 37,355,851</u>
<b>Plan Fiduciary Net Position:</b>				
Contributions - Employer	\$ 3,915,406	\$ 2,989,393	\$ 2,065,407	\$ 1,898,138
Net Investment Income	44,684	258,220	65,276	(2,049)
Benefit Payments and the Implied Subsidy Benefit Payments	(1,222,538)	(1,158,450)	(1,006,087)	(838,818)
Administrative Expenses	(2,563)	(629)	(808)	(4)
Other Deductions	-	-	(1,400)	-
Net Change in Plan Fiduciary Net Position	2,734,989	2,088,534	1,122,388	1,057,267
Plan Fiduciary Net Position - Beginning of Year	4,268,189	2,179,655	1,057,267	-
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 7,003,178</u>	<u>\$ 4,268,189</u>	<u>\$ 2,179,655</u>	<u>\$ 1,057,267</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 20,211,850</u>	<u>\$ 21,918,651</u>	<u>\$ 23,100,129</u>	<u>\$ 36,298,584</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	25.73%	16.30%	8.62%	2.83%
Covered - Employee Payroll	\$ 31,958,957	\$ 35,182,647	\$ 33,496,565	\$ 33,511,114
Net OPEB Liability as Percentage of Covered - Employee Payroll	85.16%	74.43%	75.47%	111.47%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

Fiscal year end June 30, 2018 is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for comparison.

Fiscal year end June 30, 2019: Discount rate for the implicit subsidy liability was changed from 3.56% to 6.5% based on updated expectations of long-term returns on trust assets and updated valuation methods.

Fiscal year end June 30, 2020: Medical trend rates were updated to exclude Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

Fiscal year end June 30, 2021: Discount rate for the implicit subsidy liability was changed from 6.5% to 6.25% based on updated expectations of long-term returns on trust assets and updated valuation methods. Inflation rate changed from 2.50% to 2.25%.

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

**CITY OF VERNON  
SCHEDULE OF OPEB CONTRIBUTIONS  
LAST TEN FISCAL YEARS \***

Fiscal Year Ended	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Actuarially Determined Contribution	\$ 1,538,693	\$ 1,931,700	\$ 2,692,868	\$ 2,692,868
Contributions in Relation to the Actuarially Determined Contributions	<u>(3,131,526)</u>	<u>(3,915,406)</u>	<u>(2,989,393)</u>	<u>(2,065,407)</u>
Contribution Deficiency (Excess)	<u>\$ (1,592,833)</u>	<u>\$ (1,983,706)</u>	<u>\$ (296,525)</u>	<u>\$ 627,461</u>
Covered - Employee Payroll	\$ 31,702,877	\$ 31,958,957	\$ 35,182,647	\$ 33,496,565
Contributions as a Percentage of Covered - Employee Payroll	9.88%	12.25%	8.50%	6.17%

Notes to Schedule:

Valuation Date	6/30/2019	6/30/2018	6/30/2018	6/30/2017
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	27 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	(4)	(3)	(3)	(2)
Investment Rate of Return	6.25%	6.50%	7.00%	7.00%
Mortality	(6)	(6)	(6)	(5)

- (1) Level percentage of payroll, closed.
- (2) 8.50% trending down to 5.00%.
- (3) 6.90% trending down to 4.00%.
- (4) 6.70% trending down to 3.8%.
- (5) CalPERS December 2014 experience study
- (6) CalPERS December 2017 experience study

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

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