

**CITY OF VERNON
WATER FUND
(AN ENTERPRISE FUND OF THE
CITY OF VERNON)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022



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**CITY OF VERNON
WATER FUND
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2022**

INTRODUCTORY SECTION

A MESSAGE FROM THE GENERAL MANAGER OF VERNON PUBLIC UTILITIES	i
--	----------

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	1
-------------------------------------	----------

MANAGEMENTS' DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED)	4
--	----------

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	9
----------------------------------	----------

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	11
---	-----------

STATEMENT OF CASH FLOWS	12
--------------------------------	-----------

NOTES TO BASIC FINANCIAL STATEMENTS	13
--	-----------

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – CITY'S MISCELLANEOUS AND SAFETY COST SHARING PLAN	37
---	-----------

SCHEDULE OF PLAN CONTRIBUTIONS – CITY'S MISCELLANEOUS AND SAFETY COST SHARING PLAN	38
---	-----------

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	39
--	-----------

SCHEDULE OF OPEB CONTRIBUTIONS	40
---------------------------------------	-----------

INTRODUCTORY SECTION

Message from the General Manager

As an essential resource to all customers, our job is to provide dependable, high-quality electric, water, natural gas, and fiber optic services at cost-effective rates with the highest standards for reliability. We ensure that electricity will stay on when needed, customers have safe, clean drinking water, there is a reliable supply of natural gas to meet demand, and our fiber services offer competitive rates and the latest technology. Our mission focuses on reliably providing the lowest electric rates in California by 2030.

As a municipally owned utility, every customer is a stakeholder in Vernon Public Utilities (VPU). VPU enjoys the continued support of the City Council, which has approved key strategic initiatives for sustained success. These initiatives include Renewable Energy Projects, such as the Daggett Solar Project (operational in September 2023) and the Sapphire Solar and Storage Facility Project (operational in December 2025). With Council support, along with City Administration, VPU remains focused on providing our customers with reliable services and competitive rates.



Despite the recent supply chain issues and higher costs for energy, materials, and supplies, which are critical to our operations, VPU is committed to maintaining a strong financial and operational position for the future. Our strategy focuses on the following initiatives for financial and operational flexibility:

1. Electric load growth with a diversified customer base which includes green commerce.
2. A diversified Energy Resource portfolio, which includes meeting California's Renewable Portfolio Standard Targets as outlined in SB100. Specifically, (i) 2027 - 52%, (ii) 2030 - 60%, and (iii) 2045 - 100% Carbon Neutral. VPU is in the process of updating its Integrated Resource Plan, which focuses on providing direction for reliability, affordability, and meeting renewable energy requirements.
3. Optimizing the operating profile for the Malburg Generating Station (MGS) for operational savings and continued coordination with the CAISO to prevent statewide rolling blackouts and requests to run MGS when energy is needed most across the electric grid.
4. Continued strategic capital investment in electric, water, natural gas, and fiber optic infrastructure to support high-quality and reliable services. VPU continues to be one of the most reliable electric systems compared to other utilities. VPU is a three-time recipient of the RP3 Diamond Level Award, the highest reliability award from APPA, which reflects our continued investment in utility infrastructure and commitment to safety and workforce development.
5. A focus on the utility's financial strength, including improving key financial metrics used by the rating agencies such as Moody's and S&P Global Ratings, including the implementation of a Utility Financial Reserves Policy, and keeping rates competitive to ensure businesses can grow in Vernon.

As we enter 2023, I am optimistic about the future. VPU is focused on providing reliable and competitive electric, water, natural gas, and fiber optic services. In that pursuit, we will excel today and in the future.

Sincerely,



Todd Dusenberry
General Manager

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Water Fund of the City of Vernon, (Water Fund), an enterprise fund of the City of Vernon, California (City), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Water Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City's Water and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the City's Water Fund and do not purport to, and do not, present fairly the financial position of the City of Vernon, California as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Water Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

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

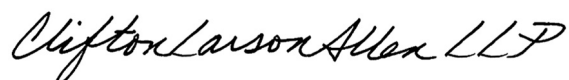
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2023, on our consideration of the Water Fund's internal control over the financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water Fund'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 Water Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
August 8, 2023

**CITY OF VERNON
WATER FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

The management of the Water Fund of the City of Vernon ("the City") offers the following overview and analysis of the basic financial statements of the Water Fund for the fiscal year ended June 30, 2022. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

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

**CITY OF VERNON
WATER FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

FINANCIAL HIGHLIGHTS

Fund Net Position

The table below summarizes the Water Fund's net position as of the current fiscal year ended June 30, 2022 and prior fiscal year ended June 30, 2021. The details of the current year's summary can be found on pages 9 and 10 of this report.

City of Vernon
Water Fund
Fund Net Position
June 30, 2022 and 2021

	2022	2021	Change	
			Amount	%
Assets:				
Current and other assets	\$ 19,535,358	\$ 16,255,449	\$ 3,279,909	20%
Restricted assets	7,358,059	11,340,139	(3,982,080)	-35%
Advances to other City funds	202,798	2,117,993	(1,915,195)	-90%
Capital assets	16,268,011	13,144,655	3,123,356	24%
Total assets	43,364,226	42,858,236	505,990	1%
Deferred Outflows of Resources	1,031,044	1,133,771	(102,727)	-9%
Liabilities:				
Current liabilities	2,180,835	2,844,057	(663,222)	-23%
Long term liabilities	19,398,653	21,809,977	(2,411,324)	-11%
Total liabilities	21,579,488	24,654,034	(3,074,546)	-13%
Deferred Inflows of Resources	2,062,003	418,522	1,643,481	393%
Net Position:				
Net investment in Capital Assets	6,869,387	7,303,813	(434,426)	-6%
Unrestricted (deficit)	13,884,392	11,615,638	2,268,754	20%
Total net position	\$ 20,753,779	\$ 18,919,451	\$ 1,834,328	10%

The assets and deferred outflows of resources of the Water Fund exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$20,753,779 (*net position*).

The category of the Water Fund's net position with the largest balance totaling \$13,884,392 represents the unrestricted net position that is expected to be used for future projects or other purposes.

The remaining category of net position, totaling \$6,869,387, represents resources that are invested in capital assets, net of related debt.

**CITY OF VERNON
WATER FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Fund Net Position (Continued):

- Current assets increased by \$3.2 million from the prior year due to increases in cash by \$2.8 million, accounts receivable by \$164 thousand, and accrued unbilled revenue by \$254 thousand.
- Restricted assets decreased by \$3.9 million in 2022 as we drew down on the Water System Revenue Bonds 2020 Taxable Series A to fund capital projects.
- Capital assets increased \$3.1 million from the prior year due to additional water plant construction totaling \$3.1 million, net of depreciation of \$410 thousand (See Note 5).
- Current liabilities decreased by \$663 thousand from the prior year primarily due to decreases accrued wages and benefits by \$68 thousand and in the amount due to other city funds balance by \$593 thousand.
- Long-term liabilities decreased by \$2.4 million from the prior year due to decreases in bonds payable by \$269 thousand, in the note payable by \$140 thousand, and net other postemployment benefit liability of \$168 thousand, and net pension liability of \$1.8 million.
- The net investments in capital assets, net of related debt decreased by \$434 thousand while the unrestricted net position increased by \$2.3 million causing an increase in the total net position of \$1.8 million.

**CITY OF VERNON
WATER FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

Changes in Fund Net Position

The table below summarizes the Water Fund's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 11 of this report.

City of Vernon
Water Fund
Changes in Fund Net Position
June 30, 2022 and 2021

	2022	2021	Change	
			Amount	%
Operating Revenues:				
Charges for services	\$ 10,845,652	\$ 10,741,694	\$ 103,958	1%
Operating Expenses:				
Cost of sales	7,743,964	8,413,559	(669,595)	-8%
Depreciation	500,102	389,185	110,917	29%
Total operating expenses	8,244,066	8,802,744	(558,678)	-6%
Operating income	2,601,586	1,938,950	662,636	34%
Nonoperating revenues (expenses):				
Intergovernmental	194,487	-	-	-
Investment income	11,991	6,660	5,331	80%
Interest expense	(563,865)	(574,178)	10,313	2%
Loss on disposition of assets	(409,841)	-	(409,841)	-
Net nonoperating revenue (expenses)	(767,258)	(567,518)	(199,740)	35%
Charge in net position	1,834,328	1,371,432	462,896	34%
Net position - beginning of year	18,919,451	17,548,019	1,371,432	8%
Net position - end of year	\$ 20,753,779	\$ 18,919,451	\$ 1,834,328	10%

The Water Fund's FY 2021-22 operating income of \$2.6 million offset by net non-operating revenues (expenses) of \$(767) thousand resulted in a net position of \$1.8 million. The key reasons for this change are due to a water rate adjustment effective January 2022, management and control of operating expenses, and higher net non-operating revenues(expenses) by \$200 thousand.

**CITY OF VERNON
WATER FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022**

CAPITAL ASSETS

The Water Fund's investment in capital assets as of June 30, 2022 amounted to \$16.3 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, and utility system improvements.

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

OUTSTANDING DEBT

As of June 30, 2022, the following debt remains outstanding:

- \$14,600,000 City of Vernon Water System Revenue Bonds, 2020 Taxable Series A
- \$1,220,930 City of Vernon agreement with Water Replenishment District of Southern California

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, 2022, the rating on the Water System Revenue Bonds is A-/Stable by S&P.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the Water Fund's FY 2022-23 operating and capital budgets.

- VPU is committed to providing dependable, high-quality electric, water, natural gas, and fiber services at the lowest competitive rates and the highest standards for reliability.
- VPU continues to respond to inflation and supply chain issues, including higher chemical and construction costs, to maintain infrastructure investment to continue to provide exceptionally reliable service.
- Continue to implement the multi-year water rate adjustment plan approved by City Council as well as manage and control operating expenses.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Water Fund's FY 2021-22 results. Questions concerning the fund's financial or operating results can be addressed to Scott Williams, Director of Finance, swilliams@cityofvernon.org, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

**CITY OF VERNON
WATER FUND
STATEMENT OF NET POSITION
JUNE 30, 2022**

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 17,015,777
Accounts Receivable, Net of Allowance of \$53,364	1,141,938
Accrued Unbilled Revenue	1,373,195
Accrued Interest Receivable	4,448
Total Current Assets	19,535,358

Noncurrent Assets:

Restricted Cash and Cash Equivalents	7,358,059
Advances to Other City Funds	202,798

Capital Assets:

Nondepreciable	7,381,939
Depreciable, Net	8,886,072
Total Noncurrent Assets	23,828,868

Total Assets	43,364,226
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	917,279
Deferred Outflows Related to OPEB Liability	113,765
Total Deferred Outflows of Resources	1,031,044

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
WATER FUND
STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2022**

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,415,262
Accrued Wages and Benefits	44,295
Customer Deposits	61,184
Bond Interest Payable	242,490
Bonds Payable	250,000
Note Payable	139,535
Compensated Absences	28,069
Total Current Liabilities	2,180,835

Noncurrent Liabilities:

Bonds Payable	14,885,833
Note Payable	1,081,395
Compensated Absences	56,139
Net Other Postemployment Benefit Liability	529,343
Net Pension Liability	2,845,943
Total Noncurrent Liabilities	19,398,653

Total Liabilities	21,579,488
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DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	1,790,896
Deferred Inflows Related to OPEB Liability	271,107
Total Deferred Inflows of Resources	2,062,003

NET POSITION

Net Investment in Capital Assets	6,869,387
Unrestricted	13,884,392
Total Net Position	\$ 20,753,779

**CITY OF VERNON
WATER FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022**

OPERATING REVENUES	
Charges for Services	\$ 10,845,652
Total Operating Revenue	<u>10,845,652</u>
OPERATING EXPENSES	
Cost of Sales	7,743,964
Depreciation	500,102
Total Operating Expenses	<u>8,244,066</u>
OPERATING INCOME	2,601,586
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental	194,487
Investment Income	11,991
Interest Expense	(563,895)
Loss on Disposition of Assets	(409,841)
Total Nonoperating Revenues (Expenses)	<u>(767,258)</u>
CHANGE IN NET POSITION	1,834,328
Net Position - Beginning Of Year	<u>18,919,451</u>
NET POSITION - END OF YEAR	<u><u>\$ 20,753,779</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
WATER FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 10,427,677
Cash Paid to Suppliers for Goods and Services	(6,851,398)
Cash Paid to Employees for Services	(1,818,089)
Net Cash Provided by Operating Activities	<u>1,758,190</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment of Bond Payable	(240,000)
Bond Interest Paid	(587,975)
Payment of Note Payable	(139,535)
Net Acquisition of Capital Assets	(4,033,299)
Net Cash Used by Capital and Related Financing Activities	<u>(5,000,809)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grant Revenue Received	194,487
Payment from (Provided to) Other City Funds	1,915,195
Net Cash Provided by Noncapital Financing Activities	<u>2,109,682</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	7,583
Net Cash Provided by Investing Activities	<u>7,583</u>
CHANGE IN CASH AND CASH EQUIVALENTS	
	(1,125,354)
Cash and Cash Equivalents - Beginning of Year	<u>25,499,190</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 24,373,836</u></u>
COMPOSITION OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	\$ 17,015,777
Restricted Cash and Investments	7,358,059
Total	<u><u>\$ 24,373,836</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income	\$ 2,601,586
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	500,102
Change in Operating Assets and Liabilities:	
Accounts Receivable	(164,414)
Accrued Unbilled Revenue	(254,361)
Deferred Outflows of Resources	102,727
Accounts Payable	(1,292)
Accrued Wages and Benefits	(67,916)
Due to Other Funds	(593,486)
Customer Deposits	800
Compensated Absences	(18,983)
Other Postemployment Benefit Liability	(167,986)
Net Pension Liability	(1,822,068)
Deferred Inflows of Resources	1,643,481
Net Cash Provided by Operating Activities	<u><u>\$ 1,758,190</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements of the Water Fund have been prepared in conformity with the 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 Water Fund's significant accounting policies are described below.

A. Basis of Presentation

The Water Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

B. Pooled Cash

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash Deposits and Investments

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

D. Receivables/Payables

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

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible accounts were \$53,364 as of June 30, 2022. The Water Fund’s customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying financial statements.

E. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if the actual historical cost is not available. Contributed capital assets are recorded at their estimated acquisition value at the date contributed. Capital assets include land, construction in progress, and plant assets including building, improvements, and machinery and equipment. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives.

The estimated useful lives are as follows:

Utility Plant	3 to 50 Years
---------------	---------------

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Compensated Absences

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

G. Deferred Outflows and Inflows of Resources

The Water Fund recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the Water Fund that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the Water Fund that is applicable to a future reporting period. On June 30, 2022, the Water Fund has deferred outflows of resources representing deferred amounts on pension-related transactions and postemployment benefit-related transactions and deferred inflows of resources representing pension-related transactions and postemployment benefit-related transactions.

H. Long-Term Obligations

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

I. Net Position

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

- **Net Investment in Capital Assets** – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of liabilities that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- **Restricted Net Position** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Water Fund does not have any restricted net position.
- **Unrestricted Net Invested in Capital Assets or Position** – This category represents the net position of the Water Fund not restricted for any project or other purposes.

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Use of Estimates

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

K. Pensions

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

L. Other 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 CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2022, are classified in the accompanying statement of net position as follows:

Cash and Cash Equivalents	\$ 17,015,777
Restricted Cash and Cash Equivalents	7,358,059
Total Cash and Cash Equivalents	<u>\$ 24,373,836</u>

Cash and cash equivalents as of June 30, 2022 consist of the following:

Equity in the City's Pooled Cash	\$ 10,972,364
Deposits with Financial Institutions	6,043,413
Money Market Mutual Funds	7,358,059
Total Cash and Cash Equivalents	<u>\$ 24,373,836</u>

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Equity in the Cash Pool of the City of Vernon

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

The City's Investment Policy

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

This Investment Policy requires that the investments be made with the prudent person standard, that is, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the trustee (Treasurer and staff) will act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of the City.

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

- A. Credit Risk
- B. Custodial Credit Risk
- C. Concentration of Credit Risk
- D. Interest Rate Risk

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's Investment Policy. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investment of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer	Minimum Rating
U.S. Treasury Bonds	5 Years	None	None	None
State and Local Agency Bonds	5 Years	None	None	None
Securities of the U.S. Government, or its Agencies	5 Years	None	None	None
Certain Asset-Backed Securities	5 Years	20%	None	AA
Negotiable Certificates of Deposit	5 Years	30%	None	None
Bankers' Acceptances	180 Days	40%	30%	None
Commercial Paper	270 Days	25%	10%	P-1
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 Days	20%	None	None
Medium-Term Notes	5 Years	30%	None	A
Mutual Funds Investing in Eligible Securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 Years	20%	None	AA
State Administered Pool Investment	N/A	None	\$75 Million	None

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

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's Investment Policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or its Agencies	None	None	None	None
Certain Asset-Backed Securities	None	None	None	AA
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 Year	None	None	None
Commercial Paper	None	None	None	P-1
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	\$75 Million	None
Investment Contracts	None	None	None	None

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City has no specific limitations with respect to this metric. Information about the sensitivity of the fair values of the Water Fund's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in the following table that shows the distribution of the Water Fund's investments by maturity:

Investment Type	Fair Value as of 6/30/2022	Investment Maturities (in Months)		
		Less than 12 Months	13 to 24 Months	25 to 60 Months
Held by Trustee:				
Money Market Mutual Funds	\$ 7,358,059	\$ 7,358,059	\$ -	\$ -

Disclosures Relating to Credit Risk

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

Investment Type	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2022
Held by Trustee:			
Money Market Mutual Funds	Aaa / AAA	Aaa / AAA	\$ 7,358,059

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by the bond trustee that the trustee may invest in one issuer that is governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2022, there were no investments held by the Water Fund that exceeded 5% in any one issuer, excluding money market mutual funds.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. Under the California Government Code, a financial institution is required to secure deposits, in excess of the FDIC insurance amount of \$250,000, made by state or local governmental units by pledging government securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the City's name.

At June 30, 2022, all of the Water Fund's deposits were insured or collateralized as required by Section 53652 of the California Government Code.

Fair Value Measurement

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

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

The Water Fund's investments in money market mutual funds is not subject to categorization in the fair value hierarchy.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 ACCOUNTS RECEIVABLES

The Water Fund's accounts receivable at June 30, 2022, are as follows:

Accounts Receivable	\$ 1,195,302
Less: Allowance for Uncollectible Accounts	<u>(53,364)</u>
Total Receivables, Net	<u><u>\$ 1,141,938</u></u>

NOTE 4 INTRA-ENTITY TRANSACTIONS

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

Advances to Other City Funds

The following table summarizes the Water Fund's advances to the other City funds at June 30, 2022:

Advances to Other City Funds - July 1, 2021	\$ 2,117,993
Advance Repaid by City Funds During the Year	<u>(1,915,195)</u>
Advances to Other City Funds - June 30, 2022	<u><u>\$ 202,798</u></u>

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

The City's General Fund allocates certain administrative and overhead costs to the Water Fund which is included as part of the cost of sales. The allocated costs for the year ended June 30, 2022, were \$610,000.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 CAPITAL ASSETS

Capital asset activities of the Water Fund for the fiscal year ended June 30, 2022, were as follows:

	Balance June 30, 2021	Additions	Deletions	Transfers	Balance June 30, 2022
Capital Assets, Not Being Depreciated:					
Land	\$ 467,640	\$ -	\$ -	\$ -	\$ 467,640
Construction in Progress	4,635,417	2,366,637	-	(87,755)	6,914,299
Total Capital Assets, Not Being Depreciated	5,103,057	2,366,637	-	(87,755)	7,381,939
Capital Assets, Being Depreciated:					
Water Utility Plant	23,765,353	1,666,662	(1,789,499)	87,755	23,730,271
Total Capital Assets, Being Depreciated	23,765,353	1,666,662	(1,789,499)	87,755	23,730,271
Less Accumulated Depreciation for:					
Water Utility Plant	(15,723,755)	(500,102)	1,379,658	-	(14,844,199)
Total Accumulated Depreciation	(15,723,755)	(500,102)	1,379,658	-	(14,844,199)
Total Capital Assets, Being Depreciated, Net					
Water Utility Plant	8,041,598	1,166,560	(409,841)	87,755	8,886,072
Total	8,041,598	1,166,560	(409,841)	87,755	8,886,072
Total Capital Assets, Net	<u>\$ 13,144,655</u>	<u>\$ 3,533,197</u>	<u>\$ (409,841)</u>	<u>\$ -</u>	<u>\$ 16,268,011</u>

The Water Fund's total depreciation expense for the year was \$500,102.

NOTE 6 LONG-TERM OBLIGATIONS

As of June 30, 2022, outstanding debt obligations consisted of the following:

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

At June 30, 2022, \$14,600,000 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 \$25,040,038, payable through fiscal 2051. For the current year, debt service and net water revenues were \$827,975 and \$3,194,732, respectively. Under the Indenture of Trust dated May 6, 2020, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Water Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Water System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Water System of the City, (ii) purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund in satisfaction of the Reserve Requirement, and (iii) to pay costs of issuance of the 2020 Bonds.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

A summary of the bonds payable under the Water Fund is as follows:

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2022
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	\$ 14,600,000
Premium					535,833
Total Revenue Bonds					<u>\$ 15,135,833</u>

Note Payable – Direct Borrowing

In May 2019, the City entered into an agreement with Water Replenishment District of Southern California (WRD) for assistance with the construction of a new groundwater well or rehabilitation of an existing groundwater well. The promissory note is unsecured and has no interest basis for an amount not to exceed \$1,500,000. As of June 30, 2022, 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.

Debt Service Requirements

As of June 30, 2022, annual debt service requirements of the Water Fund to maturity are as follows:

Fiscal Year Ending June 30,	Water System Revenue Bonds 2020 Taxable Series A	
	Principal	Interest
2023	\$ 250,000	\$ 575,725
2024	265,000	562,850
2025	275,000	549,350
2026	-	542,475
2027	-	542,475
2028-2032	1,985,000	2,563,500
2033-2037	2,180,000	2,052,625
2038-2042	2,680,000	1,535,450
2043-2047	3,180,000	1,051,925
2048-2051	3,785,000	463,663
Total Requirements	<u>\$ 14,600,000</u>	<u>\$ 10,440,038</u>

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Debt Service Requirements (Continued)

<u>Fiscal Year Ending June 30,</u>	<u>Note Payable - Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 139,535	\$ -
2024	139,535	-
2025	139,535	-
2026	139,535	-
2027	139,535	-
2028-2031	523,256	-
Total Requirements	<u>\$ 1,220,930</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, 2022:

	<u>Balance</u>			<u>Amounts</u>	
	<u>June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due Within</u>
				<u>June 30, 2022</u>	<u>One Year</u>
Other Debt - Bonds Payable	\$ 14,840,000	\$ -	\$ (240,000)	\$ 14,600,000	\$ 250,000
Bond Premium	554,913	-	(19,080)	535,833	-
Note Payable - Direct Borrowing	1,360,465	-	(139,535)	1,220,930	139,535
Compensated Absences	103,191	79,892	(98,875)	84,208	28,069
Total	<u>\$ 16,858,569</u>	<u>\$ 79,892</u>	<u>\$ (497,490)</u>	<u>\$ 16,440,971</u>	<u>\$ 417,604</u>

Credit Ratings

As of June 30, 2022, the ratings on all Water System Revenue Bonds is A-/Stable by S&P and not rated by Moody's.

NOTE 7 RISK MANAGEMENT

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

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City utilizes insurance policy(s) to transfer these risks. Each policy has either self-insured retention or deductible, which are parts of the City's Risk Financing Program. These expenses are paid on a cash basis as they are incurred. There have been no significant settlements or reductions in insurance coverage during the past three fiscal years.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 RISK MANAGEMENT (CONTINUED)

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

The insurance limits for the fiscal year 2022 are as follows:

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

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 Water Fund's financial position, results of operations or cash flows. Further information regarding the City's self-insurance program may be found in the City's Annual Financial Report.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN

A. General Information About the Pension Plans

Plan Descriptions

All full-time safety 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. The City allocates the costs of these Plans across all City departments. The Water Fund's proportionate share of the net pension liability of these Plans is reported as a cost-sharing plan in the financial statements. Benefits vest after five years of service. Employees who retire at the minimum retirement age with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on a percentage of an employee's average compensation for his or her highest consecutive 12 or 36 months of compensation for each year of credited service.

Benefits Provided

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 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, 2021, 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	11.380%	11.380%
Payment of Unfunded Liability	\$ 3,924,540	\$ -

	Safety	
	Prior to January 1, 2013	On or After January 1, 2013
Hire Date		
Benefit Formula	3.0%@50	2.7%@57
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50	50
Monthly Benefits, as a % of Eligible Compensation	3.000%	2.0% to 2.7%
Required Employee Contribution Rates	9.000%	13.750%
Required Employer Contribution Rates:		
Normal Cost Rate	22.780%	22.780%
Payment of Unfunded Liability	\$ 7,063,113	\$ 15,563

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute to the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2022, the Water Fund's share of employer contributions made to the Plans was \$459,607.

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN (CONTINUED)

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

Actuarial Assumptions

The net pension liability of each of the Plans is measured as of June 30, 2021, using an annual actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2020	June 30, 2020
Measurement Date	June 30, 2021	June 30, 2021
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.500%	2.500%
Payroll Growth	2.750%	2.750%
Projected Salary Increase	(1)	(1)
Mortality Rate Table	(2)	(2)
Post-Retirement Benefit Increase	(3)	(3)

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

Long-Term Expected Rate of Return

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN (CONTINUED)

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

Long-Term Expected Rate of Return (Continued)

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

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

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00	1.00%	2.62%
Inflation Assets	0.00	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 CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Discount Rate

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN (CONTINUED)

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

Subsequent Events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 account valuation reports for the June 30, 2022 measurement date.

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

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

The Water Fund’s proportionate share of the combined net pension liability for the pension plans as of the measurement date ended June 30, 2020 and 2021 were as follows:

	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Proportionate Share
Balance at June 30, 2020 (MD)	\$ 17,762,255	\$ 13,094,244	\$ 4,668,011	3.45%
Balance at June 30, 2021 (MD)	20,712,814	17,866,870	2,845,943	3.23%
Net Changes during 2020-21	<u>\$ 2,950,559</u>	<u>\$ 4,772,626</u>	<u>\$ (1,822,067)</u>	<u>-0.22%</u>

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN (CONTINUED)

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

Pension Expense and Deferred Outflows and Inflows of Resources

For the measurement period ended June 30, 2021, the Water Fund recognized its proportionate share of the combined pension expense of the Plans, totaling \$67,423. At June 30, 2022, the Water Fund reported its proportionate share of the Plans' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 459,607	\$ -
Differences Between Actual and Expected Experience	394,025	-
Change in Assumptions	-	-
Net Differences Between Projected and Actual Earnings on Plan Investments	-	(1,610,826)
Differences Between Employer Contributions And Proportionate Share of Contributions	-	(163,253)
Change in Employer's Proportion	<u>63,647</u>	<u>(16,817)</u>
Total	<u>\$ 917,279</u>	<u>\$ (1,790,896)</u>

\$459,607 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Total</u>
2023	\$ (240,409)
2024	(274,651)
2025	(370,754)
2026	(447,410)
2027	-
Thereafter	-

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 PENSION PLAN (CONTINUED)

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

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

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

	<u>Total</u>
1% Decrease	6.15%
Net Pension Liability	\$ 5,011,809
Current Discount Rate	7.15%
Net Pension Liability	\$ 2,845,943
1% Increase	8.15%
Net Pension Liability	\$ 1,069,110

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2022, the Water Fund had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2022.

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Benefits Provided

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

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

Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a nonvested right for employees who continue to be employed by the City on or after July 1, 2013, but will be a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 75. The City may terminate its unvested OPEB in the future.

Funding Policy and Contributions

The City has established an irrevocable OPEB trust with assets dedicated to paying future retiree medical benefits. The City intends to contribute 100% or more of the actuarially determined contribution for the explicit subsidy liability only. The portion of the liability due to the implicit subsidy is not prefunded but is paid as benefits come due. For the fiscal year ended June 30, 2022, the Water Fund's proportionate share of contributions made was \$94,830 (\$49,746 contributed to the OPEB trust, \$29,288 paid for retiree premiums, and the estimated implied subsidy of \$15,796).

Net OPEB Liability

The City's net OPEB liability is measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown on the next page.

Actuarial Assumptions

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Actuarial Assumptions (Continued)

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:	6.3% for FY2022, 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, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
CERBT Strategy 1:		
Equity	59.00%	4.42%
Fixed Income	25.00	1.00%
TIPS	5.00	0.15%
Commodities	3.00	3.98%
REITs	8.00	1.73%
Total	<u>100.00%</u>	

Discount Rate

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

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Allocation of the Net OPEB Liability

The Water Fund's proportionate share of the net OPEB liability as of the measurement dates ended June 30, 2020 and 2021 was as follows:

	Increase (Decrease)			Proportionate Share
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)	
Balance at June 30, 2020 (MD)	\$ 938,946	\$ 241,617	\$ 697,329	3.45%
Balance at June 30, 2021 (MD)	885,514	356,171	529,343	3.23%
Net Changes during FY 2020-21	<u>\$ (53,432)</u>	<u>\$ 114,554</u>	<u>\$ (167,986)</u>	<u>-0.22%</u>

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

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

	Discount Rate		
	1% Decrease (5.25%)	Current Rate (6.25%)	1% Increase 7.25%)
Net OPEB Liability	\$ 628,426	\$ 529,343	\$ 446,130

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

The following presents the Water Fund's proportionate share of the net OPEB liability if it were calculated using a healthcare cost trend rates that are 1% point lower (5.3% decreasing to an ultimate rate of 2.8%) or 1% point higher (7.3% decreasing to an ultimate rate of 4.8%) than the current rate:

	Healthcare Trend Rate		
	1% Decrease	Current Rate	1% Increase
Net OPEB Liability	\$ 487,506	\$ 529,343	\$ 570,961

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

For the year ended June 30, 2022, the Water Fund recognized its proportionate share of the OPEB expense(revenue) of \$(27,257). At June 30, 2022, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**CITY OF VERNON
WATER FUND
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions Between Measurement Date and Reporting Date	\$ 94,830	\$ -
Difference Between Expected and Actual Liability	4,487	(114,095)
Changes of Assumptions	14,448	(121,225)
Net Differences Between Projected and Actual Earnings on Investments	-	(35,787)
Total	\$ 113,765	\$ (271,107)

The \$94,830 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, 2023. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ending June 30,	Deferred Outflows (Inflows) of Resources
2022	\$ (75,491)
2023	(75,491)
2024	(75,530)
2025	(72,853)
2026	50,007
Thereafter	(2,814)

Payable to the OPEB Plan

At June 30, 2022, the Water Fund had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

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

Fiscal Year Ended	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Measurement Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Plan's Proportion of the Net Pension Liability	3.23%	3.45%	3.28%	3.11%	3.74%	3.80%
Plan's Proportionate Share of the Net Pension Liability	\$ 2,845,943	\$ 4,668,011	\$ 3,964,339	\$ 3,533,209	\$ 4,100,788	\$ 3,619,851
Plan's Covered Payroll	792,625	891,592	925,620	1,100,727	1,038,438	499,838
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	359.05%	523.56%	428.29%	320.99%	394.90%	724.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.45%	74.79%	76.15%	77.68%	77.85%	78.91%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

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

There were no significant changes in assumptions.

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

There were no significant changes in assumptions.

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

The inflation rate was increased from 2.5% to 2.625%

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

From fiscal year June 30, 2021 to June 30, 2022:

The inflation rate was decreased from 2.625% to 2.5%

The payroll growth rate was reduced from 2.875% to 2.75%.

The investment rate of return was decreased from 7.15% to 7.00%.

* Fiscal year 2017 was the first year the City allocated a portion of the net pension liability to the Water Fund; therefore only six years are shown.

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

Fiscal Year Ended	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Actuarially Determined Contributions	\$ 459,607	\$ 435,752	\$ 404,765	\$ 339,930	\$ 354,831	\$ 346,113
Contributions in relation to the Actuarially Determined Contributions	<u>(459,607)</u>	<u>(435,752)</u>	<u>(404,765)</u>	<u>(339,930)</u>	<u>(354,831)</u>	<u>(346,113)</u>
Contribution : Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 819,206	\$ 792,625	\$ 891,592	\$ 925,620	\$ 1,100,727	\$ 1,038,438
Contributions as a Percentage of Covered Payroll	56.10%	54.98%	45.40%	36.72%	32.24%	33.33%

Notes to Schedule:

Valuation Date	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Methods and Assumptions Used to Determine Contribution Rates:						
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)	(1)	(1)
Asset Valuation Method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.625%	2.625%	2.625%	2.75%	2.75%	2.75%
Salary Increases	(2)	(2)	(2)	(2)	(2)	(2)
Investment Rate of Return	7.00% (3)	7.25% (3)	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)
Mortality	(4)	(4)	(4)	(4)	(4)	(4)

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

* Fiscal year 2017 was the first year the City allocated a portion of the net pension liability to the Water Fund; therefore only six years are shown.

**CITY OF VERNON
WATER FUND
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Measurement Date	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Plan's Proportion of the Net OPEB Liability	3.23%	3.45%	3.28%	3.11%	4.08%
Plan's Proportionate Share of the Net OPEB Liability	\$ 529,343	\$ 697,329	\$ 719,261	\$ 719,107	\$ 1,482,614
Plan's Covered-Employee Payroll	1,093,781	1,048,734	1,095,236	1,368,166	1,368,760
Plan's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll	48.40%	66.49%	65.67%	52.56%	108.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	40.22%	25.70%	16.30%	8.62%	2.83%

Notes to Schedule:

Changes in Assumptions:

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

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

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

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

* Fiscal year 2018 was the first year of implementation; therefore only five years are shown.

**CITY OF VERNON
WATER FUND
SCHEDULE OF OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS ***

Fiscal Year Ended	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018
Actuarially Determined Contribution	\$ 49,744	\$ 53,086	\$ 63,389	\$ 83,829	\$ 109,990
Contributions in relation to the Actuarially Determined Contribution	<u>(94,830)</u>	<u>(108,041)</u>	<u>(128,484)</u>	<u>(93,060)</u>	<u>(84,361)</u>
Contribution: Deficiency (Excess)	<u>\$ (45,086)</u>	<u>\$ (54,954)</u>	<u>\$ (65,095)</u>	<u>\$ (9,231)</u>	<u>\$ 25,629</u>
Covered Payroll	\$ 1,024,922	\$ 1,093,781	\$ 1,048,734	\$ 1,095,236	\$ 1,368,166
Contributions as a Percentage of Covered-Employee Payroll	9.25%	9.88%	12.25%	8.50%	6.17%

Notes to Schedule:

Valuation Date	6/30/2019	6/30/2018	6/30/2018	6/30/2016	6/30/2016
Methods and Assumptions Used to Determine Contribution Rates:					
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization Method	(1)	(1)	(1)	(1)	(1)
Amortization Period	28 years	28 years	27 Years	27 Years	29 Years
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value	Market Value
Inflation	2.25%	2.25%	2.50%	2.50%	2.75%
Healthcare Trend Rates	(7)	(6)	(3)	(3)	(2)
Investment Rate of Return	6.25%	6.25%	6.50%	7.00%	7.00%
Mortality	(5)	(5)	(5)	(5)	(4)

- (1) Level percentage of payroll, closed.
- (2) 8.50% trending down to 5.00%.
- (3) 6.90% trending down to 4.00%.
- (4) CalPERS December 2014 experience study.
- (5) CalPERS December 2017 experience study.
- (6) 6.70% trending down to 3.80%.
- (7) 6.30% trending down to 3.80%.

* Fiscal year 2018 was the first year of implementation; therefore five years year are shown.



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