

City of Vernon

Vernon, California

Independent Auditors' Reports and Basic Financial Statements

For the Year Ended June 30, 2023



City of Vernon
Basic Financial Statements
For the Year Ended June 30, 2023

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

In accordance with the Charter of the City of Vernon (City) and State Law, we are pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. The purpose of this report is to provide the City Council, residents, general public, and interested parties with a broad financial outlook of the City, as measured by the financial activity and operational achievements of its various funds.

Responsibility for both the accuracy of the data and the completeness, and fairness of the presentation, including disclosures, rests with the City's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that fairly represents the financial position and operation results. In addition, to the best of our knowledge, there are no untrue statements or omissions of material fact within the financial statements. All disclosures necessary to enable the reader to gain a maximum understanding of the City's financial activities have been included.

The City is required to issue annually a report on its financial position and activity, and that an independent firm of certified public accountants audit the report. As such, the ACFR is prepared in accordance with generally accepted accounting principles (GAAP) and using the guidelines set forth by the Government Accounting Standards Board (GASB). This year's audit was completed by The Pun Group LLP, Certified Public Accountants and Business Advisors and an unmodified ("clean") opinion on the City's financial statements for the fiscal year ended June 30, 2023 was issued. The independent auditor's report is found at the front section of the financial section of the ACFR.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative overview and analysis of the basic financial statements. This letter is designed to complement the MD&A and should be read in conjunction with this transmittal letter.

City of Vernon Profile

The City of Vernon is one of the few full-service cities in California with much to offer. 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 location for industry of all types. Within its 5.2 square mile boundary, Vernon houses more than 1,800 businesses that employ approximately 55,000 people from nearby communities throughout the Greater Los Angeles Area. These include food and agriculture, apparel, steel, plastics, logistics, home furnishing companies and soon to add a new data center serving as a vital economic engine in the region.

Vernon is a charter city and operates under the Council-Manager form of government. The five-member City Council is elected at-large to serve 5-year terms. The Mayor and Mayor Pro Tem position is rotated annually among Council Member in order of election. The City Council

is the legislative authority of the City and sets the policies under which the City operates. The City Council provides leadership through policy development regarding the current practices and future direction of the City. The City Council appoints the City Administrator and the City Attorney, as well as members of the City's commissions. The City Administrator is responsible for overseeing City employees who implement all of the City's programs, services, and projects.

Vernon is a prime location for businesses as it's located just south of downtown Los Angeles, close to LAX, the Ports of Los Angeles and Long Beach and in close proximity to access major transportation hubs. The City provides a one-stop-shop for land use services with expedient in-house plan reviews and permitting, integrated fire inspections and health department approvals, and an unmatched suite of quality utility services to fulfill all business needs.

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.

Local Economy

While the California economy has effectively recovered from the pandemic recession of 2020 in most business sectors, however, there are still signs of stress in the overall economic outlook. Global economies continue to grapple with high inflation, rising interest rates putting pressure on the housing market, car sales and other parts of the economy, the risk of new COVID variants, and the war in Ukraine continue to have a global economic effect. A mix of economic forecasts believe that the longer inflation persists and the higher the Federal Reserve increases interest rates in response, the greater the risk to the overall economy.

Inflation continues to be one of the most challenging obstacles global economies have attempted to overcome. The Fed has taken an aggressive stance in combating inflation by raising the federal funds target rate from 0.25% in March 2022 to 5.5% in October 2023, its highest level in 22 years. The inflation rate met a 40-year high of 9.1% in 2022 but has tapered off to 3.7% in September 2023 and is still higher in comparison to the Federal Reserve's target of 2% inflation rate for the US economy. Furthermore, these actions have also impacted the housing market, which experienced a continued high growth rate (10%) through early 2022 tapering off as mortgage interest rates increase reaching 7.79% in October 2023, a two-decade high. With the number of home sales declining and the median home price increasing, many economists are mixed about the housing market outlook and continue to watch this closely. Even despite these headwinds, the US GDP rose to a robust 4.9% annualized pace for the third quarter ending September 30, 2023, buoyed by low unemployment and solid consumer spending, however, this report could give the Federal Reserve some impetus to keep interest rates high which may begin to negatively impact consumer and business spending habits bringing the economy to a precipice slowdown. UCLA Anderson Forecast foresees a weak US Economy in 2024, followed by a return to trend growth rates, albeit below trend GDP levels, in 2025.

California's economy remains stable despite the pressure from more than two years of higher than usual inflation and the jump in interest rates. Between January 2020 (just before COVID) and June 2023 prices increased by approximately 17% with food, beverages and energy and gasoline prices rising well above this. California's severe housing shortage coupled with high interest rates are driving home prices higher as well. As of September 2023, the State's unemployment rate is currently 4.7%, the second highest of any state. Job growth within California also appears to be slowing, partly due to the State's labor shortage, negative population growth, and high housing costs. If these conditions continue to persist, this may further impede the State's long-term economic growth by causing consumers to make tradeoffs in household spending budgets. Also, the State of California continues to grapple with State budget deficits leaving uncertainty how the State Legislature plans to balance its budget and the possible impacts to local municipalities. Although there are many variables driving the local economy, most economic forecasts are predicting limited growth in the following years ahead mainly due to inflation and higher interest rates.

The relative health of the City's finances can be attributed to five (5) successive fiscal years of focused attention on improving the alignment of ongoing expenditures with ongoing revenues. While the City has enjoyed positive financial health in the recent past, it is essential to implement all available measures to safeguard against potential economic downturns that could impinge upon the City's primary revenue sources: sales, parcel, and utility users tax. Given the ongoing national economic challenges, including continuing inflation, constrained supply in the goods, services, and labor markets, more stringent Federal monetary policies, and market volatility, the City must proactively enhance revenues and improve operational efficiency to prevent impact from future slowdowns in the economy.

The City's annual obligated costs, such as contract costs, insurance, pension obligations, and unfunded mandates, continue to rise over time and compete against other budget priorities. The largest obligated costs include pensions costs related to the CalPERS Unfunded Accrued Liability (UAL). The UAL mainly fluctuates as a result of investment returns and changes in the discount rate. CalPERS recently announced a gain of 5.8% for FY 2022-23, which is balanced by the prior year's loss of 7%. When factoring in CalPERS' discount rate of 6.8% and the 2022-23 preliminary return of 5.8%, the estimated funded status now stands at 72%. The recent gain and loss, change in the discount rate, and assumption changes have led to variable funding status, which directly impact the City's pension costs and overall budget strategies; the City will continue to monitor this issue closely.

The City has also embarked on several key studies that may affect future budgetary planning. In August 2023, the City Council approved VPU's long-term rate strategy, which included reasonable electric growth estimates, reinforced our commitment to competitive base rates, a stable Energy Cost Adjustment Billing Factor, and the development of a comprehensive Financial Reserves Policy that supports financial stability, ensuring that we can navigate future challenges and make necessary investments while continuing to provide reliable and affordable services. The City is currently conducting a comprehensive fee study to review the City's overall user and regulatory fee structure, basis of fees, and cost recovery. The study is expected to be completed by early 2024 in time for the next annual budget cycle and any approved changes will be incorporated in the next budget.

FY 2023-24 Operating Budget

The budget reflects tempered optimism, the current global and local economies continue to face new and ongoing challenges that lead us to reevaluate spending strategies, The City's future economic health will be dependent on growing and maintaining healthy reserves through fiscally conservative budgets and polices, planning for economic opportunities, and maintaining its strong financial position through prudent, long-range policy decisions and sound fiscal management. The City will continue to monitor key economic indicators, sources of revenue, and spending levels as part of its sound, conservative fiscal approach. 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 sales and use taxes, parcel taxes and utility users taxes have all sustained steady growth this year despite the current financial woes. As the City moves into fiscal year (FY) 2023-24, we are optimistic about continued growth but applied conservative budgeting principles during the budget development process based on analysis of historical performance and trends, as well as industry, economist, and new reports. The City will continue to monitor key economic indicators, sources of revenue, and spending levels as part of its sound, conservative fiscal approach.

Long Term Financial Planning

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. Based upon the City's electric debt service schedule, there will be a significant reduction in debt service starting in FY 2028-29. 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.
4. 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.
5. 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.
6. 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.
7. 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 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.
8. Since the purchase of Malburg Generating Station (MGS), Vernon Public Utilities optimizes the operating profile 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.

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9. Over the last several years, the City has pursued a clean commerce growth strategy. In June 2024, a new data center is scheduled to commence commercial operations in Vernon, bringing high-demand energy needs, reducing traffic congestion and vehicle emissions, and replacing legacy customers who have relocated their operations. At full capacity, the data center demand is estimated to be 33 MW of continually connected load in Fiscal Year 2025-26. Our pre-planned commitment to provide capital improvement investments of critical infrastructure in our transmission and distribution networks has been key to meeting the operational needs of this new industry in Vernon. VPU and the City have the unique ability to get these new development projects to market in the shortest time possible.

Financial and Internal Controls

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 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.

Single Audit

The City is legally required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget Uniform Guidance, Audits of State and Local Governments, if total federal grant expenditures exceed \$750,000 in a single year. Throughout the course of FY 2022-23, the City did not expend federal funds in excess of the \$750,000 threshold, and therefore the City is not subject to Single Audit requirements.

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.

Spending Limitation

Management foresees no problem for several years in complying with the spending limitation under the Gann Initiative passed by the California voters in 1979, which created Article XIII B of the State Constitution. The City's independent auditors have attested to the accuracy of the computation of the spending limitations for the current period, which indicated that the City's tax proceeds are substantially under the established Gann Limit and are not expected to reach that limit in the foreseeable future.

Independent Audit

The City requires an annual audit by independent certified public accountants, the auditing firm The Pun Group LLC, was selected to audit the City's accounting records. The auditor's report on the basic financial statements, combined and individual fund statements, and schedules is included in the financial section of this report.

Acknowledgements

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 Jessica Alcaraz, Financial Services Administrator, Joaquin Leon Deputy City Treasurer, and Angela Melgar, Finance Manager. Appreciation is also expressed for Zaynah Moussa, City Attorney; Todd Dusenberry, General Manager of Public Utilities; Dan Wall, Director of Public Works; Robert Sousa, Chief of Police; Freddy Agyin, Director of Health and Environmental Control; Michael Earl, Human Resources Director; and Lisa Pope, City Clerk.

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.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Carlos R. Fandino'.

Carlos Fandino
City Administrator

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INDEPENDENT AUDITORS' REPORT



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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, 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.

Basis for Opinions

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 ("*Government Auditing Standards*"). 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 and to meet our other ethical responsibilities, in accordance with the relevant 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 opinions.

Responsibility 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibility 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 City'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.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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, the Budgetary Comparison Schedule, the Schedule of Changes in Net Pension Liabilities and Related Ratios – Miscellaneous Plan and Safety Plan, the Schedule of Proportionate Share of the Net Pension Liabilities and Related Ratios – Safety Plan, the Schedule of Contributions – Pensions, the Schedules of Changes in Net Other Postemployment Benefits Liability and Related Ratios, and the Schedules of Contributions – Other Postemployment Benefits be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by Government 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 GAAS, 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.

To the Honorable Mayor and Members of the City Council
of the City of Vernon
Vernon, California
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Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory and Statistical Sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do 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 February 8, 2024 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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
February 8, 2024

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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, 2023.

OVERVIEW OF THE 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 20-23 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.

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 93).

The basic governmental funds financial statements can be found on pages 29 and 32 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.

The basic proprietary funds financial statements can be found on pages 34-39 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 43 and 44 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 49-91 of this report.

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Position

The table below summarizes the government-wide Statement of Net Position as of June 30, 2022 and June 30, 2023, and is as follows:

	City of Vernon Net Position June 30, 2023 and 2022					
	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Assets:						
Current and other assets	\$ 47,272,062	\$ 31,543,883	\$ 189,058,515	\$ 190,425,409	\$ 236,330,577	\$ 221,969,292
Restricted assets	2,824,858	6,267,964	36,427,615	46,383,084	39,252,473	52,651,048
Capital assets	162,262,242	163,093,528	465,066,379	458,427,644	627,328,621	621,521,172
Total assets	<u>212,359,162</u>	<u>200,905,375</u>	<u>690,552,509</u>	<u>695,236,137</u>	<u>902,911,671</u>	<u>896,141,512</u>
Deferred Outflows of Resources						
Deferred outflows related to pensions	48,056,290	23,034,461	14,399,006	5,338,797	62,455,296	28,373,258
Deferred outflows related to OPEB liability	3,906,490	2,856,840	1,170,494	662,143	5,076,984	3,518,983
Deferred amount on bond refunding	-	-	1,731,362	1,933,345	1,731,362	1,933,345
Total deferred outflows of resources	<u>51,962,780</u>	<u>25,891,301</u>	<u>17,300,862</u>	<u>7,934,285</u>	<u>69,263,642</u>	<u>33,825,586</u>
Liabilities:						
Current liabilities	7,167,000	4,494,931	76,168,309	23,591,507	83,335,309	28,086,438
Long term liabilities	138,346,981	92,405,587	395,093,373	485,156,669	533,440,354	577,562,256
Total liabilities	<u>145,513,981</u>	<u>96,900,518</u>	<u>471,261,682</u>	<u>508,748,176</u>	<u>616,775,663</u>	<u>605,648,694</u>
Deferred Inflows of Resources						
Deferred inflows related to pensions	6,073,932	44,972,489	1,819,920	10,423,470	7,893,852	55,395,959
Deferred inflows related to OPEB liability	4,639,817	6,807,966	1,390,219	1,577,912	6,030,036	8,385,878
Deferred inflows related to Leases	3,704,545	3,803,114	-	-	3,704,545	3,803,114
Total deferred outflows of resources	<u>14,418,294</u>	<u>55,583,569</u>	<u>3,210,139</u>	<u>12,001,382</u>	<u>17,628,433</u>	<u>67,584,951</u>
Net Position:						
Net investment in capital assets	161,850,189	162,746,593	191,510,736	168,787,837	353,360,925	331,534,430
Restricted	5,750,277	4,422,510	37,049,052	32,836,544	42,799,329	37,259,054
Unrestricted (deficit)	(63,210,799)	(92,856,514)	4,821,762	(19,203,517)	(58,389,037)	(112,060,031)
Total net position	<u>\$ 104,389,667</u>	<u>\$ 74,312,589</u>	<u>\$ 233,381,550</u>	<u>\$ 182,420,864</u>	<u>\$ 337,771,217</u>	<u>\$ 256,733,453</u>

Overtime, net position may serve as a useful indicator of a city's financial position. At June 30, 2023, the City's net position was \$337.8 million, an increase of \$81.0 million over the net position of \$256.7 million at June 30, 2022.

The largest portion of the City's net position (\$353.4 million) is its investment in capital assets (e.g., land, buildings, infrastructure, and equipment, right-to-use assets, etc.), net of related debt. The City uses capital assets to provide services to residents; consequently, these assets are not available for future spending. This category of net position increased mainly from the construction of ongoing, or nearly completed projects such as the city-wide tree well project, Gateway Arch Project, Electrical service upgrades, Well and Reservoir rehabilitation, and upgrading the existing fiber optics network system.

The City's restricted net position totals \$42.8 million. Restricted net position represents resources that are subject to external restrictions on how they may be used, such as debt. The remaining deficit balance of \$58.4 million represents unrestricted net position.

Total net position increased by \$81.0 million from an excess of revenues over expenses. This net increase was reflected by an increase of \$53.7, \$21.8, and \$5.5 million in unrestricted net position net investment in capital assets and restricted net position, respectively. The excess of revenues over expenses will be analyzed in conjunction with the Statement of Activities.

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
(Continued)

With the implementation of GASB 96, the City was required to report long-term subscriptions in the financial statements. The following categories were added to the financial statements: intangible (right-to-use asset) subscription assets, and subscription liabilities. Additional information and discussion of these can be found in Notes 1H, 1N, and 5 of the City's Notes to the Basic Financial Statements.

Following is a summary of the government-wide Statement of Activities which illustrates the City's overall \$81.0 million increase in net position resulting from program expenses being less than total program and general revenues. A discussion regarding significant changes in revenues and expenses follows the table.

City of Vernon						
Statement of Activities						
Years ended June 30, 2023 and 2022						
	Governmental Activities		Business-type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues						
Charges for services	\$ 12,528,733	\$ 10,764,696	\$ -	\$ -	\$ 12,528,733	\$ 10,764,696
Vernon public utilities	-	-	262,570,096	238,570,758	262,570,096	238,570,758
Operating and capital grants and contributions	1,670,481	5,262,389	-	865,403	1,670,481	6,127,792
General revenues	-	-	-	-	-	-
Taxes	43,386,468	41,787,626	-	-	43,386,468	41,787,626
Sales and Use Tax	16,485,569	14,989,046	-	-	16,485,569	14,989,046
Investment income (loss)	414,374	100,809	4,711,672	285,622	5,126,046	386,431
Rental income	519,373	208,039	-	-	519,373	208,039
Other revenues	2,072,655	2,736,631	-	-	2,072,655	2,736,631
Gain (loss) on the sale of land and assets	67,582	-	(989,157)	-	(921,575)	-
Total revenues	77,145,235	75,849,236	266,292,611	239,721,783	343,437,846	315,571,019
Expenses:						
Governmental activities						
General government	15,151,873	17,564,758	-	-	15,151,873	17,564,758
Public safety	17,615,641	35,417,532	-	-	17,615,641	35,417,532
Public works	13,266,854	11,811,876	-	-	13,266,854	11,811,876
Health services	1,523,844	1,416,058	-	-	1,523,844	1,416,058
Interest on long-term debt	1,487	199	-	-	1,487	199
Business-type activities	-	-	-	-	-	-
Vernon public utilities	-	-	214,840,383	204,525,037	214,840,383	204,525,037
Total expenses	47,559,699	66,210,423	214,840,383	204,525,037	262,400,082	270,735,460
Change in net position before transfers	29,585,536	9,638,813	51,452,228	35,196,746	81,037,764	44,835,559
Transfers:						
Interfund transfers	491,542	181,387	(491,542)	(181,387)	-	-
Net Transfers	491,542	181,387	(491,542)	(181,387)	-	-
Change in net position	30,077,078	9,820,200	50,960,686	35,015,359	81,037,764	44,835,559
Net position - beginning of year	74,312,589	64,492,389	182,420,864	147,405,505	256,733,453	211,897,894
Net position - end of year	\$ 104,389,667	\$ 74,312,589	\$ 233,381,550	\$ 182,420,864	\$ 337,771,217	\$ 256,733,453

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
(Continued)

Government-wide revenues increased by \$27.9 million to \$343.3 million. The majority of this increase resulted from an increase of \$24.0 million Vernon Public Utilities charges for services, an increase of \$4.7 million in Investment Income partially due to interest income derived from the City's investment portfolio performing better as compared to prior year due to the rise in interest rates.

Operating and capital grants decreased by \$4.5 million as compared to the prior year, as there was a slow down on the Atlantic Bridge widening project this year. The remaining changes include all other governmental activities accounting for a net \$1.8 million increase mainly comprised of \$1.5 million increase in sales and use tax revenue.

The most significant portion of the City's revenue came from sales and use taxes, parcel taxes, and utility user taxes which accounted for 22.7%, 21.3% and 21.1% of total revenue respectively. Charges for services accounted for 10.3% of total revenue. Additionally, 8% was received from business license taxes, 6.7% from property taxes, and the remaining 9.9% was from franchise taxes, grants, and investment income.

Government-wide expenses of all the City programs and services decreased by \$8.3 million to \$262.4 million. Governmental Activities decreased by \$18.7 million while the Business Type Activities increased by \$10.3 million. Expenses include adjustments for depreciation, long-term debt, and pension costs. The net decrease in Government-wide expenses is spread across the City's programs with decreases in Public Safety services by \$17.8 million, General Government by \$2.4 million, and an increase in Vernon Public Utilities of \$10.3 million, and Public Works increased by \$15 million each. Interest Expense is now presented on a separate line item at \$0.6 million and is attributed to long-term debt and leases/subSCRIPTION liabilities.

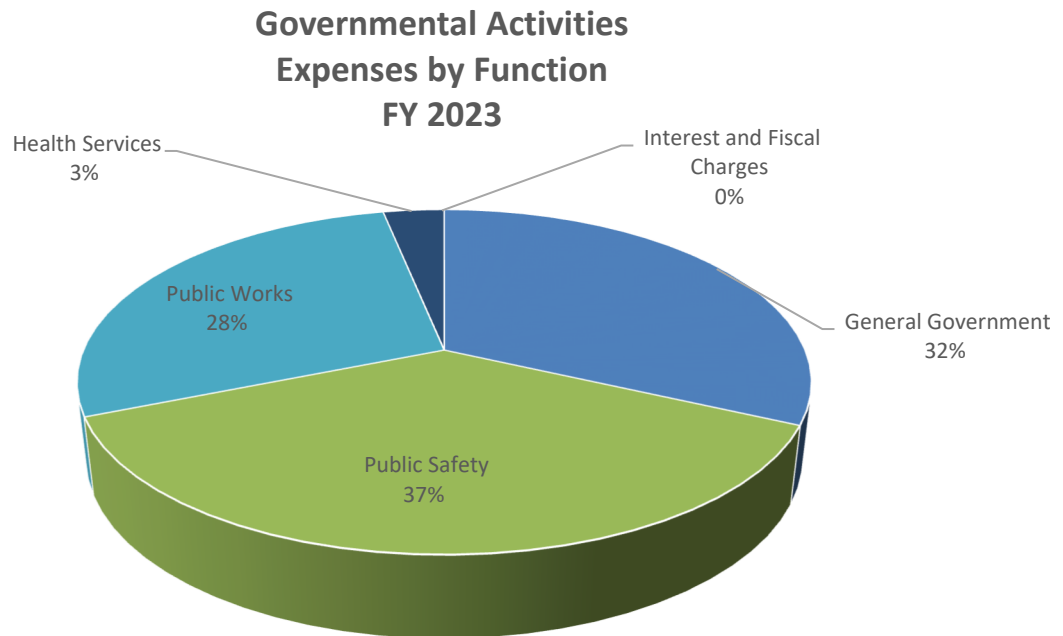
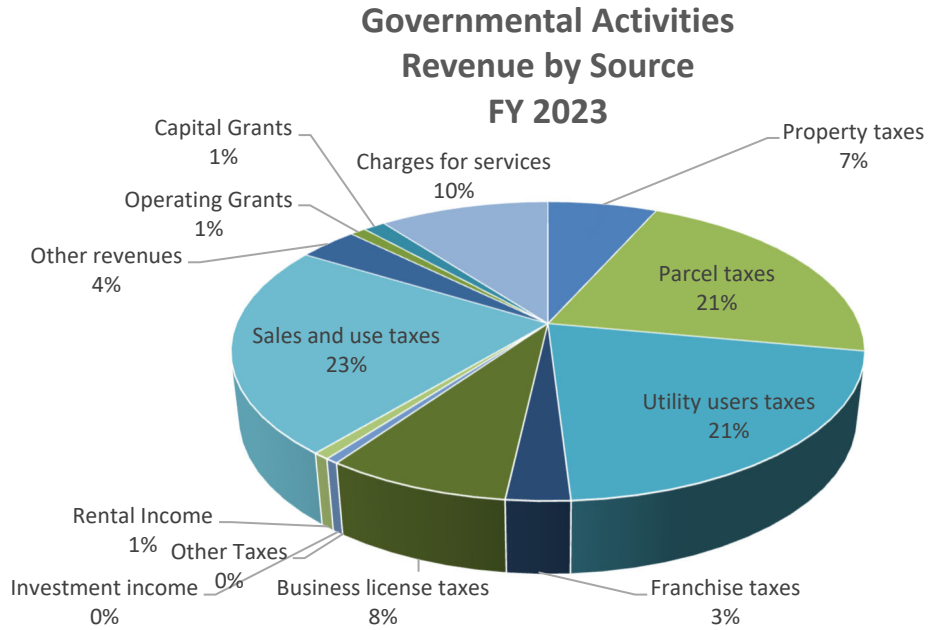
Vernon Public Utilities accounted for 81.9% of the total costs, General Government for 5.8%, Public Safety for 6.7%, Public Works for 5.1%, and Health for 0.6%. Interest Expense accounts for a minimal amount of the remaining expenses.

Governmental activities contributed \$29.6 million before transfers to the increase in net position resulting from revenues exceeding expenses.

Revenues of governmental activities report a net increase over the prior year of \$1.3 million, to \$77.1 million. The increase is attributed to a \$1.7 million increase in charges for services, \$1.5 million increase in sales and use tax, \$1.5 million increase in utility users tax, while operating and capital grants decreased by \$3.6 million.

Expenses of governmental activities decreased by a net \$18.7 million. Expenses include adjustments for depreciation, long-term debt, and pension costs. The net decrease is spread across the City's programs with Police decreasing by \$17.8 million, General Government decreasing by \$2.4 and Public Works increasing by \$1.6 million each. Health services and interest expense experienced a very negligible change.

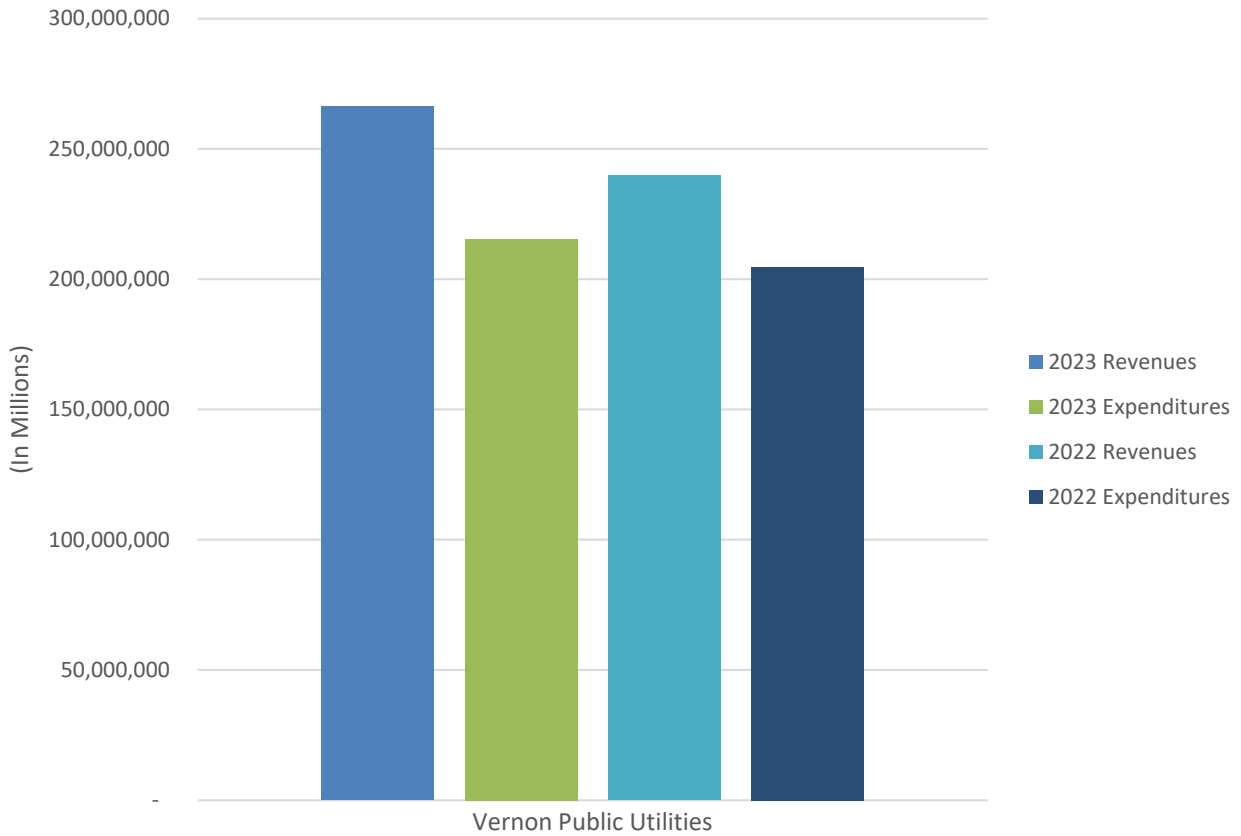
The following two charts show the source and use of funds for Governmental Activities:



Business-type activities consists of the Electric, Gas, Water and Fiber Utilities Enterprise Funds. The total net position at the end of the year was \$233.4 million as compared to \$182.4 million at the end of the prior year. This represents an increase in net position of \$51.0 million. The increase can largely be attributed to the purchase of Malburg Generating Station and the end of the PPTA agreement which has resulted in savings. Another factor are lowered Transmission firm expenses from Cal ISO.

Revenues of \$262.3 million consist of charges for services. This is an increase of \$27.0 million over the prior year's total revenue of \$239.7 million. The increase is mainly due to increased energy cost adjustment pass-through which is directly offset by the increase in cost of energy and natural gas in the expenses. Despite the increases in the aforementioned expenses.

Business-type Activities- Revenues and Expenses
Years ended June 30, 2023 and 2022



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 \$42.0 million (see page 31), an increase of \$14.1 million from the prior year. Approximately 0.28% of the total fund balance amount, \$116 thousand, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 13.69% of the total fund balance amount, \$5.8 million, 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. Approximately 23.81% of the total fund balance amount, \$10 million, constitutes *committed fund balance*, which are amounts that the City Council set aside for various reserves. The remainder of the fund balance amount, \$26.1 million is an *unassigned* fund balance 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 \$42.0 (see page 29). At the end of the current fiscal year, the total fund balance represents 54.1% 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 balance of \$4.8 million (see page 35). 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 \$51 million (see page 23). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$20.3 million. The key reasons for this variance were due to lower actual expenditures than projected of approximately \$20.1 million.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$162,546. The main reason for the variance, was that taxes came in higher than expected by \$4.4 million offset by intergovernmental revenues coming lower by \$5.3 million and charges for services by \$1.1 million.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$20.1 million. The key reasons for this variance were due to higher appropriations than actual expenditures of \$14.5 million in capital outlay and related professional services of \$1.8 million in public works as well as a reduction in the LA County contracted services of \$1.8 million.

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, 2023, amounts to \$627.3 million (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 increase in capital assets of \$5.7 million is mainly due to city-wide tree well project, Gateway Arch Project, Electrical service upgrades, Well and Reservoir rehabilitation, and upgrading the existing fiber optics network system. For additional information see Note 5 of this report.

Outstanding debt

As of June 30, 2023, the following debt remains outstanding:

- \$36,870,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$5,340,000 City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B
- \$89,180,000 City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A
- \$19,305,000 City of Vernon Electric System Revenue Bonds, 2020 Series A
- \$153,435,000 City of Vernon Electric System Revenue Bonds, 2021 Taxable Series A
- \$52,070,000 City of Vernon Electric System Revenue Bonds, 2022 Taxable Series A
- \$14,350,000 City of Vernon Water System Revenue Bonds, 2020 Taxable Series A
- \$1,081,395 City of Vernon agreement with the Water Replenishment District of Southern California

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
(Continued)

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 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 Electric System Revenue Bonds, 2021 Series A were issued to provide funds: (i) to pay the costs of the acquisition by the City of Vernon of a 134-megawatt natural gas-fired generating facility located within the city limits on land owned by the City, together with certain related electrical interconnection facilities and other assets, property, and contractual rights, (ii) to fund a deposit to the Debt Service Reserve Fund in satisfaction of the Debt Service Reserve Requirement, and (iii) to pay costs of issuance of the 2021 Bonds.

The City of Vernon Electric System Revenue Bonds, 2022 Series A were issued to (i) refund and defease all the City's outstanding Electric System Revenue Bonds, 2012 Series A and a portion of the City's outstanding Electric System Revenue Bonds, 2012 Taxable Series B and (ii) to pay costs of issuance of the 2022 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, 2023, the ratings on all Electric System Revenue Bonds of the City were BBB+/Stable by S&P and Baa1/Stable by Moody's. The rating on Water System Revenue Bonds is A-/Stable by S&P and not rated by Moody's.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

Local and state economies experienced continual growth throughout fiscal year 2022-23, with tapering in the latter months due to prolonged historical high inflation and the increased interest rates by the Federal Reserve. Cities continue to be challenged in forecasting the economy and preparing the budget for the next fiscal year. The City has been fortunate in its specific mix of businesses, which has proven to be resilient in response to volatile economic changes. These factors were considered in preparing the City and VPU's budget for fiscal year 2023-24.

- The City developed a conservative spending plan addressing City Council and community priorities while focusing on operations at full capacity, deferring maintenance and operational needs while still focused on delivering quality core municipal services.
- VPU continues to respond to inflation and supply chain issues, including higher energy, natural gas, materials and supplies, chemicals, and construction costs to maintain generation, transmission, and distribution infrastructure to continue to provide exceptionally reliable service.
- Continue to implement VPU's capital plan, manage operating and maintenance expenses, update the 2018 Integrated Resource Plan, complete an Electric Cost of Service Analysis and Rate Design study, transition customer load growth to green commerce, optimize the MGS operating profile, and continue to implement the multi-year water rate adjustment plan approved by City Council.

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 at the City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Vernon
Statement of Net Position
June 30, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 33,979,557	\$ 153,374,024	\$ 187,353,581
Accounts receivable, net	2,015,947	14,760,699	16,776,646
Taxes receivable	4,313,563	-	4,313,563
Interest receivable	-	376,475	376,475
Due from other government	2,250	8,829	11,079
Notes and loans receivable	17,132	-	17,132
Other receivables	12,860	-	12,860
Accrued unbilled revenue	-	19,771,908	19,771,908
Internal balances	3,045,159	(3,045,159)	-
Lease receivable - due within one year	68,058	-	68,058
Prepaid expenses	115,995	163,337	279,332
Inventory	-	570,202	570,202
Total current assets	43,570,521	185,980,315	229,550,836
Noncurrent assets:			
Restricted cash and investments	2,824,858	36,427,615	39,252,473
Lease receivable, due in more than one year	3,701,541	-	3,701,541
Prepaid items	-	977,070	977,070
Deposits	-	2,101,130	2,101,130
Capital assets:			
Capital assets, not being depreciated	66,415,785	75,215,406	141,631,191
Capital assets, being depreciated, net	95,372,294	389,850,973	485,223,267
Intangible assets, being amortized, net	474,163	-	474,163
Total capital assets, net	162,262,242	465,066,379	627,328,621
Total noncurrent assets	168,788,641	504,572,194	673,360,835
Total assets	212,359,162	690,552,509	902,911,671
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	48,056,290	14,399,006	62,455,296
Other postemployment benefits related items	3,906,490	1,170,494	5,076,984
Deferred charges on refunding	-	1,731,362	1,731,362
Total deferred outflows of resources	51,962,780	17,300,862	69,263,642

City of Vernon
Statement of Net Position (Continued)
June 30, 2023

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	2,785,987	15,397,491	18,183,478
Accrued wages and benefits	670,617	422,751	1,093,368
Accrued interest payable	-	7,064,261	7,064,261
Unearned revenue	702,202	-	702,202
Customer deposits payable	241,790	660,943	902,733
Lease liabilities - due within one year	6,347	-	6,347
Subscription liabilities - due within one year	196,027	-	196,027
Compensated absences - due within one year	928,824	383,328	1,312,152
Claims and judgments - due within one year	1,635,206	-	1,635,206
Bonds payable - due within one year	-	52,100,000	52,100,000
Note payable - due within one year	-	139,535	139,535
Total current liabilities	7,167,000	76,168,309	83,335,309
Noncurrent liabilities:			
Subscription liabilities - due in more than one year	209,679	-	209,679
Compensated absences - due in more than one year	1,857,649	766,656	2,624,305
Claims and judgments - due in more than one year	2,311,608	-	2,311,608
Bonds payable - due in more than one year	-	353,244,291	353,244,291
Note payable - due in more than one year	-	941,860	941,860
Net pension liability	121,359,740	36,362,766	157,722,506
Net other postemployment benefits liability	12,608,305	3,777,800	16,386,105
Total noncurrent liabilities	138,346,981	395,093,373	533,440,354
Total liabilities	145,513,981	471,261,682	616,775,663
DEFERRED INFLOWS OF RESOURCES			
Pension related items	6,073,932	1,819,920	7,893,852
Other postemployment benefits related items	4,639,817	1,390,219	6,030,036
Lease	3,704,545	-	3,704,545
Total deferred inflows of resources	14,418,294	3,210,139	17,628,433
NET POSITION			
Net investment in capital assets	161,850,189	191,510,736	353,360,925
Restricted:			
Debt service	-	34,116,035	34,116,035
Assembly Bill 1890	-	2,933,017	2,933,017
Employee flexible spending account	23,590	-	23,590
Street improvements	3,897,139	-	3,897,139
Asset forfeiture funds	459,041	-	459,041
Drug abuse program	5,232	-	5,232
Metropolitan transit authority	27,208	-	27,208
Safe clean water program	1,338,067	-	1,338,067
Unrestricted (deficit)	(63,210,799)	4,821,762	(58,389,037)
Total net position	\$ 104,389,667	\$ 233,381,550	\$ 337,771,217

City of Vernon
Statement of Activities
For the Year Ended June 30, 2023

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 15,151,873	\$ 9,680,621	\$ 2,341	\$ -
Public safety	17,615,641	183,483	686,359	-
Public works	13,266,854	2,036,231	4,709	977,072
Health services	1,523,844	628,398	-	-
Interest and fiscal charges	1,487	-	-	-
Total governmental activities	<u>47,559,699</u>	<u>12,528,733</u>	<u>693,409</u>	<u>977,072</u>
Business-type Activities:				
Electric	188,823,910	233,135,904	-	-
Gas	18,180,746	19,064,515	-	-
Water	7,353,002	9,844,537	-	-
Fiber optics	482,725	525,140	-	-
Total business-type activities	<u>214,840,383</u>	<u>262,570,096</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 262,400,082</u>	<u>\$ 275,098,829</u>	<u>\$ 693,409</u>	<u>\$ 977,072</u>

City of Vernon
Statement of Activities (Continued)
For the Year Ended June 30, 2023

Functions/Programs	Net (Expenses) Revenues and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Governmental Activities:			
General government	\$ (5,468,911)	\$ -	\$ (5,468,911)
Public safety - fire	(16,745,799)	-	(16,745,799)
Public safety - police	(10,248,842)	-	(10,248,842)
Economic development	(895,446)	-	(895,446)
Interest and fiscal charges	(1,487)	-	(1,487)
Total governmental activities	(33,360,485)	-	(33,360,485)
Business-type Activities:			
Electric	-	44,311,994	44,311,994
Gas	-	883,769	883,769
Water	-	2,491,535	2,491,535
Fiber optics	-	42,415	42,415
Total business-type activities	-	47,729,713	47,729,713
Total primary government	(33,360,485)	47,729,713	14,369,228
General revenues and transfers:			
General revenues:			
Taxes:			
Property taxes	4,840,920	-	4,840,920
Parcel taxes	15,452,698	-	15,452,698
Utility users taxes	15,313,832	-	15,313,832
Franchise taxes	1,997,970	-	1,997,970
Business license taxes	5,781,048	-	5,781,048
Sales and use taxes	16,485,569	-	16,485,569
Total taxes	59,872,037	-	59,872,037
Investment income	414,374	4,711,672	5,126,046
Rental income	519,373	-	519,373
Other income	2,072,655	-	2,072,655
Loss on disposal of capital assets	67,582	(989,157)	(921,575)
Total general revenues	62,946,021	3,722,515	66,668,536
Transfers	491,542	(491,542)	-
Changes in net position	30,077,078	50,960,686	81,037,764
Net position - beginning of year	74,312,589	182,420,864	256,733,453
Net position - end of year	\$ 104,389,667	\$ 233,381,550	\$ 337,771,217

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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**City of Vernon
Balance Sheet
Governmental Fund
June 30, 2023**

	General Fund
ASSETS	
Cash and investments	\$ 33,979,557
Accounts receivable, net	2,015,947
Taxes receivable	4,313,563
Lease receivable	3,769,599
Due from other government	2,250
Due from other funds	3,045,195
Notes and loans receivable	17,132
Other receivables	12,860
Inventories and prepaid items	115,995
Restricted assets:	
Restricted cash and investments	2,824,858
Total assets	\$ 50,096,956
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 2,785,987
Accrued wages and benefits	670,617
Unearned revenue	702,202
Deposits payable	241,790
Due to other funds	36
Total liabilities	4,400,632
Deferred inflow of resources:	
Leases	3,704,545
Total deferred inflow of resources	3,704,545
Fund Balance:	
Nonspendable	115,995
Restricted for:	
Employee Flexible Spending Account	23,590
Street improvements	3,897,139
Asset forfeiture funds	459,041
Drug Abuse Program	5,232
Metropolitan Transit Authority	27,208
Safe Clean Water Program	1,338,067
Committed	10,000,000
Unassigned	26,125,507
Total fund balance	41,991,779
Total liabilities, deferred inflow of resources, and fund balance	\$ 50,096,956

City of Vernon
Reconciliation of the Governmental Fund Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2023

Total Fund Balances - Total Governmental Funds \$ 41,991,779

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in governmental funds. Those assets consist of:

Amount reported in government-wide statement of position:		
Nondepreciable assets	\$ 66,415,785	
Depreciable assets, net	95,372,294	
Intangible assets, net	474,163	162,262,242

Net pension liabilities and the related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period or not available for current expenditures and are not reported in the governmental fund financial statements:

Pension related deferred outflows of resources	48,056,290
Net pension liability	(121,359,740)
Pension related deferred inflows of resources	(6,073,932)

Net other postemployment benefits liability and the related deferred outflows of resources and deferred inflows of resources are not due and payable in the current period or not available for current expenditures and are not reported in the governmental fund financial statements:

OPEB related deferred outflows of resources	3,906,490
Net OPEB liabilities	(12,608,305)
OPEB related deferred inflows of resources	(4,639,817)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly are not reported as fund liabilities. All liabilities, both current and long-term are reported in the Statement of Net Position. Those liabilities consist of:

Lease liability	(6,347)
Subscription liability	(405,706)
Compensated absences	(2,786,473)
Claims payable	(3,946,814)

Net position of governmental activities \$ 104,389,667

City of Vernon
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2023

	General Fund
REVENUES:	
Taxes	\$ 59,628,704
Special assessments	1,878,995
Licenses, and permits	2,387,396
Fines, forfeitures, and penalties	273,830
Intergovernmental	2,353,070
Investment earnings	414,374
Charges for services	10,245,375
Rent income	519,373
Other revenues	1,043,247
Total revenues	78,744,364
 EXPENDITURES:	
Current:	
General government	15,630,351
Public safety	33,860,124
Public works	9,695,296
Health services	1,691,036
Capital outlay	4,593,430
Debt service:	
Principal retirement	225,620
Interest and fiscal charges	1,487
Total expenditures	65,697,344
 REVENUES OVER EXPENDITURES	13,047,020
 OTHER FINANCING SOURCES:	
Transfer in	491,542
Proceeds from sale of capital asset	67,582
Issuance of debt	538,544
Total other financing sources	1,097,668
 NET CHANGE IN FUND BALANCE	14,144,688
 FUND BALANCE:	
Beginning of year	27,847,091
End of year	\$ 41,991,779

City of Vernon
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Change
in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2023

Net change in fund balances - total governmental funds: \$ 14,144,688

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 cost of those capital assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital expenditures exceeded depreciation in the current period:

Capital outlay expenditures, net of functional expenses of \$(15,750)	\$ 4,609,180	
Depreciation and amortization expense	<u>(5,507,935)</u>	(898,755)

Certain accrued revenues such as grants do not provide current financial resources and therefore, are not reported in the governmental funds as revenues. This is the amount of the net change in these accrued revenue amounts during the current period.		(1,666,711)
--	--	-------------

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 funds:

Change in compensated absences		(112,543)
Change in claims payable		993,918
Pension expense, net of pension contribution made after measurement date		14,027,190
OPEB expense, net of OPEB contribution made after measurement date		3,902,215
Issuance of long-term debt		(538,544)
Principal repayment of long-term debt		<u>225,620</u>

Change in net position of governmental activities		\$ <u>30,077,078</u>
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PROPRIETARY FUND FINANCIAL STATEMENTS

City of Vernon
Statement of Net Position
Proprietary Funds
June 30, 2023

	Business-Type Activities				Total
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor (Fiber Optics) Fund	
ASSETS					
Current assets:					
Cash and investments	\$ 117,511,564	\$ 16,776,807	\$ 17,994,763	\$ 1,090,890	\$ 153,374,024
Accounts receivable, net	13,592,491	191,638	943,517	33,053	14,760,699
Interest receivable	367,547	-	8,928	-	376,475
Accrued unbilled revenue	17,231,152	1,025,232	1,515,524	-	19,771,908
Due from other government	8,829	-	-	-	8,829
Due from other funds	-	-	18,247	36	18,283
Prepaid items	159,007	-	4,330	-	163,337
Inventory	570,202	-	-	-	570,202
Total current assets	149,440,792	17,993,677	20,485,309	1,123,979	189,043,757
Noncurrent assets:					
Restricted cash and investments	34,278,926	-	2,148,689	-	36,427,615
Advances to other funds	33,926,562	-	-	-	33,926,562
Prepayment to Southern California Public Power Authority	977,070	-	-	-	977,070
Deposits	2,101,130	-	-	-	2,101,130
Capital assets:					
Capital assets, not being depreciated	63,837,963	-	11,111,271	266,172	75,215,406
Capital assets, being depreciated, net	362,862,804	14,672,800	11,302,440	1,012,929	389,850,973
Total capital assets	426,700,767	14,672,800	22,413,711	1,279,101	465,066,379
Total noncurrent assets	497,984,455	14,672,800	24,562,400	1,279,101	538,498,756
Total assets	647,425,247	32,666,477	45,047,709	2,403,080	727,542,513
DEFERRED OUTFLOW OF RESOURCES					
Pension related items	11,703,498	860,759	1,821,009	13,740	14,399,006
Other postemployment benefits related items	951,376	69,971	148,030	1,117	1,170,494
Deferred charges on refunding	1,731,362	-	-	-	1,731,362
Total deferred outflow of resources	\$ 14,386,236	\$ 930,730	\$ 1,969,039	\$ 14,857	\$ 17,300,862

(Continued)

City of Vernon
Statement of Net Position (Continued)
Proprietary Funds
June 30, 2023

	Business-Type Activities				
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor (Fiber Optics) Fund	Total
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 14,053,698	\$ 53,542	\$ 1,279,568	\$ 10,683	\$ 15,397,491
Accrued wages and benefits	369,773	21,106	31,872	-	422,751
Accrued interest payable	6,826,980	-	237,281	-	7,064,261
Due to other funds	2,953,113	-	110,329	-	3,063,442
Customer deposits	410,497	13,558	236,888	-	660,943
Compensated absences, due within one year	334,712	14,283	34,155	178	383,328
Bonds payable, due within one year	51,835,000	-	265,000	-	52,100,000
Note payable, due within one year	-	-	139,535	-	139,535
Total current liabilities	76,783,773	102,489	2,334,628	10,861	79,231,751
Noncurrent liabilities:					
Advances from other funds	-	29,405,104	-	4,521,458	33,926,562
Compensated absences, due in more than one year	669,422	28,567	68,311	356	766,656
Bonds payable, due in more than one year	338,642,538	-	14,601,753	-	353,244,291
Note payable, due in more than one year	-	-	941,860	-	941,860
Net pension liability	29,555,620	2,173,732	4,598,715	34,699	36,362,766
Net other postemployment benefits liability	3,070,592	225,833	477,770	3,605	3,777,800
Total noncurrent liabilities	371,938,172	31,833,236	20,688,409	4,560,118	429,019,935
Total liabilities	448,721,945	31,935,725	23,023,037	4,570,979	508,251,686
DEFERRED INFLOWS OF RESOURCES					
Pension related items	1,479,229	108,793	230,161	1,737	1,819,920
Other postemployment benefits related items	1,129,968	83,106	175,818	1,327	1,390,219
Total deferred inflows of resources	2,609,197	191,899	405,979	3,064	3,210,139
NET POSITION					
Net investment in capital assets	167,320,725	14,672,800	8,238,110	1,279,101	191,510,736
Restricted for:					
Debt service	33,955,595	-	160,440	-	34,116,035
Assembly Bill 1890	2,933,017	-	-	-	2,933,017
Unrestricted (deficit)	6,271,004	(13,203,217)	15,189,182	(3,435,207)	4,821,762
Total net position	\$ 210,480,341	\$ 1,469,583	\$ 23,587,732	\$ (2,156,106)	\$ 233,381,550

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City of Vernon
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2023

	Business-Type Activities				Total
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor (Fiber Optics) Fund	
OPERATING REVENUES:					
Charges for services	\$ 233,135,904	\$ 19,064,515	\$ 9,844,537	\$ 525,140	\$ 262,570,096
Total operating revenues	<u>233,135,904</u>	<u>19,064,515</u>	<u>9,844,537</u>	<u>525,140</u>	<u>262,570,096</u>
OPERATING EXPENSES:					
Cost of sales	151,898,323	17,474,385	6,226,053	272,564	175,871,325
Depreciation expense	22,734,810	706,361	575,512	210,161	24,226,844
Total operating expenses	<u>174,633,133</u>	<u>18,180,746</u>	<u>6,801,565</u>	<u>482,725</u>	<u>200,098,169</u>
OPERATING INCOME	<u>58,502,771</u>	<u>883,769</u>	<u>3,042,972</u>	<u>42,415</u>	<u>62,471,927</u>
NONOPERATING REVENUES (EXPENSES):					
Investment income	4,198,611	181,160	327,529	5,998	4,713,298
Net decrease in fair value of investments	(1,626)	-	-	-	(1,626)
Interest expense	(14,190,777)	-	(551,437)	-	(14,742,214)
Transfers out	(491,542)	-	-	-	(491,542)
Gain (loss) on disposal of assets	(1,004,046)	-	14,889	-	(989,157)
Total nonoperating revenues (expenses)	<u>(11,489,380)</u>	<u>181,160</u>	<u>(209,019)</u>	<u>5,998</u>	<u>(11,511,241)</u>
CHANGE IN NET POSITION	47,013,391	1,064,929	2,833,953	48,413	50,960,686
NET POSITION:					
Beginning of year	163,466,950	404,654	20,753,779	(2,204,519)	182,420,864
End of year	<u>\$ 210,480,341</u>	<u>\$ 1,469,583</u>	<u>\$ 23,587,732</u>	<u>\$ (2,156,106)</u>	<u>\$ 233,381,550</u>

City of Vernon
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2023

	Business-Type Activities				Total
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor (Fiber Optics) Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash receipts from customers and users	\$ 230,220,383	\$ 19,668,732	\$ 9,900,629	\$ 636,340	\$ 260,426,084
Cash paid to suppliers for goods and services	(137,074,541)	(16,731,644)	(5,024,168)	(272,394)	(159,102,747)
Cash paid to employees for services	(13,451,748)	(1,141,181)	(2,053,190)	(14,536)	(16,660,655)
Net cash provided by operating activities	79,694,094	1,795,907	2,823,271	349,410	84,662,682
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfer to City	(491,542)	-	-	-	(491,542)
Receipt from other funds	61,570	6,178,906	313,127	667,766	7,221,369
Payment to other funds	(6,858,636)	(71,583)	(18,247)	(36)	(6,948,502)
Net cash provided by (used in) noncapital financing activities	(7,288,608)	6,107,323	294,880	667,730	(218,675)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	(24,759,717)	-	(6,721,212)	(426,102)	(31,907,031)
Proceed from sale of capital assets	37,406	-	14,889	-	52,295
Principal paid on long-term debt	(50,110,000)	-	(389,535)	-	(50,499,535)
Interest paid on long-term debt	(19,480,488)	-	(575,726)	-	(20,056,214)
Net cash (used in) capital and related financing activities	(94,312,799)	-	(7,671,584)	(426,102)	(102,410,485)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received	3,914,187	181,160	323,049	5,998	4,424,394
Net cash provided by investing activities	3,914,187	181,160	323,049	5,998	4,424,394
Net increase (decrease) in cash and cash equivalents	(17,993,126)	8,084,390	(4,230,384)	597,036	(13,542,084)
CASH AND CASH EQUIVALENTS:					
Beginning of year	169,783,616	8,692,417	24,373,836	493,854	203,343,723
End of year	<u>\$ 151,790,490</u>	<u>\$ 16,776,807</u>	<u>\$ 20,143,452</u>	<u>\$ 1,090,890</u>	<u>\$ 189,801,639</u>
CASH AND CASH EQUIVALENTS:					
Cash and investment	\$ 117,511,564	\$ 16,776,807	\$ 17,994,763	\$ 1,090,890	\$ 153,374,024
Restricted cash and investment	34,278,926	-	2,148,689	-	36,427,615
Total cash and cash equivalents	<u>\$ 151,790,490</u>	<u>\$ 16,776,807</u>	<u>\$ 20,143,452</u>	<u>\$ 1,090,890</u>	<u>\$ 189,801,639</u>

(Continued)

City of Vernon
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2023

	Business-Type Activities				
	Enterprise Funds				
	Electric Fund	Gas Fund	Water Fund	Nonmajor (Fiber Optics) Fund	Total
INCOME (LOSS) TO NET CASH (USED IN)					
OPERATING ACTIVITIES:					
Operating income (loss)	\$ 58,502,771	\$ 883,769	\$ 3,042,972	\$ 42,415	\$ 62,471,927
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	22,734,810	706,361	575,512	210,161	24,226,844
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	(1,196,444)	388,462	198,421	111,200	(498,361)
(Increase) decrease in accrued unbilled revenue	(819,370)	215,755	(142,329)	-	(745,944)
(Increase) decrease in inventories and prepaid items	(56,968)	-	(4,330)	-	(61,298)
(Increase) decrease in customer deposits	(899,707)	-	-	-	(899,707)
(Increase) decrease in deferred outflows of resources related to pensions	(7,687,121)	(463,477)	(903,730)	(5,881)	(9,060,209)
(Increase) decrease in deferred outflows of resources related to OPEB	(453,246)	(20,698)	(34,265)	(142)	(508,351)
Increase (decrease) in accounts payable	(1,774,693)	(161,580)	(135,694)	(3,051)	(2,075,018)
Increase (decrease) in accrued wages and benefits	35,859	(6,926)	(12,423)	(363)	16,147
Increase (decrease) in deposits payable	(14,929)	-	175,704	-	160,775
Increase (decrease) in compensated absences	(104,689)	17,719	18,258	291	(68,421)
Increase (decrease) in net pension liabilities	17,094,440	941,127	1,752,772	10,315	19,798,654
Increase (decrease) in OPEB liabilities	752,822	(3,431)	(51,573)	(931)	696,887
Increase (decrease) in deferred inflows of resources related to pension	(6,362,346)	(666,861)	(1,560,735)	(13,608)	(8,603,550)
Increase (decrease) in deferred inflows of resources related to OPEB	(57,095)	(34,313)	(95,289)	(996)	(187,693)
Total adjustment	21,191,323	912,138	(219,701)	306,995	22,190,755
Net cash provided by operating activities	\$ 79,694,094	\$ 1,795,907	\$ 2,823,271	\$ 349,410	\$ 84,662,682

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FIDUCIARY FUND FINANCIAL STATEMENTS

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City of Vernon
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2023

	Private-Purpose Trust Fund	Custodial Fund
	Successor Agency Trust Fund	Southeast Water Coalition Joint Powers Authority
ASSETS		
Cash and investments	\$ 668,273	\$ 220,854
Restricted cash and investments	3,590,059	-
Accounts receivable	-	3,000
Total assets	4,258,332	223,854
LIABILITIES		
Current liabilities:		
Accounts payable	1,000	2,148
Due to other government	11,079	-
Bond interest payable	283,372	-
Bonds payable, due within one year	3,165,000	-
Noncurrent liabilities:		
Bonds payable, due in more than one year	18,165,000	-
Total liabilities	21,625,451	2,148
NET POSITION (DEFICIT)		
Restricted for other governments	\$ (17,367,119)	\$ 221,706

City of Vernon
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2023

	Private-Purpose Trust Fund Successor Agency Trust Fund	Custodial Fund Southeast Water Coalition Joint Powers Authority
ADDITIONS:		
Redevelopment property tax trust fund	\$ 5,560,421	\$ -
Member contributions	-	33,000
Investment income	8,720	856
Total additions	5,569,141	33,856
DEDUCTIONS:		
Community development	1,345,147	-
Contractual services	-	19,620
Professional fees	-	10,965
Policy board compensation	-	5,550
Meeting expense	-	1,137
Interest expense	1,167,310	-
Total deductions	2,512,457	37,272
Change in net position	3,056,684	(3,416)
NET POSITION :		
Beginning of year	(20,423,803)	225,122
End of year	\$ (17,367,119)	\$ 221,706

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Vernon
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For the Year Ended June 30, 2023

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City of Vernon
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City of Vernon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Vernon, California, (the “City”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant policies:

A. Financial Reporting Entity

The City was incorporated on September 16, 1905 under the general laws of the State of California. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. Five Vernon citizens make up the Vernon City Council and each is elected to a five-year term of office. The Mayor position is rotated annually among City Council Members in order of election. The City provides full services to its citizens, including: public safety, public utilities, planning and zoning, and health services.

The financial statements include the financial activities of the City of Vernon, the primary government, and its fiduciary component units which include the Vernon Redevelopment Successor and Southeast Water Coalition.

The City had no discretely presented component units.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Government-Wide Financial Statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. On an accrual basis, revenue from sales taxes is recognized in the period in which the taxable sale takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Fiduciary activities are not included in these statements.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

A Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance are presented for governmental fund. Accompanying schedules are presented to reconcile and explain the differences in fund balance as presented in these statement, to the net position presented in the government-wide financial statements.

Governmental fund is accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Change in Fund Balance presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both “measurable” and “available” to finance expenditures of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, expenditures related to compensated absences, claims and judgments, pension and other post-employment benefits are recorded only when payment is due.

Revenues are recorded when received in cash, except those revenues subject to accrual are recognized when due. Property taxes, taxpayer-assessed tax revenues (e.g., franchise taxes, sales taxes, motor vehicle fees, etc.), net of estimated refunds and uncollectible amounts, and intergovernmental revenues associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent normally collected within the availability period, as defined above.

The City reports one major governmental fund:

- The General Fund is the City's primary operating fund. It used to account for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary Fund Financial Statements

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Electric, Gas, Water, and Fiber Optics Enterprise Funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements (Continued)

The City reports the following major proprietary funds:

- Electric Enterprise Fund - accounts for the operation and maintenance of the City's electric utility plant. Revenues for this fund are primarily from charges for services.
- Gas Enterprise Fund - accounts for the operation and maintenance of the City's gas utility plant. Revenues for this fund are primarily from charges for services.
- Water Enterprise Fund - account for the operation and maintenance 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 proprietary fund for the maintenance and operation of the City's fiber optics utility plant.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City's fiduciary funds represent custodial funds and private purpose trust funds. Both custodial funds and the private purpose trust funds are accounted for on the full accrual basis of accounting where the assets associated with the activity are controlled by the City and the assets are not derived 1) solely from the government's own-source revenues or 2) from government-mandated nonexchange transactions or voluntary nonexchange transactions.

The City reports the following two fiduciary funds:

Vernon Redevelopment Successor Agency Private-Purpose Trust Fund - The Successor Agency for the former Vernon Redevelopment Agency (the "Successor Agency") was established on February 1, 2012 in accordance to the Assembly Bill X1 26 that provides for the dissolution of all redevelopment agencies in the State of California. Effective February 1, 2012, successor agencies in California will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated. The activities of the Successor Agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

Custodial Funds - To account for assets and activities related to the Southeast Water Coalition Joint Powers Agreement.

C. Cash, Cash Equivalents and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. The City pools the main operating cash account. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds each month based on ending cash and investment balances of each fund.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments (Continued)

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining the amount, the City uses the market approach, one of the three acceptable valuation techniques. Market approach uses prices generated for identical or similar assets or liabilities.

D. Fair Value Measurement

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosure about fair value measurement. Investments, unless otherwise specified at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

E. Interfund Transactions

Outstanding short-term borrowing between funds are reported as “due from/to other funds”. Interfund loans are reported as advances to and from other funds and are eliminated upon consolidation. Advances to other funds are presented as nonspendable in General Fund’s fund balance to indicate that they are not in a spendable form. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

F. Inventories and Prepaid Items

Inventories within the various fund types consist of materials and supplies which are valued at cost on a first-in, first-out basis. Reported expenditures reflect the consumption method of recognizing inventory-related expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements by using purchase method.

A nonspendable fund balance has been reported in the governmental fund to show that inventories and prepaid items do not constitute “available spendable resources,” even though they are a component of current assets.

The City 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 services obligation. See Note 11 for further information regarding SCPPA.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Lease Receivable

The City is a lessor for leases of land and recognizes lease receivables and deferred inflows of resources in the financial statements. Variable payments based on future performance or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, the lease receivable is measured at the present value of payments expected to be received during the lease term. The City established a threshold of \$15,000 for lease receivables. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses incremental borrowing rate (IBR) provided by the financial institution at July 1, 2021 for existing leases or the current rate at the time a new lease is executed.
- The lease term includes the noncancelable period of the lease plus any option periods that are likely to be exercised.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

H. Capital Assets

In the government-wide and proprietary fund financial statements, capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Donated capital assets are valued at their acquisition value. 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.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method. The lives used for depreciation purposes are as follows:

Assets	Years
Infrastructures	10-50
Utility Plant and Buildings	25-50
Improvements	10-20
Right-to-use equipment	3
Machinery and equipment	3-35

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

H. 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.

The governmental fund financial statements do not present capital assets. Instead, capital assets purchases are reported as capital outlay expenditures or other functional expenditures such as public works. As such, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.

The City established a threshold to recognize right-to-use assets, including lease assets or subscription-based information technology arrangement (“SBITA”) assets (“subscription assets”), in the government-wide financial statements and proprietary fund financial statements for right-to-use asset over \$15,000.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and adjusted by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the City has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Subscription assets are recorded at the amount of the initial measurement of the SBITA liabilities (“subscription liabilities”) and adjusted by any subscription payments to the SBITA vendor at or before the commencement of the subscription term, less any incentives received from the SBITA vendor at or before the commencement of the subscription term along with subscription implementation costs. Subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying IT assets.

I. Deferred Outflows and Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represents consumption of net assets that applies to future periods.

Deferred Inflows of Resources represents acquisition of net assets that applies to future periods.

J. Unearned and Unavailable Revenue

Unearned revenue is reported for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the government-wide financial statements are grant revenues received in advance.

In the governmental fund financial statements, unavailable revenue is reported when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City reports unavailable revenue when an asset is reported in governmental fund financial statements but the revenue is not available.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

K. 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.

L. Claims Payable

When it is probable that a claim liability has been incurred at year-end and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage, under its self- insurance program. Claims payable, which includes an estimate for incurred but not reported ("IBNR") claims, is recorded in the General Fund.

M. Lease Liabilities

The City recognizes lease liabilities with an initial, individual value of \$15,000 or more with a lease term greater than one year in the government-wide and proprietary fund financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Key estimates and judgments related to leases include how the City determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the State generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

N. Subscription Liabilities

The City recognizes subscription liabilities with an initial, individual value of \$15,000 or more with a subscription term greater than one year in the government-wide and proprietary fund financial statements. Variable payments based on future performance of the City or usage of the underlying asset are not included in the measurement of the subscription liability.

At the commencement of a lease, the City initially measures the subscription liability at the present value of payments expected to be made during the lease term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Subscription Liabilities (Continued)

Key estimates and judgments related to subscription include how the City determines (1) the discount rate it uses to discount the expected v payments to present value, (2) subscription term, and (3) subscription payments.

- The City uses incremental borrowing rate provided by the financial institution at July 1, 2022 for existing subscription or the current rate at the time a new subscription is executed.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments.

The City monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure any subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

O. Long-Term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs except for any portion related to prepaid insurance were recognized as expense in the period incurred. Premium or discount not considered as part of the reacquisition price was amortized over the life of the bond.

The governmental fund financial statements do not present long-term liabilities. Consequently, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

P. Pensions

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

General Fund is used to liquidate pension liabilities for governmental fund.

The following timeframes are used for pension reporting:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

Q. Other Postemployment Benefits (“OPEB”)

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

General Fund is typically used to liquidate OPEB liabilities for governmental funds.

The following timeframes are reported OPEB reporting:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The amortization period differs depending on the sources of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over 5 years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

R. Property Taxes

The County of Los Angeles 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.

Under California law, property taxes are assessed and collected by the counties for up to 1% of assessed property value, plus other increases approved by the voters. Property taxes collected are pooled and then allocated to the cities based on complex formulas. Property taxes are assessed, collected and allocated by Los Angeles County throughout the fiscal year. The following are key dates pertaining to property taxes:

January 1	Lien Date
July 1 to June 30	Levy Date
November 1 and February 1	Due Dates
December 10 and April 10	Delinquent Dates

Property taxes receivable for the governmental fund types, which have been remitted within 60 days subsequent to year end, are considered measurable and available and recognized as revenues. All other property taxes are offset by deferred property tax inflows of resources and, accordingly, have not been recorded as revenue. Taxes are considered past due on the above delinquent dates, at which time the applicable property is subject to lien, and penalties and interest are assessed.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

S. Net Position and Fund Balances

In the Government-Wide Financial Statements and proprietary fund financial statements, net position is classified as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of retention payable and debt that are attributable to the acquisition, construction, or improvement of those assets, and related deferred outflows and inflows of resources, net of unspent debt proceeds.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City’s policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

In the Governmental Fund Financial Statements, fund balances are classified as follows:

Nonspendable – Nonspendable fund balances are items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, or items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City. Adoption of a resolution by the City Council is required to commit resources or to rescind the commitment.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 1 – Summary of Significant Accounting Policies (Continued)

S. Net Position and Fund Balances (Continued)

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the City’s policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

T. 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.

U. Implementation of New GASB Pronouncement

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96), to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. Under this Statement, a government is required to recognize a subscription liability and an intangible right-to-use subscription asset. The effective date of GASB Statement No. 96 is for fiscal years beginning after June 15, 2022. Implementation of this Statement resulted in restatement of beginning balance of capital assets (Note 5) and long-term debt liabilities (Note 6) at July 1, 2022.

Note 2 – Cash and Investments

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds. Certain restricted funds which are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investments with fiscal agents.

The City had the following cash and investments at June 30, 2023:

	Government-Wide		Fiduciary Fund	Total
	Statement of Net Position			
	Governmental Activities	Business-Type Activities	Statement of Net Position	
Cash and investments	\$ 33,979,557	\$ 153,374,024	\$ 889,127	\$ 188,242,708
Restricted cash and investments	2,824,858	36,427,615	3,590,059	42,842,532
Total cash and investments	\$ 36,804,415	\$ 189,801,639	\$ 4,479,186	\$ 231,085,240

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

The City’s cash and investments at June 30, 2023, in more detail:

Cash on hand	\$ 1,300
Deposits with financial institution	55,483,350
Cash with fiscal agents	3,780,628
Investments	<u>171,819,962</u>
Total cash and investments	<u><u>\$ 231,085,240</u></u>

A. Deposits

The carrying amounts of the City’s demand deposits were \$55,483,350 at June 30, 2023. Bank balances at that date were \$56,320,937, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the City’s name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City’s name.

The market value of pledged securities must equal at least 110% of the City’s cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City’s total cash deposits. The City may waive collateral requirements for cash deposits, deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). The City did not waive the collateral requirement for deposits insured by FDIC.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

B. Investments

Under the provisions of the City’s investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investments in One Issuer
United States Treasury Bills, Bonds and Notes	5 Years	None	None
United States Government Sponsored Agency Securities	5 Years	None	None
Local Agency Bonds	5 Years	None	None
California State and Local Agency Bonds	5 Years	30%	None
Negotiable Certificates of Deposit	5 Years	30%	None
Corporate Notes	5 Years	30%	None
Non-Government issued Mortgage-backed pass-through securities, collateralized Mortgage obligations and Asset-backed securities	5 Years	20%	None
Repurchasement Agreement	1 year	None	None
Banker's Acceptance Notes	180 Days	40%	30%
Commercial Paper	270 Days	25%	10% of the issuer outstanding paper
Reverse Repurchase Agreements	92 Days	20%	None
Mutual Funds	N/A	20%	10% of the issuer outstanding paper
Local Agency Investment Fund (LAIF)	N/A	None	None

N/A - Not Applicable

C. Local Agency Investment Fund (“LAIF”)

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. As of June 30, 2023, the City had \$636,435 invested in LAIF. The fair value of the City’s portion in the pool is the same as the value of the pool shares and reported at amortized cost.

D. Fair Value Measurement

At June 30, 2023, investments are reported at fair value. The following table presents the fair value measurements of investments on a recurring basis and the levels with GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2023:

Investment Type	Measurement Input			Total
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Uncategorized	
Local Agency Investment Fund	\$ -	\$ -	\$ 636,435	\$ 636,435
Money Market Funds	-	-	105,047,087	105,047,087
US Treasury bills	29,402,775	-	-	29,402,775
Negotiable Certificates of Deposit*	-	496,620	-	496,620
Investment with fiscal agent:				
Money Market Funds	-	-	36,237,045	36,237,045
Total	\$ 29,402,775	\$ 496,620	\$ 141,920,567	\$ 171,819,962

* Priced based on significant observable inputs.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 2 – Cash and Investments (Continued)

E. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years. At June 30, 2023, the City had the following investment maturities:

Investment Type	Remaining Maturity (In Months)			Total
	1 Year or Less	1 Year to 3 Years	3 Years to 5 Years	
Local Agency Investment Fund	\$ 636,435	\$ -	\$ -	\$ 636,435
Money Market Funds	105,047,087	-	-	105,047,087
US Treasury bills	29,402,775	-	-	29,402,775
Negotiable Certificates of Deposit	-	247,137	249,483	496,620
Investment with fiscal agent:				
Money Market Funds	36,237,045	-	-	36,237,045
Total	\$ 171,323,342	\$ 247,137	\$ 249,483	\$ 171,819,962

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 (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standard and Poor's and Moody's at June 30, 2023 for each investment type:

Investment Type	Fair Value at June 30, 2023	Minimum Legal Rating	Not Required to be Rated	
			AAA	Other
Local Agency Investment Fund	\$ 636,435	Not Rated	\$ -	\$ -
Money Market Funds	105,047,087	AAA	105,047,087	-
US Treasury bills	29,402,775	N/A	29,402,775	-
Negotiable Certificates of Deposit	496,620	N/A	-	496,620
Investment with fiscal agent:				
Money Market Funds	36,237,045	N/A	36,237,045	-
Total	\$ 171,819,962		\$ 170,686,907	\$ 496,620

N/A - Not Required

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer excluding a 10% limitation on commercial papers, mutual funds, and money market mutual funds and a 30% limitation on banker' acceptances. The City's investment policy 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.

Custodial Credit Risk

The 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 deposits or will not be able to recover collateral securities that are in the possession of a third 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 investment or collateral securities that are in the possession of the third party. At June 30, 2023, none of the City's deposits or investments were exposed to custodial credit risk.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 3 – Lease Receivables

Lease receivable consist of agreements with others for the right-to-use of the underlying assets for land owned by the City. The lease expires in January 2061. The incremental borrowing rate used was 2.01%. For the year ended June 30, 2023, the City recognized \$98,569 in lease revenue and \$76,258 in interest revenue for General Fund. The outstanding receivables are in the amounts of \$3,769,599 for General Fund.

The future required payments for these leases, including interest, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 68,058	\$ 74,905	\$ 142,963
2025	69,439	73,524	142,963
2026	70,847	72,115	142,962
2027	72,284	70,678	142,962
2028	73,751	69,212	142,963
2029-2033	391,812	323,001	714,813
2034-2038	433,200	281,614	714,814
2039-2043	478,959	235,855	714,814
2044-2048	529,552	185,262	714,814
2049-2053	585,489	129,325	714,814
2054-2058	647,334	67,479	714,813
2059-2061	348,874	8,532	357,406
Total	\$ 3,769,599	\$ 1,591,502	\$ 5,361,101

Note 4 – Interfund Transactions

A. Due From/To Other Funds

At June 30, 2023, the City had the following due from/to other funds:

	Due From Other Funds			
	Governmental Fund	Proprietary Fund		Total
		Water Enterprise Fund	Fiber Optics Enterprise Fund	
Due to Other Funds	General Fund	Enterprise Fund	Enterprise Fund	Total
Governmental Fund				
General Fund	\$ -	\$ -	\$ 36	\$ 36
Proprietary Fund				
Electric Enterprise Fund	2,934,866	18,247	-	2,953,113
Water Enterprise Fund	110,329	-	-	110,329
Total	\$ 3,045,195	\$ 18,247	\$ 36	\$ 3,063,478

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

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 4 – Interfund Transactions (Continued)

B. Advances To/From Other Funds

At June 30, 2023, the City had the following advances:

	Advances from Other Funds		
	Proprietary Fund		
	Gas Enterprise Fund	Fiber Optics Enterprise Fund	Total
Advances to Other Funds			
Proprietary Fund			
Electric Enterprise Fund	\$ 29,405,104	\$ 4,521,458	\$ 33,926,562

The advances 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.

C. Interfund Transfers

For the year ended June 30, 2023, the Electric Enterprise Fund transferred \$491,542 to the General Fund for the reimbursement of general governmental services.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 5 – Capital Assets

A. Governmental Activities

A summary of changes in the capital assets for the governmental activities for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 (As Restated)	Additions	Deletions	Transfers	Balance June 30, 2023
Capital assets, not being depreciated:					
Land	\$ 63,569,108	\$ -	\$ -	\$ -	\$ 63,569,108
Construction in progress	2,231,978	614,699	-	-	2,846,677
Total capital assets, not being depreciated	65,801,086	614,699	-	-	66,415,785
Capital assets, being depreciated:					
Buildings and improvements	16,772,594	188,238	-	-	16,960,832
Improvements Other Than Buildings	12,209,716	70,734	-	-	12,280,450
Machinery and equipment	16,905,083	1,652,101	(260,619)	-	18,296,565
Infrastructure	159,076,637	1,544,864	-	-	160,621,501
Total capital assets, being depreciated	204,964,030	3,455,937	(260,619)	-	208,159,348
Less accumulated depreciation for:					
Buildings and improvements	(9,605,068)	(407,206)	-	-	(10,012,274)
Improvements Other Than Buildings	(6,577,885)	(374,996)	-	-	(6,952,881)
Machinery and equipment	(12,817,759)	(930,134)	260,619	-	(13,487,274)
Infrastructure	(78,702,463)	(3,632,162)	-	-	(82,334,625)
Total accumulated depreciation	(107,703,175)	(5,344,498)	260,619	-	(112,787,054)
Total capital assets, being depreciated, net	97,260,855	(1,888,561)	-	-	95,372,294
Intangible assets, being amortized					
Right-to-use lease assets	56,857	-	-	-	56,857
Right-to-use subscription assets	67,469	538,544	-	-	606,013
Total intangible assets, being amortized	124,326	538,544	-	-	662,870
Less accumulated amortization for:					
Right-to-use lease assets	(25,270)	(25,270)	-	-	(50,540)
Right-to-use subscription assets	-	(138,167)	-	-	(138,167)
Total accumulated amortization	(25,270)	(163,437)	-	-	(188,707)
Total intangible assets, being amortized, net	99,056	375,107	-	-	474,163
Governmental activities capital assets, net	\$ 163,160,997	\$ (898,755)	\$ -	\$ -	\$ 162,262,242

Depreciation and amortization expense was charged to functions of the governmental activities for the year ended June 30, 2023 as follows:

General government	\$ 638,571
Public safety	262,111
Public works	4,607,253
Total depreciation and amortization expense	\$ 5,507,935

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 5 – Capital Assets (Continued)

B. Business-Type Activities

A summary of changes in the capital assets for the business-type activities for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022	Additions	Deletions	Transfers	Balance June 30, 2023
Capital assets, not being depreciated:					
Electric utility - Land	\$ 13,193,594	\$ -	\$ -	\$ -	\$ 13,193,594
Water utility - Water	467,640	-	-	-	467,640
Electric utility - Intangibles - Environmental credits	4,774,583	160,763	(884,702)	-	4,050,644
Electric utility - Construction in progress	45,453,774	1,287,047	(137,328)	(9,768)	46,593,725
Water utility - Construction in progress	6,914,299	5,933,375	-	(2,204,043)	10,643,631
Fiber Optic utility - Construction in progress	-	266,172	-	-	266,172
Total capital assets, not being depreciated	70,803,890	7,647,357	(1,022,030)	(2,213,811)	75,215,406
Capital assets, being depreciated:					
Electric utility - Production plant	212,362,988	458,731	-	-	212,821,719
Electric utility - Transmission plant	3,616,464	-	-	-	3,616,464
Electric utility - Distribution plant	257,051,650	22,548,011	-	9,768	279,609,429
Electric utility - General plant	9,754,409	305,165	(98,179)	-	9,961,395
Water utility plant	23,730,271	787,837	(14,782)	2,204,043	26,707,369
Gas utility plant	27,200,594	-	(14,803)	-	27,185,791
Fiber Optic utility plant	3,756,609	159,930	-	-	3,916,539
Total capital assets, being depreciated	537,472,985	24,259,674	(127,764)	2,213,811	563,818,706
Less accumulated depreciation for:					
Electric utility - Production plant	(19,391,536)	(14,276,852)	-	-	(33,668,388)
Electric utility - Transmission plant	(2,443,189)	(77,553)	-	-	(2,520,742)
Electric utility - Distribution plant	(92,171,698)	(7,999,264)	-	-	(100,170,962)
Electric utility - General plant	(6,483,727)	(381,141)	78,757	-	(6,786,111)
Water utility plant	(14,844,199)	(575,512)	14,782	-	(15,404,929)
Gas utility plant	(11,821,433)	(706,361)	14,803	-	(12,512,991)
Fiber Optic utility plant	(2,693,449)	(210,161)	-	-	(2,903,610)
Total accumulated depreciation	(149,849,231)	(24,226,844)	108,342	-	(173,967,733)
Total capital assets, being depreciated, net	387,623,754	32,830	(19,422)	2,213,811	389,850,973
Business-type activities capital assets, net	\$ 458,427,644	\$ 7,680,187	\$ (1,041,452)	\$ -	\$ 465,066,379

Depreciation expense was charged to functions of the business-type activities for the year ended June 30, 2023 as follows:

Electric Fund	\$ 22,734,810
Water Fund	575,512
Gas Fund	706,361
Fiber Optic Fund	210,161
Total depreciation and amortization expense	\$ 24,226,844

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities

A. Governmental Activities

A summary of changes in long-term liabilities for governmental activities for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022 (As Restated)	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in More Than One Year
Governmental Activities:						
Lease liabilities	\$ 31,660	\$ -	\$ (25,313)	\$ 6,347	\$ 6,347	\$ -
Subscription liabilities	67,469	538,544	(200,307)	405,706	196,027	209,679
Compensated absences	2,673,930	1,512,554	(1,400,011)	2,786,473	928,824	1,857,649
Claims and judgments	4,940,732	1,529,740	(2,523,658)	3,946,814	1,635,206	2,311,608
Total governmental activities	\$ 7,713,791	\$ 3,580,838	\$ (4,149,289)	\$ 7,145,340	\$ 2,766,404	\$ 4,378,936

Lease liabilities

On July 17, 2021, the City entered into a lease agreement with MRC Smart Technology Solutions for equipment in the amount of \$290,000. The lease agreement has 36 payments of \$2,116 with an interest rate of 0.46%.

The future annual lease payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 6,347	\$ 3	\$ 6,350

Subscription liabilities

The City entered into subscription agreements with various vendors for software. The agreements expire from March 31, 2025 to June 30, 2026 with interest rates range from 2.36% to 3.38%.

The future annual subscription payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 196,027	\$ 12,101	\$ 208,128
2025	202,155	6,514	208,669
2026	7,524	188	7,712
Total	\$ 405,706	\$ 18,803	\$ 424,509

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

A. Governmental Activities (Continued)

Compensated Absences

The compensated absences are liquidated by the General Fund. At June 30, 2023, compensated absences were in the amount of \$2,786,473. Refer to note 7 for more information of these liabilities.

Claims and Judgments

Refer to Note 8 for more information on claims and judgments.

B. Business-Type Activities

The following is a summary of changes in long-term liabilities for business-type activities for the year ended June 30, 2023:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in More Than One Year
Business-Type activities						
<u>Public Borrowings:</u>						
<u>Revenue Bonds:</u>						
2008 Taxable Revenue Bonds - Series A - Electric	\$ 37,895,000	\$ -	\$ (1,025,000)	\$ 36,870,000	\$ 1,120,000	\$ 35,750,000
2012 Taxable Revenue Bonds - Series B - Electric	11,505,000	-	(6,165,000)	5,340,000	1,170,000	4,170,000
2015 Taxable Revenue Bonds - Series A - Electric	111,720,000	-	(22,540,000)	89,180,000	23,520,000	65,660,000
2020 Taxable Revenue Bonds - Series A - Electric	19,305,000	-	-	19,305,000	-	19,305,000
2021 Taxable Revenue Bonds - Series A - Electric	173,815,000	-	(20,380,000)	153,435,000	21,335,000	132,100,000
2022 Taxable Revenue Bonds - Series A - Electric	52,070,000	-	-	52,070,000	4,690,000	47,380,000
2020 Taxable Revenue Bonds - Series A - Water	14,600,000	-	(250,000)	14,350,000	265,000	14,085,000
Total Revenue Bonds	<u>420,910,000</u>	<u>-</u>	<u>(50,360,000)</u>	<u>370,550,000</u>	<u>52,100,000</u>	<u>318,450,000</u>
<u>Unamortized Premiums/(Discounts):</u>						
2008 Taxable Revenue Bonds - Series A - Electric	(2,093)	-	131	(1,962)	-	(1,962)
2012 Taxable Revenue Bonds - Series B - Electric	(69,987)	-	16,797	(53,190)	-	(53,190)
2015 Taxable Revenue Bonds - Series A - Electric	(1,096,863)	-	355,739	(741,124)	-	(741,124)
2020 Taxable Revenue Bonds - Series A - Electric	6,615,877	-	(438,622)	6,177,255	-	6,177,255
2021 Taxable Revenue Bonds - Series A - Electric	25,999,586	-	(6,550,066)	19,449,520	-	19,449,520
2022 Taxable Revenue Bonds - Series A - Electric	10,179,957	-	(732,918)	9,447,039	-	9,447,039
2020 Taxable Revenue Bonds - Series A - Water	535,833	-	(19,080)	516,753	-	516,753
Total Unamortized Premiums/(Discounts)	<u>42,162,310</u>	<u>-</u>	<u>(7,368,019)</u>	<u>34,794,291</u>	<u>-</u>	<u>34,794,291</u>
Total Public Offering	<u>463,072,310</u>	<u>-</u>	<u>(57,728,019)</u>	<u>405,344,291</u>	<u>52,100,000</u>	<u>353,244,291</u>
<u>Direct Borrowing:</u>						
Water Replenishment District Note Payable	1,220,930	-	(139,535)	1,081,395	139,535	941,860
Total Direct Borrowing	<u>1,220,930</u>	<u>-</u>	<u>(139,535)</u>	<u>1,081,395</u>	<u>139,535</u>	<u>941,860</u>
Compensated absences	1,218,405	904,156	(972,577)	1,149,984	383,328	766,656
Total business-Type activities	<u>\$ 465,511,645</u>	<u>\$ 904,156</u>	<u>\$ (58,840,131)</u>	<u>\$ 407,575,670</u>	<u>\$ 52,622,863</u>	<u>\$ 354,952,807</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

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

The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. 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. The total unpaid balance as of June 30, 2023, was \$36,870,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2008A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,120,000	\$ 3,119,029	\$ 4,239,029
2025	1,220,000	3,018,526	4,238,526
2026	1,330,000	2,909,004	4,239,004
2027	1,450,000	2,789,603	4,239,603
2028	1,580,000	2,659,464	4,239,464
2029-2033	10,290,000	10,899,422	21,189,422
2034-2038	15,815,000	5,374,978	21,189,978
2039	4,065,000	174,592	4,239,592
Total	<u>\$ 36,870,000</u>	<u>\$ 30,944,618</u>	<u>\$ 67,814,618</u>

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

On January 10, 2012, the City issued Electric System Revenue Bonds, 2012 Series B, in the amount of \$35,100,000. During the fiscal year ended 2022, a portion of the Electric System Revenue Bonds were refunded with the issuance of the Electric System Revenue Bonds 2022 Series A. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. 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. The total unpaid balance as of June 30, 2023, was \$5,340,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2012B-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,170,000	\$ 302,613	\$ 1,472,613
2025	1,305,000	225,269	1,530,269
2026	1,390,000	140,181	1,530,181
2027	1,475,000	47,938	1,522,938
Total	<u>\$ 5,340,000</u>	<u>\$ 716,001</u>	<u>\$ 6,056,001</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

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

The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. 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. The total unpaid balance as of June 30, 2023, was \$89,180,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2015A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 23,520,000	\$ 3,596,938	\$ 27,116,938
2025	24,585,000	2,530,618	27,115,618
2026	25,780,000	1,341,193	27,121,193
2027	15,295,000	370,904	15,665,904
	<u>\$ 89,180,000</u>	<u>\$ 7,839,653</u>	<u>\$ 97,019,653</u>

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

The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. 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, 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 the City’s outstanding Electric System Revenue Bonds, 2009 Series A, and (iii) to pay costs of issuance of the 2020 Bonds. The total unpaid balance as of June 30, 2023, was \$19,305,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2020A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ -	\$ 965,250	\$ 965,250
2025	-	965,250	965,250
2026	-	965,250	965,250
2027	-	965,250	965,250
2028	-	965,250	965,250
2029-2033	8,450,000	3,812,250	12,262,250
2034-2038	10,855,000	1,411,125	12,266,125
Total	<u>\$ 19,305,000</u>	<u>\$ 10,049,625</u>	<u>\$ 29,354,625</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

\$183,815,000 Electric System Revenue Bonds (2021 Series A)

In December 2021, the City of Vernon issued 2021A Electric System Revenue Bonds in the amount of \$183,815,000 (i) to pay the costs of the acquisition by the City of Vernon of a 134-megawatt natural gas-fired generating facility located within the City limits on land owned by the City, together with certain related electrical interconnection facilities and other assets, property, and contractual rights; (ii) to fund a deposit to the Debt Service Reserve Fund in satisfaction of the Debt Service Reserve Requirement; and (iii) to pay costs of issuance of the 2021 bonds.

The bonds bear interest rates between 4.00%-5.00% that is payable on a semi-annual basis on April 1 and October 1, commencing April 1, 2022. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The total unpaid balance as of June 30, 2023, was \$153,435,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2021A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 21,335,000	\$ 7,405,125	\$ 28,740,125
2025	22,400,000	6,325,000	28,725,000
2026	23,530,000	5,190,875	28,720,875
2027	31,255,000	3,917,875	35,172,875
2028	54,915,000	2,059,375	56,974,375
Total	<u>\$ 153,435,000</u>	<u>\$ 24,898,250</u>	<u>\$ 178,333,250</u>

\$52,070,000 Electric System Revenue Bonds (2022 Series A)

In December 2021, the City of Vernon issued 2022A Electric System Revenue Bonds in the amount of \$52,070,000 to refund the 2012A Electric System Revenue Bonds, a portion of the 2012B Electric Revenue Bonds, and provide for the costs of issuing the bonds.

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, 2022 Series A were issued to (i) refund and defease all of the City’s outstanding Electric System Revenue Bonds, 2012 Series A and a portion of the City’s outstanding Electric System Revenue bonds, 2012 Taxable Series B and (ii) pay costs of issuance of the 2022 Bonds.

The bonds bear interest rates between 4.00%-5.00% that is payable on a semi-annual basis beginning February 1 and August 1, commencing on August 1, 2022. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The total unpaid balance as of June 30, 2023, was \$52,070,000.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

\$52,070,000 Electric System Revenue Bonds (2022 Series A) (Continued)

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2022A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 4,690,000	\$ 2,486,250	\$ 7,176,250
2025	4,885,000	2,246,875	7,131,875
2026	5,130,000	1,996,500	7,126,500
2027	5,405,000	1,733,125	7,138,125
2028	950,000	1,574,250	2,524,250
2029-2033	5,540,000	7,087,250	12,627,250
2034-2038	7,110,000	5,513,750	12,623,750
2039-2042	18,360,000	2,157,750	20,517,750
Total	<u>\$ 52,070,000</u>	<u>\$ 24,795,750</u>	<u>\$ 76,865,750</u>

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

The bonds are special obligation bonds which are secured by an irrevocable pledge of water revenues payable to bondholders. 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 total unpaid balance as of June 30, 2023, was \$14,350,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2020A-T are as followed:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 265,000	\$ 562,850	\$ 827,850
2025	275,000	549,350	824,350
2026	-	542,475	542,475
2027	-	542,475	542,475
2028	-	542,475	542,475
2029-2033	1,985,000	2,464,250	4,449,250
2034-2038	2,180,000	1,943,625	4,123,625
2039-2043	2,680,000	1,445,000	4,125,000
2044-2048	3,180,000	940,625	4,120,625
2049-2051	3,785,000	331,188	4,116,188
Total	<u>\$ 14,350,000</u>	<u>\$ 9,864,313</u>	<u>\$ 24,214,313</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

B. Business-Type Activities (Continued)

Water Replenishment District 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. The total unpaid balance as of June 30, 2023, was \$1,081,395.

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.

The future annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 139,535	\$ -	\$ 139,535
2025	139,535	-	139,535
2026	139,535	-	139,535
2027	139,535	-	139,535
2028	139,535	-	139,535
2029-2031	383,720	-	383,720
Total	<u>\$ 1,081,395</u>	<u>\$ -</u>	<u>\$ 1,081,395</u>

Compensated Absences

The balance outstanding at June 30, 2023, was \$1,149,984. See note 7 for details.

C. Fiduciary Funds

The following long-term obligations were approved by California State Department of Finance as enforceable obligations and were considered as accounting liabilities in accordance with GAAP.

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in More Than One Year
Fiduciary Activities:						
<u>Public Offering</u>						
2005 Industrial Redevelopment Project Tax Allocation Bonds	\$ 30,785,000	\$ -	\$(30,785,000)	\$ -	\$ -	\$ -
2011 Industrial Redevelopment Project Tax Allocation Bonds	8,130,000	-	(8,130,000)	-	-	-
2022 Tax Allocation Refunding Bonds	-	21,330,000	-	21,330,000	3,165,000	18,165,000
Total fiduciary activities	<u>\$ 38,915,000</u>	<u>\$ 21,330,000</u>	<u>\$(38,915,000)</u>	<u>\$ 21,330,000</u>	<u>\$ 3,165,000</u>	<u>\$ 18,165,000</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Funds (Continued)

2005 Industrial redevelopment Project Tax Allocation Bonds

In October 2005, the Redevelopment Agency of the City issued the 2005 Industrial redevelopment Project Tax Allocation Bonds in the amount of \$49,420,000. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. 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%.

In July 2022, the 2005 Industrial redevelopment Project Tax Allocation Bonds were current refunded by 2022 Taxable Tax Allocation Refunding Bonds and fully redeemed on July 25, 2022.

2011 Industrial redevelopment Project Tax Allocation Bonds

In March 2011, the Redevelopment Agency of the City issued the 2011 Industrial redevelopment Project Tax Allocation Bonds in the amount of \$19,490,000. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. 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 Projects, (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%.

In July 2022, the 2011 Industrial redevelopment Project Tax Allocation Bonds were current refunded by 2022 Taxable Tax Allocation Refunding Bonds and fully redeemed on July 25, 2022.

2022 Taxable Tax Allocation Refunding Bonds

In July 2022, the Successor Agency of the former Redevelopment Agency of the City issued the 2022 Taxable Tax Allocation Refunding Bonds in the amount of \$21,330,000 to current refund the City’s 2005 Industrial Redevelopment Project Tax Allocation Bonds and 2011 Industrial Redevelopment Project Tax Allocation Bonds. The current refunding resulted in an saving in debt service payments of \$11,666,099 and economic gain in the of \$2,387,082.

The bonds bear interest at rates between 3.489% and 4.431%. Interest on the bonds is payable annually on each March 1 and September 1. Principal payments are due in annual installments ranging from \$3,165,000 to \$4,030,000, commencing September 1, 2023 through September 1, 2028. The bonds are not subject to redemption prior to maturity. The refunding revenue bonds debt service payments will be made from the debt service funds.

The annual debt service requirements for the Taxable Tax Allocation Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2024	\$ 3,165,000	\$ 794,903	\$ 3,959,903
2025	3,445,000	677,008	4,122,008
2026	3,625,000	543,802	4,168,802
2027	3,820,000	395,560	4,215,560
2028	4,030,000	230,814	4,260,814
2029	3,245,000	71,893	3,316,893
Total	<u>\$ 21,330,000</u>	<u>\$ 2,713,980</u>	<u>\$ 24,043,980</u>

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 6 – Long-Term Liabilities (Continued)

C. Fiduciary Funds (Continued)

2022 Taxable Tax Allocation Refunding Bonds (Continued)

The 2022 Taxable Tax Allocation Refunding Bonds are secured by the Pledged Tax Revenues deposited in the Redevelopment Property Tax Trust Fund. The pledged tax revenues are to be used solely for the repayment of principal and interest on the bonds until they are paid in full through September 1, 2028 and are not available for other purposes during the duration that the bonds are outstanding. The total principal and interest remaining is approximately \$24,043,980. Management expects that pledged tax revenues will be sufficient to make future principal and interest payments on the bonds.

D. 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 when no event of default exists under the Indenture. As at June 30, 2023, this fund has a balance of \$40,161,516.

E. 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.

F. Credit Rating

As of June 30, 2023, the ratings on all Electric System Revenue Bonds is Baa1 stable by Moody's and BBB+ stable by S&P and the ratings on all Water System Revenue Bonds is A- by S&P.

Note 7 – Compensated Absences

Under certain circumstances and accordingly to the negotiated labor agreements, City employees are allowed to accumulate annual leave. The annual leave amount is accrued and accounted for as compensated absences in the government-wide and proprietary fund statements.

The following is a summary of compensated absences payable transactions for the year ended June 30 2023:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in More Than One Year
Governmental activities:						
Compensated absences	\$ 2,673,930	\$ 1,512,554	\$ (1,400,011)	\$ 2,786,473	\$ 928,824	\$ 1,857,649
Business-type activities						
Compensated absences	\$ 1,218,405	\$ 904,156	\$ (972,577)	\$ 1,149,984	\$ 383,328	\$ 766,656

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 7 – Compensated Absences (Continued)

The General Fund is used to liquidate the compensated absences for governmental activities. The Enterprise Funds are used to liquidate the compensated absences for business-type activities.

Note 8 – Risk Management

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

A summary of the insurance limits for fiscal year 2023 are as follows:

Insurance Type	Program Limits	Deductible/SIR (Self-Insured Retention)
1st Excess Liability	\$5,000,000	\$2 Million \$3 Million Law Enforcement
2nd Excess Liability	\$5,000,000	\$5,000,000
3rd Excess Liability	\$5,000,000	\$10,000,000
4th Excess Liability	\$5,000,000	\$15,000,000
Excess Workers Compensation	\$50,000,000	\$1,000,000
Property - Power Generating	\$100,000,000	\$1.5 Million Presumptive Loss Various
Property - Residential	\$7,950,653	\$2,500
Property - Municipal	\$59,614,930	\$25,000
Commercial Property/EQ and FL	\$50,000,000	-
Government Crime	\$1,000,000	\$25,000
Premise Pollution/Environmental Impairment	\$5,000,000 \$5,000,000 per Claim	\$25,000 \$50,000 Utility Locs.
Cyber Liability	\$5,000,000	\$100,000 Natural Gas Pipeline \$100,000
Auto Physical Damage	\$10,000,000	\$5,000
Residential Property Insurance	\$7,950,653	\$2,500
Terrorism	\$100 Million Property Terrorism \$5 Million Terrorism Liability \$5 Million Active Shooter	\$0
Special Events	\$2,000,000	\$1,000,000 Each Occurrence

Changes in the balances of claims liabilities during the past three years are as follows:

Year Ended	Balance at July 1	Current Year Claims and Changes in Estimates	Current Year Claim Payments	Balance at June 30
June 30, 2021	\$ 3,840,080	\$ 836,537	\$ (1,267,245)	\$ 3,409,372
June 30, 2022	3,409,372	2,831,928	(1,300,568)	4,940,732
June 30, 2023	4,940,732	1,529,740	(2,523,658)	3,946,814

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan

A. General Information about the Pension Plan

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 12 for further information.

Plan Description

The City contribution to the California Public Employees Retirement System (“CalPERS”), an agent multiple-employer defined benefit pension plan for miscellaneous employees and a cost-sharing multiple-employer defined benefit plan for safety employees. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2021 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions under both plans are established by State Statute and City Resolution as follows:

	Miscellaneous	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 yrs	52 yrs
Monthly benefits, as a % of eligible compensation	2.0%-2.7%, 50 yrs - 55 yrs, respectively	1.0%-2.0%, 52 yrs - 62 yrs, respectively
Required employee contribution rate (FY22-23)	8.00%	6.25%
Required employer contribution rate (FY22-23)	11.50%	11.50%
Required employer contribution rate (FY21-22)	11.38%	11.38%

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Benefits Provided (Continued)

	Safety	
	Classic	PEPRA
	Prior to	On or After
Hire date	January 1, 2013	January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 yrs	50 yrs
Monthly benefits, as a % of eligible	3%, 50 yrs	2.0% - 2.7% 50 yrs - 57 yrs, respectively
Required employee contribution rate (FY22-23)	9.00%	13.75%
Required employer contribution rate (FY22-23)	23.39%	20.70%
Required employer contribution rate (FY21-22)	22.78%	22.78%

Participants are eligible for non-industrial disability retirement if they become disabled and have at least 5 years credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service years.

Industrial disability benefits are not offered to miscellaneous employees. The City provides industrial disability retirement benefits to safety employees only. The industrial disability retirement benefit is a monthly allowance equal to 50 percent of final compensation.

An employee's beneficiary may receive the basic death benefit if the employee becomes deceased while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis up to 2 percent.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	Plans	
	Miscellaneous	Safety
Active employees	144	43
Transferred and terminated employees	186	141
Retired employees and beneficiaries	200	291
Total	530	475

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law (“PERL”) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

Actuarial Methods and Assumption Used to Determine Total Pension Liability

The June 30, 2021 valuation was rolled forward to determine the June 30, 2022 total pension liability, based on following actuarial methods and assumptions:

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS’ Membership Data for all Funds.
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection. Allowance floor on purchasing power applies, 2.30% thereafter.

⁽¹⁾The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 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 November 2021 that can be found on the CalPERS website.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

B. Net Pension Liability (Continued)

Change of Assumptions

Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

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. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 basis points.

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

Asset Class ¹	Assumed Asset Allocation	Real Return ^{1,2}
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.80%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
	100.00%	

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. 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
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

C. Changes in the Net Pension Liability

The following table shows the changes in net pension liability for the City’s Miscellaneous Plan recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2021 (Valuation Date)	\$ 194,345,530	\$ 166,076,674	\$ 28,268,856
Changes Recognized for the Measurement Period:			
Service cost	3,251,213	-	3,251,213
Interest on the total pension liability	13,576,496	-	13,576,496
Changes of benefit terms	-	-	-
Changes of assumptions	6,500,648	-	6,500,648
Difference between expected and actual experience	73,961	-	73,961
Net plan to plan resource movement	-	-	-
Contributions from the employer	-	5,956,560	(5,956,560)
Contributions from employees	-	1,439,715	(1,439,715)
Net investment income	-	(12,217,103)	12,217,103
Benefit payments, including refunds of employee contributions	(11,569,889)	(11,569,889)	-
Administrative expense	-	(103,456)	103,456
Net Changes during July 1, 2021 to June 30, 2022	11,832,429	(16,494,173)	28,326,602
Balance at June 30, 2022 (Measurement Date)	\$ 206,177,959	\$ 149,582,501	\$ 56,595,458

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the City’s safety plan’s proportionate share of the risk pool collective net pension liability over the measure period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at 6/30/21 (Valuation Date)	\$ 294,876,901	\$ 235,115,101	\$ 59,761,800
Balance at 6/30/22 (Measurement Date)	307,584,651	206,457,603	101,127,048
Net Changes during 2021-2022	12,707,750	(28,657,498)	41,365,248

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2021). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

C. Changes in the Net Pension Liability (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2022). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2022 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2021-2022).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of market value assets.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense are allocated based on the City's share of net pension liability at the end of measurement date.

The City's proportionate share of the net pension liability was as follows:

	Safety Plan
June 30, 2021	1.1050%
June 30, 2022	0.8755%
Change - Increase (Decrease)	-0.2295%

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

The following presents the net pension liability of the plans as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous Plan	\$ 86,296,598	\$ 56,595,458	\$ 32,344,481
Safety Plan	\$ 143,604,007	\$ 101,127,048	\$ 66,411,730

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

C. Changes in the Net Pension Liability (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued CalPERS financial report.

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2023, the City recognized pension expense (credit) in the amounts of \$9,037,689 and \$(4,806,121) for the miscellaneous plan and safety plan, respectively.

As of measurement date of June 30, 2022, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution made after measurement period	\$ 6,946,066	\$ -
Changes of assumptions	4,259,045	-
Difference between expected and actual experience	638,538	-
Net difference between projected and actual earning on pension plan investments	8,069,881	-
Total	\$ 19,913,530	\$ -

Safety Plan		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution made after measurement period	\$ 9,178,981	\$ -
Changes of assumptions	10,196,668	-
Difference between expected and actual experience	4,185,281	(1,098,160)
Net difference between projected and actual earning on pension plan investments	15,969,375	-
Adjustment due to differences in proportions	3,011,462	-
Difference between City contributions and proportionate share of contributions	-	(6,795,692)
Total	\$ 42,541,767	\$ (7,893,852)

The amounts above are net of outflows and inflows recognized in the 2021-2022 measurement period expense.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the Miscellaneous Plan and the Safety Plan risk pool for the 2021-22 measurement period is 2.9 and 3.7 years, which was obtained by dividing the total service years of 1,560 and 574,655 (the sum of remaining service lifetimes of the active employees) by 530 and 153,587 (the total number of participants: active, inactive, and retired), respectively.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 9 – Pension Plan (Continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

\$6,946,066, and \$9,178,981 reported as deferred outflows of resources related to pensions for miscellaneous plan and safety plan, respectively, resulting from the City’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability and collectively net pension liability, respectively, in the year ending June 30, 2024.

Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in the future pension expense as follows:

Measurement Period Ending June 30	Deferred Outflows/(Inflows) of Resources	
	Miscellaneous	Safety
2023	\$ 4,308,400	\$ 7,231,853
2024	3,298,754	5,346,795
2025	658,038	3,148,764
2026	4,702,272	9,741,522
Total	\$ 12,967,464	\$ 25,468,934

Note 10 – Other Postemployment Benefits (“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 Memorandum of Understanding (“MOU”) 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).

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Other Postemployment Benefits (“OPEB”) (Continued)

A. General Information about the OPEB Plan (Continued)

Benefits Provided (Continued)

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 service have been with the City of Vernon. Resolution 2011-127 sets forth the MOU 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 MOU and the Vernon Police Officers’ Benefit Association MOU. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be nonvested 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.

Eligibility

All of the Plan’s employees became participants in accordance with a negotiated Memorandum of Understanding (“MOU”) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. At June 30, 2022 valuation date, the following numbers of participants were covered by the benefit terms:

Active plan members	209
Inactive plan members currently receiving benefits	128
Inactive plan members entitled to but not receiving benefits	15
Total	352

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, 2023, the City contributed \$1,538,693 to the trust, paid \$1,572,048 for retiree premiums, resulting in a total contribution of \$3,110,741.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Other Postemployment Benefits (“OPEB”) (Continued)

B. Net OPEB Liability

The OPEB liability was measured as of June 30, 2022, and total liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Significant Actuarial Assumptions Used for Total OPEB Liability

The total OPEB liability, measured as of June 30, 2022, was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Asset Valuation Method	Market value of assets
Inflation	2.30%
Salary Increases	2.80% wage inflation plus seniority, merit, and promotion salary increases based on CalPERS Expenditure Study and Review of Actuarial Assumptions published in November 2021
Long Term return on Assets	6.00%
Discount Rate	6.00%
Mortality Improvement	CalPERS 2021 Experience Study; Project with MP Scale
Healthcare Trend	Based on 2022 Getzen model with in inflation rate of 7.00% non-Medicare / 5.50% Medicare decreasing gradually to an ultimate rate of 3.73% by 2075

Change in assumptions

Discount rate changed from 6.25% at June 30, 2021 to 6.00% at June 30, 2022. Healthcare trend rate assumption and mortality improvement scale were updated.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Expected Long-Term Rates of Return

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	49.00%	4.50%
Fixed Income	23.00%	1.40%
Global Real Estate (REITs)	20.00%	3.70%
Treasury Inflation Protected Securities (TIPS)	5.00%	0.50%
Commodities	3.00%	1.10%
Total	100.00%	

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Other Postemployment Benefits (“OPEB”) (Continued)

C. Changes in Net OPEB Liability

The following presents the changes in the net OPEB liability for the governmental activities’ Retiree Health Plan:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2021	\$ 27,389,842	\$ 11,016,209	\$ 16,373,633
Changes Recognized for the Measurement Period:			
Service Cost	365,851	-	365,851
Interest on the total OPEB liability	1,689,071	-	1,689,071
Investment income	-	(1,612,431)	1,612,431
Employer contribution	-	3,022,275	(3,022,275)
Changes of benefit terms	(78,332)	-	(78,332)
Administrative expenses	-	(2,903)	2,903
Benefit payments	(1,483,582)	(1,483,582)	-
Assumption changes	565,573	-	565,573
Plan experience	(1,122,750)	-	(1,122,750)
Net Changes during July 1, 2021 to June 30, 2022	(64,169)	(76,641)	12,472
Balance at June 30, 2022 (Measurement Date)	<u>\$ 27,325,673</u>	<u>\$ 10,939,568</u>	<u>\$ 16,386,105</u>

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

The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.00 percent) or 1percentage- point higher (7.00 percent) than the current discount rate:

Sensitivity of the Net OPEB Liability to Change in the Discount Rate (Continued)

Plan's Net OPEB Liability		
Discount Rate -1% (5.00%)	Current Discount Rate (6.00%)	Discount Rate +1 % (7.00%)
\$ 19,491,170	\$ 16,386,105	\$ 13,782,951

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the total OPEB liability of the City, as well as what the City’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

Plan's Net OPEB Liability		
Healthcare Cost Trend Rate - 1%	Healthcare Cost Trend Rate	Healthcare Cost Trend Rate + 1%
\$ 15,196,487	\$ 16,386,105	\$ 17,537,069

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 10 – Other Postemployment Benefits (“OPEB”) (Continued)

C. Changes in Net OPEB Liability (Continued)

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

For the measurement period ended June 30, 2022, the City recognized OPEB credit of \$(701,650). At June 30, 2023, 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
Contribution made after measurement period	\$ 3,110,741	\$ -
Changes in assumptions	827,520	(2,568,416)
Difference between expected and actual experience	105,096	(3,461,620)
Net difference between projected and actual earning on OPEB plan investments	1,033,627	-
Total	\$ 5,076,984	\$ (6,030,036)

The \$3,110,741 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2022 measurement date will be recognized as a reduction of the net OPEB liability during the year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as expense as follows:

Measurement Period Ending June 30	Deferred Outflows/(Inflows) of Resources
2023	\$ (1,954,015)
2024	(1,940,223)
2025	(238,356)
2026	315,330
2027	(166,934)
Thereafter	(79,595)
Total	\$ (4,063,793)

Note 11 – Southern California Public Power Authority

The Southern California Public Power Authority (the “SCPPA”) was formed in 1980 as a not for profit joint powers agency. SCPPA is currently comprised of 11 Southern California cities and an irrigation district. The SCPPA’s purpose is planning, financing, acquiring, constructing, and operating of projects that generate or transmit electric energy for sale to its participants. The joint powers agreement has a term expiring in 2030 or such later date as all bonds and notes of SCPPA and interest thereon have been paid in full or adequate provisions for payments have been made. A copy of SCPPA’s audited financial statements can be reviewed on their website at www.scppa.org or can be obtained by written request at 1160 Nicole Ct Glendora, CA 91740.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Southern California Public Power Authority (Continued)

A. Take or Pay Contract

The SCPPA's interest of 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 SCPPA, is responsible for financing its share of construction and operating costs. The City has the following "take or pay" contract with the SCPPA:

Palo Verde Project

The SCPPA purchases a 5.91% interest in the Palo Verde Nuclear Generating Station (the "Station"), a nuclear-fired generating station near Phoenix, Arizona, from 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 SCPPA's interest in the station.

Between 1983 and 2008, the SCPPA issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the SCPPA's share of the Station and related transmission right. The bonds are not obligations of any member of the SCPPA or public agency other than the SCPPA. Under a power sales contract with the SCPPA, the City is obliged 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 2023 was \$3,730,000. The City expects no significant increases in costs related to its nuclear resources.

B. Power Purchase Commitments

The SCPPA 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 of energy. The City has entered into power purchase agreements with the SCPPA related to the following projects:

Astoria 2 Solar Project

On July 23, 2014, the SCPPA entered into a power purchase agreement with Recurrent Energy for solar energy from the Astoria 2 Solar Project. SCPPA is entitled to 35 MW of photovoltaic generating capacity from commercial operation to December 31, 2021 and 45 MW of generating capacity from January 1, 2022 until the expected expiration date of December 31, 2036. The commercial operation date was December 2016. Power and Water Resources Pooling SCPPA, Lodi, Corona, Moreno Valley, and Rancho Cucamonga, are each buying the output of a separate portion of the facility, which is located in Kern County, California. SCPPA has purchase options in the 10th, 15th, and 20th Contract Years. The project is forecasted to start at a capacity factor of 31% with a 0.5% annual degradation. ACES Power Marketing is the third-party scheduling coordinator for the project. The City contracted to purchase 57.1429% until December 31, 2021, and 66.6667% thereafter, of the output. The City's proportionate share of costs for fiscal year 2023 was \$10,114,000.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Southern California Public Power Authority (Continued)

B. Power Purchase Commitments (Continued)

Puente Hills Landfill Gas-to-Energy Project

On June 25, 2014, the SCPPA 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 SCPPA on January 1, 2017 for a term of 10 years. The City contacted to purchase 23.2558% of the output. The City's proportional share of the costs during fiscal year 2023 was \$6,616,000.

Antelope DSR 1 Solar Project

On July 16, 2015, the SCPPA, 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's proportionate share of costs during fiscal year 2023 was \$6,124,000.

Hoover Dam Hydroelectric Power Plant

The Hoover Dam Hydroelectric Power Plant is located on the Arizona-Nevada border, approximately 25 miles southeast of Las Vegas. This hydropower plant is part of the larger Hoover Dam facility, which was completed in 1935 and controls the flow of the Colorado River. The Hoover Dam facility consists of 17 generating units and two service generating units with a total installed capacity of 2,080 MW. In 1987, Vernon entered a power purchase agreement to purchase 22 MW of firm capacity from the Western Area Power Administration. SCPPA and other contractor allocations of Hoover power have been extended for 50 years beyond the power purchase agreement's original expiration in 2017, which now expires in 2067. The City's proportionate share of costs during fiscal year 2023 was \$574,973.

Desert Harvest 2 REC Solar PV Project

On December 17, 2020, SCPPA executed a power purchase agreement with EDF Renewables for 70 MW of solar PV capacity from the Desert Harvest 2 Solar PV project. The project is a fixed-tilt PV system that interconnects at the Marketplace substation and is located on 1,200 acres of Bureau of Land Management land in Desert Center, California. The REC + Index agreement serves the cities of Anaheim, Burbank, and Vernon. VPU is entitled to 17.14 percent of the Project's output or about 12 MW. This power purchase agreement, which expires at the end of 2045, only provides renewable energy credits (RECs). The City's proportionate share of costs during fiscal year 2023 was \$627,755.

Sapphire Solar Project

On January 17, 2023, the SCPPA, entered into a power purchase agreement with EDF Renewables North America for 39 MW solar power and up to approximately 19.7 MW of battery storage with associated green attributes through the Sapphire Solar Project for a projected annual amount of \$6,665,000 over a 20-year term. The expected start date of the project is December 31, 2025.

City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2023

Note 11 – Southern California Public Power Authority (Continued)

B. Power Purchase Commitments (Continued)

Daggett Solar PV and BESS Project

The Daggett Solar plus BESS project is a single-axis tracker 65 MW solar with a 33 MW 4-hour Lithium-Ion BESS. The commercial operation date was December 12, 2023. The project, located in the City of Daggett in San Bernardino County, is a portion of an approximately 482 MW solar PV facility. The project is being developed by Clearway Energy Group and is owned by Daggett Solar Power 2 LLC.

On June 24, 2022, SCPPA executed a PPA for 65 MW for the cities of Vernon and Cerritos. The PPA entitles VPU to 60 MW of solar PV output and 30 MW of energy storage. The commercial operation date was December 12, 2023. The power purchase agreement expires on December 31, 2044.

Note 12 – Commitment and Contingencies

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 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 4% 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 1%. During the seventh year of the agreement and each subsequent fiscal year, the annual fee limitation shall be the average of the immediate preceding five years’ percentage increases in the Annual Fee of 1%. Additionally, there are conversion costs that will be paid in 36 equal monthly payments. The agreement shall remain in effect for a minimum of 10 years, subsequently it will be renewed for one-year period. Either party may terminate this agreement any time after the expiration of the initial 10-year period term upon one year’s written notice. The contract costs for the year ended June 30, 2023 was totaled \$14,326,351.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

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City of Vernon
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2023

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Taxes	\$ 55,256,414	\$ 55,256,414	\$ 59,628,704	\$ 4,372,290
Special assessments	127,200	127,200	273,830	146,630
Licenses and permits	1,203,000	1,203,000	1,878,995	675,995
Fines, forfeitures, and penalties	2,336,900	2,336,900	2,387,396	50,496
Intergovernmental	7,640,962	7,640,962	2,353,070	(5,287,892)
Investment earnings	85,000	85,000	414,374	329,374
Charges for services	11,312,934	11,312,934	10,245,375	(1,067,559)
Rent income	551,500	551,500	519,373	(32,127)
Other revenues	393,000	393,000	1,043,247	650,247
Total revenues	<u>78,906,910</u>	<u>78,906,910</u>	<u>78,744,364</u>	<u>(162,546)</u>
EXPENDITURES:				
Current:				
General government	16,320,525	16,487,525	15,630,351	857,174
Public safety	36,124,377	36,346,405	33,860,124	2,486,281
Public works	11,510,917	11,510,917	9,695,296	1,815,621
Health services	2,170,356	2,170,356	1,691,036	479,320
Capital outlay	18,939,150	19,084,997	4,593,430	14,491,567
Debt service:				
Principal retirement	225,620	225,620	225,620	-
Interest and fiscal charges	1,487	1,487	1,487	-
Total expenditures	<u>85,292,432</u>	<u>85,827,307</u>	<u>65,697,344</u>	<u>20,129,963</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(6,385,522)</u>	<u>(6,920,397)</u>	<u>13,047,020</u>	<u>19,967,417</u>
OTHER FINANCING SOURCES:				
Transfer in	799,329	799,329	491,542	(307,787)
Proceeds from sale of capital asset	-	-	67,582	67,582
Issuance of debt	-	-	538,544	538,544
Total other financing sources	<u>799,329</u>	<u>799,329</u>	<u>1,097,668</u>	<u>298,339</u>
NET CHANGE IN FUND BALANCE	<u>\$ (5,586,193)</u>	<u>\$ (6,121,068)</u>	<u>14,144,688</u>	<u>\$ 20,265,756</u>
FUND BALANCE:				
Beginning of year			<u>27,847,091</u>	
End of year			<u>\$ 41,991,779</u>	

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City of Vernon
Required Supplementary Information (Unaudited)
Notes to the Budgetary Comparison Schedule
For the Year Ended June 30, 2023

Budgetary Information

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 through City Council action. 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 2023. Encumbrances carried forward from the prior year are reflected in the original budget.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

California Public Employees' Retirement System Defined Pension Plan - Miscellaneous Plan

Fiscal year	2015	2016	2017	2018	2019
Measurement period	2013-14 ¹	2014-15	2015-16	2016-17	2017-18
Total pension liability					
Service cost	\$ 1,955,694	\$ 1,962,270	\$ 2,129,659	\$ 2,432,788	\$ 2,826,440
Interest	9,609,274	9,447,012	9,969,103	10,383,859	11,053,679
Differences between expected and actual experience	-	(9,700,904)	1,046,363	(711,339)	3,059,775
Changes of assumptions	-	(2,466,126)	-	9,321,776	(549,432)
Benefit payments, including refunds of employee contributions	(2,388,449)	(5,680,624)	(5,748,657)	(6,145,366)	(6,166,082)
Net change in total pension liability	9,176,519	(6,438,372)	7,396,468	15,281,718	10,224,380
Total pension liability - beginning	128,340,045	137,516,564	131,078,192	138,474,660	153,756,378
Total pension liability - ending (a)	\$ 137,516,564	\$ 131,078,192	\$ 138,474,660	\$ 153,756,378	\$ 163,980,758
Pension fiduciary net position					
Contributions - employer	\$ 1,825,732	\$ 2,340,002	\$ 3,140,644	\$ 3,629,603	\$ 3,380,432
Contributions - employee	1,015,741	1,054,426	1,095,824	1,245,990	1,214,616
Net investment income	16,045,243	2,337,855	583,692	11,857,647	9,803,260
Benefit payments, including refunds of employee contributions	(2,388,449)	(5,680,624)	(5,748,657)	(6,145,366)	(6,166,082)
Net plan to plan resources movement	-	18	(780)	1,118	(296)
Administrative expense	-	(124,052)	(67,200)	(161,327)	(186,518)
Other miscellaneous income/expense	-	-	-	-	(354,202)
Net change in plan fiduciary net position	16,498,267	(72,375)	(996,477)	10,427,665	7,691,210
Plan fiduciary net position - beginning²	93,838,356	110,336,623	110,264,248	109,267,771	119,695,436
Plan fiduciary net position - ending (b)	\$ 110,336,623	\$ 110,264,248	\$ 109,267,771	\$ 119,695,436	\$ 127,386,646
Plan net pension liability - ending (a) - (b)	\$ 27,179,941	\$ 20,813,944	\$ 29,206,889	\$ 34,060,942	\$ 36,594,112
Plan fiduciary net position as a percentage of the total pension liability	80.24%	84.12%	78.91%	77.85%	77.68%
Covered payroll³	\$ 11,084,188	\$ 11,708,057	\$ 13,150,103	\$ 13,440,076	\$ 15,146,241
Plan net pension liability as a percentage of covered payroll	245.21%	177.77%	222.10%	253.43%	241.61%

¹ Historical information is presented only for measurement periods for which GASB 68 is implemented in 2013-14. Additional years of information will be displayed as it becomes available.

² Additionally, CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

³ Includes one year's payroll growth using 2.80% payroll growth assumption for fiscal year ended June 30, 2022; 2.75% payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00% payroll growth assumption for fiscal years ended June 30, 2014-17.

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15% for measurement dates 2017 through 2021, 7.65% for measurement dates 2015 through 2016, and 7.50% for measurement date 2014.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

California Public Employees' Retirement System Defined Pension Plan - Miscellaneous Plan (Continued)

Fiscal year ended	2020	2021	2022	2023
Measurement period	2018-19	2019-20	2020-21	2021-22
Total pension liability				
Service cost	\$ 2,991,388	\$ 2,905,980	\$ 2,735,636	\$ 3,251,213
Interest	11,863,069	12,502,379	13,153,255	13,576,496
Differences between expected and actual experience	3,767,030	1,316,307	1,777,340	73,961
Changes of assumptions	-	-	-	6,500,648
Benefit payments, including refunds of employee contributions	(6,652,881)	(7,720,453)	(8,274,278)	(11,569,889)
Net change in total pension liability	11,968,606	9,004,213	9,391,953	11,832,429
Total pension liability - beginning	163,980,758	175,949,364	184,953,577	194,345,530
Total pension liability - ending (a)	<u>\$ 175,949,364</u>	<u>\$ 184,953,577</u>	<u>\$ 194,345,530</u>	<u>\$ 206,177,959</u>
Pension fiduciary net position				
Contributions - employer	\$ 3,908,165	\$ 4,501,532	\$ 4,979,542	\$ 5,956,560
Contributions - employee	1,357,537	1,271,580	1,161,711	1,439,715
Net investment income	8,077,977	6,484,512	30,012,771	(12,217,103)
Benefit payments, including refunds of employee contributions	(6,652,881)	(7,720,453)	(8,274,278)	(11,569,889)
Net plan to plan resources movement	-	-	-	-
Administrative expense	(90,906)	(188,889)	(138,188)	(103,456)
Other miscellaneous income/expense	296	-	-	-
Net change in plan fiduciary net position	6,600,188	4,348,282	27,741,558	(16,494,173)
Plan fiduciary net position - beginning	127,386,646	133,986,834	138,335,116	166,076,674
Plan fiduciary net position - ending (b)	<u>\$ 133,986,834</u>	<u>\$ 138,335,116</u>	<u>\$ 166,076,674</u>	<u>\$ 149,582,501</u>
Plan net pension liability - ending (a) - (b)	<u>\$ 41,962,530</u>	<u>\$ 46,618,461</u>	<u>\$ 28,268,856</u>	<u>\$ 56,595,458</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>76.15%</u>	<u>74.79%</u>	<u>85.45%</u>	<u>72.55%</u>
Covered payroll³	<u>\$ 15,996,725</u>	<u>\$ 15,399,491</u>	<u>\$ 15,355,968</u>	<u>\$ 15,913,917</u>
Plan net pension liability as a percentage of covered payroll	<u>262.32%</u>	<u>302.73%</u>	<u>184.09%</u>	<u>355.63%</u>

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Net Pension Liability and Related Ratios
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

California Public Employees' Retirement System Defined Pension Plan - Safety Plan

Fiscal year	2015	2016	2017	2018	2019
Measurement period	2013-14 ¹	2014-15	2015-16	2016-17	2017-18
Total pension liability					
Service cost	\$ 3,448,760	\$ 3,388,157	\$ 3,454,025	\$ 4,144,398	\$ 4,414,740
Interest	15,255,372	15,777,736	16,325,879	16,898,830	17,691,261
Differences between expected and actual experience	-	(2,400,883)	(2,430,394)	(1,380,683)	2,008,618
Changes of assumptions	-	(3,878,396)	-	14,134,794	(1,533,898)
Benefit payments, including refunds of employee contributions	(9,639,123)	(9,470,058)	(9,736,302)	(10,147,899)	(10,992,416)
Net change in total pension liability	9,065,009	3,416,556	7,613,208	23,649,440	11,588,305
Total pension liability - beginning	206,500,143	215,565,152	218,981,708	226,594,916	250,244,356
Total pension liability - ending (a)	<u>\$ 215,565,152</u>	<u>\$ 218,981,708</u>	<u>\$ 226,594,916</u>	<u>\$ 250,244,356</u>	<u>\$ 261,832,661</u>
Pension fiduciary net position					
Contributions - employer	\$ 3,234,539	\$ 4,147,441	\$ 5,116,412	\$ 5,476,196	\$ 6,109,373
Contributions - employee	1,092,012	1,167,329	1,222,561	1,212,646	1,302,308
Net investment income	24,855,525	3,525,241	760,559	17,760,401	14,666,919
Benefit payments, including refunds of employee contributions	(9,639,123)	(9,470,058)	(9,736,302)	(10,147,899)	(10,992,416)
Net plan to plan resources movement	-	24	780	(1,118)	(431)
Administrative expense	-	(191,323)	(99,525)	(237,068)	(272,124)
Other miscellaneous income/expense	-	-	-	-	(516,768)
Net change in plan fiduciary net position	19,542,953	(821,346)	(2,735,515)	14,063,158	10,296,861
Plan fiduciary net position - beginning	144,582,109	164,125,062	163,303,716	160,568,201	174,631,359
Plan fiduciary net position - ending (b)	<u>\$ 164,125,062</u>	<u>\$ 163,303,716</u>	<u>\$ 160,568,201</u>	<u>\$ 174,631,359</u>	<u>\$ 184,928,220</u>
Plan net pension liability - ending (a) - (b)	<u>\$ 51,440,090</u>	<u>\$ 55,677,992</u>	<u>\$ 66,026,715</u>	<u>\$ 75,612,997</u>	<u>\$ 76,904,441</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>76.14%</u>	<u>74.57%</u>	<u>70.86%</u>	<u>69.78%</u>	<u>70.63%</u>
Covered payroll	<u>\$ 12,510,920</u>	<u>\$ 12,740,785</u>	<u>\$ 12,971,888</u>	<u>\$ 13,879,896</u>	<u>\$ 14,292,273</u>
Plan net pension liability as a percentage of covered payroll	<u>411.16%</u>	<u>437.01%</u>	<u>509.00%</u>	<u>544.77%</u>	<u>538.08%</u>

¹ Historical information is presented only for measurement periods for which GASB No. 68 is presented for periods after GASB 68 implemented in 2013-14. Additionally, measurement period 2019-20 (fiscal year 2021) was the first year the City's Safety Plan converted from an Agent Multiple Plan to a Cost Sharing Plan. Therefore, only six years are shown.

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: In 2019, there were no changes. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

California Public Employees' Retirement System Defined Pension Plan - Safety Plan (Continued)

Fiscal year	2020
Measurement period	2018-19
Total pension liability	
Service cost	\$ 4,287,003
Interest	18,414,262
Differences between expected and actual experience	(364,199)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	(12,139,668)
Net change in total pension liability	10,197,398
Total pension liability - beginning	261,832,661
Total pension liability - ending (a)	\$272,030,059
Pension fiduciary net position	
Contributions - employer	\$ 7,011,540
Contributions - employee	1,239,891
Net investment income	12,275,401
Benefit payments, including refunds of employee contributions	(12,139,668)
Net plan to plan move	-
Administrative expense	(131,969)
Other miscellaneous income/expense	431
Net change in plan fiduciary net position	8,255,626
Plan fiduciary net position - beginning	184,928,220
Plan fiduciary net position - ending (b)	\$193,183,846
Plan net pension liability - ending (a) - (b)	\$ 78,846,213
Plan fiduciary net position as a percentage of the total pension liability	71.02%
Covered payroll	\$ 13,737,311
Plan net pension liability as a percentage of covered payroll	573.96%

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City of Vernon
Required Supplementary Information (Unaudited)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

California Public Employees' Retirement System Defined Pension Plan - Safety Plan

Fiscal year	2021	2022	2023
Measurement period	2019-20	2020-21	2021-22
City's proportion of the net pension liability	1.33110%	1.70286%	1.47167%
City's proportionate share of the net pension liability	\$ 88,682,300	\$ 59,761,800	\$ 101,127,048
City's covered payroll ²	\$ 11,770,766	\$ 7,618,673	\$ 5,630,861
City's proportionate share of the net pension liability as a percentage of its covered payroll	753.41%	784.41%	1795.94%
Plan fiduciary net position as a percentage of the total pension liability	69.13%	79.73%	67.12%

¹ Measurement period 2019-20 was the first year the City's Safety Plan was converted from an Agent Multiple Plan to a Cost Sharing Plan therefore only three years are shown.

Notes to Schedule:

Benefit Changes: There were no changes in benefits.

Changes of Assumptions: Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The accounting discount rate was 7.15% for measurement 2020 through 2021.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions
For the Year Ended June 30, 2023

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan - Miscellaneous Plan

Fiscal year	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 1,825,732	\$ 2,340,002	\$ 3,140,644	\$ 3,629,603	\$ 3,380,432
Contributions in relation to the actuarially determined contribution	(1,825,732)	(2,340,002)	(3,140,644)	(3,629,603)	(3,380,432)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ¹	\$ 11,084,188	\$ 11,708,057	\$ 13,150,103	\$ 13,440,076	\$ 15,146,241
Contributions as a percentage of covered payroll	16.47%	19.99%	23.88%	27.01%	22.32%

¹ Includes on year's payroll growth using 2.80 percent payroll growth assumption for fiscal years ended June 30, 2023; 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-2021; 3 percent payroll growth assumption for fiscal years ended June 30, 2014-2017.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2022-23 were derived from the June 30, 2020 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	Fair Market Value
Inflation	2.500%
Salary increases	varies by entry age and service
Payroll Growth	2.750%
Investment rate of return	7% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Retirement age	The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	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 include 15 years of projected mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan - Miscellaneous Plan (Continued)

Fiscal year	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 3,908,165	\$ 4,501,532	\$ 4,979,542	\$ 5,956,560	\$ 6,946,066
Contributions in relation to the actuarially determined contribution	(3,908,165)	(4,501,532)	(4,979,542)	(5,956,560)	(6,946,066)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll ¹	\$ 15,996,725	\$ 15,827,780	\$ 14,803,225	\$ 15,913,917	\$ 16,359,507
Contributions as a percentage of covered payroll	24.43%	28.44%	33.64%	37.43%	42.46%

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan - Safety Plan

Fiscal year	2014	2015	2016	2017	2018
Actuarially determined contribution	\$ 3,234,539	\$ 4,147,441	\$ 5,116,412	\$ 5,476,196	\$ 6,109,373
Contributions in relation to the actuarially determined contribution	(3,234,539)	(4,147,441)	(5,116,412)	(5,476,196)	(6,109,373)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll ¹	\$ 12,510,920	\$ 12,740,785	\$ 12,971,888	\$ 13,879,896	\$ 14,292,273
Contributions as a percentage of covered payroll.	25.85%	32.55%	39.44%	39.45%	42.75%

¹ Includes one year's payroll growth using 2.80 percent payroll growth assumption for fiscal years ended June 30, 2022-23; 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00 percent payroll growth assumption for fiscal years ended June 30, 2014-17.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2022-23 were derived from the June 30, 2020 funding valuation report.

Methods and assumptions used to determine contribution rates:

Amortization method	Level percentage of payroll
Discount rate	7.000%
Inflation	2.500%
Salary increases	varies by entry age and service
Payroll Growth	2.750%
Retirement age	The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Mortality	Derived using CalPERS' membership data for all funds.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan - Safety Plan (Continued)

Fiscal year	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 7,011,540	\$ 7,834,050	\$ 7,650,585	\$ 8,258,888	\$ 9,178,981
Contributions in relation to the actuarially determined contribution	(7,011,540)	(7,834,050)	(7,650,585)	(8,258,888)	(9,178,981)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ¹	\$ 13,737,311	\$ 11,770,766	\$ 7,618,673	\$ 5,630,861	\$ 5,788,525
Contributions as a percentage of covered payroll.	51.04%	66.56%	100.42%	146.67%	158.57%

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2018	2019	2020	2021
Measurement period	2016-17 ¹	2017-18	2018-19	2019-20
Total OPEB liability				
Service cost	\$ 1,166,825	\$ 1,204,747	\$ 549,137	\$ 565,922
Interest	1,879,025	2,063,052	1,641,230	1,699,197
Changes of benefit terms	-	-	-	(800,265)
Differences between expected and actual experience	-	(6,680,583)	-	206,148
Changes of assumptions	(770,716)	(7,657,196)	(124,861)	579,724
Benefit payments, including refunds of employee contributions	(838,818)	(1,006,087)	(1,158,450)	(1,222,538)
Net change in total pension liability	1,436,316	(12,076,067)	907,056	1,028,188
Total OPEB liability - beginning	35,919,535	37,355,851	25,279,784	26,186,840
Total OPEB liability - ending (a)	<u>\$ 37,355,851</u>	<u>\$ 25,279,784</u>	<u>\$ 26,186,840</u>	<u>\$ 27,215,028</u>
OPEB fiduciary net position				
Contributions - employer	\$ 1,898,138	\$ 2,065,407	\$ 2,989,393	\$ 3,915,406
Net investment income	(2,049)	65,276	258,220	44,684
Benefit payments, including refunds of employee contributions	(838,818)	(1,006,087)	(1,158,450)	(1,222,538)
Administrative expense	(4)	(808)	(629)	(2,563)
Other expenses	-	(1,400)	-	-
Net change in plan fiduciary net position	1,057,267	1,122,388	2,088,534	2,734,989
Plan fiduciary net position - beginning	-	1,057,267	2,179,655	4,268,189
Plan fiduciary net position - ending (b)	<u>\$ 1,057,267</u>	<u>\$ 2,179,655</u>	<u>\$ 4,268,189</u>	<u>\$ 7,003,178</u>
Plan net OPEB liability - ending (a) - (b)	<u>\$ 36,298,584</u>	<u>\$ 23,100,129</u>	<u>\$ 21,918,651</u>	<u>\$ 20,211,850</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>2.83%</u>	<u>8.62%</u>	<u>16.30%</u>	<u>25.73%</u>
Covered-employee payroll	<u>\$ 33,511,114</u>	<u>\$ 33,496,565</u>	<u>\$ 35,182,647</u>	<u>\$ 31,958,957</u>
Plan net OPEB liability as a percentage of covered-employee payroll	<u>108.32%</u>	<u>68.96%</u>	<u>62.30%</u>	<u>63.24%</u>

¹ Historical information is presented only for measurement periods after GASB 75 was implemented in fiscal year of 2016-17 (measurement period of 2017-18). Additional years of information will be displayed as it becomes available.

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan (Continued)

Fiscal year	2022	2023
Measurement period	2020-21	2021-22
Total OPEB liability		
Service cost	\$ 303,057	\$ 365,851
Interest	1,682,954	1,689,071
Changes of benefit terms	-	(78,332)
Differences between expected and actual experience	(677,446)	(1,122,750)
Changes of assumptions	66,075	565,573
Benefit payments, including refunds of employee contributions	(1,199,826)	(1,483,582)
Net change in total pension liability	174,814	(64,169)
Total OPEB liability - beginning	27,215,028	27,389,842
Total OPEB liability - ending (a)	<u>\$ 27,389,842</u>	<u>\$ 27,325,673</u>
OPEB fiduciary net position		
Contributions - employer	\$ 3,131,526	\$ 3,022,275
Net investment income	2,084,288	(1,612,431)
Benefit payments, including refunds of employee contributions	(1,199,826)	(1,483,582)
Administrative expense	(2,958)	(2,903)
Other expenses	-	-
Net change in plan fiduciary net position	4,013,030	(76,641)
Plan fiduciary net position - beginning	7,003,178	11,016,208
Plan fiduciary net position - ending (b)	<u>\$ 11,016,208</u>	<u>\$ 10,939,567</u>
Plan net OPEB liability - ending (a) - (b)	<u>\$ 16,373,634</u>	<u>\$ 16,386,106</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>40.22%</u>	<u>40.03%</u>
Covered-employee payroll	<u>\$ 31,702,877</u>	<u>\$ 25,376,320</u>
Plan net OPEB liability as a percentage of covered-employee payroll	<u>51.65%</u>	<u>64.57%</u>

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2017	2018	2019	2020	2021
Actuarially determined contribution	\$ -	\$ 2,692,868	\$ 2,692,898	\$ 1,931,700	\$ 1,538,693
Contributions in relation to the actuarially determined contribution	(1,898,138)	(2,065,407)	(2,989,393)	(3,915,406)	(3,131,526)
Contribution deficiency (excess)	<u>\$ (1,898,138)</u>	<u>\$ 627,461</u>	<u>\$ (296,495)</u>	<u>\$ (1,983,706)</u>	<u>\$ (1,592,833)</u>
Covered-employee payroll	\$ 33,511,114	\$ 33,496,565	\$ 35,182,647	\$ 31,958,957	\$ 31,702,877
Contributions as a percentage of covered-employee payroll. ²	5.66%	6.17%	8.50%	12.25%	9.88%

1 Historical information is presented only for measurement periods after GASB 75 implementation in fiscal year of 2017-18 (measurement period of 2016-17). Additional years of information will be displayed as it becomes available.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2022-23 were derived from the June 30, 2020 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	Market valuation of assets
Discount Rate	6.25%
Payroll Growth	3.00%
General Inflation Rate	2.5% per year
Health Trend	5.6 in FY2023, step down 0.5% per year to 3.9% by 2076

City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits (Continued)
For the Year Ended June 30, 2023

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan (Continued)

Fiscal year	2022	2023
Actuarially determined contribution	\$ 1,538,693	\$ 1,402,612
Contributions in relation to the actuarially determined contribution	(2,933,295)	(3,110,941)
Contribution deficiency (excess)	\$ (1,394,602)	\$ (1,708,329)
Covered-employee payroll	\$ 25,376,320	\$ 24,483,172
Contributions as a percentage of covered-employee payroll. ²	11.56%	12.71%

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditors' Report

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

We have audited, in accordance with the 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 (“*Government Auditing Standards*”), the 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, 2023, and the related notes to the basic financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated February 8, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and Members of the City Council
of the City of Vernon
Vernon, California
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
February 8, 2024