

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2013

CITY OF VERNON
Fiscal Year Ended June 30, 2013

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of 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, 2013, and the related notes to financial statements which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and budgetary comparison information and funded status of pension and other postemployment benefits plans on pages 72 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Implementation of New Accounting Standards

As disclosed in the Note 1 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63 and implemented GASB Statement No. 65 in advance during the fiscal year 2013. Among these new GASB Statements, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, has significant impact over the City's financial statements. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2014, on our consideration of the City of Vernon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 of Vernon's internal control over financial reporting and compliance.

Vargus + Company LLP

**Los Angeles, California
February 18, 2014**

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(Unaudited)

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

The *statement of net 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 include the Light and Power Enterprise, Water Department and Fiber Optic Department.

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

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

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, and 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 72 and 73).

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

Proprietary funds

The City's proprietary funds consist of enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Light and Power Enterprise, Water Department and Fiber Optic Department.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Light and Power Enterprise, Water Fund, and the Fiber Optic Fund.

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

Fiduciary funds

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

The basic fiduciary funds financial statements can be found on pages 26-27 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 28-71 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Position

The table below summarizes the City's net position as of June 30, 2013 and June 30, 2012. The details of the current year's summary can be found on page 17 of this report.

City of Vernon
Net Position
June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012*	2013	2012*	2013	2012*
Assets:						
Current and other assets	\$ 15,998,741	\$ 15,949,594	\$ 305,117,173	\$ 351,878,597	\$ 321,115,914	\$ 367,828,191
Restricted assets	4,404,147	4,221,257	114,392,067	116,557,692	118,796,214	120,778,949
Capital assets	40,056,122	40,701,086	202,819,355	191,407,482	242,875,477	232,108,568
Total assets	60,459,010	60,871,937	622,328,595	659,843,771	682,787,605	720,715,708
Liabilities:						
Current liabilities	6,478,607	7,176,877	81,589,632	98,941,685	88,068,239	106,118,562
Long-term liabilities	52,068,875	51,390,179	408,463,106	437,846,644	460,531,981	489,236,823
Total liabilities	58,547,482	58,567,056	490,052,738	536,788,329	548,600,220	595,355,385
Deferred Inflows of Resources:						
Deferred gain from sale of generation assets	-	-	39,083,169	43,002,025	39,083,169	43,002,025
Net Position						
Net investment in capital assets	40,056,122	40,701,086	146,423,911	144,576,620	186,480,033	185,277,706
Restricted	574,347	383,547	-	-	574,347	383,547
Unrestricted	(38,718,941)	(38,779,752)	(53,231,223)	(64,523,203)	(91,950,164)	(103,302,955)
Total net position	\$ 1,911,528	\$ 2,304,881	\$ 93,192,688	\$ 80,053,417	\$ 95,104,216	\$ 82,358,298

* 2012 amounts were adjusted to conform to current year's presentation.

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$95,104,216 (*net position*).

The category of the City's net position with the largest balance totaling \$186,480,033 (196.1%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net position, totaling \$574,347 (0.6%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net position, totaling (\$91,763,202) (96.7%) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

Governmental activities, net position:

- Current and other assets, restricted assets, and capital assets remained fairly constant over the current year.
- Current and long-term liabilities remained fairly constant over the current year.
- Net investment in capital assets, restricted net position, and unrestricted deficit remained fairly constant over the current year.

Business-type activities, net position:

- Current and other assets decreased \$46,761,424 from the prior year due primarily to a decrease in prepaid natural gas of \$28,549,573, a decrease in deposits and prepaid expenses of \$12,216,370 of which \$9,490,000 was used to early terminate a portion of the 2004 Series A interest rate swap (See Note 7), and a decrease in bond issuance costs and deferred financing cost of \$2,458,180 respectively due to the City's early implementation of GASB 65 (See Note 14).
- Restricted assets decreased by \$2,165,625 from the prior year due primarily to a \$8,723,673 decrease in the 2012 Series A Capital Improvement Fund, a \$30,044,268 decrease in the 2012 Series B Escrow Fund, and a \$967,779 decrease in the 2009 A Series Reserve Fund, offset by an \$2,923,644 increase in the 2008 Series A Termination Fund and a \$34,756,861 increase in the 2009 Series A Debt Service Fund.
- Capital assets increased \$11,411,873 from the prior year due primarily to an increase in construction in progress of \$5,280,769 and an increase in utility plants of \$12,294,311, net of depreciation of \$6,163,207 (See Note 5).
- Current liabilities decreased \$17,352,053 from the prior year due primarily to a decrease in derivative liabilities of \$24,780,572 offset by an increase in accounts payable of \$7,424,442.
- Long-term liabilities decreased \$29,383,538 from the prior year due primarily to a decrease in bonds payable, net.
- Deferred gain from sale of generation assets decreased \$3,918,856 from the prior year due to amortization.
- Unrestricted net deficit decreased \$11,291,980 from the prior year due primarily to an increase in net investment in capital assets of \$1,847,291, offset by current year's activities of \$20,192,814. \$7,053,543 of the decrease in unrestricted net deficit was due to the write off of bond issuance costs and deferred financing costs as a restatement of beginning net position (See Note 14).

Changes in Net Position

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

City of Vernon
Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues						
Charges for services	\$ 6,017,719	\$ 6,206,121			\$ 6,017,719	\$ 6,206,121
Light and power enterprise			\$ 191,264,399	\$ 171,112,589	191,264,399	171,112,589
Water			7,189,354	6,577,793	7,189,354	6,577,793
Fiber optics			273,026	257,196	273,026	257,196
Operating and capital grants and contributions	1,299,901	1,793,307	-	-	1,299,901	1,793,307
General Revenues						
Taxes	15,363,542	21,941,841	-	-	15,363,542	21,941,841
State allocations	5,606,213	4,665,854	-	-	5,606,213	4,665,854
Investment income (loss)	10,020	49,656	11,974,094	(32,530,038)	11,984,114	(32,480,382)
Other revenues	6,433,189	(2,341,918)	4,250,000	-	10,683,189	(2,341,918)
Total revenues	34,730,584	32,314,861	214,950,873	145,417,540	249,681,457	177,732,401
Expenses						
Governmental activities						
General government	11,729,826	19,527,049	-	-	11,729,826	19,527,049
Public safety	27,638,871	28,196,234	-	-	27,638,871	28,196,234
Public works	5,881,885	5,752,543	-	-	5,881,885	5,752,543
Health services	1,477,368	1,626,039	-	-	1,477,368	1,626,039
Interest on long-term debt	355,580	2,719,070	-	-	355,580	2,719,070
Business-type activities						
Light and power enterprise			175,528,477	169,143,850	175,528,477	169,143,850
Water			6,648,040	6,375,865	6,648,040	6,375,865
Fiber optics			621,949	462,726	621,949	462,726
Total expenses	47,083,530	57,820,935	182,798,466	175,982,441	229,881,996	233,803,376
Change in net position before transfers	(12,352,946)	(25,506,074)	32,152,407	(30,564,901)	19,799,461	(56,070,975)
Transfers	11,959,593	9,147,090	(11,959,593)	(9,147,090)	-	-
Extraordinary Item						
Governmental activities						
Vernon Redevelopment Agency						
Extraordinary loss	-	(30,925,456)	-	-	-	(30,925,456)
Change in net position	(393,353)	(47,284,440)	20,192,814	(39,711,991)	19,799,461	(86,996,431)
Net position - beginning of year, as restated	2,304,881	49,589,321	72,999,874	119,765,408	75,304,755	169,354,729
Net position - end of year	\$ 1,911,528	\$ 2,304,881	\$ 93,192,688	\$ 80,053,417	\$ 95,104,216	\$ 82,358,298

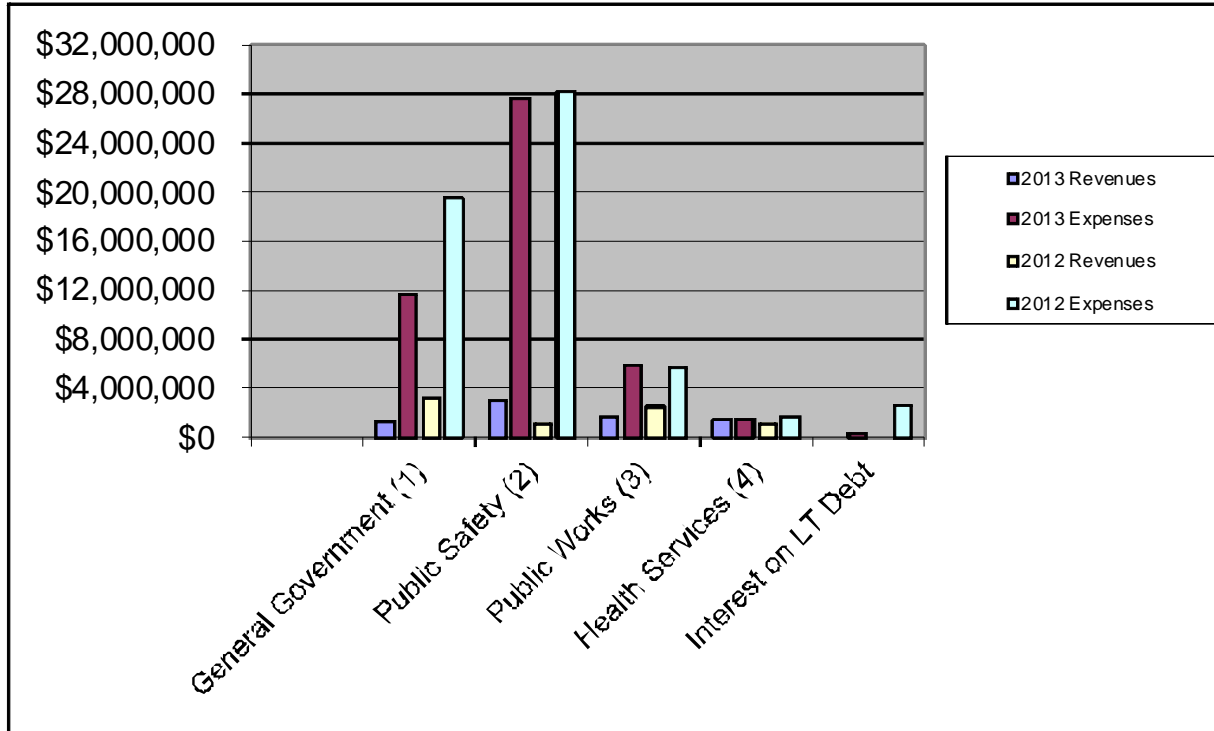
Governmental activities' net position decreased by \$393,353 and business-type activities' net position increased by \$20,192,814 for a net increase of \$19,799,461 for the City. The decrease in the governmental activities was caused by the governmental activities reporting a \$12,352,946 decrease in net position before transfers and an \$11,959,593 transfer in from the business-type activities.

Governmental activities, changes in net position:

Governmental activities decreased the City's net position by \$393,353. This is a decrease of \$46,891,087 from the prior year. The key reasons for this decrease and change in net position are as follows:

- In the prior year, an extraordinary loss of \$30,925,456 was incurred for the Vernon Redevelopment Agency being dissolved by Assembly Bill 1X 26 on January 31, 2012.
- In the current year, revenues were \$2,415,723 higher than the prior years as follows:
 - In the prior year, the Redevelopment Agency Fund received \$7,533,560 of property taxes prior to being dissolved by AB 1X 26 on January 31, 2012.
 - In the current year, state allocations for sales and use taxes were \$940,359 higher than the prior year.
 - In the prior year, the City incurred a \$3,152,199 loss from its sale of land held for resale, whereas in the current year, the City had a gain on sale of property of \$6,001,022.
- In the current year, program expenses were \$10,737,405 lower than the prior years as follows:
 - In the prior year, the Redevelopment Agency Fund's general government expenses were \$4,870,910 prior to being dissolved by AB 1X 26 on January 31, 2012.
 - In the current year, outsourced professional services costs were \$2,879,215 lower than the prior year due to less cost incurred to defeat the disincorporation efforts of the City by the State of California.
 - In the prior year, the Redevelopment Agency Fund's interest on long-term debt was \$1,830,877 prior to being dissolved by AB 1X 26 on January 31, 2012.
- In the current year, transfers in were \$2,812,503 higher than the prior year. The transfers in were higher in the current year due to the limitation on transfers removed by Resolution No. 2012-04 and transfers allowed under the City's electric utility bond indentures.

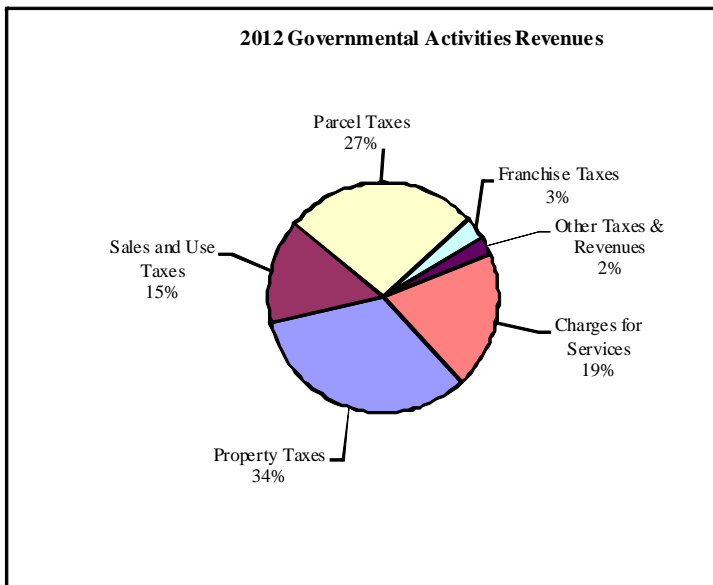
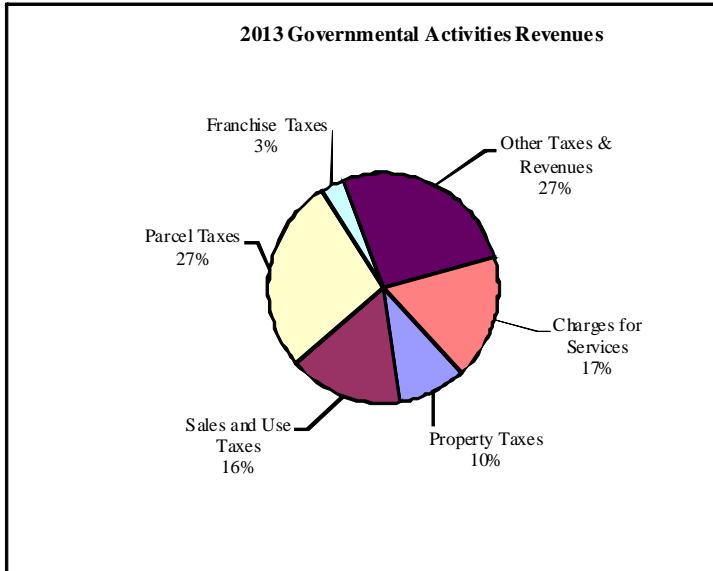
Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2013 and 2012



Governmental activities consist of the following departments:

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

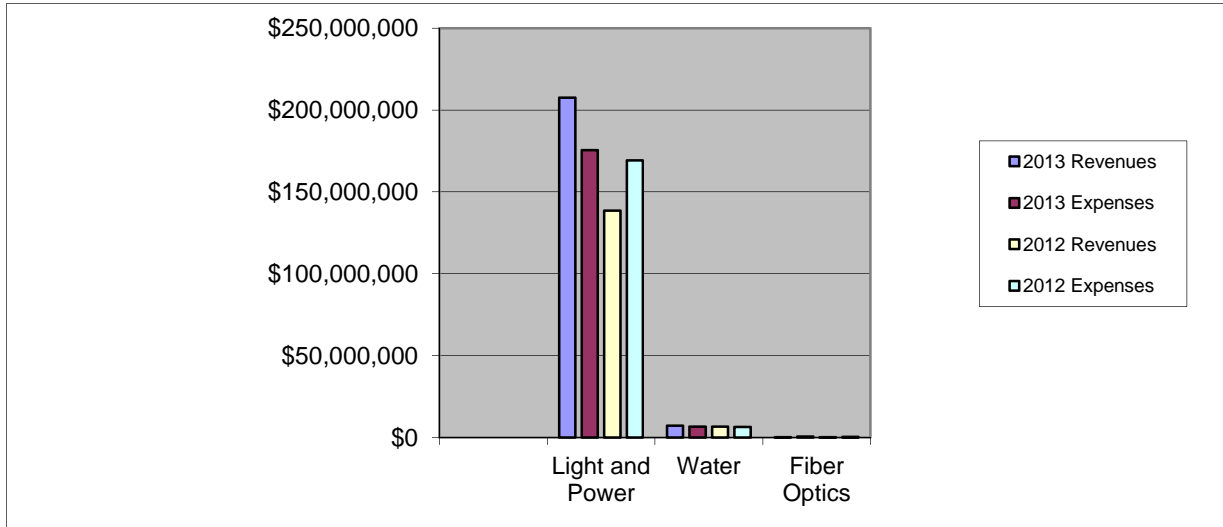
Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2013 and 2012



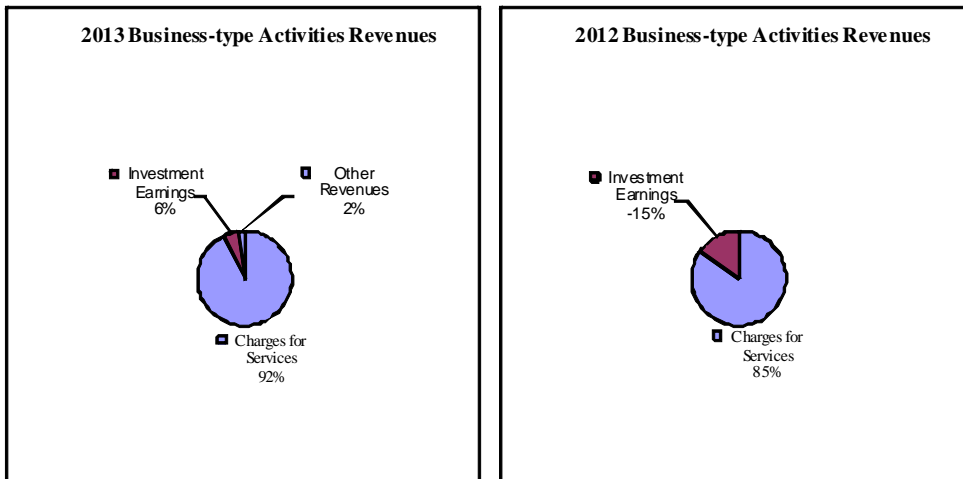
Business-type activities, changes in net position:

Business-type activities increased the City's net position by \$32,152,407 before transfers which is a \$62,717,308 increase from the prior year. The key reason for this increase was an increase in Light and Power Enterprise's investment income of \$44,504,132 as compared to the prior year.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2013 and 2012



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2013 and 2012



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

The fund accounting financial statements can be found on pages 19-22 of this report.

Governmental funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances deficit of \$24,820,669 (See page 19), an increase of \$300,033 from the prior year. Approximately 5% of total fund balance amount, \$1,342,790, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 2% of the total fund balance amount, \$574,347, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$26,737,806), is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance deficit was \$24,820,669 (See page 19). At the end of the current fiscal year, the total fund balance deficit was 54% as compared to 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 Light and Power Enterprise at the end of the year amounted to a deficit of \$56,676,895 (See page 23). Unrestricted net position of the Fiber Optic Fund at the end of the year amounted to a deficit of \$4,440,801. These deficit balances in unrestricted net position are 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.

Total increase in net position for the Light and Power Enterprise was \$20,000,423 (See page 24). Total increase in net position for the Water Fund was \$541,314. Total decrease in net position for the Fiber Optic Fund was \$348,923. 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 negative variance between the final budgeted amounts and actual amount for revenues was \$7,362,712. The key reason for this variance was deficiency of revenues over estimated revenues of \$9,070,117 of taxes.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$754,098. The key reasons for this variance were excess appropriations of \$1,826,529 of capital outlay offset by excess expenditures over appropriations of \$1,061,461 for public safety. The excess expenditures over appropriations for public safety were mainly due to compensated absences payouts of early retirees who took the City's early retirement incentive program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$242,875,477 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utilities system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$10,766,909, due primarily to additions made to the City's electric distribution plant of \$11,183,540 (See Note 5).

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

- In the current year, Light and Power Enterprise added \$4,367,303 to its electrical construction in progress, \$815,576 to its gas utility construction in progress, \$97,890 to its water utility construction in progress, \$504,083 to its electrical production plant, \$11,183,540 to its electrical distribution plant, \$109,457 to its electrical general plant, \$19,808 to its water utility plant, \$35,306 to its gas utility plant, and \$442,117 to its fiber optic utility plant.

There were no significant construction commitments outstanding as of June 30, 2013.

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

Outstanding debt

As of June 30, 2013, the following debt remains outstanding:

- \$42,910,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$332,065,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$37,640,000 City of Vernon Electric System Revenue Bonds, 2012 Series A
- \$35,100,000 City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B
- \$6,799,479 Revolving Line of Credit with East West Bank

The City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A were issued to provide funds to (i) finance the cost of certain capital improvements to the City's Electric System, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2008 Bonds.

The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

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

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

The ratings on all Electric System Revenue Bonds of the City has not changed from the prior year with an A- rating by S&P and Baa1 rating by Moody's.

In September 2007, the City entered into \$50,000,000 revolving line of credit agreements with a bank for the purpose of financing the City's industrial development programs, which are secured with land held for resale. The termination date of the agreements is April 1, 2014. The interest rates on the loans are the greater of 4%-5% or Libor Rate plus 2.00%. As of June 30, 2013, \$6,799,479 of the line of credit was used for the purposes of acquiring land held for resale.

Additional information on the City's long-term debt can be found in Note 6 on pages 47-52 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2014 fiscal year.

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of adjacent communities is currently 9.2%. This compares unfavorably to the State of California's average unemployment rate of 8.5% and to the national average unemployment rate of 7.6%.
- The occupancy rate of the City's central business district has remained at 95.8% for the current year.
- Inflationary trends in the region compare favorably to national indices.

CURRENTLY KNOWN FACTS

- The ratings on all Electric System Revenue Bonds of the City has not changed from the prior year with an A- rating by S&P and Baa1 rating by Moody's.

REQUESTS FOR INFORMATION

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

CITY OF VERNON, CALIFORNIA
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 859,811	\$ 20,493,407	\$ 21,353,218
Receivables, net of allowances of \$150,000			
for business-type activities	1,884,662	6,113,480	7,998,142
Accrued unbilled revenue	-	9,562,686	9,562,686
Accrued interest receivable	-	221,033	221,033
Inventories	647,960	10,533,100	11,181,060
Due from Successor Agency	18,932	-	18,932
Internal balances		30,128,195	30,128,195
Prepaid natural gas	-	225,809,899	225,809,899
Deposits and prepaid expenses	90,507	369,701	460,208
Restricted cash and investments	4,404,147	114,392,067	118,796,214
Note receivable	-	1,885,672	1,885,672
Land held for resale	12,496,869	-	12,496,869
Capital assets:			
Nondepreciable	12,092,928	72,435,018	84,527,946
Depreciable, net	27,963,194	130,384,337	158,347,531
Total assets	<u>60,459,010</u>	<u>622,328,595</u>	<u>682,787,605</u>
LIABILITIES:			
Accounts payable	1,407,831	13,990,243	15,398,074
Accrued wages and benefits	1,797,633	-	1,797,633
Customer deposits and funds held for others	87,859	733,180	821,039
Derivative liabilities	-	27,042,689	27,042,689
Bond interest payable	-	10,500,880	10,500,880
Note interest payable	28,342	-	28,342
Current liabilities:			
Postemployment benefit liability	390,548	-	390,548
Bonds payable, net	-	29,115,729	29,115,729
Notes payable	460,000	-	460,000
Claims payable	1,039,851	-	1,039,851
Compensated absences	1,266,543	206,911	1,473,454
Noncurrent liabilities:			
Internal balances	30,128,195	-	30,128,195
Postemployment benefit liability	10,988,414	-	10,988,414
Bonds payable, net	-	408,049,285	408,049,285
Notes payable	6,339,478	-	6,339,478
Claims payable	2,079,701	-	2,079,701
Compensated absences	2,533,087	413,821	2,946,908
Total liabilities	<u>58,547,482</u>	<u>490,052,738</u>	<u>548,600,220</u>
DEFERRED INFLOWS OF RESOURCES:			
Current deferred inflows of resources:			
Deferred gain from sale of generation assets	-	3,942,145	3,942,145
Noncurrent deferred inflows of resources:			
Deferred gain from sale of generation assets	-	35,141,024	35,141,024
Total deferred inflows of resources	<u>-</u>	<u>39,083,169</u>	<u>39,083,169</u>
NET POSITION:			
Net investment in capital assets	40,056,122	146,423,911	186,480,033
Restricted for:			
Grants	574,347	-	574,347
Unrestricted (deficit)	<u>(38,718,941)</u>	<u>(53,231,223)</u>	<u>(91,950,164)</u>
Total net position	<u>\$ 1,911,528</u>	<u>\$ 93,192,688</u>	<u>\$ 95,104,216</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2013

FUNCTION/PROGRAM ACTIVITIES:	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business- type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ 11,729,826	\$ 915,523	\$ 353,181	\$ -	\$ (10,461,122)	\$ -	\$ (10,461,122)
Public safety	27,638,871	2,231,128	759,816	-	(24,647,927)	-	(24,647,927)
Public works	5,881,885	1,477,318	-	167,354	(4,237,213)	-	(4,237,213)
Health services	1,477,368	1,393,750	19,550	-	(64,068)	-	(64,068)
Interest on long-term debt	355,580	-	-	-	(355,580)	-	(355,580)
Total governmental activities	<u>47,083,530</u>	<u>6,017,719</u>	<u>1,132,547</u>	<u>167,354</u>	<u>(39,765,910)</u>	<u>-</u>	<u>(39,765,910)</u>
Business-type activities:							
Light and power enterprise	175,528,477	191,264,399	-	-	-	15,735,922	15,735,922
Water	6,648,040	7,189,354	-	-	-	541,314	541,314
Fiber optics	621,949	273,026	-	-	-	(348,923)	(348,923)
Total business-type activities	<u>182,798,466</u>	<u>198,726,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,928,313</u>	<u>15,928,313</u>
Total	<u>\$ 229,881,996</u>	<u>\$ 204,744,498</u>	<u>\$ 1,132,547</u>	<u>\$ 167,354</u>	<u>(39,765,910)</u>	<u>15,928,313</u>	<u>(23,837,597)</u>
General revenues:							
Property taxes					3,299,837	-	3,299,837
Parcel taxes					9,540,933	-	9,540,933
Utility users taxes					149,956	-	149,956
Franchise taxes					1,042,053	-	1,042,053
Business license taxes					1,321,450	-	1,321,450
Other license taxes					9,313	-	9,313
Investment income (loss)					10,020	(2,729,867)	(2,719,847)
Net increase in fair value of investments					-	14,703,961	14,703,961
State contribution - sales and use taxes					5,606,213	-	5,606,213
Gain on sale of property					6,001,022	-	6,001,022
Other revenues					432,167	-	432,167
Legal settlement					-	4,250,000	4,250,000
Transfers					11,959,593	(11,959,593)	-
Total general revenues and transfers					<u>39,372,557</u>	<u>4,264,501</u>	<u>43,637,058</u>
Change in net position					(393,353)	20,192,814	19,799,461
NET POSITION, BEGINNING OF YEAR, AS RESTATED					<u>2,304,881</u>	<u>72,999,874</u>	<u>75,304,755</u>
NET POSITION, END OF YEAR					<u>\$ 1,911,528</u>	<u>\$ 93,192,688</u>	<u>\$ 95,104,216</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Balance Sheet Governmental Funds June 30, 2013

	General Fund
ASSETS:	
Cash and investments	\$ 859,811
Receivables	1,884,662
Due from Successor Agency	18,932
Inventories	647,960
Restricted cash and investments	4,404,147
Deposits and prepaid expenses	90,507
Land held for resale	12,496,869
Total assets	<u>\$ 20,402,888</u>
LIABILITIES:	
Liabilities:	
Accounts payable	\$ 1,407,831
Accrued wages and benefits	1,797,633
Advance from other funds	30,128,195
Customer deposits and funds held for others	87,859
Total liabilities	<u>33,421,518</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue	11,802,039
Total deferred inflows of resources	<u>11,802,039</u>
FUND BALANCES:	
Nonspendable:	
Inventories	647,960
Land held for resale	694,830
Restricted for:	
Federal forfeiture funds	574,347
Unassigned	(26,737,806)
Total fund balances	<u>(24,820,669)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,402,888</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position - Governmental Activities
 June 30, 2013

Fund balances - total governmental fund (page 19)	\$ (24,820,669)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.	40,056,122
Because the focus of governmental fund is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets, such as land held for resale, are offset by unavailable revenue in the governmental fund.	11,802,039
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.	(3,799,630)
The cost for postemployment benefits other than pensions are funded on a pay-as-you-go basis; however, the unfunded portion is not due and payable in the current period and therefore is not reported in the governmental fund.	(11,378,962)
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental fund.	
Claims payable	(3,119,552)
Note payable	(6,799,478)
Note interest payable	(28,342)
	(28,342)
Net position of governmental activities (page 17)	\$ 1,911,528

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	<u>General Fund</u>
REVENUES:	
Taxes	\$ 20,021,601
Special assessments	890,121
Licenses and permits	1,789,651
Fines, forfeitures and penalties	414,975
Investment income	10,020
Intergovernmental revenues	1,312,184
Charges for services	3,634,485
Other revenues	656,525
Total revenues	<u>28,729,562</u>
 EXPENDITURES:	
Current:	
General government	10,281,326
Public safety	26,933,990
Public works	5,058,862
Health services	1,516,216
Capital outlay:	
General government	275,899
Public safety	573,123
Public works	933,599
Debt service:	
Principal retirement	459,645
Note interest	357,484
Total expenditures	<u>46,390,144</u>
 Revenues under expenditures	 (17,660,582)
 Other financing sources (uses)	
Sale of property	6,001,022
Transfers in	11,959,593
Total other financing sources (uses)	<u>17,960,615</u>
 NET CHANGE IN FUND BALANCES	 300,033
 FUND BALANCES (DEFICITS), BEGINNING OF YEAR	 <u>(25,120,702)</u>
 FUND BALANCES (DEFICITS), END OF YEAR	 <u>\$ (24,820,669)</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities - Governmental Activities
 For the Fiscal Year Ended June 30, 2013

Net change in fund balances - total governmental fund (page 21)	\$	300,033
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets	\$ 1,782,621	
Less current year depreciation	<u>(2,427,585)</u>	(644,964)
Change in long-term compensated absences		2,057,727
Change in net postemployment benefits other than pension obligation		(2,674,962)
Long-term debt repayments consume current financial resources of governmental fund, but repaying debt decreases long-term liabilities in the statement of net position:		
Principal repayment on notes		459,645
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:		
Change in claims payable		107,264
Change in note interest payable		<u>1,904</u>
Change in net position of governmental activities (page 18)	\$	<u><u>(393,353)</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities			Totals
	Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
ASSETS:				
Current assets:				
Cash and investments	\$ 20,493,407	\$ -	\$ -	\$ 20,493,407
Accounts receivable, net of allowances of \$150,000	5,466,061	614,526	32,893	6,113,480
Accrued unbilled revenue	9,265,639	297,047	-	9,562,686
Accrued interest receivable	221,033	-	-	221,033
Inventories	10,533,100	-	-	10,533,100
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	395,755	-	-	395,755
Deposits and prepaid expenses	369,701	-	-	369,701
Total current assets	<u>75,323,039</u>	<u>911,573</u>	<u>32,893</u>	<u>76,267,505</u>
Noncurrent assets:				
Restricted cash and investments	114,392,067	-	-	114,392,067
Advances to other funds	26,644,491	7,850,819	-	34,495,310
Prepaid natural gas	197,231,556	-	-	197,231,556
Note receivable	1,489,917	-	-	1,489,917
Capital assets:				
Nondepreciable	70,966,928	1,468,090	-	72,435,018
Depreciable, net	123,266,014	4,290,458	2,827,865	130,384,337
Total noncurrent assets	<u>533,990,973</u>	<u>13,609,367</u>	<u>2,827,865</u>	<u>550,428,205</u>
Total assets	<u>609,314,012</u>	<u>14,520,940</u>	<u>2,860,758</u>	<u>626,695,710</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	13,303,121	589,505	97,617	13,990,243
Customer deposits	573,575	159,605	-	733,180
Derivative liabilities	27,042,689	-	-	27,042,689
Bond interest	10,500,880	-	-	10,500,880
Bonds payable, net	29,115,729	-	-	29,115,729
Compensated absences	161,654	42,270	2,987	206,911
Total current liabilities	<u>80,697,648</u>	<u>791,380</u>	<u>100,604</u>	<u>81,589,632</u>
Noncurrent liabilities:				
Advances from other funds	-	-	4,367,115	4,367,115
Bonds payable, net	408,049,285	-	-	408,049,285
Compensated absences	323,307	84,539	5,975	413,821
Total noncurrent liabilities	<u>408,372,592</u>	<u>84,539</u>	<u>4,373,090</u>	<u>412,830,221</u>
Total liabilities	<u>489,070,240</u>	<u>875,919</u>	<u>4,473,694</u>	<u>494,419,853</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	35,141,024	-	-	35,141,024
Total deferred inflows of resources	<u>39,083,169</u>	<u>-</u>	<u>-</u>	<u>39,083,169</u>
NET POSITION:				
Net investment in capital assets	137,837,498	5,758,548	2,827,865	146,423,911
Unrestricted (deficit)	(56,676,895)	7,886,473	(4,440,801)	(53,231,223)
Total net position	<u>\$ 81,160,603</u>	<u>\$ 13,645,021</u>	<u>\$ (1,612,936)</u>	<u>\$ 93,192,688</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Business-type Activities			Totals
	Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
OPERATING REVENUES:				
Charges for services	\$ 191,264,399	\$ 7,189,354	\$ 273,026	\$ 198,726,779
Total operating revenues	<u>191,264,399</u>	<u>7,189,354</u>	<u>273,026</u>	<u>198,726,779</u>
OPERATING EXPENSES:				
Cost of sales	148,291,332	6,328,836	370,098	154,990,266
Depreciation and amortization	5,592,154	319,204	251,851	6,163,209
Total operating expenses	<u>153,883,486</u>	<u>6,648,040</u>	<u>621,949</u>	<u>161,153,475</u>
Operating income (loss)	<u>37,380,913</u>	<u>541,314</u>	<u>(348,923)</u>	<u>37,573,304</u>
NONOPERATING REVENUE (EXPENSES):				
Investment loss	(2,729,867)	-	-	(2,729,867)
Net increase in fair value of investments	14,703,961	-	-	14,703,961
Interest expense	(21,644,991)	-	-	(21,644,991)
Legal settlement	4,250,000	-	-	4,250,000
Total nonoperating revenue (expenses), net	<u>(5,420,897)</u>	<u>-</u>	<u>-</u>	<u>(5,420,897)</u>
Income (loss) before transfers	31,960,016	541,314	(348,923)	32,152,407
Transfers out	<u>(11,959,593)</u>	<u>-</u>	<u>-</u>	<u>(11,959,593)</u>
Change in net position	20,000,423	541,314	(348,923)	20,192,814
Net position, beginning of the year, as restated	<u>61,160,180</u>	<u>13,103,707</u>	<u>(1,264,013)</u>	<u>72,999,874</u>
Net position, end of the year	<u>\$ 81,160,603</u>	<u>\$ 13,645,021</u>	<u>\$ (1,612,936)</u>	<u>\$ 93,192,688</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 229,390,116	\$ 6,302,150	\$ 755,098	\$ 236,447,364
Cash paid to suppliers for goods and services	(139,548,567)	(4,494,548)	(289,078)	(144,332,193)
Cash paid to employees for services	(5,240,419)	(1,658,708)	(79,388)	(6,978,515)
Net cash provided by operating activities	<u>84,601,130</u>	<u>148,894</u>	<u>386,632</u>	<u>85,136,656</u>
Cash flows from noncapital financing activities:				
Transfers to City	(11,959,593)	-	-	(11,959,593)
Collection of note receivable	379,791	-	-	379,791
Net cash used in noncapital financing activities	<u>(11,579,802)</u>	<u>-</u>	<u>-</u>	<u>(11,579,802)</u>
Cash flows from capital and related financing activities:				
Repayment of bonds	(28,985,000)	-	-	(28,985,000)
Bond interest paid	(25,427,779)	-	-	(25,427,779)
Acquisition and construction of capital assets, net	(13,825,199)	(148,894)	(386,632)	(14,360,725)
Net cash provided by (used in) capital and related financing activities	<u>(68,237,978)</u>	<u>(148,894)</u>	<u>(386,632)</u>	<u>(68,773,504)</u>
Cash flows from investing activities:				
Purchases and sales of investments, net	(4,554,690)	-	-	(4,554,690)
Investment loss net of interest rate swap payments on investment derivatives	(2,713,266)	-	-	(2,713,266)
Net cash used in investing activities	<u>(7,267,956)</u>	<u>-</u>	<u>-</u>	<u>(7,267,956)</u>
Net increase (decrease) in cash and cash equivalents	(2,484,606)	-	-	(2,484,606)
Cash and cash equivalents, beginning of year	90,935,691	-	-	90,935,691
Cash and cash equivalents, end of year	<u>\$ 88,451,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,451,085</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 37,380,913	\$ 541,314	\$ (348,923)	\$ 37,573,304
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	5,592,154	319,204	251,851	6,163,209
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(1,018,711)	(115,383)	(8,470)	(1,142,564)
Advance to (from) City	227,416	(731,213)	490,542	(13,255)
Accrued unbilled revenue	(1,482,634)	(40,608)	-	(1,523,242)
Inventories	(366,297)	-	-	(366,297)
Prepaid expenses and deposits	12,216,370	-	-	12,216,370
Prepaid natural gas	28,549,573	-	-	28,549,573
Increase (decrease) in:				
Accounts payable	7,685,247	177,468	4,828	7,867,543
Customer deposits	60,330	72,251	-	132,581
Compensated absences	(324,375)	(74,139)	(3,196)	(401,710)
Deferred gain from sale of generation assets	(3,918,856)	-	-	(3,918,856)
Net cash provided by (used in) operating activities	<u>\$ 84,601,130</u>	<u>\$ 148,894</u>	<u>\$ 386,632</u>	<u>\$ 85,136,656</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:				
Cash and investments	\$ 20,493,407	\$ -	\$ -	\$ 20,493,407
Noncurrent restricted cash and investments	114,392,067	-	-	114,392,067
Total	134,885,474	-	-	134,885,474
Less: Investments with maturities of more than 90 days	(46,434,389)	-	-	(46,434,389)
Total cash and cash equivalents	<u>\$ 88,451,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,451,085</u>
Noncash Capital, Investing and Financing Activities:				
Acquisition of capital assets in accounts payable	\$ 444,493	\$ 14,564	\$ 85,728	\$ 544,785
Increase in fair value of investments	14,703,961	-	-	14,703,961
Amortization of deferred gain from sale of generation assets	3,918,856	-	-	3,918,856

CITY OF VERNON, CALIFORNIA

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2013

	Vernon Redevelopment Successor Agency Fund
	<u> </u>
ASSETS:	
Current assets:	
Cash and investments	\$ 8,308,682
Taxes receivable	22,364
Other receivable	70,304
Total current assets	<u>8,401,350</u>
Noncurrent assets:	
Restricted cash and investments	6,238,572
Land purchase deposit	26,200,000
Land held for resale	12,602,489
Accumulated redevelopment project costs	
Nondepreciable	24,838,594
Capital assets:	
Nondepreciable	774,295
Depreciable, net	15,456,582
Total noncurrent assets	<u>86,110,532</u>
Total assets	<u>94,511,882</u>
LIABILITIES:	
Accounts payable	28,448
Due to City	18,932
Customer deposits	42,968
Bond interest	1,184,410
Long-term liabilities:	
Due within one year:	
Bonds payable, net	2,170,435
Total current liabilities	<u>3,445,193</u>
Due in more than one year:	
Bonds payable, net	60,720,805
Total noncurrent liabilities	<u>60,720,805</u>
Total liabilities	<u>64,165,998</u>
DEFERRED INFLOWS OF RESOURCES:	
Unearned revenue	6,322,975
Total deferred inflows of resources	<u>6,322,975</u>
NET POSITION:	
Total net position held in trust for dissolution of former Redevelopment Agency	<u>\$ 24,022,909</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Five Months Ended June 30, 2013

	Vernon Redevelopment Successor Agency Fund <hr/>
ADDITIONS:	
Property tax increment	\$ 3,231,328
Investment earnings	77,469
Net decrease in fair value of investments	(101,042)
Other revenues	587,616
Total additions	<hr/> 3,795,371 <hr/>
DEDUCTIONS:	
Community development	4,298,793
Return of capital to the State of California	2,295,386
Interest on long-term debt	3,583,275
Total deductions	<hr/> 10,177,454 <hr/>
Change in net position	(6,382,083)
 Net position, beginning of the year, as restated	 <hr/> 30,404,992 <hr/>
Net position, end of the year	<hr/> \$ 24,022,909 <hr/>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2013, the City had one blended component unit as described below. The City has no discretely presented component units.

Component Unit

Vernon Natural Gas Financing Authority

On April 1, 2006, the City and the Agency created the Vernon Natural Gas Financing Authority (Authority) pursuant to the Joint Powers Agreement, for the express purpose of undertaking projects and programs that promote economic development within the City. Such projects and programs include assisting the City in procuring natural gas for use as fuel for electric generating units that are part of the City's Electric System, which is accounted for in the City's Light and Power Enterprise. During the year ended June 30, 2006, the Authority issued \$430,845,000 in variable rate bonds and subsequently purchased natural gas in accordance with the Natural Gas Agreement between the Authority and the City. The Authority Bonds were refunded in fiscal year 2009 and replaced with fixed rate Electric System bonds. As a result of this financing arrangement, the debt and related asset (prepaid natural gas) associated with the Authority have been blended with the City's Light and Power Enterprise for financial reporting purposes.

Basis of Presentation

Government-wide Financial Statements

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements

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

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

- The *Light and Power Enterprise* accounts for the maintenance and operations of the City's electric utility plant and gas utility system. Revenues for these funds are primarily from charges for services.
- The *Water Fund* accounts for maintenance and operations of the City's water utility system. Revenue for this fund is primarily from charges for services. Even though the Water Fund does not meet the criteria to be presented as a major fund, the City has elected to present it as such.
- The *Fiber Optics Fund* accounts for maintenance and operations of the City's fiber optics utility system. Revenue for this fund is primarily from charges for services. Even though the Fiber Optics Fund does not meet the criteria to be presented as a major fund, the City has elected to present it as such.

Vernon Successor Agency Private-purpose Trust Fund – This is a fiduciary fund type used by the City to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities and activities of the Successor Agency to the Dissolved Vernon Redevelopment Agency. Unlike the limited reporting typically utilized for Agency Fund, the Private-purpose Trust Fund reports a statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

For the government-wide financial statements and proprietary fund financial statements, under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the City applies all applicable GASB pronouncements as well as any applicable pronouncements of the FASB and AICPA pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

Cash Deposits and Investments

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables/Payables

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$150,000 as of June 30, 2013. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Inventories

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

Land held for resale

- Governmental funds – Land held for resale is recorded at the lower of cost or fair value. Fund balance in the governmental fund type have been classified as nonspendable for amounts equal to the carrying amount of land and buildings held for resale because such assets are not available to finance the City’s current operations.
- Fiduciary fund – Land held for resale in the Fiduciary funds represents land purchased by the former Redevelopment Agency to further the Redevelopment Plan. Such land is recorded at the lower of acquisition costs or estimated net realizable value.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets include intangible assets with indefinite lives and public domain (infrastructure) general capital assets consisting of certain improvements including roads and bridges, sidewalks, curbs and gutters, and traffic light system. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide and proprietary funds statements.

The estimated useful lives are as follows:

Infrastructure	10 to 50 years
Utility plant and buildings	25 to 50 years
Improvements	10 to 20 years
Machinery and equipment	3 to 35 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position. Interest expense associated with construction of capital assets is capitalized during the construction phase up until the capital asset is substantially complete and ready for its intended use for both taxable and tax-exempt securities. For tax-exempt securities, interest income on unspent bond proceeds is also capitalized during the construction phase.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. Refer to Note 15 for the list of deferred outflows and deferred inflows of resources the City has recognized as of June 30, 2013.

Long-term Obligations

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

Net Position

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance

Effective July 1, 2010, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the fund financial statements, the governmental fund balance is classified in the following categories:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, its City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally (for example: ordinance).

Assigned Fund Balance – includes amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by (a) City Council, or (b) a body (a budget, finance committee, or management (City-Wide Leadership team which consists of Department Heads)) as to the specific purposes for which the assigned amounts are to be used. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) other than the General Fund, that are not classified as nonspendable, restricted, or committed.

Unassigned Fund Balance – the residual classification for the General Fund and includes all amounts not contained in the other classifications. Governmental funds report residual negative balances as unassigned fund balance.

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

Encumbrances

The City establishes encumbrances to record the amount of purchase orders, 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 unassigned fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end.

Use of Estimates

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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

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

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

GASB Pronouncements

In November 2010, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. As of June 30, 2013, the City's deferred inflows of resources represent unamortized gain from the sale of generation assets in the prior years (See Note 15).

In November 2010, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Adoption of this statement resulted in restatement of the City's beginning net position balance because of the write-off of deferred bond issuance cost which was recognized as an asset in the prior years (See Note 14).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of net position:	Primary Government	Fiduciary Fund
Cash and investments	\$ 21,353,218	\$ 8,308,682
Restricted cash and investments	118,796,214	6,238,572
Total cash and investments	\$ 140,149,432	\$ 14,547,254

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	16,104,343	8,308,682
Investments	124,043,789	6,238,572
Total cash and investments	\$ 140,149,432	\$ 14,547,254

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's Investment Policy

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

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

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

- A. Credit risk
- B. Custodial credit risk
- C. Concentration of credit risk
- D. Interest rate risk

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or its Agencies	5 years	None	None	None
Certain Asset-Backed Securities	5 years	None	None	AA
Certificates of Deposit	5 years	30%	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	P-1
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium-Term Notes	5 years	30%	None	A
Mutual Funds Investing in Eligible Securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 years	20%	None	AA
State Administered Pool Investment	N/A	None	\$50 million	None

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or its Agencies	None	None	None	None
Certain Asset-Backed Securities	None	None	None	AA
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 year	None	None	None
Commercial Paper	None	None	None	P-1
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	\$50 million	None
Investment Contracts	None	None	None	None

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2013	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
<u>Primary Government:</u>					
Money Market Funds	\$ 77,609,401	\$ 77,609,401	\$ -	\$ -	62.6%
Local Agency Investment Fund	539,538	539,538	-	-	0.4%
U.S. Treasury Notes	20,644,952	-	10,692,505	9,952,447	16.6%
Federal National Mortgage Association	14,344,241	-	9,367,994	4,976,247	11.6%
Federal Home Loan Mortgage Corporation	8,648,129	-	6,270,772	2,377,357	7.0%
Federal Home Loan Banks	2,257,529	-	-	2,257,529	1.8%
Total Investments	\$ 124,043,790	\$ 78,148,939	\$ 26,331,271	\$ 19,563,580	100.0%
<u>Fiduciary Fund:</u>					
Money Market Funds	\$ 1,717,375	\$ 1,717,375	\$ -	\$ -	27.5%
U.S. Treasury Notes	2,010,242	-	1,058,075	952,167	32.2%
Federal National Mortgage Association	1,372,222	-	894,629	477,593	22.0%
Federal Home Loan Mortgage Corporation	938,951	-	694,435	244,516	15.1%
Federal Home Loan Banks	199,782	-	-	199,782	3.2%
Total Investments	\$ 6,238,572	\$ 1,717,375	\$ 2,647,139	\$ 1,874,058	100.0%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

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

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2012	% of Total
Primary Government:				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	15,853,740	11.3%
Local Agency Investment Fund	None	Not Rated	539,538	0.4%
Total in custody of Treasurer			16,394,578	11.7%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	250,603	0.2%
Money Market Funds	Aaa / AAA	Aaa / AAA	77,609,401	55.4%
U.S. Treasury Notes	None	Aaa / AA+	20,644,952	14.7%
Federal National Mortgage Association	None	Aaa / AA+	14,344,241	10.2%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	8,648,129	6.2%
Federal Home Loan Banks	None	Aaa / AA+	2,257,529	1.6%
Total in custody of Trustee			123,754,855	88.3%
Total cash and investments held by Treasurer and Trustee			\$ 140,149,433	100.0%

Fiduciary Fund:

In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 8,308,682	57.1%
Total in custody of Treasurer			8,308,682	57.1%
In custody of Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	1,717,375	11.8%
U.S. Treasury Notes	None	Aaa / AA+	2,010,242	13.8%
Federal National Mortgage Association	None	Aaa / AA+	1,372,222	9.4%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	938,951	6.5%
Federal Home Loan Bank	None	Aaa / AA+	199,782	1.4%
Total in custody of Trustee			6,238,572	42.9%
Total cash and investments held by Treasurer and Trustee			\$ 14,547,254	100.0%

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. Government, U.S government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the City's investments in federal agency securities.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2013, the City's investments in any one issuer exceeding 5%, excluding mutual funds and U.S. Treasury securities were as follows:

Issuer	In Custody of	Fair Value as of June 30, 2013	% of Total
<u>Primary Government:</u>			
Federal Home Loan Mortgage Corporation	Trustee	\$ 8,648,129	7.0%
Federal National Mortgage Association	Trustee	\$ 14,344,241	11.6%
Money Market Funds	Trustee	\$ 77,609,401	62.6%
<u>Fiduciary Fund:</u>			
Federal Home Loan Mortgage Corporation	Trustee	\$ 938,951	15.1%
Federal National Mortgage Association	Trustee	\$ 1,372,222	22.0%
Money Market Funds	Trustee	\$ 1,717,375	27.5%

Custodial Credit Risk

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

At year-end, the carrying amount of the City's and Fiduciary Fund's deposits were \$16,104,343 and \$8,308,682, respectively. The bank balances were \$16,347,241 and \$8,308,682, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2013, none of City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$15,847,241 and \$7,808,682 were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The City also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$539,538 at June 30, 2013. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 2013 was \$28.12 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$58.80 billion at June 30, 2013. Of this amount, 1.88% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The weighted average maturity of PMIA investments was 0.77 years as of June 30, 2013. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2013 are as follows:

Receivables - Governmental Activities:	General Fund	Total Governmental Activities
Accounts receivables	\$ 109,350	\$ 109,350
Taxes	1,205,127	1,205,127
Notes or loans	62,648	62,648
Other	507,537	507,537
Total receivables	<u>\$ 1,884,662</u>	<u>\$ 1,884,662</u>

Receivables - Business-type Activities:	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total Business-type Activities
Accounts receivables	\$ 5,616,061	\$ 614,526	\$ 32,893	\$ 6,263,480
Less: Allowances for uncollectible accounts	(150,000)	-	-	(150,000)
Total receivables, net	<u>\$ 5,466,061</u>	<u>\$ 614,526</u>	<u>\$ 32,893</u>	<u>\$ 6,113,480</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 4 – INTERFUND TRANSACTIONS

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

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Enterprise	General Fund	\$ 22,277,376
	Fiber Optics Fund	4,367,115
		<u>\$ 26,644,491</u>
Water Fund	General Fund	\$ 7,850,819
		<u>\$ 7,850,819</u>

Transactions between funds commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, and legal services) and occasionally to fund capital projects on behalf of one another such as the City’s natural gas system and the development of the City’s base load electric generating station. The above balances represent interfund borrowings payable beyond one year. On November 6, 2012, City Council of the City of Vernon adopted Resolution No. 2012-215 to extend the repayment term of the General Fund to the Light and Power Enterprise from 15 months to a period of over 10 years.

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Fund	\$ 11,959,593
		<u>\$ 11,959,593</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and for the payment of in-lieu franchise taxes.

During the current year, the Light and Power Enterprise transferred a total of \$11,959,593 to the General Fund consisting of \$3,989,071 of in-lieu franchise taxes and \$7,970,522 of operating transfers.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 11,491,017	\$ -	\$ -	\$ 11,491,017
Construction in Progress	543,199	58,712	-	601,911
Total capital assets, not being depreciated	<u>12,034,216</u>	<u>58,712</u>	<u>-</u>	<u>12,092,928</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	27,834,336	687,015	-	28,521,351
Building and Improvements	14,833,705	-	-	14,833,705
Improvements Other Than Buildings	10,608,020	7,101	-	10,615,121
Machinery and Equipment	21,863,270	1,029,793	-	22,893,063
Total capital assets, being depreciated	<u>75,139,331</u>	<u>1,723,909</u>	<u>-</u>	<u>76,863,240</u>
Less accumulated depreciation for:				
Infrastructure	(21,645,684)	(540,727)	-	(22,186,411)
Building and Improvements	(5,826,451)	(375,846)	-	(6,202,297)
Improvements Other Than Buildings	(3,584,319)	(277,138)	-	(3,861,457)
Machinery and Equipment	(15,416,007)	(1,233,874)	-	(16,649,881)
Total accumulated depreciation	<u>(46,472,461)</u>	<u>(2,427,585)</u>	<u>-</u>	<u>(48,900,046)</u>
Total capital assets, being depreciated, net				
Infrastructure	6,188,652	146,288	-	6,334,940
Building and Improvements	9,007,254	(375,846)	-	8,631,408
Improvements Other Than Buildings	7,023,701	(270,037)	-	6,753,664
Machinery and Equipment	6,447,263	(204,081)	-	6,243,182
Total	<u>28,666,870</u>	<u>(703,676)</u>	<u>-</u>	<u>27,963,194</u>
Governmental activities capital assets, net	<u>\$ 40,701,086</u>	<u>\$ (644,964)</u>	<u>\$ -</u>	<u>\$ 40,056,122</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 760,855
Public safety	920,584
Public works	729,527
Health services	16,619
Total depreciation expense - governmental functions	<u>\$ 2,427,585</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2012
<u>Fiduciary activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Accumulated redevelopment project costs	\$ 24,838,594	\$ -	\$ -	\$ 24,838,594
Land	774,295	-	-	774,295
Total capital assets, not being depreciated	<u>25,612,889</u>	<u>-</u>	<u>-</u>	<u>25,612,889</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	18,398,638	-	-	18,398,638
Improvements Other Than Buildings	12,523	-	-	12,523
Machinery and Equipment	28,710	-	-	28,710
Total capital assets, being depreciated	<u>18,439,871</u>	<u>-</u>	<u>-</u>	<u>18,439,871</u>
Less accumulated depreciation for:				
Infrastructure	(2,382,911)	(590,327)	-	(2,973,238)
Improvements Other Than Buildings	(2,022)	(309)	-	(2,331)
Machinery and Equipment	(5,506)	(2,213)	-	(7,719)
Total accumulated depreciation	<u>(2,390,439)</u>	<u>(592,849)</u>	<u>-</u>	<u>(2,983,288)</u>
Total capital assets, being depreciated, net				
Infrastructure	16,015,727	(590,327)	-	15,425,400
Improvements Other Than Buildings	10,501	(309)	-	10,192
Machinery and Equipment	23,204	(2,213)	-	20,991
Total	<u>16,049,432</u>	<u>(592,849)</u>	<u>-</u>	<u>15,456,583</u>
Fiduciary activities capital assets, net	<u>\$ 41,662,321</u>	<u>\$ (592,849)</u>	<u>\$ -</u>	<u>\$ 41,069,472</u>

Depreciation expense charged to the fiduciary fund was \$592,849.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land - L&P	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	467,640
Intangibles - Environmental credits - L&P	18,382,873	-	-	18,382,873
Construction in Progress - L&P	38,095,308	4,367,303	-	42,462,611
Construction in Progress - Water	902,560	97,890	-	1,000,450
Construction in Progress - Gas	29,272	815,576	-	844,848
Total capital assets, not being depreciated	<u>67,154,249</u>	<u>5,280,769</u>	<u>-</u>	<u>72,435,018</u>
<i>Capital assets, being depreciated</i>				
Production plant - L&P	14,878,138	504,083	-	15,382,221
Transmission plant - L&P	4,888,113	-	-	4,888,113
Distribution plant - L&P	130,702,161	11,183,540	-	141,885,701
General plant - L&P	8,133,749	109,457	-	8,243,206
Water utility plant	17,233,232	19,808	-	17,253,040
Gas utility plant	24,794,094	35,306	-	24,829,400
Fiber Optic utility plant	3,545,232	442,117	-	3,987,349
Total capital assets, being depreciated	<u>204,174,719</u>	<u>12,294,311</u>	<u>-</u>	<u>216,469,030</u>
Less accumulated depreciation for:				
Production plant - L&P	(6,697,295)	(434,582)	-	(7,131,877)
Transmission plant - L&P	(2,566,784)	(97,666)	-	(2,664,450)
Distribution plant - L&P	(50,207,223)	(3,901,681)	-	(54,108,904)
General plant - L&P	(2,473,214)	(428,527)	-	(2,901,741)
Water utility plant	(12,643,378)	(319,204)	-	(12,962,582)
Gas utility plant	(4,425,958)	(729,697)	-	(5,155,655)
Fiber Optic utility plant	(907,634)	(251,850)	-	(1,159,484)
Total accumulated depreciation	<u>(79,921,486)</u>	<u>(6,163,207)</u>	<u>-</u>	<u>(86,084,693)</u>
Total capital assets, being depreciated, net				
Production plant - L&P	8,180,843	69,501	-	8,250,344
Transmission plant - L&P	2,321,329	(97,666)	-	2,223,663
Distribution plant - L&P	80,494,938	7,281,859	-	87,776,797
General plant - L&P	5,660,535	(319,070)	-	5,341,465
Water utility plant	4,589,854	(299,396)	-	4,290,458
Gas utility plant	20,368,136	(694,391)	-	19,673,745
Fiber Optic utility plant	2,637,598	190,267	-	2,827,865
Total	<u>124,253,233</u>	<u>6,131,104</u>	<u>-</u>	<u>130,384,337</u>
Business-type activities capital assets, net	<u>\$ 191,407,482</u>	<u>\$ 11,411,873</u>	<u>\$ -</u>	<u>\$ 202,819,355</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

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

Light and Power Fund	\$ 4,862,456
Gas Fund	729,698
Water Fund	319,204
Fiber Optics Fund	251,851
Total depreciation expense - business-type functions	<u>\$ 6,163,209</u>

NOTE 6 – LONG-TERM OBLIGATIONS

There were no new bond issues during the fiscal year 2013. As of June 30, 2013, outstanding debt obligations consisted of the following:

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

At June 30, 2013, \$42,910,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$108,627,424, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,973,575 and \$145,811,902, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A were issued to provide funds to (i) finance the cost of certain capital improvements to the City's Electric System, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2008 Bonds.

\$419,400,000 Electric System Revenue Bonds (2009 Series A)

At June 30, 2013, \$332,065,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$414,388,594, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$46,043,100 and \$145,811,902, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

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

At June 30, 2013, \$37,640,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$86,504,964, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$145,811,902, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

At June 30, 2013, \$35,100,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of electric revenues payable to bondholders. The debt service remaining on the bonds is \$60,988,913, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$145,811,902, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B were issued to provide funds to (i) refund the \$28,680,000 aggregate principal amount of 2009 Bonds maturing on August 1, 2012, (ii) to pay a portion of the Costs of the 2012 Project, and (iii) to pay costs of issuance of the 2012 Taxable Series B Bonds.

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

<u>Bonds</u>	<u>Maturity</u>	<u>Fixed Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2013</u>
City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 42,910,000
City of Vernon Electric System Revenue Bonds, 2009 Series A	08/01/21	2.500% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	332,065,000
City of Vernon Electric System Revenue Bonds, 2012 Series A	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B	08/01/26	6.250% - 6.500%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
Premium					189,089
Discounts					(4,033,187)
Deferred amount on refunding					(6,705,888)
Total Revenue Bonds				<u>\$ 535,905,000</u>	<u>\$ 437,165,014</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2013, annual debt service requirements of business-type activities to maturity are as follows:

Fiscal year ending June 30:	Electric System Revenue Bonds 2008 Taxable Series A	
	Principal	Interest*
2014	\$ 330,000	\$ 3,645,080
2015	355,000	3,619,735
2016	385,000	3,592,355
2017	415,000	3,562,755
2018	445,000	3,530,935
2019-2023	4,110,000	16,821,948
2024-2028	6,700,000	14,495,629
2029-2033	10,290,000	10,899,424
2034-2038	15,815,000	5,374,976
2039	4,065,000	174,592
Total requirements	<u>\$ 42,910,000</u>	<u>\$ 65,717,429</u>

*As of June 30, 2013, debt service for 2008 Series A, was calculated based upon fixed coupon rates of 7.400% and 8.590%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2009 Series A	
	Principal	Interest*
2014	\$ 29,930,000	\$ 16,110,638
2015	31,295,000	14,748,957
2016	32,970,000	13,071,088
2017	34,740,000	11,300,625
2018	36,570,000	9,473,306
2019-2022	166,560,000	17,618,982
Total requirements	<u>\$ 332,065,000</u>	<u>\$ 82,323,596</u>

* As of June 30, 2013, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.750% to 5.125%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2014	\$ -	\$ 2,031,394
2015	-	2,031,394
2016	-	2,031,394
2017	-	2,031,394
2018	-	2,031,394
2019-2023	-	10,156,968
2024-2028	1,075,000	10,107,698
2029-2033	6,270,000	9,000,856
2034-2038	8,140,000	7,073,829
2039-2042	22,155,000	2,368,643
	<u>\$ 37,640,000</u>	<u>\$ 48,864,964</u>

* As of June 30, 2013, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 5.000% to 5.500%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Taxable Series B	
	Principal	Interest*
2014	\$ -	\$ 2,222,900
2015	-	2,222,900
2016	-	2,222,900
2017	-	2,222,900
2018	-	2,222,900
2019-2023	6,165,000	10,761,297
2024-2028	28,935,000	3,086,907
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 24,962,704</u>

*As of June 30, 2013, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 6.250% to 6.500%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2013, annual debt service requirements of fiduciary activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2005	
	Principal	Interest*
2014	\$ 1,270,000	2,081,544
2015	1,390,000	2,028,344
2016	1,520,000	1,962,544
2017	1,630,000	1,891,944
2018	1,340,000	1,832,544
2019-2023	7,665,000	8,078,725
2024-2028	7,850,000	6,283,213
2029-2033	11,960,000	4,011,684
2034-2036	9,810,000	756,000
	\$ 44,435,000	\$ 28,926,542

* As of June 30, 2013, debt service was calculated at the actual fixed rates of the coupons ranging from 4.000% to 5.250%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2011	
	Principal	Interest*
2014	\$ 900,000	\$ 1,447,144
2015	985,000	1,403,341
2016	1,070,000	1,348,675
2017	1,150,000	1,284,750
2018	1,025,000	1,216,938
2019-2023	6,075,000	4,658,475
2024-2028	4,135,000	2,559,706
2029-2031	3,315,000	471,981
Total requirements	\$ 18,655,000	\$ 14,391,010

*As of June 30, 2013, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 4.125% to 9.250%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
<u>Governmental activities:</u>					
Postemployment benefit liability	\$ 8,704,000	\$ 3,065,510	\$ (390,548)	\$ 11,378,962	\$ 390,548
Notes payable	7,259,123	-	(459,644)	6,799,479	460,000
Claims payable	3,226,816	1,271,103	(1,378,367)	3,119,552	1,039,851
Compensated absences	5,857,357	3,799,630	(5,857,357)	3,799,630	1,266,543
	<u>\$ 25,047,296</u>	<u>\$ 8,136,243</u>	<u>\$ (8,085,916)</u>	<u>\$ 25,097,623</u>	<u>\$ 3,156,942</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 476,700,000	\$ -	\$ (28,985,000)	\$ 447,715,000	\$ 30,260,000
Bond premium	195,803	-	(6,713)	189,090	6,713
Bond discount	(4,439,072)	-	405,886	(4,033,186)	(405,886)
Deferred amount on refunding	(7,450,986)	-	745,098	(6,705,888)	(745,099)
Compensated absences	1,022,442	620,732	(1,022,442)	620,732	206,911
	<u>\$ 466,028,187</u>	<u>\$ 620,732</u>	<u>\$ (28,863,171)</u>	<u>\$ 437,785,748</u>	<u>\$ 29,322,639</u>
<u>Fiduciary activities:</u>					
Bonds payable	\$ 65,085,000	\$ -	\$ (1,995,000)	\$ 63,090,000	\$ 1,995,000
Bond premium	635,974	-	(44,345)	591,629	44,345
Bond discount	(834,299)	-	43,910	(790,389)	(43,910)
	<u>\$ 64,886,675</u>	<u>\$ -</u>	<u>\$ (1,995,435)</u>	<u>\$ 62,891,240</u>	<u>\$ 1,995,435</u>

Line of Credit

In September 2007, the City entered into \$50,000,000 revolving line of credit agreements with a bank for the purpose of financing the City's industrial development programs which are secured with land held for resale. The termination date of the current agreement is April 1, 2014. The interest rate on this loan is the greater of 5.0% or six-month LIBOR plus a margin of 2.5%. As of June 30, 2013, \$6,799,479 of the line of credit was used for the purposes of acquiring land held for resale. This line of credit is recorded in the governmental fund.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired derivative instruments to reduce its overall exposure to interest rate and commodity priced risk and to achieve a lower cost of capital and commodity. As of June 30, 2013, all derivative instruments have been classified as investment derivative instruments under GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, with the following instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Term	Fair Value
A	Variable to Fixed Swap	Reduce overall exposure to interest rate risk and achieve lower cost of capital for the 2004 Series A Bonds	\$ 90,150,000	December 2004	April 2037	Receive 62.87% of LIBOR one-month index plus 0.119%, pay 3.607%	\$ (13,173,095)
B	Variable to Fixed Swap	Reduce overall exposure to interest rate risk and achieve lower cost of capital for the 2004 Series B Bonds	83,575,000	December 2004	April 2029	Receive 62.87% of LIBOR one-month index plus 0.119%, pay 3.542%	(13,869,594)
			<u>\$ 173,725,000</u>				<u>\$ (27,042,689)</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

A - Variable to Fixed Swap – 2004 Series A Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$90,150,000 2004 Series A Electric System revenue bonds (the "2004 Series A Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed rate debt.

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of the 2004 Series A Bonds. The notional amount of the swap is \$90,150,000. Under the original terms of the swap, the City pays the counterparty a fixed rate of 3.637% and receives from the counterparty variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus 0.119%. On March 16, 2006, the City amended its fixed payment to 3.607% to the counterparty. In April 2008, the City redeemed its 2004 Series A Bonds.

Fair value: As of June 30, 2013, the swap had a negative fair value of \$13,173,095. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2013 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2013, the swap counterparty, Morgan Stanley was rated A- by Standard & Poor's and Baa1 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian. The City is obligated to post collateral to Morgan Stanley if the City's negative fair value exceeds \$20,000,000. At June 30, 2013, the City had not posted any collateral as the negative fair value did not exceed \$20,000,000.

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

B - Variable to Fixed Swap – 2004 Series B Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$83,575,000 2004 Series B Electric System revenue bonds (the "2004 Series B Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed rate debt.

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2004 Series B Bonds. The notional amount of the swap is \$83,575,000. Under the original terms of the swap, the City pays a fixed rate of 3.572% and receives variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus 0.119%. On March 16, 2006, the City revised its fixed payment to 3.542% to the counterparty. In April 2008, the City redeemed its 2004 Series B Bonds. In September 2011, Morgan Stanley transferred its rights and obligations under the interest rate swap transaction in connection with the City's Electric System Revenue Bonds, 2004 Series B to Deutsche Bank AG. To evidence such transfer, the City and Deutsche Bank AG entered into a novation confirmation which incorporates, by reference, the terms and conditions of the ISDA Master Agreement, Schedule and Collateral Support Annex of the original interest rate swap transaction with Morgan Stanley in connection with the City's Electric System Revenue Bonds, 2004 Series B, with certain modifications including an option by Deutsche Bank to terminate the Deutsch Bank Swap Transaction in 2016. The transfer of rights and obligations by Morgan Stanley to Deutsche Bank AG had no impact to L&P other than the change in the requirement of posting collateral. Prior to September 2011, the City was obligated to post collateral to Morgan Stanley if the City's negative fair value in the aggregate exceeded \$20,000,000. Subsequent to September 2011, the City is obligated to post collateral to Morgan Stanley if the City's negative fair value of the 2004 A swap exceeds \$20,000,000 and to Deutsche Bank AG if the City's negative fair value of the 2004 B swap exceeds \$20,000,000.

Fair value: As of June 30, 2013, the swap had a negative fair value of \$13,869,594. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2013 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2013, the swap counterparty, Deutsche Bank AG was rated A by Standard & Poor's and A2 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian. The City is obligated to post collateral to Deutsche Bank AG if the City's negative fair value exceeds \$20,000,000. At June 30, 2012, the City had not posted any collateral as the negative fair value did not exceed \$20,000,000..

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

C - Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2013, classified by type, and the change in fair value of such derivative instrument for the year then ended as reported in the current year financial statements are as follows:

	Change in Fair Value		Fair Value at June 30, 2013		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ 9,060,880	Derivative liability	\$ (13,173,095)	\$ 90,150,000
2004 Series B Bonds	Decrease in fair value	6,229,692	Derivative liability	(13,869,594)	83,575,000
Total		\$ 15,290,572		\$ (27,042,689)	\$ 173,725,000

In September 2012, the City terminated the portion of the cash flow exchanges under the 2004 Series A Swap scheduled to occur through December 1, 2015 by paying a termination amount of \$9,490,000 and entering into an amended and restated confirmation with a new effective date of December 1, 2015. The net increase in fair value of investments on the 2004 A and 2004 B swaps during the year was \$15,290,572.

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 a self-insured retention or deductible, which are parts of our Risk Financing Program. These expenses are paid on a cash basis as they are incurred. There have been no significant settlements or reductions in insurance coverage during the past three fiscal years.

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The insurance limits for fiscal year 2012-13 are as follows (amounts in thousands):

Insurance Type	Program Limits	Deductible / SIR (self-insured retention)
Excess Liability Insurance	\$20,000	\$2,000 SIR per occurrence
D & O Employment Practice	\$ 2,000	\$250 SIR non-safety; safety \$250
Excess Workers Compensation	\$ 2,000	\$2,000 SIR per occurrence
Property Insurance	\$315,000	\$ various up to \$250
Employee Dishonest – Crime	\$ 1,000	\$ 10
Pollution – Site Owned	\$ 5,000	\$ 25
Pollution – Haulers	\$ 5,000	\$ 25

The City has numerous claims and pending litigations, which generally involve accidents and or liability or damage to City property. Subsequent to June 30, 2013 we received a Wrongful Death Lawsuit in conjunction with the Metropolitan Transit Agency, for an incident that occurred on February 18, 2013. The City believes our exposure to this lawsuit is small as compared to the exposure of the Metropolitan Transit Authority. The balance of claims/litigations against the City is in the opinion of management, ordinary routine matters, incidental to the normal business conducted by the City. In the opinion of management, such proceedings are substantially covered by insurance, and the ultimate dispositions of such proceedings are not expected to have a material adverse effect on the City's financial position, results of operations or cash flows.

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

	Fiscal Year Ended June 30	
	2013	2012
Claims payable, beginning of fiscal year	\$ 3,226,816	\$ 5,026,430
Incurred claims and change in estimates	1,271,103	143,884
Claims payments	<u>(1,378,367)</u>	<u>(1,943,498)</u>
Claims payable, end of fiscal year	<u>\$ 3,119,552</u>	<u>\$ 3,226,816</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 9 – PENSION PLAN

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked 1,000 hours in a fiscal year are eligible to participate in the PERS. Benefits vest after five years of service. Employees who retire at age 50 with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on an employee's average compensation for his or her single highest year of compensation for each year of credited service.

Miscellaneous members with five years of credited service may retire at age 55 with full benefits based on a benefit factor derived from the "2.7% at 55 Miscellaneous Factor" benefit factor table and between age 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 with full benefits based on a benefit factor derived from the "2% at 62 Miscellaneous Factor" benefit factor table and between age 52 and 61 with reduced retirement benefits. Safety members with five years of credited service may retire at age 50 with full benefits based on a benefit factor derived from the "3% at 50 Safety Factor" for Police Department employees and "3% at 50 Safety Factor" for Fire Department employees benefit factor table with five years of credited service. New Safety members (PEPRA) with five years of credited service may retire at age 57 with full benefits based on a benefit factor derived from the "2.7% at 57 Safety (PEPRA) Factor" benefit factor table and between age 50 and 56 with reduced retirement benefits for new Safety (PEPRA) members of both Police and Fire Departments. The PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City's plan does not issue a stand-alone financial report but is included in the PERS report, which can be obtained from PERS at Lincoln Plaza, 400 P Street, Sacramento, California 95814.

The State-required City employee salary contributions are 8% for miscellaneous employees and 9% for safety employees. In prior years, employee contributions were subsidized by the City however, effective April 8, 2010 contributions were made by the employees. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration.

The City and employees contribution to the PERS for the fiscal year ended June 30, 2013 was \$6,246,914 and \$2,172,713, respectively. City contribution rates as a percentage of covered payroll were 17.96% for miscellaneous plan members and 30.351% for safety plan members.

The City's contribution was made in accordance with actuarially determined requirements based on an actuarial valuation performed as of June 30, 2010.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 9 – PENSION PLAN (CONTINUED)

The PERS uses the entry age normal actuarial cost method, which is a projected benefit cost method that takes into account those benefits expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry age normal cost method whereby the employer's total normal cost is expressed as a level percentage of payroll. Unfunded liabilities are amortized over a closed, 20-year period.

Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.50% a year, compounded annually; (b) overall payroll growth of 3.00%, compounded annually; and (c) a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

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

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

Fiscal Year Ended	Annual Pension Cost (APC)	Amount Contributed	Percentage of APC Contributed	Net Pension Obligation
6/30/2013	\$6,246,914	\$6,246,914	100%	-
6/30/2012	5,957,609	5,957,609	100%	-
6/30/2011	5,794,058	5,794,058	100%	-

The following schedules present the funded status as of June 30, 2012 based on actuarial assumptions consistent with the June 30, 2010 valuation described above (dollar amounts in millions).

Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2012	\$187,760,016	\$156,872,267	\$30,887,749	83.5%	\$14,138,931	218.5%

Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2012	\$116,754,171	\$101,664,148	\$15,090,023	87.1%	\$11,826,570	127.6%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, provides multi-year trend information based on the three most recent actuarial valuations and shows information about progress made in accumulating sufficient assets to pay benefits when due.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 10 – DEFICITS IN FUND EQUITY

The General Fund has an unassigned fund balance deficit of \$26,737,806 at June 30, 2013, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

The Fiber Optic Fund has a net position deficit of \$1,612,936 at June 30, 2013, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

NOTE 11 – LIGHT AND POWER ENTERPRISE OPERATIONS AND COMMITMENTS

Asset Sale

On December 13, 2007, the City entered into an Amended and Restated Purchase and Sale Agreement (the “Bicent Agreement”), with Bicent (California) Power LLC (“Bicent”), which is an affiliate of Bicent Holdings and Natural Gas Partners, to sell to Bicent the Malburg Generating Station (“MGS”) and the economic burdens and benefits of the City’s interests in 22 MW from the Hoover Dam Upgrading Project for \$287,500,000. This transaction closed on April 10, 2008.

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the “PPTA”). In addition, Bicent has acquired the benefits and burdens of the City’s interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences (“CFD”), between Bicent (California) Hoover LLC, a Delaware limited liability company (“BCH”) and the City, dated as of April 10, 2008 (the “Hoover Differences Contract”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company (“BCM”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2013, a deferred gain of \$39,083,169 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 13 for disclosure on uncertainties).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

Project Commitments

A. Southern California Public Power Authority

In 1980, the City entered into a joint powers agreement with nine (9) Southern California cities and an irrigation district to form the Southern California Public Power Authority (the “Authority”). The Authority’s purpose is the planning, financing, acquiring, constructing and operating of projects that generate or transmit electric energy.

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 2013 was \$3,873,828. The City expects no significant increases in costs related to its nuclear resources.

B. Hoover Dam Power Plant Upgrade Program

In January 1987, the City entered into a contract with the Federal Bureau of Reclamation to fund part of an upgrading program of the Hoover Dam power plant to increase the plant’s generating capacity. In exchange, the City will receive its pro rata share of the additional power produced. Total program costs are estimated to be \$155 million.

As of June 30, 2013, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2013, the outstanding note receivable was \$1,885,672. The City has no obligation to advance funds in the future. The note is being repaid with interest over a period of 30 years. The City must also make payments for its pro rata share of operating and maintenance costs not recovered by the plant through revenues. The amount paid during the current year for purchased power was reduced by principal and interest amounts totaling \$512,871 due the City on the outstanding note receivable. The contract expires in September 2017.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

Power Purchase Commitments

As of June 30, 2013 under the Bident Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2014	\$ 21,473,855
2015	21,473,855
2016	21,473,855
2017	36,017,284
2018	35,182,494
2019-2023	166,763,543
	<u>\$ 302,384,886</u>

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

Light and Power Enterprise

On December 15, 2011, City Council adopted a resolution to merge two enterprise funds, the Light and Power Department Fund and the Gas Fund, for accounting and financial reporting purposes. Both are utility funds that provide power and gas to the residents and businesses of the City. Over the course of time, these funds have accumulated both short-term and long-term interfund receivable and payable balances, by virtue of the impact of daily operations and the development of the Gas enterprise. The City merged these funds to eliminate both short-term and long-term receivables and payables.

A Segment Information

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
Current assets:				
Cash and investments	\$ 19,279,266	\$ 1,214,141	\$ -	\$ 20,493,407
Accounts receivable, net of allowances of \$150,000	3,260,835	2,205,226	-	5,466,061
Accrued unbilled revenue	9,265,639	-	-	9,265,639
Accrued interest receivable	221,033	-	-	221,033
Inventories	10,129,168	403,932	-	10,533,100
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	395,755	-	-	395,755
Deposits and prepaid expenses	369,701	-	-	369,701
Total current assets	<u>71,499,740</u>	<u>3,823,299</u>	<u>-</u>	<u>75,323,039</u>
Noncurrent assets:				
Restricted cash and investments	114,392,067	-	-	114,392,067
Advances to other funds	49,986,660	-	(23,342,169)	26,644,491
Prepaid natural gas	197,231,556	-	-	197,231,556
Note receivable	1,489,917	-	-	1,489,917
Capital assets:				
Nondepreciable	70,122,080	844,848	-	70,966,928
Depreciable, net	103,592,269	19,673,745	-	123,266,014
Total noncurrent assets	<u>536,814,549</u>	<u>20,518,593</u>	<u>(23,342,169)</u>	<u>533,990,973</u>
Total assets	<u>608,314,289</u>	<u>24,341,892</u>	<u>(23,342,169)</u>	<u>609,314,012</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	9,645,767	3,657,354	-	13,303,121
Customer deposits	469,325	104,250	-	573,575
Derivative liabilities	27,042,689	-	-	27,042,689
Bond interest	10,500,880	-	-	10,500,880
Bonds payable, net	29,115,729	-	-	29,115,729
Compensated absences	148,887	12,767	-	161,654
Total current liabilities	<u>76,923,277</u>	<u>3,774,371</u>	<u>-</u>	<u>80,697,648</u>
Noncurrent liabilities:				
Advances from other funds	-	23,342,169	(23,342,169)	-
Bonds payable, net	408,049,285	-	-	408,049,285
Compensated absences	297,774	25,533	-	323,307
Total noncurrent liabilities	<u>408,347,059</u>	<u>23,367,702</u>	<u>(23,342,169)</u>	<u>408,372,592</u>
Total liabilities	<u>485,270,336</u>	<u>27,142,073</u>	<u>(23,342,169)</u>	<u>489,070,240</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	35,141,024	-	-	35,141,024
Total deferred inflows of resources	<u>39,083,169</u>	<u>-</u>	<u>-</u>	<u>39,083,169</u>
NET POSITION:				
Net investment in capital assets	117,318,905	20,518,593	-	137,837,498
Unrestricted (deficit)	(33,358,121)	(23,318,774)	-	(56,676,895)
Total net position	<u>\$ 83,960,784</u>	<u>\$ (2,800,181)</u>	<u>\$ -</u>	<u>\$ 81,160,603</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
OPERATING REVENUES:			
Charges for services	\$ 145,811,902	\$ 45,452,497	\$ 191,264,399
Total operating revenues	<u>145,811,902</u>	<u>45,452,497</u>	<u>191,264,399</u>
OPERATING EXPENSES:			
Cost of sales	104,297,811	43,993,521	148,291,332
Depreciation and amortization	4,862,456	729,698	5,592,154
Total operating expenses	<u>109,160,267</u>	<u>44,723,219</u>	<u>153,883,486</u>
Operating income (loss)	<u>36,651,635</u>	<u>729,278</u>	<u>37,380,913</u>
NONOPERATING REVENUE (EXPENSES):			
Investment loss	(2,729,867)	-	(2,729,867)
Net increase in fair value of investments	14,703,961	-	14,703,961
Interest expense	(21,644,991)	-	(21,644,991)
Legal settlement	4,250,000	-	4,250,000
Total nonoperating revenue (expenses), net	<u>(5,420,897)</u>	<u>-</u>	<u>(5,420,897)</u>
Income (loss) before transfers	31,230,738	729,278	31,960,016
Transfers out	<u>(11,959,593)</u>	<u>-</u>	<u>(11,959,593)</u>
Change in net position	19,271,145	729,278	20,000,423
Net position, beginning of the year, as restated	<u>64,689,639</u>	<u>(3,529,459)</u>	<u>61,160,180</u>
Net position, end of the year	<u>\$ 83,960,784</u>	<u>\$ (2,800,181)</u>	<u>\$ 81,160,603</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 185,862,121	\$ 43,527,995	\$ 229,390,116
Cash paid to suppliers for goods and services	(98,294,052)	(41,254,515)	(139,548,567)
Cash paid to employees for services	(4,710,441)	(529,978)	(5,240,419)
Net cash provided by operating activities	<u>82,857,628</u>	<u>1,743,502</u>	<u>84,601,130</u>
Cash flows from noncapital financing activities:			
Transfers to City	(11,959,593)	-	(11,959,593)
Collection of note receivable	379,791	-	379,791
Net cash used in noncapital financing activities	<u>(11,579,802)</u>	<u>-</u>	<u>(11,579,802)</u>
Cash flows from capital and related financing activities:			
Repayment of bonds	(28,985,000)	-	(28,985,000)
Bond interest paid	(25,427,779)	-	(25,427,779)
Acquisition and construction of capital assets, net	(13,202,965)	(622,234)	(13,825,199)
Net cash provided by (used in) capital and related financing activities	<u>(67,615,744)</u>	<u>(622,234)</u>	<u>(68,237,978)</u>
Cash flows from investing activities:			
Purchases and sales of investments, net	(4,554,690)	-	(4,554,690)
Investment loss net of interest rate swap payments on investment derivatives	(2,713,266)	-	(2,713,266)
Net cash used in investing activities	<u>(7,267,956)</u>	<u>-</u>	<u>(7,267,956)</u>
Net increase (decrease) in cash and cash equivalents	(3,605,874)	1,121,268	(2,484,606)
Cash and cash equivalents, beginning of year	90,842,818	92,873	90,935,691
Cash and cash equivalents, end of year	<u>\$ 87,236,944</u>	<u>\$ 1,214,141</u>	<u>\$ 88,451,085</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 36,651,635	\$ 729,278	\$ 37,380,913
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	4,862,456	729,698	5,592,154
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(283,771)	(734,940)	(1,018,711)
Advance to (from) City	1,322,247	(1,094,831)	227,416
Accrued unbilled revenue	(1,482,634)	-	(1,482,634)
Inventories	(271,566)	(94,731)	(366,297)
Prepaid expenses and deposits	12,216,370	-	12,216,370
Prepaid natural gas	28,549,573	-	28,549,573
Increase (decrease) in:			
Accounts payable	5,523,220	2,162,027	7,685,247
Customer deposits	19,080	41,250	60,330
Compensated absences	(330,126)	5,751	(324,375)
Deferred gain from sale of generation assets	(3,918,856)	-	(3,918,856)
Net cash provided by (used in) operating activities	<u>\$ 82,857,628</u>	<u>\$ 1,743,502</u>	<u>\$ 84,601,130</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:			
Cash and investments	\$ 19,279,266	\$ 1,214,141	\$ 20,493,407
Noncurrent restricted cash and investments	114,392,067	-	114,392,067
Total	133,671,333	1,214,141	134,885,474
Less: Investments with maturities of more than 90 days	(46,434,389)	-	(46,434,389)
Total cash and cash equivalents	<u>\$ 87,236,944</u>	<u>\$ 1,214,141</u>	<u>\$ 88,451,085</u>
Noncash Capital, Investing and Financing Activities:			
Acquisition of capital assets in accounts payable	\$ 176,167	\$ 268,326	\$ 444,493
Increase in fair value of investments	14,703,961	-	14,703,961
Amortization of deferred gain from sale of generation assets	3,918,856	-	3,918,856

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

B. Pledged Revenues

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

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Resolution 2012-114, 2012-217, 2012-188, and 2013-06 provided the payment of medical and dental insurance premiums for certain categories of retired employees during the 2012-2013 fiscal year. Resolution No. 2012-114 state that the City will provide a single-employer postemployment benefit plan to employees who retire at age fifty (50) 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 fifty (50) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65). Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services has been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association Memorandum of Understanding and the Vernon Police Officers' Benefit Association Memorandum of Understanding. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will become a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future. As of June 30, 2013, 333 employees (244 active employees and 89 retired employees), participated in the OPEB.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

The City does not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City pays benefits on a pay-as-you-go basis.

As of July 1, 2012, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City paid \$267,742 in benefits on a pay-as-you-go basis during the fiscal year. The following represents the status of the Unfunded Actuarial Accrued Liability.

Actuarial Accrued Liability (AAL) (a)	\$	41,731,558
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>41,731,558</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	25,161,622
UAAL as a % of covered payroll (a-b/c)		165.9%

The Unfunded Actuarial Accrued Liability changed from \$25,475,000 to \$41,731,558 based on the July 1, 2012 actuarial valuation as compared to the July 1, 2010 actuarial valuation primarily as a result of the following factors:

- Increase in the benefits provided to retirees, in particular for retirees who retired during the fiscal year ending June 30, 2013 and for future police and fire retirees;
- A change in discount rates used to develop the OPEB liability, from 4.5% to 4.0%;
- Plan experience relative to prior assumptions, e.g., population and premium changes different than those projected in the 2010 valuation;
- Revised assumptions for mortality, termination and retirement, based on the most recent CalPERS retirement plan experience study including the projection of future mortality improvements;
- Changes in the assumptions regarding the percentage of retirees electing coverage for themselves and a spouse;
- An increase in assumed future increase in medical premium levels between 2012 and 2019, and a decrease in assumed future increases in dental premiums; and
- A change in the actuarial funding method, from Projected Unit Credit to the Entry Age Normal Method

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as currently understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the Entry Age Normal Method was used. The investment return assumption was based on the expected return on employer assets which generally consist of short-term liquid investments.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

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

Based on the July 1, 2012 actuarial valuation, the June 30, 2013 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 1,509,874
Amortization of UAAL	1,541,946
Total ARC	\$ 3,051,820

Based on the July 1, 2012 actuarial valuation, the June 30, 2013 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 8,704,000
Annual OPEB Cost	3,065,510
Employer contributions	(390,548)
Increase in NOO	2,674,962
NOO - End of Year	\$ 11,378,962

The funded status of the OPEB plan as of July 1, 2012 and the ARC for the fiscal year ended June 30, 2013 was based on the following actuarial assumptions:

Valuation date:	July 1, 2012
Discount Rate:	4.0%
Attribution method:	Entry age normal method
Amortization method:	Level percentage of payroll
Amortization period:	30 year, open basis
Salary increases assumption:	3.25% per Annum
Plan Participation Percentage:	100%
Healthcare cost trend rates:	
Medical:	Graded down from 9.50% for 2014 to 6.50% for 2020 and later
Dental:	4.5%

The actuarial valuation presents a long-term perspective based on the types of benefits provided under the term of the resolution and assumptions about the probability of events in the future and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress on page 74 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 13– CONTINGENCIES

As of June 30, 2013, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

On March 12, 2009, the County of Los Angeles and the Los Angeles County Flood Control District (collectively “County”) filed a claim against the City. The County sought “indemnification” and purported to seek payment of “money” of an unknown amount contingent upon whether the County was held liable in a separate lawsuit brought against the County. To date, there has been no adjudication or judgment against the County in that lawsuit. On April 15, 2009, the County purported to supplement its initial claim. The City rejected the claim filed by the County. To date, no further action has been initiated by the County and management believes the ultimate impact on the financial position of the City, if any, will not be material to the financial statements.

Uncertainties

Sale of Generation and Transmission Assets

The financial and operational effects of the 2008 sale of generation and transmission assets, while reducing the electric system’s debt burden and providing liquidity, puts the utility at some risks in terms of increased fixed-charge obligations and long-term power resource uncertainty.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 14 – GASB PRNOUNCEMENTS

Pronouncements Issued but Not yet Accepted

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the City.

- GASB Statement No. 66 – *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62.*
- GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27.*
- GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations.*

Implementation of Pronouncements

The City had adopted and implemented the following GASB Statements during the year ended June 30, 2013:

- GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No. 14 and No. 34.*
- GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
- GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
- GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities.*

The implementation of GASB Statements No. 61 and No. 62 did not impact the financial statements of the City during the year ended June 30, 2013.

The implementation of GASB No. 63 impacted certain terminology used but did not have an impact on the net position at June 30, 2013, or the change in net position during the year ended June 30, 2013.

The implementation of GASB No. 65 impacted the City's net position as of June 30, 2012 and the change in net position during the fiscal year ended June 30, 2012.

During the year ended June 30, 2013, the City early implemented GASB Statement No. 65. As a result, the cumulative effects on beginning net position as well as certain asset accounts have been restated from previously issued financial statements to reflect the City's write off of unamortized issuance costs.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2013

NOTE 14 – GASB PRNOUNCEMENTS (CONTINUED)

The effects of the City’s previously issued June 30, 2012 financial statements due to the implementation of GASB no. 65 is summarized as follows:

Business-type activities:

Statement of Net Position Balance as of June 30, 2012	Previously Reported Balance	Increase (Decrease)	Balance as Restated
Deferred charges	\$7,053,543	(\$7,053,543)	\$0
Total assets	\$659,843,771	(\$7,053,543)	\$652,790,228
Ending net position	\$80,053,417	(\$7,053,543)	\$72,999,874

NOTE 15 – DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities,*” the City recognized deferred inflows of resources in the City’s financial statements. The deferred inflow of resources pertains to the unamortized gain on the sale generation assets. Previous financial reporting standards require this amount to be presented as part of the City’s long-term debt. This deferred inflow of resources is recognized as a component of cost of sales in a systematic and rational manner over the remaining life of the Power Purchase Tolling Agreement (See Note 11).

NOTE 16 – SUBSEQUENT EVENTS

Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instruments outstanding at January 24, 2014, classified by type, and the change in fair value of such derivative instruments since June 30, 2013 are as follows:

	Change in Fair Value		Fair Value at January 24, 2014		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Increase in fair value	\$ 600,506	Derivative liability	\$ (12,572,589)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	1,169,543	Derivative liability	(12,700,051)	83,575,000
Total		<u>\$ 1,770,049</u>		<u>\$ (25,272,640)</u>	<u>\$ 173,725,000</u>

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 31,091,718	29,091,718	\$ 20,021,601	\$ (9,070,117)
Special assessments	1,025,000	1,025,000	890,121	(134,879)
Licenses and permits	1,203,400	1,203,400	1,789,651	586,251
Fines, forfeitures and penalties	268,260	364,260	414,975	50,715
Investment income	19,000	19,000	10,020	(8,980)
Intergovernmental revenues	2,885,198	3,017,198	1,312,184	(1,705,014)
Charges for services	845,528	845,528	3,634,485	2,788,957
Other revenues	522,970	526,170	656,525	130,355
Total revenues	37,861,074	36,092,274	28,729,562	(7,362,712)
EXPENDITURES:				
General government	10,346,740	9,705,012	10,281,326	(576,314)
Public safety	26,001,207	25,872,529	26,933,990	(1,061,461)
Public works	5,408,931	5,385,431	5,058,862	326,569
Health services	1,748,512	1,754,994	1,516,216	238,778
Debt service	817,126	817,126	817,129	(3)
Capital outlay	5,603,650	3,609,150	1,782,621	1,826,529
Total expenditures	49,926,166	47,144,242	46,390,144	754,098
Deficiency of revenues under expenditures	(12,065,092)	(11,051,968)	(17,660,582)	(6,608,614)
Other financing sources (uses):				
Sale of property	78,000	78,000	6,001,022	5,923,022
Transfers in	15,374,025	15,374,025	11,959,593	(3,414,432)
Total other financing sources (uses)	15,452,025	15,452,025	17,960,615	2,508,590
Net change	3,386,933	4,400,057	300,033	(4,100,024)
FUND BALANCE, BEGINNING OF YEAR	(25,120,702)	(25,120,702)	(25,120,702)	-
FUND BALANCE, END OF YEAR	\$ (21,733,769)	\$ (20,720,645)	\$ (24,820,669)	\$ (4,100,024)

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2013

NOTE 1 – BUDGET

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund;
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2013. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total negative variance between the final budgeted amounts and actual amount for revenues was \$7,362,712. The key reason for this variance was deficiency of revenues over estimated revenues of \$9,070,117 of taxes.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$754,098. The key reasons for this variance were excess appropriations of \$1,826,529 of capital outlay offset by excess expenditures over appropriations of \$1,061,461 for public safety. The excess expenditures over appropriations for public safety were mainly due to compensated absences payouts of early retirees who took the City's early retirement incentive program.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2013

Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2012	\$187,760,016	\$156,872,026	\$30,887,749	83.5%	\$14,138,931	218.5%
6/30/2011	169,856,987	149,229,083	20,627,904	87.9%	12,554,538	164.3%
6/30/2010	170,104,557	142,251,795	27,852,762	83.6%	14,221,759	195.8%

Miscellaneous Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)-(b)]/(c)
6/30/2012	\$116,754,171	\$101,664,148	\$15,090,023	87.1%	\$11,826,570	127.6%
6/30/2011	108,107,278	97,157,504	10,949,774	89.9%	10,779,349	101.6%
6/30/2010	107,971,777	92,640,731	15,331,046	85.8%	12,685,952	120.9%

Schedule of Funding Progress for City of Vernon Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
7/01/2012	\$ -	\$ 41,731,558	\$ 41,731,558	00.0%	\$ 25,151,622	165.92%
7/01/2010	\$ -	\$ 25,475,000	\$ 25,475,000	00.0%	\$ 29,361,889	86.76%
7/01/2008	\$ -	\$ 22,115,000	\$ 22,115,000	00.0%	\$ 26,479,226	83.52%