

**CITY OF VERNON, CALIFORNIA**

**Annual Financial Report**

**Fiscal Year Ended June 30, 2014**

**CITY OF VERNON**  
**Fiscal Year Ended June 30, 2014**

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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, 2014, 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, 2014, 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 15 and budgetary comparison information and funded status of pension and other postemployment benefits plans on pages 70 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 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.

*Vasquez + Company LLP*

**Los Angeles, California  
December 3, 2014**

**CITY OF VERNON, CALIFORNIA**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**  
**(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, 2014.

**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 16-17 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 70 and 71).

The basic governmental funds financial statements can be found on pages 18-21 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 22-24 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 25-26 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 27-69 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

***City's Net Position***

The table below summarizes the City's net position as of June 30, 2014 and June 30, 2013. The details of the current year's summary can be found on page 16 of this report.

City of Vernon  
Net Position  
June 30, 2014 and 2013

	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Assets:</b>						
Current and other assets	\$ 16,072,956	\$ 15,998,741	\$ 273,003,747	\$ 305,117,173	\$ 289,076,703	\$ 321,115,914
Restricted assets	5,043,081	4,404,147	110,740,591	114,392,067	115,783,672	118,796,214
Capital assets	39,437,453	40,056,122	214,972,837	202,819,355	254,410,290	242,875,477
Total assets	60,553,490	60,459,010	598,717,175	622,328,595	659,270,665	682,787,605
<b>Liabilities:</b>						
Current liabilities	10,232,299	6,478,607	80,930,315	81,589,632	91,162,614	88,068,239
Long-term liabilities	47,014,037	52,068,875	377,989,829	408,463,106	425,003,866	460,531,981
Total liabilities	57,246,336	58,547,482	458,920,144	490,052,738	516,166,480	548,600,220
<b>Deferred Inflows of Resources:</b>						
Deferred gain from sale of generation assets	-	-	35,117,735	39,083,169	35,117,735	39,083,169
<b>Net Position</b>						
Net investment in capital assets	39,437,453	40,056,122	150,384,215	146,423,911	189,821,668	186,480,033
Restricted	484,540	574,347	-	-	484,540	574,347
Unrestricted	(36,614,839)	(38,718,941)	(45,704,919)	(53,231,223)	(82,319,758)	(91,950,164)
Total net position	\$ 3,307,154	\$ 1,911,528	\$ 104,679,296	\$ 93,192,688	\$ 107,986,450	\$ 95,104,216

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 \$107,986,450 (*net position*).

The category of the City's net position with the largest balance totaling \$189,821,668 (175.8%) represents resources that are invested in capital assets, net of related debt.



The second largest category of net position, totaling \$484,540 (0.5%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net position, totaling (\$82,319,758) (76.2%) 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 \$32,113,426 from the prior year due primarily to a decrease in prepaid natural gas of \$28,549,573.
- Restricted assets decreased by \$3,651,476 from the prior year due primarily to a \$5,632,854 increase in the 2012 Series A Capital Improvement Fund, \$1,111,374 decrease in the 2012 Series B Debt Service Fund, \$1,015,935 decrease in the 2012 Series A Capitalized Interest Fund, and a \$7,573,789 decrease in the 2012 Series A Capital Improvement Fund.
- Capital assets increased \$12,153,482 from the prior year due primarily to an increase in construction in progress of \$3,276,128 and an increase in utility plants of \$15,514,918, net of depreciation of \$6,637,563 (See Note 5).
- Long-term liabilities decreased \$30,473,277 from the prior year due primarily to a decrease in bonds payable, net.
- Deferred gain from sale of generation assets decreased \$3,965,434 from the prior year due to amortization.
- Unrestricted net deficit decreased \$7,526,316 from the prior year due primarily to an increase in net investment in capital assets of \$3,960,304 and current year's activities of \$11,486,608.

## 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 17 of this report.

City of Vernon  
Changes in Net Position  
For the Fiscal Years Ended June 30, 2014 and 2013

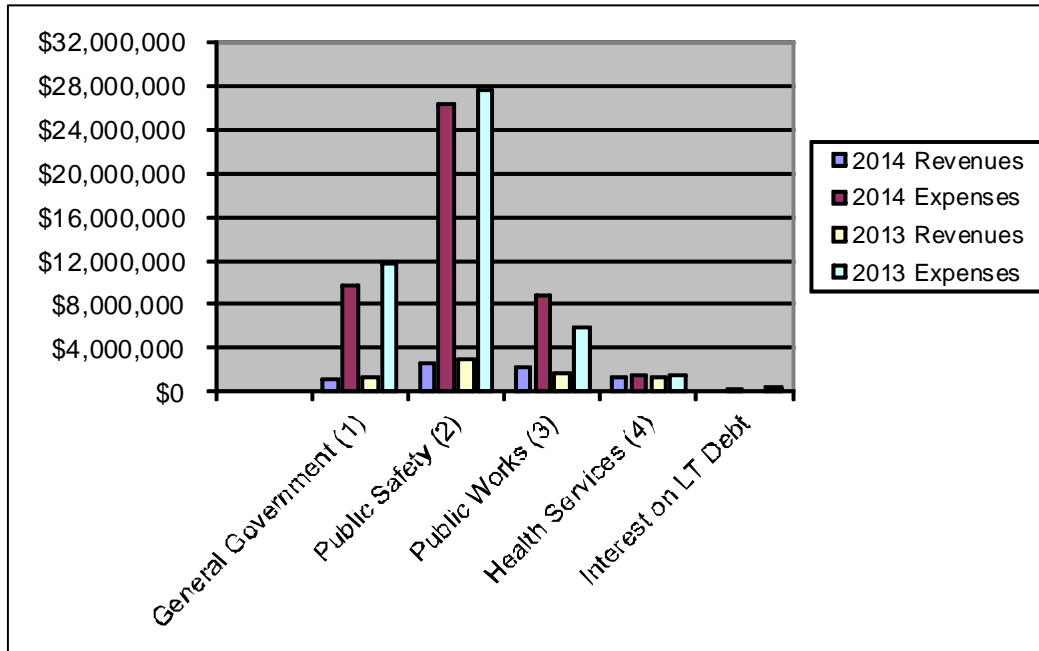
	Governmental Activities		Business-type Activities		Totals	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program Revenues						
Charges for services	\$ 5,992,480	\$ 6,017,719	\$ 217,773,894	\$ 191,264,399	\$ 5,992,480	\$ 6,017,719
Light and power enterprise			8,277,002	7,189,354	8,277,002	7,189,354
Water			334,748	273,026	334,748	273,026
Fiber optics						
Operating and capital grants and contributions	1,276,036	1,299,901	-	-	1,276,036	1,299,901
General Revenues						
Taxes	22,623,425	15,363,542	-	-	22,623,425	15,363,542
State allocations	4,923,794	5,606,213	-	-	4,923,794	5,606,213
Investment income (loss)	15,337	10,020	(5,641,416)	11,974,094	(5,626,079)	11,984,114
Other revenues	482,741	6,433,189	(1,093,922)	4,250,000	(611,181)	10,683,189
Total revenues	35,313,813	34,730,584	219,650,306	214,950,873	254,964,119	249,681,457
<b>Expenses</b>						
Governmental activities						
General government	9,655,370	11,729,826	-	-	9,655,370	11,729,826
Public safety	26,295,037	27,638,871	-	-	26,295,037	27,638,871
Public works	8,860,750	5,881,885	-	-	8,860,750	5,881,885
Health services	1,464,297	1,477,368	-	-	1,464,297	1,477,368
Interest on long-term debt	295,452	355,580	-	-	295,452	355,580
Business-type activities						
Light and power enterprise			188,457,816	175,528,477	188,457,816	175,528,477
Water			6,433,654	6,648,040	6,433,654	6,648,040
Fiber optics			619,509	621,949	619,509	621,949
Total expenses	46,570,906	47,083,530	195,510,979	182,798,466	242,081,885	229,881,996
Change in net position before transfers	(11,257,093)	(12,352,946)	24,139,327	32,152,407	12,882,234	19,799,461
<b>Transfers</b>	12,652,719	11,959,593	(12,652,719)	(11,959,593)	-	-
Change in net position	1,395,626	(393,353)	11,486,608	20,192,814	12,882,234	19,799,461
Net position - beginning of year	1,911,528	2,304,881	93,192,688	72,999,874	95,104,216	75,304,755
Net position - end of year	\$ 3,307,154	\$ 1,911,528	\$ 104,679,296	\$ 93,192,688	\$ 107,986,450	\$ 95,104,216

Governmental activities' net position increased by \$1,395,626 and business-type activities' net position increased by \$11,486,608 for a total increase of \$12,882,234 for the City. The increase in the governmental activities was caused by the governmental activities reporting a \$11,257,093 decrease in net position before transfers and an \$12,652,719 transfer in from the business-type activities.

### Governmental activities, changes in net position:

Governmental activities increased the City's net position by \$1,395,626. This is an increase of \$1,788,979 from the prior year. The key reasons for this increase was due to a \$7,259,883 increases in taxes offset by a \$5,950,448 decrease in other revenues during the year.

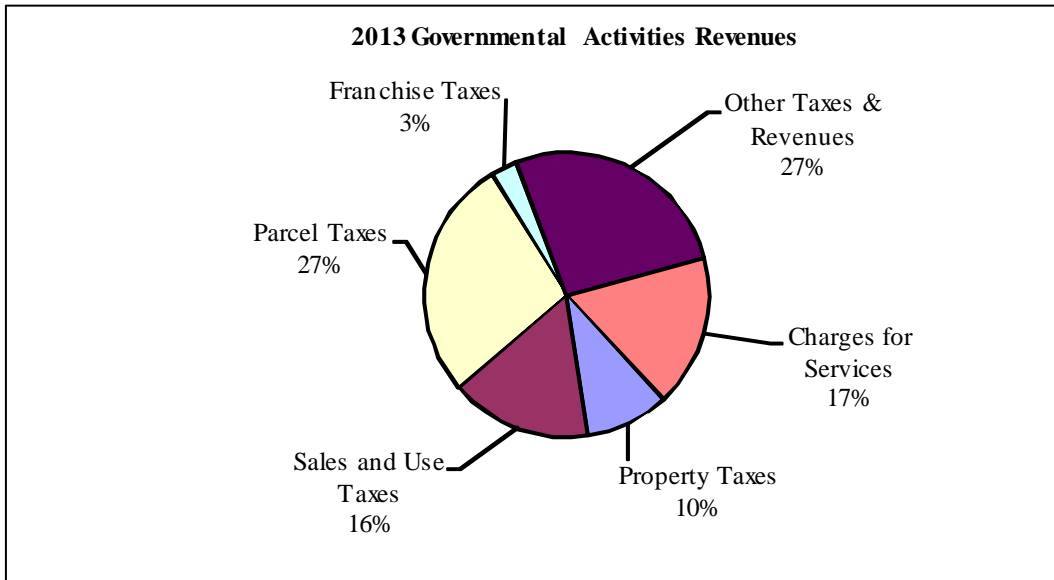
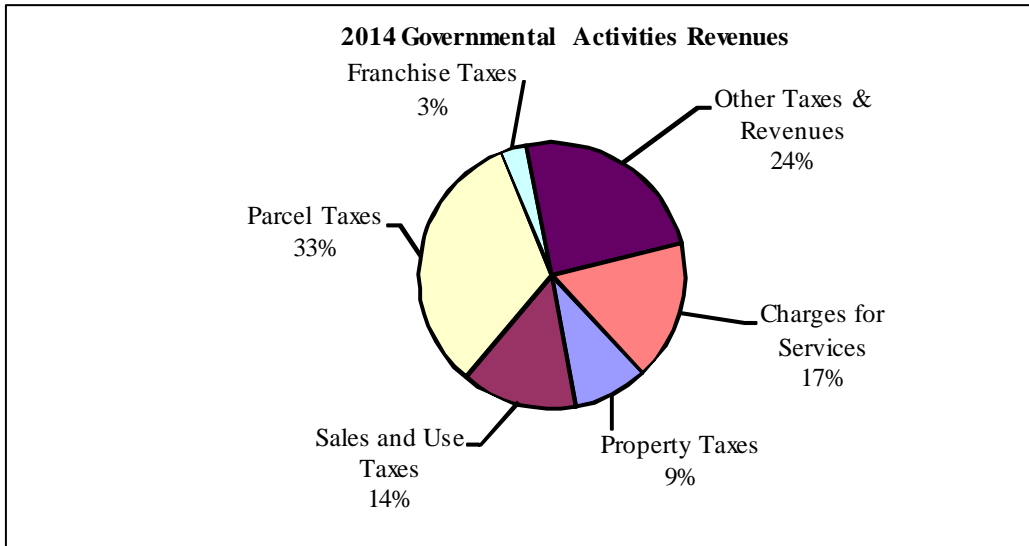
**Expenses and Program Revenues — Governmental Activities**  
**For the Fiscal Years Ended June 30, 2014 and 2013**



Governmental activities consist of the following departments:

- | (1) General Government:   | (2) Public Safety            | (3) Public Works                     | (4) Health Services            |
|---------------------------|------------------------------|--------------------------------------|--------------------------------|
| 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 |                              |                                      |                                |

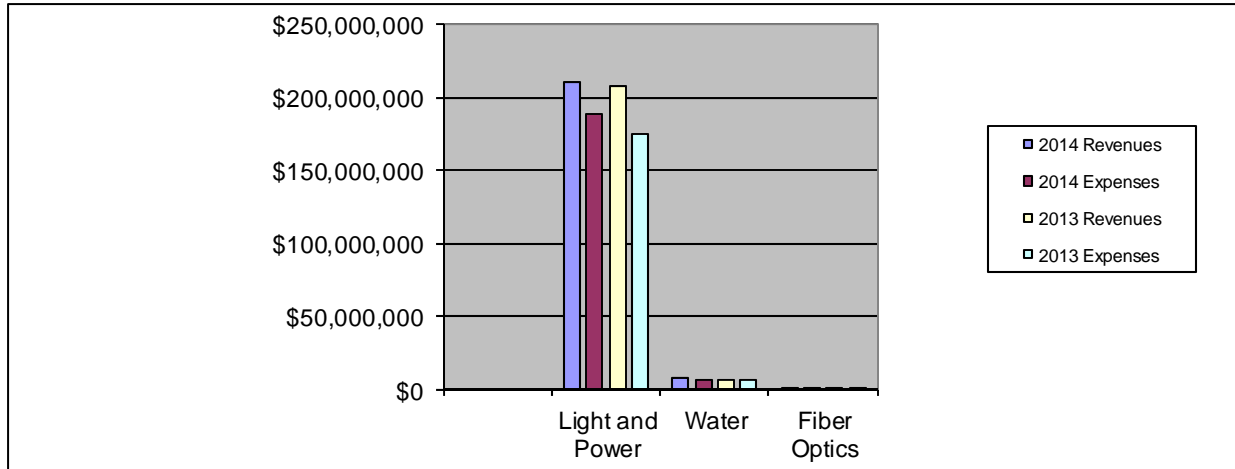
Revenues by Source — Governmental Activities  
For the Fiscal Years Ended June 30, 2014 and 2013



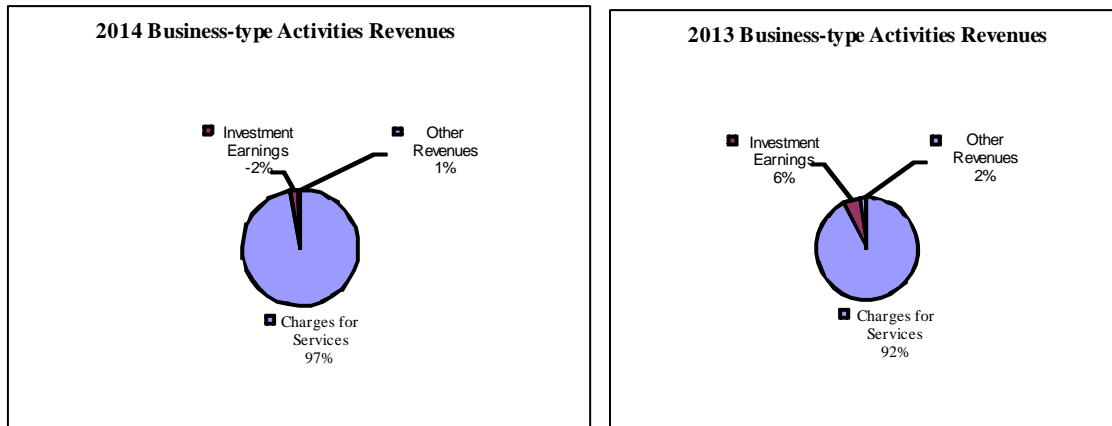
**Business-type activities, changes in net position:**

Business-type activities increased the City's net position by \$24,139,327 before transfers which is a \$8,013,080 decrease from the prior year. The key reason for this decrease was a decrease in Light and Power Enterprise's investment income of \$17,615,510, other revenues of \$5,343,922, and an increase in expenses of \$12,929,339 offset by an increase in charges for services of \$26,509,495 during the year.

**Revenues and Expenses — Business-type Activities**  
For the Fiscal Years Ended June 30, 2014 and 2013



**Revenues by Source — Business-type Activities**  
For the Fiscal Years Ended June 30, 2014 and 2013



## 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 18-21 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 \$23,041,512 (See page 18), an increase of \$1,779,157 from the prior year. Approximately 5% of total fund balance amount, \$1,218,293, 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, \$484,540, 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, (\$24,744,345), 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 \$23,041,512 (See page 18). At the end of the current fiscal year, the total fund balance deficit was 49.9% 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 \$51,255,397 (See page 22). Unrestricted net position of the Fiber Optic Fund at the end of the year amounted to a deficit of \$4,471,119. 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 \$9,928,021 (See page 23). Total increase in net position for the Water Fund was \$1,843,348. Total decrease in net position for the Fiber Optic Fund was \$284,761. 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 \$1,823,332. The key reasons for this variance was deficiency of revenues over estimated revenues of \$531,449 for taxes and \$1,294,005 for intergovernmental revenues.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$9,104,066. The key reasons for this variance were excess appropriations of \$3,760,336 for debt service and \$4,217,658 for capital outlay.

For the current year, the General Fund's total negative variance between the final budgeted amounts and actual amount for other financing sources was \$4,863,180. The key reason for this variance was \$8,038,203 of sale of property which did not close during the year offset by a \$3,175,023 transfer in.

## **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, 2014, amounts to \$254,410,290 (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 \$11,534,813, due primarily to additions made to the City's electric distribution plant of \$9,999,043 (See Note 5).

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

- In the current year, Light and Power Enterprise added \$4,100,482 to its electrical construction in progress and \$9,999,043 to its electrical distribution plant (net of accumulated depreciation).

There were no significant construction commitments outstanding as of June 30, 2014.

Additional information on the City's capital assets can be found in Note 5 on pages 43-46 of this report.

### ***Outstanding debt***

As of June 30, 2014, the following debt remains outstanding:

- \$42,580,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$302,135,000 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
- \$3,767,905 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 interest rates on the loans are the greater of 4%-5% or Libor Rate plus 2.00%. As of June 30, 2014, \$3,767,905 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 46-51 of this report.



## **ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES**

The following factors were considered in preparing the City's budget for the 2015 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 7.1%. This compares favorably to the State of California's average unemployment rate of 7.3% but unfavorably to the national average unemployment rate of 5.9%.
- 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, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and investments	\$ 1,097,211	\$ 16,775,531	\$ 17,872,742
Receivables, net of allowances of \$150,000 for business-type activities	1,366,343	6,344,520	7,710,863
Accrued unbilled revenue	-	10,152,799	10,152,799
Accrued interest receivable	-	179,702	179,702
Escrow deposits	-	940,000	940,000
Inventories	596,995	10,122,928	10,719,923
Due from Successor Agency	309,292	-	309,292
Internal balances	-	28,694,186	28,694,186
Prepaid expenses	-	1,072,607	1,072,607
Prepaid natural gas	-	197,231,557	197,231,557
Restricted cash and investments	5,043,081	110,740,591	115,783,672
Note receivable	-	1,489,917	1,489,917
Land held for resale	12,703,115	-	12,703,115
Capital assets:			
Nondepreciable	12,467,965	75,711,145	88,179,110
Depreciable, net	26,969,488	139,261,692	166,231,180
Total assets	<u>60,553,490</u>	<u>598,717,175</u>	<u>659,270,665</u>
<b>LIABILITIES:</b>			
Accounts payable	1,830,986	9,009,492	10,840,478
Accrued wages and benefits	1,470,298	-	1,470,298
Customer deposits and funds held for others	80,262	852,420	932,682
Unearned revenue	279,778	-	279,778
Derivative liabilities	-	30,318,323	30,318,323
Bond interest payable	-	10,021,215	10,021,215
Note interest payable	15,703	-	15,703
Current liabilities:			
Postemployment benefit liability	429,544	-	429,544
Bonds payable, net	-	30,505,729	30,505,729
Notes payable	3,767,905	-	3,767,905
Claims payable	1,117,669	-	1,117,669
Compensated absences	1,240,154	223,136	1,463,290
Noncurrent liabilities:			
Internal balances	28,694,186	-	28,694,186
Postemployment benefit liability	13,604,204	-	13,604,204
Bonds payable, net	-	377,543,557	377,543,557
Notes payable	-	-	-
Claims payable	2,235,338	-	2,235,338
Compensated absences	2,480,309	446,272	2,926,581
Total liabilities	<u>57,246,336</u>	<u>458,920,144</u>	<u>516,166,480</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
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	-	31,175,590	31,175,590
Total deferred inflows of resources	<u>-</u>	<u>35,117,735</u>	<u>35,117,735</u>
<b>NET POSITION:</b>			
Net investment in capital assets	39,437,453	150,384,215	189,821,668
Restricted for:			
Grants	484,540	-	484,540
Unrestricted (deficit)	(36,614,839)	(45,704,919)	(82,319,758)
Total net position	<u>\$ 3,307,154</u>	<u>\$ 104,679,296</u>	<u>\$ 107,986,450</u>

See accompanying notes to the basic financial statements.

**CITY OF VERNON, CALIFORNIA**  
Statement of Activities  
For the Fiscal Year Ended June 30, 2014

	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
<b>FUNCTION/PROGRAM ACTIVITIES:</b>							
Governmental activities:							
General government	\$ 9,655,370	\$ 931,268	\$ 193,898	\$ -	\$ (8,530,204)	\$ -	\$ (8,530,204)
Public safety	26,295,037	2,160,368	515,880	-	(23,618,789)	-	(23,618,789)
Public works	8,860,750	1,667,054	-	540,695	(6,653,001)	-	(6,653,001)
Health services	1,464,297	1,233,790	25,563	-	(204,944)	-	(204,944)
Interest on long-term debt	295,452	-	-	-	(295,452)	-	(295,452)
Total governmental activities	<u>46,570,906</u>	<u>5,992,480</u>	<u>735,341</u>	<u>540,695</u>	<u>(39,302,390)</u>	<u>-</u>	<u>(39,302,390)</u>
Business-type activities:							
Light and power enterprise	188,457,816	217,773,894	-	-	-	29,316,078	29,316,078
Water	6,433,654	8,277,002	-	-	-	1,843,348	1,843,348
Fiber optics	619,509	334,748	-	-	-	(284,761)	(284,761)
Total business-type activities	<u>195,510,979</u>	<u>226,385,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,874,665</u>	<u>30,874,665</u>
Total	<u>\$ 242,081,885</u>	<u>\$ 232,378,124</u>	<u>\$ 735,341</u>	<u>\$ 540,695</u>	<u>(39,302,390)</u>	<u>30,874,665</u>	<u>(8,427,725)</u>
General revenues:							
Property taxes					3,220,402	-	3,220,402
Parcel taxes					11,529,196	-	11,529,196
Utility users taxes					1,749,295	-	1,749,295
Franchise taxes					1,066,818	-	1,066,818
Business license taxes					5,048,184	-	5,048,184
Other license taxes					9,530	-	9,530
Investment income (loss)					15,337	(2,001,301)	(1,985,964)
Net increase in fair value of investments					-	(3,640,115)	(3,640,115)
State contribution - sales and use taxes					4,923,794	-	4,923,794
Gain on sale of property					5,821	-	5,821
Other revenues					476,920	-	476,920
Legal settlement					-	(1,093,922)	(1,093,922)
Transfers					<u>12,652,719</u>	<u>(12,652,719)</u>	<u>-</u>
Total general revenues and transfers					<u>40,698,016</u>	<u>(19,388,057)</u>	<u>21,309,959</u>
Change in net position					1,395,626	11,486,608	12,882,234
NET POSITION, BEGINNING OF YEAR					<u>1,911,528</u>	<u>93,192,688</u>	<u>95,104,216</u>
NET POSITION, END OF YEAR					<u>\$ 3,307,154</u>	<u>\$ 104,679,296</u>	<u>\$ 107,986,450</u>

See accompanying notes to the basic financial statements.

# CITY OF VERNON, CALIFORNIA

## Balance Sheet Governmental Funds June 30, 2014

	General Fund
<b>ASSETS:</b>	
Cash and investments	\$ 1,097,211
Receivables	1,366,343
Due from Successor Agency	309,292
Inventories	596,995
Restricted cash and investments	5,043,081
Land held for resale	12,703,115
Total assets	<u>\$ 21,116,037</u>
<b>LIABILITIES:</b>	
Liabilities:	
Accounts payable	\$ 1,830,986
Accrued wages and benefits	1,470,298
Advance from other funds	28,694,186
Customer deposits and funds held for others	80,262
Total liabilities	<u>32,075,732</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Unavailable revenue	12,081,817
Total deferred inflows of resources	<u>12,081,817</u>
<b>FUND BALANCES:</b>	
Nonspendable:	
Inventories	596,995
Land held for resale	621,298
Restricted for:	
Federal forfeiture funds	484,540
Unassigned	(24,744,345)
Total fund balances	<u>(23,041,512)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 21,116,037</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, 2014

Fund balances - total governmental fund (page 18)	\$	(23,041,512)
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.		39,437,453
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.		(3,720,463)
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.		(14,033,748)
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		(3,353,007)
Note payable		(3,767,905)
Note interest payable		(15,703)
		(15,703)
Net position of governmental activities (page 16)	\$	3,307,154

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, 2014

	<u>General Fund</u>
<b>REVENUES:</b>	
Taxes	\$ 26,597,493
Special assessments	927,601
Licenses and permits	1,726,173
Fines, forfeitures and penalties	248,887
Investment income	15,337
Intergovernmental revenues	1,288,929
Charges for services	3,646,690
Other revenues	856,882
Total revenues	<u>35,307,992</u>
 <b>EXPENDITURES:</b>	
Current:	
General government	10,291,260
Public safety	24,299,189
Public works	5,070,062
Health services	1,445,172
Capital outlay:	
General government	533,278
Public safety	272,605
Public works	936,145
Debt service:	
Principal retirement	3,031,573
Note interest	308,091
Total expenditures	<u>46,187,375</u>
 Revenues under expenditures	 (10,879,383)
 Other financing sources (uses)	
Sale of property	5,821
Transfers in	12,652,719
Total other financing sources (uses)	<u>12,658,540</u>
 NET CHANGE IN FUND BALANCES	 1,779,157
 FUND BALANCES (DEFICITS), BEGINNING OF YEAR	 <u>(24,820,669)</u>
 FUND BALANCES (DEFICITS), END OF YEAR	 <u>\$ (23,041,512)</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, 2014

Net change in fund balances - total governmental fund (page 20)	\$	1,779,157
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets	\$ 1,742,028	
Less current year depreciation	<u>(2,360,697)</u>	(618,669)
Change in long-term compensated absences		79,167
Change in net postemployment benefits other than pension obligation		(2,654,786)
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		3,031,573
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		(233,455)
Change in note interest payable		<u>12,639</u>
Change in net position of governmental activities (page 17)	\$	<u><u>1,395,626</u></u>

See accompanying notes to the basic financial statements.

**CITY OF VERNON, CALIFORNIA**  
Statement of Fund Net Position  
Proprietary Funds  
June 30, 2014

	Business-type Activities Enterprise Funds			Totals
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
<b>ASSETS:</b>				
Current assets:				
Cash and investments	\$ 16,775,531	\$ -	\$ -	\$ 16,775,531
Accounts receivable, net of allowances of \$150,000	5,699,383	604,937	40,200	6,344,520
Accrued unbilled revenue	9,817,997	334,802	-	10,152,799
Accrued interest receivable	179,702	-	-	179,702
Escrow deposits	940,000	-	-	940,000
Inventories	10,122,928	-	-	10,122,928
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	420,870	-	-	420,870
Total current assets	<u>72,534,754</u>	<u>939,739</u>	<u>40,200</u>	<u>73,514,693</u>
Noncurrent assets:				
Restricted cash and investments	110,740,591	-	-	110,740,591
Advances to other funds	23,059,040	10,097,188	-	33,156,228
Prepaid expenses	1,072,607	-	-	1,072,607
Prepaid natural gas	168,653,214	-	-	168,653,214
Note receivable	1,069,047	-	-	1,069,047
Capital assets:				
Nondepreciable	74,222,561	1,488,584	-	75,711,145
Depreciable, net	132,710,082	3,978,188	2,573,422	139,261,692
Total noncurrent assets	<u>511,527,142</u>	<u>15,563,960</u>	<u>2,573,422</u>	<u>529,664,524</u>
Total assets	<u>584,061,896</u>	<u>16,503,699</u>	<u>2,613,622</u>	<u>603,179,217</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	8,381,497	588,177	39,818	9,009,492
Customer deposits	576,285	276,135	-	852,420
Derivative liabilities	30,318,323	-	-	30,318,323
Bond interest	10,021,215	-	-	10,021,215
Bonds payable, net	30,505,729	-	-	30,505,729
Compensated absences	169,644	50,339	3,153	223,136
Total current liabilities	<u>79,972,693</u>	<u>914,651</u>	<u>42,971</u>	<u>80,930,315</u>
Noncurrent liabilities:				
Advances from other funds	-	-	4,462,042	4,462,042
Bonds payable, net	377,543,557	-	-	377,543,557
Compensated absences	339,287	100,679	6,306	446,272
Total noncurrent liabilities	<u>377,882,844</u>	<u>100,679</u>	<u>4,468,348</u>	<u>382,451,871</u>
Total liabilities	<u>457,855,537</u>	<u>1,015,330</u>	<u>4,511,319</u>	<u>463,382,186</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
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	31,175,590	-	-	31,175,590
Total deferred inflows of resources	<u>35,117,735</u>	<u>-</u>	<u>-</u>	<u>35,117,735</u>
<b>NET POSITION:</b>				
Net investment in capital assets	142,344,021	5,466,772	2,573,422	150,384,215
Unrestricted (deficit)	(51,255,397)	10,021,597	(4,471,119)	(45,704,919)
Total net position	<u>\$ 91,088,624</u>	<u>\$ 15,488,369</u>	<u>\$ (1,897,697)</u>	<u>\$ 104,679,296</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, 2014

	Business-type Activities Enterprise Funds			Totals
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 217,773,894	\$ 8,277,002	\$ 334,748	\$ 226,385,644
Total operating revenues	<u>217,773,894</u>	<u>8,277,002</u>	<u>334,748</u>	<u>226,385,644</u>
<b>OPERATING EXPENSES:</b>				
Cost of sales	166,733,589	6,119,809	341,170	173,194,568
Depreciation and amortization	6,045,380	313,845	278,339	6,637,564
Total operating expenses	<u>172,778,969</u>	<u>6,433,654</u>	<u>619,509</u>	<u>179,832,132</u>
Operating income (loss)	<u>44,994,925</u>	<u>1,843,348</u>	<u>(284,761)</u>	<u>46,553,512</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>				
Investment income (loss)	(2,001,301)	-	-	(2,001,301)
Net decrease in fair value of investments	(3,640,115)	-	-	(3,640,115)
Interest expense	(15,678,847)	-	-	(15,678,847)
Legal settlement	(1,093,922)	-	-	(1,093,922)
Total nonoperating revenue (expenses), net	<u>(22,414,185)</u>	<u>-</u>	<u>-</u>	<u>(22,414,185)</u>
Income (loss) before transfers	22,580,740	1,843,348	(284,761)	24,139,327
Transfers out	<u>(12,652,719)</u>	<u>-</u>	<u>-</u>	<u>(12,652,719)</u>
Change in net position	9,928,021	1,843,348	(284,761)	11,486,608
Net position, beginning of the year	<u>81,160,603</u>	<u>13,645,021</u>	<u>(1,612,936)</u>	<u>93,192,688</u>
Net position, end of the year	<u>\$ 91,088,624</u>	<u>\$ 15,488,369</u>	<u>\$ (1,897,697)</u>	<u>\$ 104,679,296</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, 2014**

	Business-type			
	Activities - Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total
<b>Cash flows from operating activities:</b>				
Cash received from customers	\$ 248,859,273	\$ 6,002,467	\$ 422,368	\$ 255,284,108
Cash paid to suppliers for goods and services	(170,633,517)	(4,705,139)	(243,716)	(175,582,372)
Cash paid to employees for services	(4,564,621)	(1,262,247)	(69,383)	(5,896,251)
Net cash provided by operating activities	<u>73,661,135</u>	<u>35,081</u>	<u>109,269</u>	<u>73,805,485</u>
<b>Cash flows from noncapital financing activities:</b>				
Transfers to City	(12,652,719)	-	-	(12,652,719)
Collection of note receivable	395,755	-	-	395,755
Net cash used in noncapital financing activities	<u>(12,256,964)</u>	<u>-</u>	<u>-</u>	<u>(12,256,964)</u>
<b>Cash flows from capital and related financing activities:</b>				
Repayment of bonds	(30,260,000)	-	-	(30,260,000)
Bond interest paid	(24,010,012)	-	-	(24,010,012)
Acquisition and construction of capital assets, net	(10,145,141)	(35,081)	(109,269)	(10,289,491)
Net cash provided by (used in) capital and related financing activities	<u>(64,415,153)</u>	<u>(35,081)</u>	<u>(109,269)</u>	<u>(64,559,503)</u>
<b>Cash flows from investing activities:</b>				
Purchases and sales of investments, net	(2,777,011)	-	-	(2,777,011)
Investment loss net of interest rate swap payments on investment derivatives	(1,959,970)	-	-	(1,959,970)
Net cash used in investing activities	<u>(4,736,981)</u>	<u>-</u>	<u>-</u>	<u>(4,736,981)</u>
Net increase (decrease) in cash and cash equivalents	(7,747,963)	-	-	(7,747,963)
Cash and cash equivalents, beginning of year	88,451,085	-	-	88,451,085
Cash and cash equivalents, end of year	<u>\$ 80,703,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,703,122</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ 44,994,925	\$ 1,843,348	\$ (284,761)	\$ 46,553,512
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	6,045,380	313,845	278,339	6,637,564
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(233,322)	9,589	(7,307)	(231,040)
Advance to (from) City	3,585,451	(2,246,369)	94,927	1,434,009
Accrued unbilled revenue	(552,358)	(37,755)	-	(590,113)
Inventories	410,172	-	-	410,172
Prepaid expenses and deposits	(702,906)	-	-	(702,906)
Prepaid natural gas	28,578,342	-	-	28,578,342
Increase (decrease) in:				
Accounts payable	(4,525,795)	11,684	27,574	(4,486,537)
Customer deposits	2,710	116,530	-	119,240
Compensated absences	23,970	24,209	497	48,676
Deferred gain from sale of generation assets	(3,965,434)	-	-	(3,965,434)
Net cash provided by (used in) operating activities	<u>\$ 73,661,135</u>	<u>\$ 35,081</u>	<u>\$ 109,269</u>	<u>\$ 73,805,485</u>
<b>Reconciliation of cash and cash equivalents to Statement of Net Position:</b>				
Cash and investments	\$ 16,775,531	\$ -	\$ -	\$ 16,775,531
Noncurrent restricted cash and investments	110,740,591	-	-	110,740,591
Total	127,516,122	-	-	127,516,122
Less: Investments with maturities of more than 90 days	(46,813,000)	-	-	(46,813,000)
Total cash and cash equivalents	<u>\$ 80,703,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,703,122</u>
<b>Noncash Capital, Investing and Financing Activities:</b>				
Acquisition of capital assets in accounts payable	\$ 48,664	\$ 1,552	\$ 355	\$ 50,571
Increase (Decrease) in fair value of investments	(3,640,115)	-	-	(3,640,115)
Amortization of deferred gain from sale of generation assets	3,965,434	-	-	3,965,434
Capitalized interest	8,995,770	-	-	8,995,770

**CITY OF VERNON, CALIFORNIA**

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2014

	Vernon Redevelopment Successor Agency Fund
<b>ASSETS:</b>	
Current assets:	
Cash and investments	\$ 16,667,034
Taxes receivable	22,364
Other receivable	24,051
Total current assets	<u>16,713,449</u>
Noncurrent assets:	
Restricted cash and investments	11,111,335
Land purchase deposit	26,200,000
Accumulated redevelopment project costs	
Nondepreciable	24,838,594
Capital assets:	
Nondepreciable	774,295
Depreciable, net	14,863,732
Total noncurrent assets	<u>77,787,956</u>
Total assets	<u>94,501,405</u>
<b>LIABILITIES:</b>	
Due to City	309,292
Customer deposits	42,968
Bond interest	1,155,261
Long-term liabilities:	
Due within one year:	
Bonds payable, net	2,375,435
Total current liabilities	<u>3,882,956</u>
Due in more than one year:	
Bonds payable, net	58,345,370
Total noncurrent liabilities	<u>58,345,370</u>
Total liabilities	<u>62,228,326</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>	
Unearned revenue	4,460,305
Total deferred inflows of resources	<u>4,460,305</u>
<b>NET POSITION:</b>	
Total net position held in trust for dissolution of former Redevelopment Agency	<u>\$ 27,812,774</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, 2014**

	Vernon Redevelopment Successor Agency Fund
<b>ADDITIONS:</b>	
Property tax increment	\$ 8,912,621
Investment earnings	89,987
Net decrease in fair value of investments	(36,818)
Other revenues	45,665
Total additions	9,011,455
<b>DEDUCTIONS:</b>	
Community development	1,061,870
Loss on sale of capital asset	660,616
Interest on long-term debt	3,499,104
Total deductions	5,221,590
Change in net position	3,789,865
Net position, beginning of the year	24,022,909
Net position, end of the year	\$ 27,812,774

See accompanying notes to the basic financial statements.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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, 2014, the City had no blended component unit as it was dissolved during the year 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 had promoted economic development within the City. Such projects and programs included assisting the City in procuring natural gas for use as fuel for electric generating units that were part of the City's Electric System, which was 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 had been blended with the City's Light and Power Enterprise for financial reporting purposes for the years ended June 30, 2009 through June 30, 2013. On October 1, 2013, the City and the Agency approved the termination of the Authority.

**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, 2014**

**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, 2014**

**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, 2014**

**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, 2014. 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, 2014**

**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.

**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, 2014**

**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, 2014**

**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 4<sup>th</sup> 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.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 2 – CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Cash and investments	\$ 17,872,742	\$ 16,667,034
Restricted cash and investments	<u>115,783,672</u>	<u>11,111,335</u>
Total cash and investments	<u><u>\$ 133,656,414</u></u>	<u><u>\$ 27,778,369</u></u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	14,071,922	5,130,656
Investments	<u>119,583,192</u>	<u>22,647,713</u>
Total cash and investments	<u><u>\$ 133,656,414</u></u>	<u><u>\$ 27,778,369</u></u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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, 2014**

**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, 2014**

**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, 2014**

**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, 2014	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
<b><u>Primary Government:</u></b>					
Money Market Funds	\$ 72,770,191	\$ 72,770,191	\$ -	\$ -	60.9%
Local Agency Investment Fund	540,884	540,884	-	-	0.5%
U.S. Treasury Notes	30,556,908	3,126,286	11,394,930	16,035,693	25.6%
Federal National Mortgage Association	7,345,965	2,379,061	4,966,904	-	6.1%
Federal Home Loan Mortgage Corporation	6,104,157	3,748,297	2,355,860	-	5.1%
Federal Home Loan Banks	2,265,087	-	2,265,085	-	1.9%
Total Investments	\$ 119,583,192	\$ 82,564,719	\$ 20,982,779	\$ 16,035,693	100.0%
<b><u>Fiduciary Fund:</u></b>					
Money Market Funds	\$ 6,539,690	\$ 6,539,690	\$ -	\$ -	28.9%
Commercial Paper	4,594,391	4,594,391	-	-	20.3%
Certificate of Deposit	6,941,987	6,941,987	-	-	30.7%
U.S. Treasury Notes	2,971,446	326,942	1,081,925	1,562,580	13.1%
Federal National Mortgage Association	704,127	227,388	476,739	-	3.1%
Federal Home Loan Mortgage Corporation	695,622	221,652	473,971	-	3.1%
Federal Home Loan Banks	200,450	-	200,450	-	0.9%
Total Investments	\$ 22,647,713	\$ 18,852,050	\$ 2,233,085	\$ 1,562,580	100.0%



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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, 2014	% of Total
<b><u>Primary Government:</u></b>				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	13,372,004	10.0%
Local Agency Investment Fund	None	Not Rated	540,884	0.4%
Total in custody of Treasurer			13,914,188	10.4%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	699,918	0.5%
Money Market Funds	Aaa / AAA	Aaa / AAA	72,770,191	54.4%
U.S. Treasury Notes	None	Aaa / AA+	30,556,908	22.9%
Federal National Mortgage Association	None	Aaa / AA+	7,345,965	5.5%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	6,104,157	4.6%
Federal Home Loan Banks	None	Aaa / AA+	2,265,087	1.7%
Total in custody of Trustee			119,742,226	89.6%
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 133,656,414</b>	<b>100.0%</b>
<b><u>Fiduciary Fund:</u></b>				
In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 4,726,429	17.0%
Total in custody of Treasurer			4,726,429	17.0%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	404,227	1.5%
Money Market Funds	Aaa / AAA	Aaa / AAA	6,539,690	23.5%
U.S. Treasury Notes	None	Aaa / AA+	2,971,446	10.7%
Commercial Paper	None	P-1/A-1	4,594,391	16.5%
Certificate of Deposit	N/A	N/A	6,941,987	25.0%
Federal National Mortgage Association	None	Aaa / AA+	704,127	2.5%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	695,622	2.5%
Federal Home Loan Bank	None	Aaa / AA+	200,450	0.7%
Total in custody of Trustee			23,051,940	82.9%
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 27,778,369</b>	<b>99.9%</b>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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, 2014, 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, 2014	% of Total
<b><u>Primary Government:</u></b>			
Federal Home Loan Mortgage Corporation	Trustee	\$ 6,104,157	5.1%
Federal National Mortgage Association	Trustee	\$ 7,345,965	6.1%
Money Market Funds	Trustee	\$ 72,770,191	60.8%
<b><u>Fiduciary Fund:</u></b>			
Federal Home Loan Mortgage Corporation	Trustee	\$ 695,622	3.0%
Federal National Mortgage Association	Trustee	\$ 704,127	3.1%
Money Market Funds	Trustee	\$ 6,539,690	28.4%
Commercial Paper	Trustee	\$ 4,594,391	19.9%
Certificate of Deposit	Trustee	\$ 6,941,987	30.1%

**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 \$14,071,922 and \$5,130,656, respectively. The bank balances were \$13,850,934 and \$5,130,656, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2014, 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. \$13,350,934 and \$4,630,656 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, 2014**

**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 \$540,884 at June 30, 2014. 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, 2014 was \$27.65 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$64.85 billion at June 30, 2014. Of this amount, 1.09% 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 0.64 years as of June 30, 2014. LAIF does not maintain a credit rating.

**NOTE 3 - RECEIVABLES**

The City's receivables at June 30, 2014 are as follows:

<b>Receivables - Governmental Activities:</b>	General Fund	Total Governmental Activities
Accounts receivables	\$ 108,330	\$ 108,330
Taxes	934,417	934,417
Notes or loans	57,861	57,861
Other	265,735	265,735
Total receivables	<u>\$ 1,366,343</u>	<u>\$ 1,366,343</u>

<b>Receivables - Business-type Activities:</b>	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total Business-type Activities
Accounts receivables	\$ 5,849,383	\$ 604,937	\$ 40,200	\$ 6,494,520
Less: Allowances for uncollectible accounts	(150,000)	-	-	(150,000)
Total receivables, net	<u>\$ 5,699,383</u>	<u>\$ 604,937</u>	<u>\$ 40,200</u>	<u>\$ 6,344,520</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 4 – INTERFUND TRANSACTIONS**

The following tables summarize the City’s interfund balances and transactions at June 30, 2014:

**Advances to/from other funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Enterprise	General Fund	\$ 18,596,998
	Fiber Optics Fund	4,462,042
		<u>\$ 23,059,040</u>
Water Fund	General Fund	\$ 10,097,188
		<u>\$ 10,097,188</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 Enterprise	\$ 12,652,719
		<u>\$ 12,652,719</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 \$12,652,719 to the General Fund consisting of \$4,234,248 of in-lieu franchise taxes and \$8,418,471 of operating transfers.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity of governmental activities for the fiscal year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 11,491,017	\$ -	\$ -	\$ 11,491,017
Construction in Progress	601,911	375,037	-	976,948
Total capital assets, not being depreciated	<u>12,092,928</u>	<u>375,037</u>	<u>-</u>	<u>12,467,965</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	28,521,351	577,000	-	29,098,351
Building and Improvements	14,833,705	-	-	14,833,705
Improvements Other Than Buildings	10,615,121	13,452	-	10,628,573
Machinery and Equipment	22,893,063	776,540	(1)	23,669,602
Total capital assets, being depreciated	<u>76,863,240</u>	<u>1,366,992</u>	<u>(1)</u>	<u>78,230,231</u>
Less accumulated depreciation for:				
Infrastructure	(22,186,411)	(543,236)	-	(22,729,647)
Building and Improvements	(6,202,297)	(375,847)	-	(6,578,144)
Improvements Other Than Buildings	(3,861,457)	(278,167)	-	(4,139,624)
Machinery and Equipment	(16,649,881)	(1,163,447)	-	(17,813,328)
Total accumulated depreciation	<u>(48,900,046)</u>	<u>(2,360,697)</u>	<u>-</u>	<u>(51,260,743)</u>
Total capital assets, being depreciated, net				
Infrastructure	6,334,940	33,764	-	6,368,704
Building and Improvements	8,631,408	(375,847)	-	8,255,561
Improvements Other Than Buildings	6,753,664	(264,715)	-	6,488,949
Machinery and Equipment	6,243,182	(386,907)	(1)	5,856,274
Total	<u>27,963,194</u>	<u>(993,705)</u>	<u>(1)</u>	<u>26,969,488</u>
Governmental activities capital assets, net	<u>\$ 40,056,122</u>	<u>\$ (618,668)</u>	<u>\$ (1)</u>	<u>\$ 39,437,453</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 761,899
Public safety	849,428
Public works	736,493
Health services	<u>12,877</u>
Total depreciation expense - governmental functions	<u>\$ 2,360,697</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Capital asset activity of fiduciary activities for the fiscal year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<b><u>Fiduciary activities:</u></b>				
<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	(2,973,238)	(590,328)	-	(3,563,566)
Improvements Other Than Buildings	(2,331)	(309)	-	(2,640)
Machinery and Equipment	(7,719)	(2,213)	-	(9,932)
Total accumulated depreciation	<u>(2,983,288)</u>	<u>(592,850)</u>	<u>-</u>	<u>(3,576,138)</u>
Total capital assets, being depreciated, net				
Infrastructure	15,425,400	(590,328)	-	14,835,072
Improvements Other Than Buildings	10,192	(309)	-	9,883
Machinery and Equipment	20,991	(2,213)	-	18,778
Total	<u>15,456,583</u>	<u>(592,850)</u>	<u>-</u>	<u>14,863,733</u>
Fiduciary activities capital assets, net	<u>\$ 41,069,472</u>	<u>\$ (592,850)</u>	<u>\$ -</u>	<u>\$ 40,476,622</u>

Depreciation expense charged to the fiduciary fund was \$592,850.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Capital asset activity of business-type activities for the fiscal year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<b><u>Business-type activities:</u></b>				
<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	42,462,611	4,100,482	(1)	46,563,092
Construction in Progress - Water	1,000,450	20,494	-	1,020,944
Construction in Progress - Gas	844,848	-	(844,848)	-
Total capital assets, not being depreciated	<u>72,435,018</u>	<u>4,120,976</u>	<u>(844,849)</u>	<u>75,711,145</u>
<i>Capital assets, being depreciated</i>				
Production plant - L&P	15,382,221	-	-	15,382,221
Transmission plant - L&P	4,888,113	-	-	4,888,113
Distribution plant - L&P	141,885,701	14,397,158	-	156,282,859
General plant - L&P	8,243,206	84,982	-	8,328,188
Water utility plant	17,253,040	1,575	-	17,254,615
Gas utility plant	24,829,400	1,007,307	-	25,836,707
Fiber Optic utility plant	3,987,349	23,896	-	4,011,245
Total capital assets, being depreciated	<u>216,469,030</u>	<u>15,514,918</u>	<u>-</u>	<u>231,983,948</u>
Less accumulated depreciation for:				
Production plant - L&P	(7,131,877)	(438,477)	-	(7,570,354)
Transmission plant - L&P	(2,664,450)	(97,066)	-	(2,761,516)
Distribution plant - L&P	(54,108,904)	(4,398,115)	-	(58,507,019)
General plant - L&P	(2,901,741)	(373,832)	-	(3,275,573)
Water utility plant	(12,962,582)	(313,844)	-	(13,276,426)
Gas utility plant	(5,155,655)	(737,890)	-	(5,893,545)
Fiber Optic utility plant	(1,159,484)	(278,339)	-	(1,437,823)
Total accumulated depreciation	<u>(86,084,693)</u>	<u>(6,637,563)</u>	<u>-</u>	<u>(92,722,256)</u>
Total capital assets, being depreciated, net				
Production plant - L&P	8,250,344	(438,477)	-	7,811,867
Transmission plant - L&P	2,223,663	(97,066)	-	2,126,597
Distribution plant - L&P	87,776,797	9,999,043	-	97,775,840
General plant - L&P	5,341,465	(288,850)	-	5,052,615
Water utility plant	4,290,458	(312,269)	-	3,978,189
Gas utility plant	19,673,745	269,417	-	19,943,162
Fiber Optic utility plant	2,827,865	(254,443)	-	2,573,422
Total	<u>130,384,337</u>	<u>8,877,355</u>	<u>-</u>	<u>139,261,692</u>
Business-type activities capital assets, net	<u>\$ 202,819,355</u>	<u>\$ 12,998,331</u>	<u>\$ (844,849)</u>	<u>\$ 214,972,837</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

**Depreciation**

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

Light and Power Fund	\$ 5,307,490
Gas Fund	737,890
Water Fund	313,844
Fiber Optics Fund	278,339
Total depreciation expense - business-type functions	<u>\$ 6,637,563</u>

**NOTE 6 – LONG-TERM OBLIGATIONS**

There were no new bond issues during the fiscal year 2014. As of June 30, 2014, outstanding debt obligations consisted of the following:

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

At June 30, 2014, \$42,580,000 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 \$104,652,349, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,975,080 and \$162,360,793, 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, 2014, \$302,135,000 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 \$368,347,958, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$46,040,638 and \$162,360,793, 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, 2014, \$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 \$84,473,570, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$162,360,793, 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, 2014**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

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

At June 30, 2014, \$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 \$57,839,804, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$162,360,793, 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, 2014</u>
<b>City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A</b>	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 42,580,000
<b>City of Vernon Electric System Revenue Bonds, 2009 Series A</b>	08/01/21	2.500% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	302,135,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Series A</b>	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B</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
<b>Premium</b>					182,376
<b>Discounts</b>					(3,627,301)
<b>Deferred amount on refunding</b>					(5,960,789)
<b>Total Revenue Bonds</b>				<u>\$ 535,905,000</u>	<u>\$ 408,049,286</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

As of June 30, 2014, 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*
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	480,000	3,496,710
2020-2024	4,750,000	16,444,268
2025-2029	7,300,000	13,894,329
2030-2034	11,215,000	9,975,783
2035-2039	17,235,000	3,955,479
Total requirements	<u>\$ 42,580,000</u>	<u>\$ 62,072,349</u>

\*As of June 30, 2014, 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*
2015	\$ 31,295,000	\$ 14,748,956
2016	32,970,000	13,071,088
2017	34,740,000	11,300,625
2018	36,570,000	9,473,306
2019	38,495,000	7,549,766
2020-2022	128,065,000	10,069,216
Total requirements	<u>\$ 302,135,000</u>	<u>\$ 66,212,957</u>

\* As of June 30, 2014, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 4.250% to 5.125%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2015	\$ -	\$ 2,031,394
2016	-	2,031,394
2017	-	2,031,394
2018	-	2,031,394
2019	-	2,031,394
2020-2024	-	10,156,968
2025-2029	2,205,000	10,002,156
2030-2034	6,595,000	8,667,418
2035-2039	8,600,000	6,603,392
2040-2042	20,240,000	1,246,666
	<u>\$ 37,640,000</u>	<u>\$ 46,833,570</u>

\* As of June 30, 2014, 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*
2015	\$ -	\$ 2,222,900
2016	-	2,222,900
2017	-	2,222,900
2018	-	2,222,900
2019	-	2,222,900
2020-2024	12,730,000	9,999,865
2025-2028	22,370,000	1,625,439
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 22,739,804</u>

\*As of June 30, 2014, 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, 2014**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

As of June 30, 2014, 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*
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	1,455,000	1,775,734
2020-2024	7,515,000	7,699,794
2025-2029	8,540,000	5,904,194
2030-2034	13,020,000	3,408,025
2035-2036	6,755,000	341,875
	<u>\$ 43,165,000</u>	<u>\$ 26,844,998</u>

\* As of June 30, 2014, 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*
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	1,125,000	1,138,625
2020-2024	5,660,000	4,176,138
2025-2029	4,465,000	2,161,956
2030-2031	2,275,000	213,443
Total requirements	<u>\$ 17,755,000</u>	<u>\$ 12,943,866</u>

\*As of June 30, 2014, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 5.125% to 9.250%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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, 2014:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Due Within One Year
<b><u>Governmental activities:</u></b>					
Postemployment benefit liability	\$ 11,378,962	\$ 3,084,330	\$ (429,544)	\$ 14,033,748	\$ 429,544
Notes payable	6,799,479	-	(3,031,574)	3,767,905	3,767,905
Claims payable	3,119,552	1,273,306	(1,039,851)	3,353,007	1,117,669
Compensated absences	3,799,630	1,187,376	(1,266,543)	3,720,463	1,240,154
	<u>\$ 25,097,623</u>	<u>\$ 5,545,012</u>	<u>\$ (5,767,512)</u>	<u>\$ 24,875,123</u>	<u>\$ 6,555,272</u>
<b><u>Business-type activities:</u></b>					
Bonds payable	\$ 447,715,000	\$ -	\$ (30,260,000)	\$ 417,455,000	\$ 31,650,000
Bond premium	189,090	-	(6,714)	182,376	6,714
Bond discount	(4,033,186)	-	405,885	(3,627,301)	(405,885)
Deferred amount on refunding	(6,705,888)	-	745,099	(5,960,789)	(745,099)
Compensated absences	620,732	255,587	(206,911)	669,408	223,136
	<u>\$ 437,785,748</u>	<u>\$ 255,587</u>	<u>\$ (29,322,641)</u>	<u>\$ 408,718,694</u>	<u>\$ 30,728,866</u>
<b><u>Fiduciary activities:</u></b>					
Bonds payable	\$ 63,090,000	\$ -	\$ (2,170,000)	\$ 60,920,000	\$ 2,375,000
Bond premium	591,629	-	(44,345)	547,284	44,345
Bond discount	(790,389)	-	43,910	(746,479)	(43,910)
	<u>\$ 62,891,240</u>	<u>\$ -</u>	<u>\$ (2,170,435)</u>	<u>\$ 60,720,805</u>	<u>\$ 2,375,435</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 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, 2014, \$3,767,905 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**  
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**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, 2014, 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%	\$ (16,616,319)
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%	(13,702,004)
			<u>\$ 173,725,000</u>				<u>\$ (30,318,323)</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
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**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, 2014, the swap had a negative fair value of \$16,616,319. 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, 2014 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, 2014, 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, 2014, 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**  
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**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, 2014, the swap had a negative fair value of \$13,702,004. 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, 2014 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, 2014, 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, 2014, 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**  
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**June 30, 2014**

**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, 2014, 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:

	Fiscal Year 2014 Change in Fair Value		Fair Value at June 30, 2014		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ (3,443,224)	Derivative liability	\$ (16,616,319)	\$ 90,150,000
2004 Series B Bonds	Increase in fair value	167,590	Derivative liability	(13,702,004)	83,575,000
Total		\$ (3,275,634)		\$ (30,318,323)	\$ 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 decrease in fair value of investments on the 2004 A and 2004 B swaps during the year was \$3,275,634.

**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, 2014**

**NOTE 8 – RISK MANAGEMENT (CONTINUED)**

The insurance limits for fiscal year 2013-14 are as follows (amounts in thousands):

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

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

	Fiscal Year Ended June 30	
	2014	2013
Claims payable, beginning of fiscal year	\$ 3,119,552	\$ 3,226,816
Incurred claims and change in estimates	926,589	1,271,103
Claims payments	(693,134)	(1,378,367)
Claims payable, end of fiscal year	\$ 3,353,007	\$ 3,119,552

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
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**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, 2014 was \$5,391,298 and \$2,000,380, respectively. City contribution rates as a percentage of covered payroll were 16.456% for miscellaneous plan members and 28.602% 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, 2011.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
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**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%.

For valuation dates prior to June 30, 2013, 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. Beginning with the June 30, 2013 valuation, market value was used instead of an actuarial value of assets.

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
6/30/2014	\$5,391,298	\$5,391,298	100%	-
6/30/2013	6,246,914	6,246,914	100%	-
6/30/2012	5,957,609	5,957,609	100%	-

The following schedules present the funded status as of June 30, 2013 based on actuarial assumptions consistent with the June 30, 2011 valuation described above.

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)
6/30/2013	\$195,485,049	\$144,294,074	\$51,190,975	73.8%	\$12,146,524	421.4%

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)
6/30/2013	\$122,747,737	\$93,664,038	\$29,083,699	76.3%	\$10,761,348	270.3%

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**  
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**NOTE 10 – DEFICITS IN FUND EQUITY**

The General Fund has an unassigned fund balance deficit of \$23,041,512 at June 30, 2014, 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 \$1,897,697 at June 30, 2014, 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, 2014, a deferred gain of \$35,117,735 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, 2014**

**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 2014 was \$4,706,397. 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, 2014, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2014, the outstanding note receivable was \$1,489,917. 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 \$514,012 due to the City on the outstanding note receivable. The contract expires in September 2017.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
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**NOTE 11 – LIGHT AND POWER ENTERPRISE OPERATIONS AND COMMITMENTS (CONTINUED)**

**Power Purchase Commitments**

As of June 30, 2014 under the Bident Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2015	\$ 21,473,855
2016	21,473,855
2017	36,017,284
2018	35,182,494
2019	34,904,231
2020-2023	131,859,312
	<u>\$ 280,911,031</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 at June 30, 2014, is presented below:

**CITY OF VERNON, CALIFORNIA**  
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**NOTE 11 – LIGHT AND POWER ENTERPRISE OPERATIONS AND COMMITMENTS (CONTINUED)**

	<b>Statement of Fund Net Position</b>			
	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
<b>ASSETS:</b>				
Current assets:				
Cash and investments	\$ 16,745,324	\$ 30,207	\$ -	\$ 16,775,531
Accounts receivable, net of allowances of \$150,000	3,145,846	2,553,537	-	5,699,383
Accrued unbilled revenue	9,817,997	-	-	9,817,997
Accrued interest receivable	179,702	-	-	179,702
Escrow deposits	940,000	-	-	940,000
Inventories	9,667,422	455,506	-	10,122,928
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	420,870	-	-	420,870
Total current assets	<u>69,495,504</u>	<u>3,039,250</u>	<u>-</u>	<u>72,534,754</u>
Noncurrent assets:				
Restricted cash and investments	110,740,591	-	-	110,740,591
Advances to other funds	45,582,496	-	(22,523,456)	23,059,040
Prepaid expenses	1,072,607	-	-	1,072,607
Prepaid natural gas	168,653,214	-	-	168,653,214
Note receivable	1,069,047	-	-	1,069,047
Capital assets:				
Nondepreciable	74,222,561	-	-	74,222,561
Depreciable, net	112,766,919	19,943,163	-	132,710,082
Total noncurrent assets	<u>514,107,435</u>	<u>19,943,163</u>	<u>(22,523,456)</u>	<u>511,527,142</u>
Total assets	<u>583,602,939</u>	<u>22,982,413</u>	<u>(22,523,456)</u>	<u>584,061,896</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	5,333,447	3,048,050	-	8,381,497
Customer deposits	468,285	108,000	-	576,285
Derivative liabilities	30,318,323	-	-	30,318,323
Bond interest	10,021,215	-	-	10,021,215
Bonds payable, net	30,505,729	-	-	30,505,729
Compensated absences	157,165	12,479	-	169,644
Total current liabilities	<u>76,804,164</u>	<u>3,168,529</u>	<u>-</u>	<u>79,972,693</u>
Noncurrent liabilities:				
Advances from other funds	-	22,523,456	(22,523,456)	-
Bonds payable, net	377,543,557	-	-	377,543,557
Compensated absences	314,330	24,957	-	339,287
Total noncurrent liabilities	<u>377,857,887</u>	<u>22,548,413</u>	<u>(22,523,456)</u>	<u>377,882,844</u>
Total liabilities	<u>454,662,051</u>	<u>25,716,942</u>	<u>(22,523,456)</u>	<u>457,855,537</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
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	31,175,590	-	-	31,175,590
Total deferred inflows of resources	<u>35,117,735</u>	<u>-</u>	<u>-</u>	<u>35,117,735</u>
<b>NET POSITION:</b>				
Net investment in capital assets	122,400,858	19,943,163	-	142,344,021
Unrestricted (deficit)	(28,577,705)	(22,677,692)	-	(51,255,397)
Total net position	<u>\$ 93,823,153</u>	<u>\$ (2,734,529)</u>	<u>\$ -</u>	<u>\$ 91,088,624</u>



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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

	<b>Statement of Revenues, Expenses and Changes in Net Position</b>		
	Light and Power		Light and Power
	Fund	Gas Fund	Enterprise
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 162,360,793	\$ 55,413,101	\$ 217,773,894
Total operating revenues	<u>162,360,793</u>	<u>55,413,101</u>	<u>217,773,894</u>
<b>OPERATING EXPENSES:</b>			
Cost of sales	112,854,966	53,878,623	166,733,589
Depreciation and amortization	5,307,490	737,890	6,045,380
Total operating expenses	<u>118,162,456</u>	<u>54,616,513</u>	<u>172,778,969</u>
Operating income (loss)	<u>44,198,337</u>	<u>796,588</u>	<u>44,994,925</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Investment income (loss)	(2,001,536)	235	(2,001,301)
Net decrease in fair value of investments	(3,640,115)	-	(3,640,115)
Interest expense	(15,678,847)	-	(15,678,847)
Legal settlement	(1,093,922)	-	(1,093,922)
Total nonoperating revenue (expenses), net	<u>(22,414,420)</u>	<u>235</u>	<u>(22,414,185)</u>
Income (loss) before transfers	21,783,917	796,823	22,580,740
Transfers out	<u>(11,921,548)</u>	<u>(731,171)</u>	<u>(12,652,719)</u>
Change in net position	9,862,369	65,652	9,928,021
Net position, beginning of the year	<u>83,960,784</u>	<u>(2,800,181)</u>	<u>81,160,603</u>
Net position, end of the year	<u>\$ 93,823,153</u>	<u>\$ (2,734,529)</u>	<u>\$ 91,088,624</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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

	<b>Statement of Cash Flows</b>		
	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 194,664,770	\$ 54,194,503	\$ 248,859,273
Cash paid to suppliers for goods and services	(116,905,823)	(53,727,694)	(170,633,517)
Cash paid to employees for services	(4,074,708)	(489,913)	(4,564,621)
Net cash provided by operating activities	<u>73,684,239</u>	<u>(23,104)</u>	<u>73,661,135</u>
Cash flows from noncapital financing activities:			
Transfers to City	(11,921,548)	(731,171)	(12,652,719)
Collection of note receivable	395,755	-	395,755
Net cash used in noncapital financing activities	<u>(11,525,793)</u>	<u>(731,171)</u>	<u>(12,256,964)</u>
Cash flows from capital and related financing activities:			
Repayment of bonds	(30,260,000)	-	(30,260,000)
Bond interest paid	(24,010,012)	-	(24,010,012)
Acquisition and construction of capital assets, net	(9,715,247)	(429,894)	(10,145,141)
Net cash provided by (used in) capital and related financing activities	<u>(63,985,259)</u>	<u>(429,894)</u>	<u>(47,139,261)</u>
Cash flows from investing activities:			
Purchases and sales of investments, net	(2,777,011)	-	(2,777,011)
Investment loss net of interest rate swap payments on investment derivatives	(1,960,205)	235	(1,959,970)
Net cash used in investing activities	<u>(4,737,216)</u>	<u>235</u>	<u>(4,736,981)</u>
Net increase (decrease) in cash and cash equivalents	(6,564,029)	(1,183,934)	(7,747,963)
Cash and cash equivalents, beginning of year	87,236,944	1,214,141	88,451,085
Cash and cash equivalents, end of year	<u>\$ 80,672,915</u>	<u>\$ 30,207</u>	<u>\$ 80,703,122</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 44,198,337	\$ 796,588	\$ 44,994,925
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,307,490	737,890	6,045,380
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	114,989	(348,311)	(233,322)
Advance to (from) City	4,404,164	(818,713)	3,585,451
Accrued unbilled revenue	(552,358)	-	(552,358)
Inventories	461,746	(51,574)	410,172
Prepaid expenses and deposits	(702,906)	-	(702,906)
Prepaid natural gas	28,578,342	-	28,578,342
Increase (decrease) in:			
Accounts payable	(4,183,925)	(341,870)	(4,525,795)
Customer deposits	(1,040)	3,750	2,710
Compensated absences	24,834	(864)	23,970
Deferred gain from sale of generation assets	(3,965,434)	-	(3,965,434)
Net cash provided by (used in) operating activities	<u>\$ 73,684,239</u>	<u>\$ (23,104)</u>	<u>\$ 73,661,135</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:			
Cash and investments	\$ 16,745,324	\$ 30,207	\$ 16,775,531
Noncurrent restricted cash and investments	110,740,591	-	110,740,591
Total	127,485,915	30,207	127,516,122
Less: Investments with maturities of more than 90 days	(46,813,000)	-	(46,813,000)
Total cash and cash equivalents	<u>\$ 80,672,915</u>	<u>\$ 30,207</u>	<u>\$ 80,703,122</u>
Noncash Capital, Investing and Financing Activities:			
Acquisition of capital assets in accounts payable	\$ 47,772	\$ 892	\$ 48,664
Increase (Decrease) in fair value of investments	(3,640,115)	-	(3,640,115)
Amortization of deferred gain from sale of generation assets	3,965,434	-	3,965,434
Capitalized interest	8,995,770	-	8,995,770

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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. 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, 2014, 331 employees (250 active employees and 81 retired employees), participated in the OPEB.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**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 estimated a payment of \$429,544 in benefits on a pay-as-you-go basis for Fiscal Year 2014. The following represents the status of the Unfunded Actuarial Accrued Liability.

Actuarial Accrued Liability (AAL) (a)	\$	44,580,541
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>44,580,541</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	25,969,050
UAAL as a % of covered payroll (a-b/c)		171.7%

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, 2014**

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

Based on the July 1, 2012 actuarial valuation, the June 30, 2014 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 1,558,945
Amortization of UAAL	1,647,213
Total ARC	<u>\$ 3,206,158</u>

Based on the July 1, 2012 actuarial valuation, the June 30, 2014 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 11,378,962
Annual OPEB Cost	3,084,330
Employer contributions	<u>(429,544)</u>
Increase in NOO	2,654,786
NOO - End of Year	<u>\$ 14,033,748</u>

The funded status of the OPEB plan as of July 1, 2012 and the ARC for the fiscal year ended June 30, 2014 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 72 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, 2014**

**NOTE 13– CONTINGENCIES**

As of June 30, 2014, 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.

**NOTE 14 – 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. This deferred inflow of resources is recognized as a reduction of cost of sales in a systematic and rational manner over the remaining life of the Power Purchase Tolling Agreement (See Note 11).

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**NOTE 15 – 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. 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.*
- GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*
- GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

**Implementation of Pronouncements**

The City had adopted and implemented the following GASB Statements during the year ended June 30, 2014:

- GASB Statement No. 66 – *Technical Corrections-2012-an amendment of GASB Statement No. 10 and No. 62.*

The implementation of GASB Statements No. 66 did not impact the financial statements of the City during the year ended June 30, 2014.

**NOTE 16 – SUBSEQUENT EVENTS**

**Change in Fair Value of Derivative Instruments**

The fair value balance and notional amount of the derivative instruments outstanding at December 1, 2014, classified by type, and the change in fair value of such derivative instruments since June 30, 2014 are as follows:

	Change in Fair Value		Fair Value at December 1, 2014		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	decrease in fair value	\$ (4,792,442)	Derivative liability	\$ (21,408,761)	\$ 90,150,000
2004 Series B Bonds	decrease in fair value	(715,426)	Derivative liability	(14,417,430)	83,575,000
Total		\$ (5,507,868)		\$ (35,826,191)	\$ 173,725,000

**CITY OF VERNON, CALIFORNIA**  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 27,128,942	\$ 27,128,942	\$ 26,597,493	\$ (531,449)
Special assessments	1,020,000	1,020,000	927,601	(92,399)
Licenses and permits	1,704,750	1,704,750	1,726,173	21,423
Fines, forfeitures and penalties	363,250	363,250	248,887	(114,363)
Investment income	10,000	10,000	15,337	5,337
Intergovernmental revenues	2,582,934	2,582,934	1,288,929	(1,294,005)
Charges for services	3,682,100	3,682,100	3,646,690	(35,410)
Other revenues	639,348	639,348	856,882	217,534
Total revenues	<u>37,131,324</u>	<u>37,131,324</u>	<u>35,307,992</u>	<u>(1,823,332)</u>
<b>EXPENDITURES:</b>				
General government	12,263,865	12,263,865	10,291,260	1,972,605
Public safety	22,828,052	22,828,052	24,299,189	(1,471,137)
Public works	5,588,752	5,588,752	5,070,062	518,690
Health services	1,551,086	1,551,086	1,445,172	105,914
Debt service	7,100,000	7,100,000	3,339,664	3,760,336
Capital outlay	5,959,686	5,959,686	1,742,028	4,217,658
Total expenditures	<u>55,291,441</u>	<u>55,291,441</u>	<u>46,187,375</u>	<u>9,104,066</u>
Deficiency of revenues under expenditures	<u>(18,160,117)</u>	<u>(18,160,117)</u>	<u>(10,879,383)</u>	<u>7,280,734</u>
<b>Other financing sources (uses):</b>				
Sale of property	8,044,024	8,044,024	5,821	(8,038,203)
Transfers in	9,477,696	9,477,696	12,652,719	3,175,023
Total other financing sources (uses)	<u>17,521,720</u>	<u>17,521,720</u>	<u>12,658,540</u>	<u>(4,863,180)</u>
Net change	(638,397)	(638,397)	1,779,157	2,417,554
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>(24,820,669)</u>	<u>(24,820,669)</u>	<u>(24,820,669)</u>	<u>-</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ (25,459,066)</u>	<u>\$ (25,459,066)</u>	<u>\$ (23,041,512)</u>	<u>\$ 2,417,554</u>

See accompanying note to the required supplementary information.



**CITY OF VERNON, CALIFORNIA**  
**Note to Required Supplementary Information**  
**June 30, 2014**

**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 2014. 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 \$1,823,332. The key reasons for this variance was deficiency of revenues over estimated revenues of \$531,449 for taxes and \$1,294,005 for intergovernmental revenues.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$9,104,066. The key reasons for this variance were excess appropriations of \$3,760,336 for debt service and \$4,217,658 for capital outlay.

For the current year, the General Fund's total negative variance between the final budgeted amounts and actual amount for other financing sources was \$4,863,180. The key reason for this variance was \$8,038,203 of sale of property which did not close during the year offset by a \$3,175,023 transfer in from Light and Power.

**CITY OF VERNON, CALIFORNIA**  
**Required Supplementary Information**  
**June 30, 2014**

**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)
6/30/2013	\$195,485,049	\$144,294,074	\$51,190,975	73.8%	\$12,146,524	421.4%
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%

**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)
6/30/2013	\$122,747,737	\$ 93,664,038	\$29,083,699	76.3%	\$10,761,348	270.3%
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%

**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	\$ -	\$ 44,580,541	\$ 44,580,541	00.0%	\$ 25,969,059	171.7%
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%