

LIGHT AND POWER ENTERPRISE
(THE LIGHT AND POWER DEPARTMENT FUND
AND THE GAS DEPARTMENT FUND
OF THE CITY OF VERNON, CALIFORNIA)

Annual Financial Report

For the Fiscal Year Ended June 30, 2014

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
For the 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 basic financial statements of the Light and Power Enterprise (the Light and Power Department Fund and the Gas Department Fund), of the City of Vernon, California (City), as of and for the fiscal 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 basic 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.



As discussed in Note 1 to the basic financial statements, the financial statements present only the Light and Power Enterprise and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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 financial position of the Light and Power Enterprise 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 3 through 9 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.

Vasquez + Company LLP

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(Unaudited)**

The management of the Light and Power Enterprise ("the Enterprise"), the Light and Power Department and the Gas Department of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the Enterprise for the fiscal year ended June 30, 2014. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the Enterprise's net position as of the current fiscal year ended June 30, 2014 and prior fiscal year ended June 30, 2013. The details of the current year's summary can be found on page 10 of this report.

	2014	2013	Change
Assets:			
Current and other assets	\$ 266,388,662	\$ 300,689,003	\$ (34,300,341)
Restricted assets	110,740,591	114,392,067	(3,651,476)
Capital assets	206,932,643	194,232,942	12,699,701
Total assets	<u>584,061,896</u>	<u>609,314,012</u>	<u>(25,252,116)</u>
Liabilities			
Current liabilities	79,972,693	80,697,648	(724,955)
Long-term liabilities	377,882,844	408,372,592	(30,489,748)
Total liabilities	<u>457,855,537</u>	<u>489,070,240</u>	<u>(31,214,703)</u>
Deferred Inflows of Resources:			
Deferred gain from sale of generation assets	35,117,735	39,083,169	(3,965,434)
Net Assets:			
Net investment in capital assets	142,344,021	137,837,498	4,506,523
Unrestricted (deficit)	(51,255,397)	(56,676,895)	5,421,498
Total net position	<u>\$ 91,088,624</u>	<u>\$ 81,160,603</u>	<u>\$ 9,928,021</u>

The assets and deferred outflows of resources of the Enterprise exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$91,088,624 (*net position*).

The category of the Enterprise's net position with the largest balance totaling \$142,344,021 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(51,255,397) represents a deficit in unrestricted net position that is expected to be recovered from the Enterprise's future revenues.

Activities, net position:

- Current and other assets decreased \$34,300,341 from the prior year due primarily to a \$28,549,573 decrease in prepaid natural gas, as a result of amortization during the year.
- Capital assets increased \$12,699,701 from the prior year due primarily to a \$3,255,633 addition to nondepreciable capital assets and a \$9,444,068 addition to depreciable capital assets net of current year depreciation.
- Long-term liabilities decreased \$30,489,748 from the prior year due primarily to a principal repayment on bonds of \$30,260,000 (See Note 6).
- Deferred gain from sale of generation assets decreased \$3,965,434 from the prior year due to amortization.
- Unrestricted net deficit decreased \$5,421,498 from the prior year due primarily to an increase in net position from current year's activities of \$9,928,021 offset by a \$4,506,523 increase in invested in capital assets, net of related debt.

Changes in Net Position

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

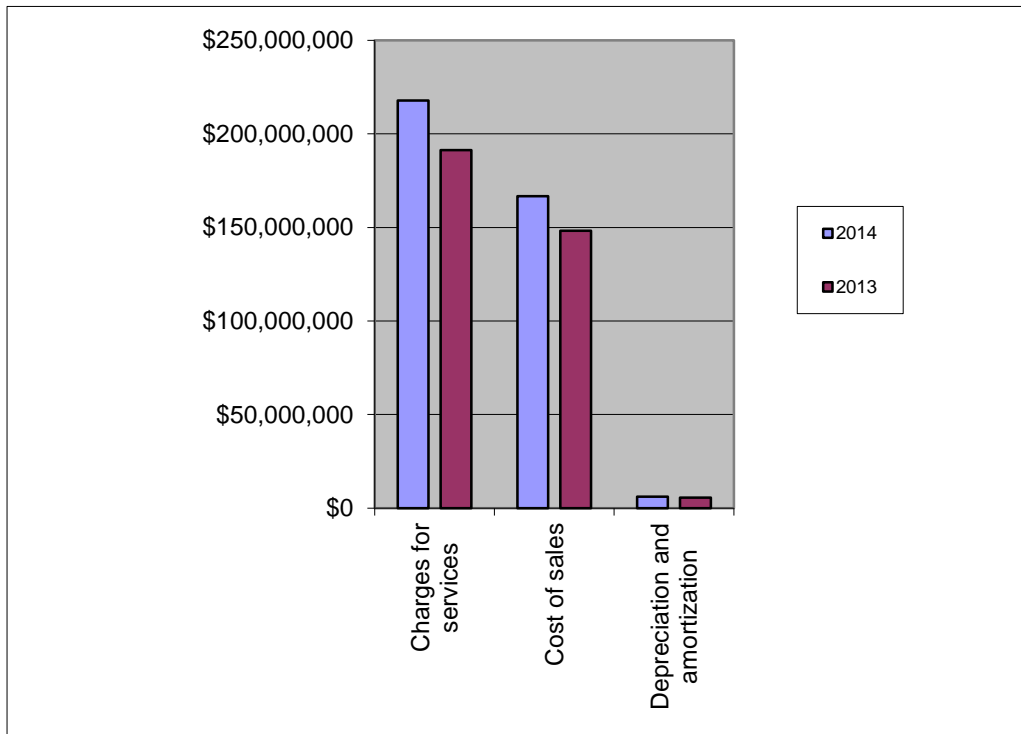
**City of Vernon
Light and Power Enterprise
Changes in Fund Net Position
For the Fiscal Years Ended June 30, 2014 and 2013**

	2014	2013	Change
Operating revenues:			
Charges for services	\$ 217,773,894	\$ 191,264,399	\$ 26,509,495
Operating expenses:			
Cost of sales	166,733,589	148,291,332	18,442,257
Depreciation and amortization	6,045,380	5,592,154	453,226
Total operating expenses	172,778,969	153,883,486	18,895,483
Operating income	44,994,925	37,380,913	7,614,012
Nonoperating revenues (expenses):			
Investment loss	(2,001,301)	(2,729,867)	728,566
Net increase (decrease) in fair value of investments	(3,640,115)	14,703,961	(18,344,076)
Interest expense	(15,678,847)	(21,644,991)	5,966,144
Legal settlement	(1,093,922)	4,250,000	(5,343,922)
Transfers to City	(12,652,719)	(11,959,593)	(693,126)
Total nonoperating expenses, net	(35,066,904)	(17,380,490)	(17,686,414)
Change in net position	9,928,021	20,000,423	(10,072,402)
Net position, beginning of year	81,160,603	61,160,180	20,000,423
Net position, end of year	\$ 91,088,624	\$ 81,160,603	\$ 9,928,021

The Enterprise's activities increased net position by \$9,928,021 which is \$10,072,402 lower than the prior year. The key reasons for this change are as follows:

- Charges for services was \$217,773,894 for the current year, which is \$26,509,495 higher than the previous year.
- Cost of sales was \$166,733,589 for the current year, which is \$18,442,257 higher than the previous year.
- Net decrease in fair value of investments was \$3,640,115 for the current year, compared to prior year increase in fair value of investments in the amount of \$14,703,961, a difference of \$18,344,076. The change was caused by a decrease in long-term interest rates during the year (See Note 7 for additional information on derivative instruments).

Operating Revenues and Expenses
For the Fiscal Years Ended June 30, 2014 and 2013



The Enterprise's unrestricted net position at the end of the year amounted to a deficit of \$51,255,397 after the increase in net position of \$9,928,021 in the current year. The Enterprise expects to eliminate this deficit balance through future rate increases, cost reduction, and revenues from renewable energy projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Enterprise's investment in capital assets as of June 30, 2014 amounted to \$206,932,643 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the Enterprise's investment in capital assets for the current fiscal year was \$12,699,701, due primarily to increases in the Enterprise's construction in progress for renewable energy and scheduled additions to its distribution plant.

Additional information on the Enterprise's capital assets can be found in Note 5 on page 25 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

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.

Additional information on the City's long-term debt can be found in Note 6 on pages 26-30 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These 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 unfavorably to the State of California's average unemployment rate of 7.3% and 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.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Enterprise's finances for all those with an interest in the Enterprise'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 Fund Net Position
Light and Power Enterprise
June 30, 2014

ASSETS:

Current assets:

Cash and investments	\$ 16,775,531
Accounts receivable, net of allowances of \$150,000	5,699,383
Accrued unbilled revenue	9,817,997
Accrued interest receivable	179,702
Escrow deposits	940,000
Inventories	10,122,928
Prepaid natural gas	28,578,343
Note receivable	420,870
Total current assets	72,534,754

Noncurrent assets:

Restricted cash and investments	110,740,591
Advances to City	23,059,040
Prepaid expenses	1,072,607
Prepaid natural gas	168,653,214
Note receivable	1,069,047

Capital assets:

Nondepreciable	74,222,561
Depreciable, net	132,710,082
Total noncurrent assets	511,527,142

Total assets	584,061,896
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LIABILITIES:

Current liabilities:

Accounts payable	8,381,497
Customer deposits	576,285
Derivative liabilities	30,318,323
Bond interest	10,021,215
Bonds payable, net	30,505,729
Compensated absences	169,644
Total current liabilities	79,972,693

Noncurrent liabilities:

Bonds payable, net	377,543,557
Compensated absences	339,287
Total noncurrent liabilities	377,882,844

Total liabilities	457,855,537
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DEFERRED INFLOWS OF RESOURCES:

Current deferred inflows of resources:

Deferred gain from sale of generation assets	3,942,145
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Noncurrent deferred inflows of resources:

Deferred gain from sale of generation assets	31,175,590
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Total deferred inflows of resources	35,117,735
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NET POSITION:

Net investment in capital assets	142,344,021
Unrestricted (deficit)	(51,255,397)
Total net position	\$ 91,088,624

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Light and Power Enterprise
For the Fiscal Year Ended June 30, 2014

OPERATING REVENUES:	
Charges for services	\$ 217,773,894
Total operating revenues	217,773,894
 OPERATING EXPENSES:	
Cost of sales	166,733,589
Depreciation and amortization	6,045,380
Total operating expenses	172,778,969
Operating income	44,994,925
 NONOPERATING REVENUE (EXPENSES):	
Investment loss	(2,001,301)
Net decrease in fair value of investments	(3,640,115)
Interest expense	(15,678,847)
Legal settlement	(1,093,922)
Total nonoperating (expenses)	(22,414,185)
Income before transfers	22,580,740
Transfers to City	(12,652,719)
Change in net position	9,928,021
Net position, beginning of the year	81,160,603
Net position, end of the year	\$ 91,088,624

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Light and Power Enterprise
For the Fiscal Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 248,859,273
Cash paid to suppliers for goods and services	(170,633,517)
Cash paid to employees for services	(4,564,621)
Net cash provided by operating activities	<u>73,661,135</u>
Cash flows from noncapital financing activities:	
Transfers to City	(12,652,719)
Collection of note receivable	395,755
Net cash used in noncapital financing activities	<u>(12,256,964)</u>
Cash flows from capital and related financing activities:	
Repayment of bonds	(30,260,000)
Bond interest paid	(24,010,012)
Acquisition and construction of capital assets, net	(10,145,141)
Net cash used in capital and related financing activities	<u>(64,415,153)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	(2,777,011)
Investment loss net of interest rate swap payments on investment derivatives	(1,959,970)
Net cash used in investing activities	<u>(4,736,981)</u>
Net decrease in cash and cash equivalents	(7,747,963)
Cash and cash equivalents, beginning of year	88,451,085
Cash and cash equivalents, end of year	<u>\$ 80,703,122</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 44,994,925
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	6,045,380
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(233,322)
Advance to (from) City	3,585,451
Accrued unbilled revenue	(552,358)
Inventories	410,172
Prepaid expenses and deposits	(702,906)
Prepaid natural gas	28,578,342
Increase (decrease) in:	
Accounts payable	(4,525,795)
Customer deposits	2,710
Compensated absences	23,970
Deferred gain from sale of generation assets	(3,965,434)
Net cash provided by operating activities	<u>\$ 73,661,135</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:	
Cash and investments	\$ 16,775,531
Noncurrent restricted cash and investments	110,740,591
Total	127,516,122
Less: Investments with maturities of more than 90 days	(46,813,000)
Total cash and cash equivalents	<u>\$ 80,703,122</u>
Noncash Capital, Investing and Financing Activities:	
Acquisition of capital assets in accounts payable	\$ 48,664
Increase (Decrease) in fair value of investments	(3,640,115)
Amortization of deferred gain from sale of generation assets	3,965,434
Capitalized interest	8,995,770

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Light and Power Enterprise (the Enterprise) 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 Enterprise's significant accounting policies are described below.

Reporting Entity

The City of Vernon (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.

On December 15, 2011, City Council adopted a resolution to merge two enterprise funds, the Light and Power Department Fund and the Gas Department Fund for accounting and financial reporting purposes. Both are utility funds that provide power and gas utilities 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. Accordingly, effective July 1, 2011, the City's Enterprise was created by combining the Light and Power Department and the Gas Department, which were established by the City under and by virtue of the City Charter enacted in 1988. These departments were established for the collection of revenues and the payment of expenses for the City's electric and gas utility plants. Prior to July 1, 2011, the departments were reported as separate enterprise funds.

As required by generally accepted accounting principles, the accompanying basic financial statements present the Enterprise and its component unit, an entity for which the City is considered to be financially accountable. In accordance with GASB Statement No. 61, the City's component unit is considered a blended component unit in the Enterprise. Although a legally separate entity, it is, in substance, part of the Enterprise's operations, and therefore, data from this unit is combined with data of the Enterprise. As of June 30, 2014, the Enterprise had no blended component unit as it was dissolved during the year as described below. The Enterprise has no discretely presented component unit.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended 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

The Enterprise accounts for all activities of the City's electric and gas utility operations. Revenue for the Enterprise is primarily from charges for services.

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

The Enterprise distinguishes *operating* revenues and expenses from *nonoperating* items. *Operating* revenues, such as charges for services, result from exchange transactions associated with the sale of electricity and gas. 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.

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

For purposes of the statement of cash flows, the Enterprise considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents. Investment transactions are recorded on the 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 Enterprise 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.

Receivables

Receivables from the City are classified as “Advance to City” on the statement of fund net position.

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 are recorded as an expense or capitalized into capital assets when used.

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 land, intangible assets, construction in progress, and plant assets including building, improvements, and machinery and equipment. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives. Intangible assets with an indefinite useful life are not amortized but are evaluated annually for any impairment.

The estimated useful lives are as follows:

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

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

Accumulated vacation is accrued when incurred. Upon termination of employment, the Enterprise 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, "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 Enterprise 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

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

- Net Investment In Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. No capital assets are considered to be impaired at June 30, 2014.
- 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 Enterprise not restricted for any project or other purpose.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2014 are classified in the accompanying statement of fund net position as follows:

Statement of net position:

Cash and investments	\$ 16,775,531
Restricted cash and investments	<u>110,740,591</u>
Total cash and investments	<u><u>\$ 127,516,122</u></u>

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

Deposits with financial institutions	\$ 7,969,576
Investments	<u>119,546,546</u>
Total cash and investments	<u><u>\$ 127,516,122</u></u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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 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
LIGHT AND POWER ENTERPRISE
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 it 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
LIGHT AND POWER ENTERPRISE
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 trustee 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 it 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

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2013	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
Money Market Funds	\$ 72,733,547	\$ 72,733,547	\$ -	\$ -	60.8%
Local Agency Investment Fund	540,884	540,884	-	-	0.5%
U.S. Treasury Notes	30,556,908	3,126,286	11,394,930	16,035,692	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 Bank	2,265,085	-	2,265,085	-	1.9%
Total investments	\$ 119,546,546	\$ 82,528,075	\$ 20,982,779	\$ 16,035,692	100.0%

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 7,963,301	6.2%
Local Agency Investment Fund	Not Rated	Not Rated	540,884	0.4%
Total in custody of Treasurer			8,504,185	6.6%
In custody of Trustee:				
Investments held by Trustee:				
Deposits with financial institutions	N/A	N/A	6,275	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	72,733,547	57.0%
U.S. Treasury Notes	None	Aaa / AA+	30,556,908	24.0%
Federal National Mortgage Association	None	Aaa / AA+	7,345,965	5.8%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	6,104,157	4.8%
Federal Home Loan Bank	None	Aaa / AA+	2,265,085	1.8%
Total in custody of Trustee			119,011,937	93.4%
Total cash and investments held by Treasurer and Trustee			\$ 127,516,122	100.0%

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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 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 Enterprise'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
Federal National Mortgage Association	Trustee	\$ 7,345,965	5.8%

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 of \$250,000 made by state or local governmental units by pledging government securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the City's name.

At year-end, the carrying amount of the Enterprise's deposits was \$7,969,574 and the bank balance was \$7,678,740. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2014, none of the Enterprise's deposits with financial institutions in excess of federal depository insurance limit were held in uncollateralized accounts. \$7,422,466 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The Enterprise 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 Enterprise'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 structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 0.64 years as of June 30, 2014. LAIF does not maintain a credit rating.

NOTE 3 – ACCOUNTS RECEIVABLES

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

Accounts receivables	\$ 5,849,383
Less: Allowances for uncollectible accounts	<u>(150,000)</u>
Total receivables, net	<u><u>\$ 5,699,383</u></u>

For information on the Enterprise's note receivable, see Note 10 regarding Hoover Dan Power Plant Upgrade Program

NOTE 4 – RELATED PARTY TRANSACTIONS

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

The following table summarizes the Enterprise's loan balances and transactions with the City at June 30, 2014:

Advance to City

Advance to City, July 1, 2013	\$ 26,644,491
Repayments by City	<u>(3,585,451)</u>
Advance to City, June 30, 2014	<u><u>\$ 23,059,040</u></u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

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

The City allocates certain administrative and overhead costs to the Enterprise which the Enterprise financial statements include as part of cost of sales. The allocated costs for the year ended June 30, 2014 was \$2,500,000.

Nonoperating Expenses

Transfers to City

The Enterprise's electric retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City's General Fund. For the current year, the Enterprise paid the City's General Fund \$4,234,248 for in lieu of franchise tax.

Under the City Charter and the Enterprise's bond indentures, the Enterprise is allowed to transfer its electric utility's excess revenue after meeting debt service and certain debt coverage ratios. For the year ended June 30, 2014, the Enterprise transferred an additional \$8,418,471 of its excess revenue to the City for a total of \$12,652,719 as follows:

In lieu of franchise tax transfer	\$ 4,234,248
Excess revenue operating transfer	<u>8,418,471</u>
Total	<u><u>\$ 12,652,719</u></u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
<i>Capital assets, not being depreciated:</i>				
Land - Electric	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Intangibles - Environmental credits - Electric	18,382,873	-	-	18,382,873
Construction in Progress - Electric	42,462,611	4,100,482	(1)	46,563,092
Construction in Progress - Gas	844,848	-	(844,848)	-
Total capital assets, not being depreciated	<u>70,966,928</u>	<u>4,100,482</u>	<u>(844,849)</u>	<u>74,222,561</u>
<i>Capital assets, being depreciated</i>				
Production plant - Electric	15,382,221	-	-	15,382,221
Transmission plant - Electric	4,888,113	-	-	4,888,113
Distribution plant - Electric	141,885,701	14,397,158	1	156,282,860
General plant - Electric	8,243,206	84,982	-	8,328,188
Gas utility plant	24,829,400	1,007,307	-	25,836,707
Total capital assets, being depreciated	<u>195,228,641</u>	<u>15,489,447</u>	<u>1</u>	<u>210,718,089</u>
Less accumulated depreciation for:				
Production plant - Electric	(7,131,877)	(438,477)	-	(7,570,354)
Transmission plant - Electric	(2,664,450)	(97,066)	-	(2,761,516)
Distribution plant - Electric	(54,108,904)	(4,398,115)	-	(58,507,019)
General plant - Electric	(2,901,741)	(373,832)	-	(3,275,573)
Gas utility plant	(5,155,655)	(737,890)	-	(5,893,545)
Total accumulated depreciation	<u>(71,962,627)</u>	<u>(6,045,380)</u>	<u>-</u>	<u>(78,008,007)</u>
Total capital assets, being depreciated, net				
Production plant - Electric	8,250,344	(438,477)	-	7,811,867
Transmission plant - Electric	2,223,663	(97,066)	-	2,126,597
Distribution plant - Electric	87,776,797	9,999,043	1	97,775,841
General plant - Electric	5,341,465	(288,850)	-	5,052,615
Gas utility plant	19,673,745	269,417	-	19,943,162
Total	<u>123,266,014</u>	<u>9,444,067</u>	<u>1</u>	<u>132,710,082</u>
Business-type activities capital assets, net	<u>\$ 194,232,942</u>	<u>\$ 13,544,549</u>	<u>\$ (844,848)</u>	<u>\$ 206,932,643</u>

Depreciation

The Enterprise's total depreciation expense for the year was \$6,045,380.

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014

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
LIGHT AND POWER ENTERPRISE
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:

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2014
City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 42,580,000
City of Vernon Electric System Revenue Bonds, 2009 Series A	08/01/21	2.500% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	302,135,000
City of Vernon Electric System Revenue Bonds, 2012 Series A	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B	08/01/26	6.250% - 6.500%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
Premium					182,376
Discounts					(3,627,301)
Deferred amount on refunding					(5,960,789)
Total Revenue Bonds				<u>\$ 535,905,000</u>	<u>\$ 408,049,286</u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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%.

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	Amounts Due Within One Year
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	484,961	185,624	(161,654)	508,931	169,644
	<u>\$ 465,815,081</u>	<u>\$ 185,624</u>	<u>\$ (29,277,384)</u>	<u>\$ 408,558,217</u>	<u>\$ 30,675,374</u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Credit Ratings

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

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired interest rate swaps 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

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.

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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.

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NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

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.

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 Enterprise 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.

**CITY OF VERNON, CALIFORNIA
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NOTE 8 – RISK MANAGEMENT

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

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees, and natural disasters. The City utilizes Insurance Policy(s) to transfer these risks. Each policy has either 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.

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

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

The City has numerous claims and pending litigations, which generally involve accidents and or liability or damage to City property. 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.

Further information regarding the City’s self-insurance program may be found in the City’s Annual Financial Report.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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NOTE 9 – PENSION PLAN

The Enterprise employees participate with other City employees in 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
LIGHT AND POWER ENTERPRISE
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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 (dollar amounts in millions).

Safety Plan Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded UAAL (a)–(b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(a)–(b)]/(c)
6/30/2013	\$195,485,049	\$144,294,074	\$51,190,975	73.8%	\$12,146,524	421.4%

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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NOTE 9 – PENSION PLAN (CONTINUED)

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%

Further information regarding the City’s pension plan may be found in the City’s Annual Financial Report.

NOTE 10 – LIGHT AND POWER 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 12 for disclosure on uncertainties).

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 10 – LIGHT AND POWER 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
LIGHT AND POWER ENTERPRISE
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NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

Power Purchase Commitments

As of June 30, 2014 under the Bicent 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 as of June 30, 2014, of both enterprises is presented below:

CITY OF VERNON, CALIFORNIA
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NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

	Statement of Net Position			
	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
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	69,495,504	3,039,250	-	72,534,754
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	514,107,435	19,943,163	(22,523,456)	511,527,142
Total assets	583,602,939	22,982,413	(22,523,456)	584,061,896
LIABILITIES:				
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	76,804,164	3,168,529	-	79,972,693
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	377,857,887	22,548,413	(22,523,456)	377,882,844
Total liabilities	454,662,051	25,716,942	(22,523,456)	457,855,537
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	31,175,590	-	-	31,175,590
Total deferred inflows of resources	35,117,735	-	-	35,117,735
NET POSITION:				
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	\$ 93,823,153	\$ (2,734,529)	\$ -	\$ 91,088,624

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

				Statement of Revenues, Expenses and Changes in Net Position		
				Light and Power		Light and Power
				Fund	Gas Fund	Enterprise
OPERATING REVENUES:						
	Charges for services		\$ 162,360,793	\$ 55,413,101		\$ 217,773,894
	Total operating revenues		162,360,793	55,413,101		217,773,894
OPERATING EXPENSES:						
	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		118,162,456	54,616,513		172,778,969
	Operating income (loss)		44,198,337	796,588		44,994,925
NONOPERATING REVENUE (EXPENSES):						
	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		(22,414,420)	235		(22,414,185)
	Income (loss) before transfers		21,783,917	796,823		22,580,740
	Transfers out		(11,921,548)	(731,171)		(12,652,719)
	Change in net position		9,862,369	65,652		9,928,021
	Net position, beginning of the year		83,960,784	(2,800,181)		81,160,603
	Net position, end of the year		\$ 93,823,153	\$ (2,734,529)		\$ 91,088,624

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2014**

NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

	Statement of Cash Flows		
	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	73,684,239	(23,104)	73,661,135
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	(11,525,793)	(731,171)	(12,256,964)
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	(63,985,259)	(429,894)	(47,139,261)
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	(4,737,216)	235	(4,736,981)
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	124,141	88,451,085
Cash and cash equivalents, end of year	\$ 80,672,915	\$ 30,207	\$ 80,703,122
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	\$ 73,684,239	\$ (23,104)	\$ 73,661,135
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	\$ 80,672,915	\$ 30,207	\$ 80,703,122
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

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NOTE 10 – LIGHT AND POWER 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 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

The postemployment benefit described in the following paragraphs relate to the City in which the Enterprise belongs. Information relating to the City applies to the Enterprise because the pension and postemployment benefits are maintained by the City for all employees of the City which includes those of the Enterprise.

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.

Further information regarding the City's participation in OPEB may be found in the City's Annual Financial Report.

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NOTE 12 – CONTINGENCIES

During the course of normal operations the Enterprise is subjected to various claims. In the opinion of management and legal counsel, the disposition on all litigation pending will not have a material effect on the Enterprise's financial statements.

Uncertainties

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 13 – 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 Enterprise.

- 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 Enterprise 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 Enterprise during the year ended June 30, 2014.

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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 Enterprise recognized deferred inflows of resources in the Enterprise’s financial statements. The deferred inflow of resources pertains to the unamortized gain on the sale generation assets. Previous financial reporting standards require this amount to be presented as part of the Enterprise’s long-term debt. 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 10).

NOTE 15 – 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