

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2015

CITY OF VERNON
Fiscal Year Ended June 30, 2015

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2015, and the related notes to financial statements which collectively comprise the City's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California, as of June 30, 2015, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 and budgetary comparison information and funded status of pension and other postemployment benefits plans on pages 76 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of the City of Vernon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Vernon's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
December 16, 2015**

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(Unaudited)

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

The *statement of net position* presents information on all of the City's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and health services. The business-type activities of the City include the Light and Power Enterprise, Water Department and Fiber Optic Department.

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

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

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, and proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (See page 74 and 75).

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

Proprietary funds

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

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

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

Fiduciary funds

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-73 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements have been restated for the fiscal year 2014-2015 to report the results of recording the net pension liability in connection with the implementation of GASB Statement No. 68.

City's Net Position

The table below summarizes the City's net position as of June 30, 2015 and June 30, 2014. The details of the current year's summary can be found on page 17 of this report.

City of Vernon
Net Position
June 30, 2015 and 2014

	Governmental Activities		Business-type Activities		Totals	
	2015 (restated)	2014	2015 (restated)	2014	2015 (restated)	2014
Assets:						
Current and other assets	\$ 5,154,248	\$ 16,072,956	\$ 271,309,795	\$ 273,003,747	\$ 276,464,043	\$ 289,076,703
Restricted assets	3,481,434	5,043,081	89,309,825	110,740,591	92,791,259	115,783,672
Capital assets	44,016,579	39,437,453	216,292,952	214,972,837	260,309,531	254,410,290
Total assets	52,652,261	60,553,490	576,912,572	598,717,175	629,564,833	659,270,665
Deferred Outflows of Resources:						
Deferred amount on refunding	-	-	5,215,690	-	5,215,690	-
Deferred pension costs	8,719,504	-	-	-	8,719,504	-
Liabilities:						
Current liabilities	7,834,896	10,232,299	88,381,504	80,930,315	96,216,400	91,162,614
Long-term liabilities	119,865,007	47,014,037	350,333,988	377,989,829	470,198,995	425,003,866
Total liabilities	127,699,903	57,246,336	438,715,492	458,920,144	566,415,395	516,166,480
Deferred Inflows of Resources:						
Pension actuarial	18,584,160	-	-	-	18,584,160	-
Deferred gain from sale of generation assets	-	-	31,175,590	35,117,735	31,175,590	35,117,735
Net Position						
Net investment in capital assets	44,016,579	39,437,453	145,399,516	150,384,215	189,416,095	189,821,668
Restricted	891,731	484,540	-	-	891,731	484,540
Unrestricted	(129,820,608)	(36,614,839)	(33,162,336)	(45,704,919)	(162,982,944)	(82,319,758)
Total net position	\$ (84,912,298)	\$ 3,307,154	\$ 112,237,180	\$ 104,679,296	\$ 27,324,882	\$ 107,986,450

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$27,324,882 (*net position*).

The category of the City's net position with the largest balance totaling \$189,416,095 (693.2%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net position, totaling \$891,731 (3.3%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net position, totaling (\$162,982,944) (596.5%) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

Governmental activities, net position:

- Current and other assets decreased \$10,918,708 from the prior year mainly due to a sale of land held for resale of \$12,703,115 during the current year.
- Restricted assets decreased \$1,561,647 from the prior year mainly due to the use of funds previously set aside for environment clean up and Huntington Park project during the current year.
- Capital assets increased \$4,579,126 from the prior year, net of depreciation of \$2,403,196, mainly due to additions to City's infrastructure, machinery and equipment, and construction in progress during the current year.
- Due to a new reporting requirement effected by GASB 68 (See Note 9 and 16), pension contributions subsequent to measurement date in the amount of \$8,719,504 was booked as deferred outflow of resources during the current year.
- Current liabilities decreased \$2,397,403 from the prior year mainly due to a mortgage payoff of \$3,767,905 on a land held for resale that was sold during the current year.
- Long-term liabilities increased \$72,850,970 from the prior year mainly due to the net pension liability of \$78,620,030 required to be reported under GASB 68 during the current year (See Note 9 and 16).
- Due to a new reporting requirement effected by GASB 68 (See Note 9 and 16), inflows of resources for difference between projected and actual earnings on plan investments in the amount of \$18,584,160 were booked as deferred inflows of resources during the current year.
- Net investment in capital assets increased \$4,579,126 from the prior year which is equivalent to the increase in capital assets during the current year.
- Restricted net position increased \$407,191 from the prior year due to an increase in the City's asset forfeiture funds received during the current year.
- Unrestricted net deficit increased \$93,205,769 from the prior year due primarily to a new reporting requirement effected by GASB 68 (See Note 9 and 16) to record the net pension liability of \$78,620,030 and an increase in net investment in capital assets of \$4,579,126 offset by current year's activities of \$3,140,000.

Business-type activities, net position:

- Current and other assets, and capital assets, net of depreciation, remained fairly constant over the current year.
- Restricted assets decreased by \$21,430,766 from the prior year due primarily to a planned debt service payment of \$31,650,000 made during the current year.
- Due to a new reporting requirement effected by GASB 65, deferred amount on refunding previously netted against bonds payable, net, was presented as deferred outflow of resources during the current year.
- Current liabilities increased \$7,451,189 from the prior year due primarily to an increase in derivative liabilities of \$6,016,995 during the current year.
- Long-term liabilities decreased \$27,655,841 from the prior year due primarily to a planned debt service payment of \$31,650,000 made during the current year.
- Deferred gain from sale of generation assets decreased \$3,942,145 from the prior year due to amortization.
- Unrestricted net deficit decreased \$12,542,583 from the prior year due primarily to a decrease in net investment in capital assets of \$4,984,699 and current year's activities of \$7,557,884.

Changes in Net Position

The table below summarizes the City's changes in net position between the current and prior fiscal year.

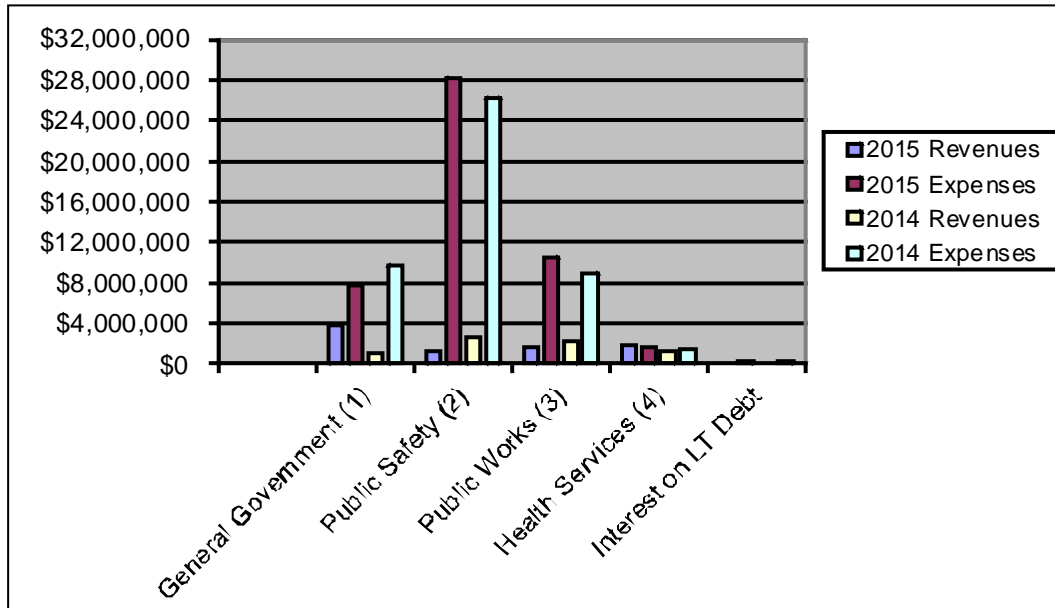
	Governmental Activities		Business-type Activities		Totals	
	2015 (restated)	2014	2015 (restated)	2014	2015 (restated)	2014
Revenues:						
Program Revenues						
Charges for services	\$ 7,067,400	\$ 5,992,480			\$ 7,067,400	\$ 5,992,480
Light and power enterprise			\$ 213,812,869	\$ 217,773,894	213,812,869	217,773,894
Water			8,078,272	8,277,002	8,078,272	8,277,002
Fiber optics			378,565	334,748	378,565	334,748
Operating and capital grants and contributions	1,359,250	1,276,036	-	-	1,359,250	1,276,036
General Revenues						
Taxes	24,035,628	22,623,425	-	-	24,035,628	22,623,425
State allocations	5,161,540	4,923,794	-	-	5,161,540	4,923,794
Investment income (loss)	17,733	15,337	(8,564,310)	(5,641,416)	(8,546,577)	(5,626,079)
Gain (loss) on sale of land and assets	(2,244,238)	-	(947,693)	-	(3,191,931)	-
Other revenues	1,072,467	482,741	-	(1,093,922)	1,072,467	(611,181)
Total revenues	36,469,780	35,313,813	212,757,703	219,650,306	249,227,483	254,964,119
Expenses						
Governmental activities						
General government	7,714,943	9,655,370	-	-	7,714,943	9,655,370
Public safety	28,289,768	26,295,037	-	-	28,289,768	26,295,037
Public works	10,401,799	8,860,750	-	-	10,401,799	8,860,750
Health services	1,640,558	1,464,297	-	-	1,640,558	1,464,297
Interest on long-term debt	154,343	295,452	-	-	154,343	295,452
Business-type activities						
Light and power enterprise			182,868,377	188,457,816	182,868,377	188,457,816
Water			6,863,251	6,433,654	6,863,251	6,433,654
Fiber optics			596,560	619,509	596,560	619,509
Total expenses	48,201,411	46,570,906	190,328,188	195,510,979	238,529,599	242,081,885
Change in net position before transfers	(11,731,631)	(11,257,093)	22,429,515	24,139,327	10,697,884	12,882,234
Transfers						
	14,871,631	12,652,719	(14,871,631)	(12,652,719)	-	-
Change in net position	3,140,000	1,395,626	7,557,884	11,486,608	10,697,884	12,882,234
Net position - beginning of year, as restated	(88,052,298)	1,911,528	104,679,296	93,192,688	16,626,998	95,104,216
Net position - end of year	\$ (84,912,298)	\$ 3,307,154	\$ 112,237,180	\$ 104,679,296	\$ 27,324,882	\$ 107,986,450

Governmental activities' net position increased by \$3,140,000 and business-type activities' net position increased by \$7,557,884 for a total of \$10,697,884 for the City. The increase in the governmental activities was caused by the governmental activities reporting a \$11,731,631 decrease in net position before transfers and an \$14,871,631 transfer in from the business-type activities.

Governmental activities, changes in net position:

Governmental activities increased the City's net position by \$3,140,000. This is higher by \$1,744,374 as compared to the prior year's increase in the City's net position of \$1,395,626.

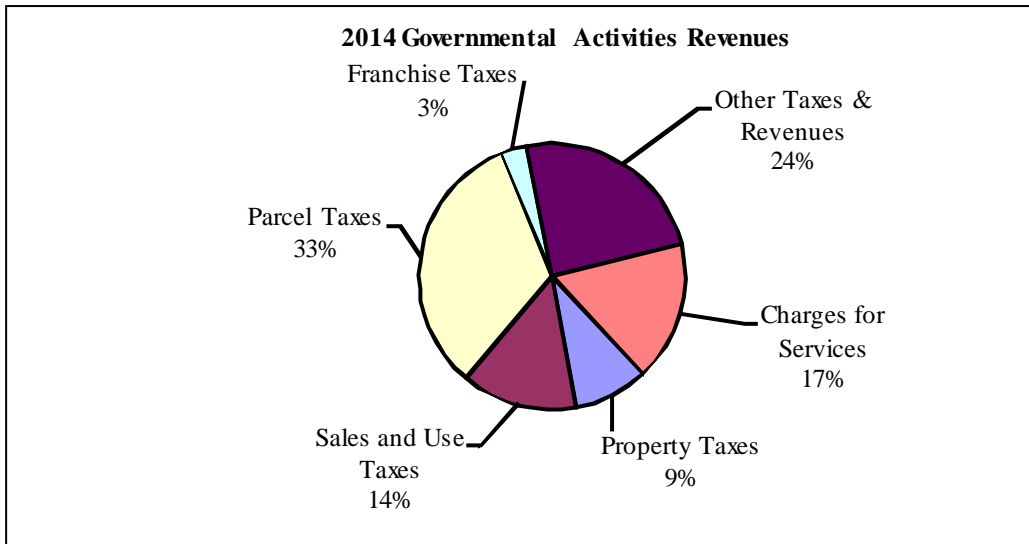
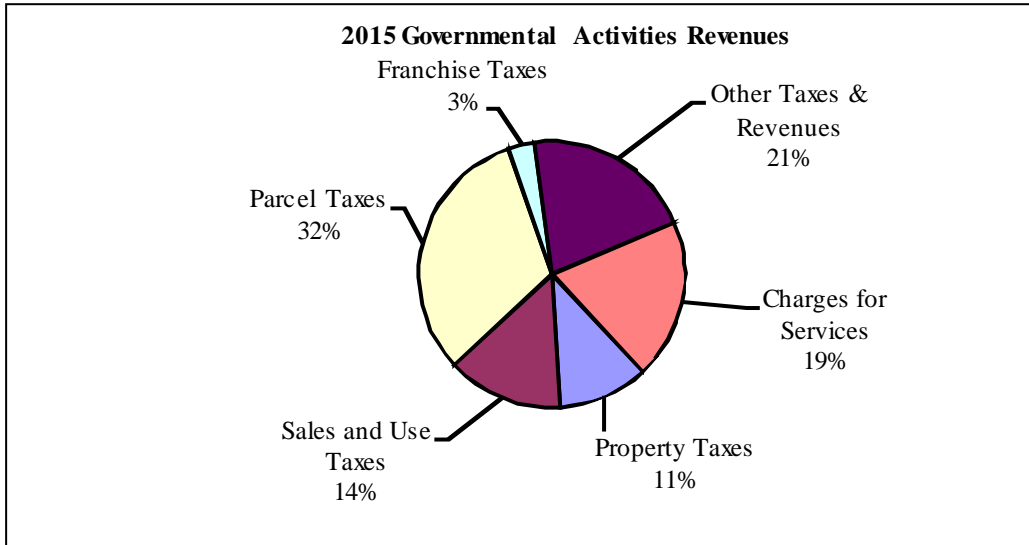
Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2015 and 2014



Governmental activities consist of the following departments:

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

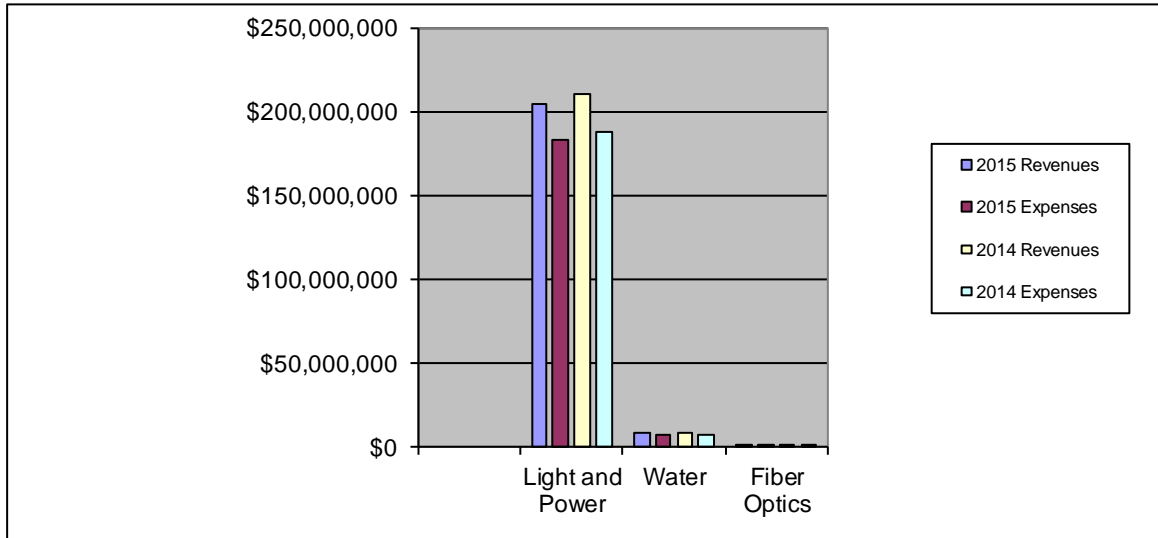
Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2015 and 2014



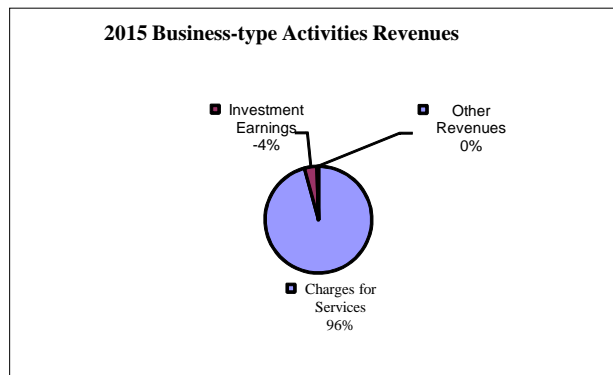
Business-type activities, changes in net position:

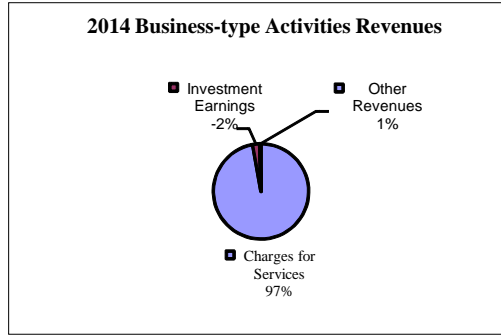
Business-type activities increased the City's net position by \$22,429,515 before transfers which is a \$1,709,812 decrease from the prior year. The key reason for this decrease was an increase in Light and Power Enterprise's investment loss of \$2,922,894.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2015 and 2014



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2015 and 2014





FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

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

Governmental funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund deficit of \$15,642,818 (See page 19), a decrease of \$7,398,694 from the prior year. Approximately 3.5% of total fund balance amount, \$541,487, constitutes *nonspendable fund balance*, which represents amounts that are not in a spendable form or are required to be maintained intact. Approximately 5.7% of the total fund balance amount, \$891,731, constitutes *restricted fund balance*, which represents amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$17,076,036), is an *unassigned* fund deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance deficit was \$15,642,818 (See page 19). At the end of the current fiscal year, the total fund balance deficit was 29.4% as compared to the total expenditures for the year.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position for the Light and Power Enterprise at the end of the year amounted to a deficit of \$39,233,290 (See page 23). Unrestricted net position of the Fiber Optic Fund at the end of the year amounted to a deficit of \$4,419,712. These deficit balances in unrestricted net position are primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

Total increase in net position for the Light and Power Enterprise was \$7,126,224 (See page 24). Total increase in net position for the Water Fund was \$649,656. Total decrease in net position for the Fiber Optic Fund was \$217,995. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount of change in fund balance was \$8,147,286. The key reasons for this variance was a sale of property of \$6,991,639.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues were \$3,257,317. The key reason for this variance was charges for services of \$3,018,677 to the business-type funds budgeted as transfers in but recorded as charges for services.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$700,674. The key reasons for this variance were excess appropriations of \$3,574,600 for capital outlay and \$2,226,918 for general government offset by an excess expenditures over appropriations of \$3,921,777 for debt service.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount for other financing sources was \$4,189,295. The key reason for this variance was \$6,991,639 of sale of property offset by an excess appropriation over expenditure of \$2,802,344 for transfers in.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$260,309,531 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utilities system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$32,283,387, less sale of intangibles (environmental credits) of \$16,746,600, less depreciation of \$9,637,546 for a net increase of \$5,899,241 (See Note 5).

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

- In the current year, Light and Power Enterprise added \$4,266,027 to its electrical construction in progress and \$11,230,562 to its electrical distribution plant (net of accumulated depreciation), of which \$9,631,955 was reclassified from inventory as capital assets.

There were no significant construction commitments outstanding as of June 30, 2015.

Additional information on the City's capital assets can be found in Note 5 on pages 41-44 of this report.

Outstanding debt

As of June 30, 2015, the following debt remains outstanding:

- \$42,225,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$270,840,000 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 44-49 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2016 fiscal year.

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of the Los Angeles County is currently 7.4%. This compares unfavorably to the State of California's average unemployment rate of 6.2% and unfavorably to the national average unemployment rate of 5.3%.
- The occupancy rate of the City's central business district has remained at 96.1% for the current year.
- Inflationary trends in the region compare favorably to national indices.

CURRENTLY KNOWN FACTS

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

REQUESTS FOR INFORMATION

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

CITY OF VERNON, CALIFORNIA
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 3,583,195	\$ 59,495,128	\$ 63,078,323
Receivables, net of allowances of \$150,000			
for business-type activities	1,029,566	5,855,188	6,884,754
Accrued unbilled revenue	-	11,741,516	11,741,516
Accrued interest receivable	-	128,347	128,347
Escrow deposits	-	940,000	940,000
Inventories	541,487	45,730	587,217
Due from Successor Agency	18,932	-	18,932
Prepaid expenses	-	3,753,784	3,753,784
Prepaid natural gas	-	168,653,214	168,653,214
Restricted cash and investments	3,481,434	89,309,825	92,791,259
Note receivable	-	1,069,236	1,069,236
Capital assets:			
Nondepreciable	15,550,153	63,196,149	78,746,302
Depreciable, net	28,466,426	153,096,803	181,563,229
	<u>52,671,193</u>	<u>557,284,920</u>	<u>609,956,113</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount on refunding	-	5,215,690	5,215,690
Pension contributions	8,719,504	-	8,719,504
	<u>8,719,504</u>	<u>5,215,690</u>	<u>13,935,194</u>
LIABILITIES:			
Accounts payable	2,277,508	8,602,241	10,879,749
Accrued wages and benefits	1,670,924	-	1,670,924
Customer deposits and funds held for others	82,819	936,019	1,018,838
Unearned revenue	638,529	-	638,529
Derivative liabilities	-	36,335,318	36,335,318
Bond interest payable	-	9,286,815	9,286,815
Current liabilities:			
Postemployment benefit liability	672,012	-	672,012
Bonds payable, net	-	32,955,827	32,955,827
Claims payable	1,120,429	-	1,120,429
Compensated absences	1,372,675	265,284	1,637,959
Noncurrent liabilities:			
Internal balances	19,627,652	(19,627,652)	-
Postemployment benefit liability	16,650,048	-	16,650,048
Bonds payable, net	-	349,803,421	349,803,421
Notes payable	-	-	-
Claims payable	2,240,859	-	2,240,859
Compensated absences	2,745,350	530,567	3,275,917
Net pension liability	78,620,030	-	78,620,030
	<u>127,718,835</u>	<u>419,087,840</u>	<u>546,806,675</u>
DEFERRED INFLOWS OF RESOURCES:			
Current deferred inflows of resources:			
Deferred gain from sale of generation assets	-	3,942,145	3,942,145
Noncurrent deferred inflows of resources:			
Net difference between projected and actual earnings on pension plan investments	18,584,160	-	18,584,160
Deferred gain from sale of generation assets	-	27,233,445	27,233,445
	<u>18,584,160</u>	<u>31,175,590</u>	<u>49,759,750</u>
NET POSITION:			
Net investment in capital assets	44,016,579	145,399,516	189,416,095
Restricted for:			
Grants	891,731	-	891,731
Unrestricted (deficit)	(129,820,608)	(33,162,336)	(162,982,944)
	<u>\$ (84,912,298)</u>	<u>\$ 112,237,180</u>	<u>\$ 27,324,882</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net (Expenses) Revenues and Change in Net Position			
	Expenses	Charges for	Operating	Capital	Governmental	Business- type	Total
		Services	Grants and Contributions	Grants and Contributions			
FUNCTION/PROGRAM ACTIVITIES:							
Governmental activities:							
General government	\$ 7,714,943	\$ 3,232,159	\$ 570,030	\$ -	\$ (3,912,754)	\$ -	\$ (3,912,754)
Public safety	28,289,768	615,824	617,366	-	(27,056,578)	-	(27,056,578)
Public works	10,401,799	1,524,346	-	111,651	(8,765,802)	-	(8,765,802)
Health services	1,640,558	1,695,071	60,203	-	114,716	-	114,716
Interest on long-term debt	154,343	-	-	-	(154,343)	-	(154,343)
	<u>48,201,411</u>	<u>7,067,400</u>	<u>1,247,599</u>	<u>111,651</u>	<u>(39,774,761)</u>	<u>-</u>	<u>(39,774,761)</u>
Business-type activities:							
Light and power enterprise	182,868,377	213,812,869	-	-	-	30,944,492	30,944,492
Water	6,863,251	8,078,272	-	-	-	1,215,021	1,215,021
Fiber optics	596,560	378,565	-	-	-	(217,995)	(217,995)
	<u>190,328,188</u>	<u>222,269,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,941,518</u>	<u>31,941,518</u>
Total	<u>\$ 238,529,599</u>	<u>\$ 229,337,106</u>	<u>\$ 1,247,599</u>	<u>\$ 111,651</u>	<u>(39,774,761)</u>	<u>31,941,518</u>	<u>(7,833,243)</u>
General revenues:							
Property taxes					3,975,770	-	3,975,770
Parcel taxes					11,550,074	-	11,550,074
Utility users taxes					1,914,221	-	1,914,221
Franchise taxes					1,150,781	-	1,150,781
Business license taxes					5,435,039	-	5,435,039
Other license taxes					9,743	-	9,743
Investment income (loss)					17,733	(2,067,183)	(2,049,450)
Net increase(decrease) in fair value of investments					-	(6,497,127)	(6,497,127)
Sales and use taxes					5,161,540	-	5,161,540
Loss on sale of land					(2,244,238)	-	(2,244,238)
Loss on sale of assets					-	(947,693)	(947,693)
Other revenues					1,072,467	-	1,072,467
Transfers					14,871,631	(14,871,631)	-
Total general revenues and transfers					<u>42,914,761</u>	<u>(24,383,634)</u>	<u>18,531,127</u>
Change in net position					3,140,000	7,557,884	10,697,884
NET POSITION, BEGINNING OF YEAR, AS RESTATED					<u>(88,052,298)</u>	<u>104,679,296</u>	<u>16,626,998</u>
NET POSITION, END OF YEAR					<u>\$ (84,912,298)</u>	<u>\$ 112,237,180</u>	<u>\$ 27,324,882</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2015

	<u>General Fund</u>
ASSETS:	
Cash and investments	\$ 3,583,195
Receivables	1,029,566
Due from Successor Agency	18,932
Inventories	541,487
Restricted cash and investments	3,481,434
Total assets	<u>\$ 8,654,614</u>
LIABILITIES:	
Liabilities:	
Accounts payable	\$ 2,277,508
Accrued wages and benefits	1,670,924
Advance from other funds	19,627,652
Unearned revenue	638,529
Customer deposits and funds held for others	82,819
Total liabilities	<u>24,297,432</u>
FUND BALANCES:	
Nonspendable:	
Inventories	541,487
Restricted for:	
Federal forfeiture funds	891,731
Unassigned	(17,076,036)
	<u>(15,642,818)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,654,614</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position - Governmental Activities
 June 30, 2015

Fund balances - total governmental fund (page 18)	\$ (15,642,818)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.	44,016,579
Deferred pension costs are not financial resources and therefore are not reported in the governmental fund.	8,719,504
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.	(4,118,025)
The costs for postemployment benefits other than pensions are funded on a pay-as-you-go basis; however, the unfunded portion is not due and payable in the current period and therefore is not reported in the governmental fund.	(17,322,060)
Long-term liabilities and other pension related items are not due and payable in the current period and therefore are not reported in the governmental fund.	
Net pension liability	(78,620,030)
Deferred inflows - Net difference between projected and actual earnings on pension plan investments	(18,584,160)
Claims payable	<u>(3,361,288)</u>
Net position of governmental activities (page 16)	<u>\$ (84,912,298)</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

		<u>General Fund</u>
REVENUES:		
Taxes	\$	28,192,238
Special assessments		971,110
Licenses and permits		2,313,991
Fines, forfeitures and penalties		376,880
Investment income		17,733
Intergovernmental revenues		1,374,697
Charges for services		3,954,771
Other revenues		1,512,596
Total revenues		<u>38,714,016</u>
EXPENDITURES:		
Current:		
General government		11,763,585
Public safety		25,640,501
Public works		5,819,353
Health services		1,617,216
Capital outlay:		
General government		864,198
Public safety		839,564
Public works		2,708,720
Health services		4,188
Debt service:		
Principal retirement		3,767,434
Note interest		154,343
Total expenditures		<u>53,179,102</u>
Revenues under expenditures		(14,465,086)
Other financing sources (uses)		
Sale of property		6,992,149
Transfers in		14,871,631
Total other financing sources (uses)		<u>21,863,780</u>
NET CHANGE IN FUND BALANCES		7,398,694
FUND BALANCES (DEFICITS), BEGINNING OF YEAR		<u>(23,041,512)</u>
FUND BALANCES (DEFICITS), END OF YEAR	\$	<u><u>(15,642,818)</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities - Governmental Activities
 For the Fiscal Year Ended June 30, 2015

Net change in fund balances - total governmental fund (page 20)	\$	7,398,694
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets, net of Land held for resale transferred to capital assets	\$ 4,432,894	
Less current year depreciation	<u>(2,403,196)</u>	2,029,698
The effect of various miscellaneous transactions involving land held for resale (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Sale of and loss on land held for resale		(9,236,387)
Pension Contribution after measurement date was reported as expenditure in the governmental fund but deferred in the Statement of Net Position		
		8,719,504
Long-term debt repayments consume current financial resources of governmental fund, but repaying debt decreases long-term liabilities in the statement of net position:		
Principal repayment on notes		3,767,434
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental fund:		
Pension expense		(5,844,788)
Change in long-term compensated absences		(397,563)
Change in net postemployment benefits other than pension obligation		(3,288,311)
Change in claims payable		<u>(8,281)</u>
Change in net position of governmental activities (page 17)	\$	<u>3,140,000</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Statement of Fund Net Position

Proprietary Funds

June 30, 2015

	Business-type Activities			Totals
	Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
ASSETS:				
Current assets:				
Cash and investments	\$ 59,393,464	\$ -	\$ 101,664	\$ 59,495,128
Accounts receivable, net of allowances of \$150,000	5,293,346	545,585	16,257	5,855,188
Accrued unbilled revenue	11,413,482	328,034	-	11,741,516
Accrued interest receivable	128,347	-	-	128,347
Escrow deposits	940,000	-	-	940,000
Inventories	45,730	-	-	45,730
Prepaid natural gas	28,664,653	-	-	28,664,653
Note receivable	449,235	-	-	449,235
Total current assets	<u>106,328,257</u>	<u>873,619</u>	<u>117,921</u>	<u>107,319,797</u>
Noncurrent assets:				
Restricted cash and investments	89,309,825	-	-	89,309,825
Advances to other funds	13,291,427	10,850,689	-	24,142,116
Prepaid expenses	3,753,784	-	-	3,753,784
Prepaid natural gas	139,988,561	-	-	139,988,561
Note receivable	620,001	-	-	620,001
Capital assets:				
Nondepreciable	61,621,452	1,574,697	-	63,196,149
Depreciable, net	146,720,121	4,072,662	2,304,020	153,096,803
Total noncurrent assets	<u>455,305,171</u>	<u>16,498,048</u>	<u>2,304,020</u>	<u>474,107,239</u>
Total assets	<u>561,633,428</u>	<u>17,371,667</u>	<u>2,421,941</u>	<u>581,427,036</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Current deferred outflows of resources:				
Deferred amount on refunding	745,099	-	-	745,099
Noncurrent deferred outflows of resources:				
Deferred amount on refunding	4,470,591	-	-	4,470,591
Total deferred outflows of resources	<u>5,215,690</u>	<u>-</u>	<u>-</u>	<u>5,215,690</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	7,847,843	742,881	11,517	8,602,241
Customer deposits	623,535	312,484	-	936,019
Derivative liabilities	36,335,318	-	-	36,335,318
Bond interest	9,286,815	-	-	9,286,815
Bonds payable, net	32,955,827	-	-	32,955,827
Compensated absences	201,974	59,426	3,884	265,284
Total current liabilities	<u>87,251,312</u>	<u>1,114,791</u>	<u>15,401</u>	<u>88,381,504</u>
Noncurrent liabilities:				
Advances from other funds	-	-	4,514,464	4,514,464
Bonds payable, net	349,803,421	-	-	349,803,421
Compensated absences	403,948	118,851	7,768	530,567
Total noncurrent liabilities	<u>350,207,369</u>	<u>118,851</u>	<u>4,522,232</u>	<u>354,848,452</u>
Total liabilities	<u>437,458,681</u>	<u>1,233,642</u>	<u>4,537,633</u>	<u>443,229,956</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	27,233,445	-	-	27,233,445
Total deferred inflows of resources	<u>31,175,590</u>	<u>-</u>	<u>-</u>	<u>31,175,590</u>
NET POSITION:				
Net investment in capital assets	137,448,137	5,647,359	2,304,020	145,399,516
Unrestricted (deficit)	(39,233,290)	10,490,666	(4,419,712)	(33,162,336)
Total net position	<u>\$ 98,214,847</u>	<u>\$ 16,138,025</u>	<u>\$ (2,115,692)</u>	<u>\$ 112,237,180</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Business-type Activities			Totals
	Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
OPERATING REVENUES:				
Charges for services	\$ 213,812,869	\$ 8,078,272	\$ 378,565	\$ 222,269,706
Total operating revenues	<u>213,812,869</u>	<u>8,078,272</u>	<u>378,565</u>	<u>222,269,706</u>
OPERATING EXPENSES:				
Cost of sales	158,927,343	6,550,220	316,499	165,794,062
Depreciation and amortization	6,641,259	313,031	280,061	7,234,351
Total operating expenses	<u>165,568,602</u>	<u>6,863,251</u>	<u>596,560</u>	<u>173,028,413</u>
Operating income (loss)	<u>48,244,267</u>	<u>1,215,021</u>	<u>(217,995)</u>	<u>49,241,293</u>
NONOPERATING REVENUE (EXPENSES):				
Investment income (loss)	(2,067,183)	-	-	(2,067,183)
Net decrease in fair value of investments	(6,497,127)	-	-	(6,497,127)
Interest expense	(17,299,775)	-	-	(17,299,775)
Loss on sale of assets	(947,693)	-	-	(947,693)
	<u>(26,811,778)</u>	<u>-</u>	<u>-</u>	<u>(26,811,778)</u>
Income (loss) before transfers	21,432,489	1,215,021	(217,995)	22,429,515
Transfers out	<u>(14,306,266)</u>	<u>(565,365)</u>	<u>-</u>	<u>(14,871,631)</u>
Change in net position	7,126,223	649,656	(217,995)	7,557,884
Net position, beginning of the year	91,088,624	15,488,369	(1,897,697)	104,679,296
Net position, end of the year	<u>\$ 98,214,847</u>	<u>\$ 16,138,025</u>	<u>\$ (2,115,692)</u>	<u>\$ 112,237,180</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 258,365,398	\$ 7,390,891	\$ 454,930	\$ 266,211,219
Cash paid to suppliers for goods and services	570,030	(4,632,039)	(278,624)	(162,202,063)
Cash paid to employees for services	(6,064,004)	(1,698,317)	(63,628)	(7,825,949)
Net cash provided by operating activities	<u>95,009,994</u>	<u>1,060,535</u>	<u>112,678</u>	<u>96,183,207</u>
Cash flows from noncapital financing activities:				
Transfers to City	(14,306,266)	(565,365)	-	(14,871,631)
Collection of note receivable	420,681	-	-	420,681
Net cash used in noncapital financing activities	<u>(13,885,585)</u>	<u>(565,365)</u>	<u>-</u>	<u>(14,450,950)</u>
Cash flows from capital and related financing activities:				
Repayment of bonds	(31,650,000)	-	-	(31,650,000)
Bond interest paid	(16,889,904)	-	-	(16,889,904)
Sale of environmental credits	15,752,916	-	-	15,752,916
Acquisition and construction of capital assets, net	(18,838,315)	(495,170)	(11,014)	(19,344,499)
Net cash provided by (used in) capital and related financing activities	<u>(51,625,303)</u>	<u>(495,170)</u>	<u>(11,014)</u>	<u>(52,131,487)</u>
Cash flows from investing activities:				
Purchases and sales of investments, net	12,102,564	-	-	12,102,564
Investment loss net of interest rate swap payments on investment derivatives	(2,015,828)	-	-	(2,015,828)
Net cash used in investing activities	<u>10,086,736</u>	<u>-</u>	<u>-</u>	<u>10,086,736</u>
Net increase (decrease) in cash and cash equivalents	39,585,842	-	101,664	39,687,506
Cash and cash equivalents, beginning of year	80,703,122	-	-	80,703,122
Cash and cash equivalents, end of year	<u>\$ 120,288,964</u>	<u>\$ -</u>	<u>\$ 101,664</u>	<u>\$ 120,390,628</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 48,244,267	\$ 1,215,021	\$ (217,995)	\$ 49,241,293
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	6,641,259	313,031	280,061	7,234,351
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	406,037	59,352	23,943	489,332
Advance to (from) City	9,767,613	(753,501)	52,422	9,066,534
Accrued unbilled revenue	(1,595,485)	6,768	-	(1,588,717)
Inventories	10,077,198	-	-	10,077,198
Prepaid expenses and deposits	(2,681,177)	-	-	(2,681,177)
Prepaid natural gas	28,578,343	-	-	28,578,343
Increase (decrease) in:				
Accounts payable	(630,157)	156,256	(27,946)	(501,847)
Customer deposits	47,250	36,349	-	83,599
Compensated absences	96,991	27,259	2,193	126,443
Deferred gain from sale of generation assets	(3,942,145)	-	-	(3,942,145)
Net cash provided by (used in) operating activities	<u>\$ 95,009,994</u>	<u>\$ 1,060,535</u>	<u>\$ 112,678</u>	<u>\$ 96,183,207</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:				
Cash and investments	\$ 59,393,464	\$ -	\$ 101,664	\$ 59,495,128
Noncurrent restricted cash and investments	89,309,825	-	-	89,309,825
Total	148,703,289	-	101,664	148,804,953
Less: Investments with maturities of more than 90 days	(28,414,325)	-	-	(28,414,325)
Total cash and cash equivalents	<u>\$ 120,288,964</u>	<u>\$ -</u>	<u>\$ 101,664</u>	<u>\$ 120,390,628</u>
Noncash Capital, Investing and Financing Activities:				
Acquisition of capital assets in accounts payable	\$ 145,167	\$ -	\$ -	\$ 145,167
Increase (Decrease) in fair value of investments	(6,497,127)	-	-	(6,497,127)
Amortization of bond premiums and discounts	399,172	-	-	399,172
Amortization of deferred amount on refunding	745,099	-	-	745,099
Amortization of deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Capitalized interest	5,733,082	-	-	5,733,082

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2015

	Vernon Redevelopment Successor Agency Fund
	<u> </u>
ASSETS:	
Current assets:	
Taxes receivable	\$ 22,364
Other receivable	12,149
Total current assets	<u>34,513</u>
Noncurrent assets:	
Restricted cash and investments	21,716,732
Land purchase deposit	26,200,000
Accumulated redevelopment project costs	
Nondepreciable	24,838,594
Capital assets:	
Nondepreciable	774,296
Depreciable, net	14,270,882
Total noncurrent assets	<u>87,800,504</u>
Total assets	<u>87,835,017</u>
LIABILITIES:	
Accounts payable	7,451
Due to City	18,932
Customer deposits	42,968
Bond interest	1,110,913
Long-term liabilities:	
Due within one year:	
Bonds payable, net	2,590,435
Total current liabilities	<u>3,770,699</u>
Due in more than one year:	
Bonds payable, net	55,754,935
Total noncurrent liabilities	<u>55,754,935</u>
Total liabilities	<u>59,525,634</u>
NET POSITION:	
Total net position held in trust for dissolution of former Redevelopment Agency	<u>\$ 28,309,383</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Five Months Ended June 30, 2015

	Vernon Redevelopment Successor Agency Fund
REVENUES:	
Property tax increment	\$ 8,400,095
Investment earnings	80,681
Net decrease in fair value of investments	(45,421)
Other revenues	54,000
Total additions	8,489,355
 EXPENSES AND LOSSES:	
Community development	4,605,845
Interest on long-term debt	3,386,901
Total deductions	7,992,746
Change in net position	496,609
 Net position, beginning of year	 27,812,774
Net position, end of year	\$ 28,309,383

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2015, the City had no blended component unit or any discretely presented component units.

Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash Deposits and Investments

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

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

Receivables/Payables

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$150,000 as of June 30, 2015. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Inventories

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

The estimated useful lives are as follows:

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

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

Compensated Absences

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

Net Position

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

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

Fund Balance

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Encumbrances

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

Use of Estimates

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

Property Taxes

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Statement of net position:	Primary Government	Fiduciary Fund
Cash and investments	\$ 63,078,323	\$ -
Restricted cash and investments	92,791,259	21,716,732
Total cash and investments	\$ 155,869,582	\$ 21,716,732

Cash and investments as of June 30, 2015 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	39,222,571	12,148,867
Investments	116,645,711	9,567,865
Total cash and investments	\$ 155,869,582	\$ 21,716,732

The City's Investment Policy

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

Investments Authorized by Debt Agreements

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2015	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
Primary Government:					
Money Market Funds	\$ 81,826,520	\$ 81,826,520	\$ -	\$ -	70.1%
Local Agency Investment Fund	542,249	542,249	-	-	0.5%
U.S. Treasury Notes	24,765,058	13,729,118	11,035,940	-	21.2%
Federal National Mortgage Association	4,928,046	4,928,046	-	-	4.2%
Federal Home Loan Mortgage Corporation	2,321,081	2,321,081	-	-	2.0%
Federal Home Loan Banks	2,262,757	2,262,757	-	-	1.9%
Total Investments	\$ 116,645,711	\$ 105,609,771	\$ 11,035,940	\$ -	100.0%
Fiduciary Fund:					
Money Market Funds	\$ 6,266,907	\$ 6,266,907	\$ -	\$ -	65.5%
U.S. Treasury Notes	2,388,944	1,304,828	1,084,116	-	25.0%
Federal National Mortgage Association	473,042	473,042	-	-	4.9%
Federal Home Loan Mortgage Corporation	238,728	238,728	-	-	2.5%
Federal Home Loan Banks	200,244	200,244	-	-	2.1%
Total Investments	\$ 9,567,865	\$ 8,483,749	\$ 1,084,116	\$ -	100.0%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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, 2015	% of Total
Primary Government:				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	39,196,012	25.1%
Local Agency Investment Fund	None	Not Rated	542,249	0.3%
Total in custody of Treasurer			39,739,561	25.4%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	26,559	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	81,826,520	52.5%
U.S. Treasury Notes	None	Aaa / AA+	24,765,058	15.9%
Federal National Mortgage Association	None	Aaa / AA+	4,928,046	3.2%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	2,321,081	1.5%
Federal Home Loan Banks	None	Aaa / AA+	2,262,757	1.5%
Total in custody of Trustee			116,130,021	74.6%
Total cash and investments held by Treasurer and Trustee			\$ 155,869,582	100.0%

Fiduciary Fund:

In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 193,313	0.9%
Total in custody of Treasurer			193,313	0.9%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	11,955,554	55.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	6,266,908	28.9%
U.S. Treasury Notes	None	Aaa / AA+	2,388,944	11.0%
Federal National Mortgage Association	None	Aaa / AA+	473,042	2.2%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	238,728	1.1%
Federal Home Loan Bank	None	Aaa / AA+	200,244	0.9%
Total in custody of Trustee			21,523,420	99.1%
Total cash and investments held by Treasurer and Trustee			\$ 21,716,733	100.0%

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2015, there were no investments held by the City that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

Custodial Credit Risk

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

At year-end, the carrying amount of the City's and Fiduciary Fund's deposits were \$39,222,572 and \$12,148,167, respectively. The bank balances were \$38,825,468 and \$12,148,167, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2015, none of City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$38,575,468 and \$11,898,867 were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The City also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$542,249 at June 30, 2015. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency’s position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 2015 was \$39.64 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$69.61 billion at June 30, 2015. Of this amount, 0.97% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The weighted average maturity of PMIA investments was 0.65 years as of June 30, 2015. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City’s receivables at June 30, 2015 are as follows:

Receivables - Governmental Activities:	General Fund	Total Governmental Activities
Accounts receivables	\$ 229,042	\$ 229,042
Taxes	755,631	755,631
Notes or loans	33,720	33,720
Other	11,173	11,173
Total receivables	<u>\$ 1,029,566</u>	<u>\$ 1,029,566</u>

Receivables - Business-type Activities:	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total Business-type Activities
Accounts receivables	\$ 5,443,346	\$ 545,585	\$ 16,257	\$ 6,005,188
Less: Allowances for uncollectible accounts	(150,000)	-	-	(150,000)
Total receivables, net	<u>\$ 5,293,346</u>	<u>\$ 545,585</u>	<u>\$ 16,257</u>	<u>\$ 5,855,188</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2015:

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Enterprise	General Fund	\$ 8,776,963
	Fiber Optics Fund	4,514,464
		<u>\$ 13,291,427</u>
Water Fund	General Fund	\$ 10,850,689
		<u>\$ 10,850,689</u>

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

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Enterprise	\$ 14,306,266
	Water Fund	565,365
		<u>\$ 14,871,631</u>

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

During the current year, the Light and Power Enterprise transferred a total of \$14,306,266 to the General Fund consisting of \$4,549,455 of in-lieu franchise taxes and \$9,756,811 of operating transfers. During the current year, the Water Fund transferred a total of \$565,365 of operating transfers.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 11,491,017	\$ 2,806,055	\$ -	\$ 14,297,072
Construction in Progress	976,948	636,032	(359,899)	1,253,081
Total capital assets, not being depreciated	<u>12,467,965</u>	<u>3,442,087</u>	<u>(359,899)</u>	<u>15,550,153</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	29,098,351	2,523,915	-	31,622,266
Building and Improvements	14,833,705	96,796	-	14,930,501
Improvements Other Than Buildings	10,628,573	376,921	-	11,005,494
Machinery and Equipment	23,669,602	902,502	-	24,572,104
Total capital assets, being depreciated	<u>78,230,231</u>	<u>3,900,134</u>	<u>-</u>	<u>82,130,365</u>
Less accumulated depreciation for:				
Infrastructure	(22,729,647)	(598,875)	-	(23,328,522)
Building and Improvements	(6,578,144)	(377,358)	-	(6,955,502)
Improvements Other Than Buildings	(4,139,624)	(280,723)	-	(4,420,347)
Machinery and Equipment	(17,813,328)	(1,146,240)	-	(18,959,568)
Total accumulated depreciation	<u>(51,260,743)</u>	<u>(2,403,196)</u>	<u>-</u>	<u>(53,663,939)</u>
Total capital assets, being depreciated, net				
Infrastructure	6,368,704	1,925,040	-	8,293,744
Building and Improvements	8,255,561	(280,562)	-	7,974,999
Improvements Other Than Buildings	6,488,949	96,198	-	6,585,147
Machinery and Equipment	5,856,274	(243,738)	-	5,612,536
Total	<u>26,969,488</u>	<u>1,496,938</u>	<u>-</u>	<u>28,466,426</u>
Governmental activities capital assets, net	<u>\$ 39,437,453</u>	<u>\$ 4,939,025</u>	<u>\$ (359,899)</u>	<u>\$ 44,016,579</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 817,783
Public safety	798,018
Public works	778,915
Health services	8,480
Total depreciation expense - governmental functions	<u>\$ 2,403,196</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of fiduciary activities for the fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<u>Fiduciary activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Accumulated redevelopment project costs	\$ 24,838,594	\$ -	\$ -	\$ 24,838,594
Land	774,296	-	-	774,296
Total capital assets, not being depreciated	<u>25,612,890</u>	<u>-</u>	<u>-</u>	<u>25,612,890</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	18,398,638	-	-	18,398,638
Improvements Other Than Buildings	12,523	-	-	12,523
Machinery and Equipment	28,710	-	-	28,710
Total capital assets, being depreciated	<u>18,439,871</u>	<u>-</u>	<u>-</u>	<u>18,439,871</u>
Less accumulated depreciation for:				
Infrastructure	(3,563,566)	(590,328)	-	(4,153,894)
Improvements Other Than Buildings	(2,640)	(309)	-	(2,949)
Machinery and Equipment	(9,932)	(2,214)	-	(12,146)
Total accumulated depreciation	<u>(3,576,138)</u>	<u>(592,851)</u>	<u>-</u>	<u>(4,168,989)</u>
Total capital assets, being depreciated, net				
Infrastructure	14,835,072	(590,328)	-	14,244,744
Improvements Other Than Buildings	9,883	(309)	-	9,574
Machinery and Equipment	18,778	(2,214)	-	16,564
Total	<u>14,863,733</u>	<u>(592,851)</u>	<u>-</u>	<u>14,270,882</u>
Fiduciary activities capital assets, net	<u>\$ 40,476,623</u>	<u>\$ (592,851)</u>	<u>\$ -</u>	<u>\$ 39,883,772</u>

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land - L&P	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	467,640
Intangibles - Environmental credits - L&P	18,382,873	-	(16,746,600)	1,636,273
Construction in Progress - L&P	46,563,092	4,145,491	-	50,708,583
Construction in Progress - Water	1,020,944	120,536	(34,423)	1,107,057
Total capital assets, not being depreciated	<u>75,711,145</u>	<u>4,266,027</u>	<u>(16,781,023)</u>	<u>63,196,149</u>
<i>Capital assets, being depreciated</i>				
Production plant - L&P	15,382,221	16,892	-	15,399,113
Transmission plant - L&P	4,888,113	-	-	4,888,113
Distribution plant - L&P	156,282,859	20,365,792	-	176,648,651
General plant - L&P	8,328,188	87,299	-	8,415,487
Water utility plant	17,254,615	407,505	-	17,662,120
Gas utility plant	25,836,707	181,314	-	26,018,021
Fiber Optic utility plant	4,011,245	10,659	-	4,021,904
Total capital assets, being depreciated	<u>231,983,948</u>	<u>21,069,461</u>	<u>-</u>	<u>253,053,409</u>
Less accumulated depreciation for:				
Production plant - L&P	(7,570,354)	(438,759)	-	(8,009,113)
Transmission plant - L&P	(2,761,516)	(96,750)	-	(2,858,266)
Distribution plant - L&P	(58,507,019)	(4,978,221)	-	(63,485,240)
General plant - L&P	(3,275,573)	(361,589)	-	(3,637,162)
Water utility plant	(13,276,426)	(313,031)	-	(13,589,457)
Gas utility plant	(5,893,545)	(765,939)	-	(6,659,484)
Fiber Optic utility plant	(1,437,823)	(280,061)	-	(1,717,884)
Total accumulated depreciation	<u>(92,722,256)</u>	<u>(7,234,350)</u>	<u>-</u>	<u>(99,956,606)</u>
Total capital assets, being depreciated, net				
Production plant - L&P	7,811,867	(421,867)	-	7,390,000
Transmission plant - L&P	2,126,597	(96,750)	-	2,029,847
Distribution plant - L&P	97,775,840	15,387,571	-	113,163,411
General plant - L&P	5,052,615	(274,290)	-	4,778,325
Water utility plant	3,978,189	94,474	-	4,072,663
Gas utility plant	19,943,162	(584,625)	-	19,358,537
Fiber Optic utility plant	2,573,422	(269,402)	-	2,304,020
Total	<u>139,261,692</u>	<u>13,835,111</u>	<u>-</u>	<u>153,096,803</u>
Business-type activities capital assets, net	<u>\$ 214,972,837</u>	<u>\$ 18,101,138</u>	<u>\$ (16,781,023)</u>	<u>\$ 216,292,952</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

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

Light and Power Fund	\$ 5,875,319
Gas Fund	765,939
Water Fund	313,031
Fiber Optics Fund	280,061
Total depreciation expense - business-type functions	<u>\$ 7,234,350</u>

NOTE 6 – LONG-TERM OBLIGATIONS

There were no new bond issues during the fiscal year 2015. As of June 30, 2015, outstanding debt obligations consisted of the following:

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

At June 30, 2015, \$42,225,000 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 \$100,677,614, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,974,735 and \$170,497,602, 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, 2015, \$270,840,000 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 \$322,304,000, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$46,043,956 and \$170,497,602, 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, 2015, \$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 \$82,442,176, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$170,497,602, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

At June 30, 2015, \$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 \$55,616,904, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$170,497,602, 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, 2015
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	\$ 42,225,000
City of Vernon Electric System Revenue Bonds, 2009 Series A	08/01/21	4.250% - 5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	270,840,000
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					175,663
Discounts					(3,221,416)
Total Revenue Bonds				<u>\$ 535,905,000</u>	<u>\$ 382,759,247</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2015, 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*
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	795,000	3,444,805
2021-2025	5,175,000	16,017,990
2026-2030	7,955,000	13,239,126
2031-2035	12,220,000	8,969,249
2036-2039	14,355,000	2,598,689
Total requirements	<u>\$ 42,225,000</u>	<u>\$ 58,452,614</u>

*As of June 30, 2015, 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*
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	40,520,000	5,525,006
2021-2022	87,545,000	4,544,209
Total requirements	<u>\$ 270,840,000</u>	<u>\$ 51,464,000</u>

* As of June 30, 2015, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 4.500% to 5.500%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2016	\$ -	\$ 2,031,394
2017	-	2,031,394
2018	-	2,031,394
2019	-	2,031,394
2020	-	2,031,394
2021-2025	-	10,156,969
2026-2030	3,395,000	9,837,365
2031-2035	6,940,000	8,309,626
2036-2040	13,445,000	5,886,123
2041-2042	13,860,000	455,123
	<u>\$ 37,640,000</u>	<u>\$ 44,802,176</u>

* As of June 30, 2015, 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*
2016	\$ -	\$ 2,222,900
2017	-	2,222,900
2018	-	2,222,900
2019	-	2,222,900
2020	-	2,222,900
2021-2025	19,720,000	8,803,771
2026-2028	15,380,000	598,633
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 20,516,904</u>

*As of June 30, 2015, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 6.250% to 6.500%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2015, annual debt service requirements of fiduciary activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2005	
	Principal	Interest*
2016	\$ 1,520,000	1,962,544
2017	1,630,000	1,891,944
2018	1,340,000	1,832,544
2019	1,455,000	1,775,734
2020	1,575,000	1,704,381
2021-2025	7,400,000	7,328,276
2026-2030	9,260,000	5,492,570
2031-2035	14,135,000	2,742,161
2036	3,460,000	86,500
	<u>\$ 41,775,000</u>	<u>\$ 24,816,654</u>

* As of June 30, 2015, debt service was calculated at the actual fixed rates of the coupons ranging from 4.000% to 5.250%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2011	
	Principal	Interest*
2016	\$ 1,070,000	\$ 1,348,675
2017	1,150,000	1,284,750
2018	1,025,000	1,216,938
2019	1,125,000	1,138,625
2020	1,250,000	1,043,625
2021-2025	5,145,000	3,721,969
2026-2030	4,835,000	1,731,831
2031	1,170,000	54,112
Total requirements	<u>\$ 16,770,000</u>	<u>\$ 11,540,525</u>

*As of June 30, 2015, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 5.500% to 9.250%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2015:

	Balance June 30, 2014 As Restated	Additions	Reductions	Balance June 30, 2015	Due Within One Year
<u>Governmental activities:</u>					
Postemployment benefit liability	\$ 14,033,748	\$ 3,960,324	\$ (672,012)	\$ 17,322,060	\$ 672,012
Notes payable	3,767,905	-	(3,767,905)	-	-
Claims payable	3,353,007	1,143,528	(1,135,247)	3,361,288	1,120,429
Compensated absences	3,720,463	1,637,716	(1,240,154)	4,118,025	1,372,675
Net pension liability	96,419,723	30,269,100	(48,068,793)	78,620,030	8,719,504
	<u>\$ 121,294,846</u>	<u>\$ 37,010,668</u>	<u>\$ (54,884,111)</u>	<u>\$ 103,421,403</u>	<u>\$ 11,884,620</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 417,455,000	\$ -	\$ (31,650,000)	\$ 385,805,000	\$ 33,355,000
Bond premium	182,376	-	(6,713)	175,663	6,713
Bond discount	(3,627,301)	-	405,886	(3,221,415)	(405,886)
Compensated absences	669,408	349,579	(223,136)	795,851	265,284
	<u>\$ 414,679,483</u>	<u>\$ 349,579</u>	<u>\$ (31,473,963)</u>	<u>\$ 383,555,099</u>	<u>\$ 33,221,111</u>
<u>Fiduciary activities:</u>					
Bonds payable	\$ 60,920,000	\$ -	\$ (2,375,000)	\$ 58,545,000	\$ 2,590,000
Bond premium	547,284	-	(44,345)	502,939	44,345
Bond discount	(746,479)	-	43,910	(702,569)	(43,910)
	<u>\$ 60,720,805</u>	<u>\$ -</u>	<u>\$ (2,375,435)</u>	<u>\$ 58,345,370</u>	<u>\$ 2,590,435</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired derivative instruments to reduce its overall exposure to interest rate and commodity priced risk and to achieve a lower cost of capital and commodity. As of June 30, 2015, 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%	\$ (22,581,162)
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%	(13,754,156)
			<u>\$ 173,725,000</u>				<u>\$ (36,335,318)</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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, 2015, the swap had a negative fair value of \$22,581,162. 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, 2015 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, 2015, 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, 2015, the City posted collateral of \$2,581,162 as the negative fair value of \$22,581,162 exceeded \$20,000,000.

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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, 2015, the swap had a negative fair value of \$13,754,156. 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, 2015 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, 2015, 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, 2015, the City had not posted any collateral as the negative fair value did not exceed \$20,000,000.

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

C - Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2015, classified by type, and the change in fair value of such derivative instrument for the year then ended as reported in the current year financial statements are as follows:

	Change in Fair Value		Fair Value at June 30, 2015		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	Decrease in fair value	\$ (5,964,843)	Derivative liability	\$ (22,581,162)	\$ 90,150,000
2004 Series B Bonds	Decrease in fair value	(52,152)	Derivative liability	(13,754,156)	83,575,000
Total		\$ (6,016,995)		\$ (36,335,318)	\$ 173,725,000

In September 2012, the City terminated the portion of the cash flow exchanges under the 2004 Series A Swap scheduled to occur through December 1, 2015 by paying a termination amount of \$9,490,000 and entering into an amended and restated confirmation with a new effective date of December 1, 2015. The net decrease in fair value of investments on the 2004 A and 2004 B swaps during the year was \$6,016,995.

NOTE 8 – RISK MANAGEMENT

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The insurance limits for fiscal year 2014-15 are as follows (amounts in thousands):

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

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

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

	Fiscal Year Ended June 30	
	2015	2014
Claims payable, beginning of fiscal year	\$ 3,353,007	\$ 3,119,552
Incurred claims and change in estimates	1,143,528	926,589
Claims payments	(1,135,247)	(693,134)
Claims payable, end of fiscal year	<u>\$ 3,361,288</u>	<u>\$ 3,353,007</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – 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.

Benefits Provided – 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.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 62
Monthly benefits, as a % of eligible	2.0% to 2.7%	1.0% to 2.0%
Required employee contribution rates	8.00%	6.75%
Required employer contribution rates	18.568%	18.568%

	Safety	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible	3.0%	2.0% to 2.7%
Required employee contribution rates	9.00%	12.00%
Required employer contribution rates	32.578%	32.578%

Employees Covered – At June 30, 2015, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	141	247
Inactive employees entitled to but not yet receiving benefits	149	141
Active employees	133	109
Total	423	497

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

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

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.5%	7.5%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	Varies by Entry Age and Service (1)	Varies by Entry Age and Service (1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	Derived using CalPERS’ Membership Data for all Funds	Derived using CalPERS’ Membership Data for all Funds

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS has stated that it will continue to check the materiality of the difference in calculation until such time as CALPERS changed its methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	\$128,340,045	\$93,838,356	\$34,501,689
Changes in the year:			
Service cost	1,955,694		1,955,694
Interest on the total pension liability	9,609,274		9,609,284
Contribution - employer		1,825,732	(1,825,732)
Contribution - employee (paid by employer)		-	-
Contribution - employee		1,015,741	(1,015,741)
Net investment income		16,045,243	(16,045,243)
Benefit payments, including refunds of employee contributions	(2,388,449)	(2,388,449)	-
Net changes	9,176,519	16,498,267	(7,321,748)
Balance at June 30, 2015	\$137,516,564	\$110,336,623	\$27,179,941

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

<i>Safety Plan:</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	\$206,500,143	\$144,582,109	\$61,918,034
Changes in the year:			
Service cost	3,448,760		3,448,760
Interest on the total pension liability	15,255,372		15,255,372
Contribution - employer		3,234,539	(3,234,539)
Contribution - employee (paid by employer)		-	-
Contribution - employee		1,092,012	(1,092,012)
Net investment income		24,855,525	(24,855,525)
Benefit payments, including refunds of employee contributions	(9,639,123)	(9,639,123)	-
Net changes	9,065,009	19,542,953	(10,477,944)
Balance at June 30, 2015	\$215,565,152	\$164,125,062	\$51,440,090

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	\$46,378,322	\$80,077,956
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$27,179,941	\$51,440,090
1% Increase	8.50%	8.50%
Net Pension Liability	\$11,459,315	\$27,869,557

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 9 – PENSION PLANS (CONTINUED)

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

For the year ended June 30, 2015, the City recognized pension expense of \$5,844,788. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$8,719,504	
Net differences between projected and actual earnings on pension plan investments		(\$18,584,160)
Total	\$8,719,504	(\$18,584,160)

The \$8,719,504 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Amount
June 30	
2016	(\$4,646,040)
2017	(4,646,040)
2018	(4,646,040)
2019	(4,646,040)

E. Payable to the Pension Plan

At June 30, 2015, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 10 – DEFICITS IN FUND EQUITY

The General Fund has an unassigned fund balance deficit of \$17,076,036 at June 30, 2015, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

The Fiber Optic Fund has a net position deficit of \$2,115,692 at June 30, 2015, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

NOTE 11 – LIGHT AND POWER ENTERPRISE OPERATIONS AND COMMITMENTS

Asset Sale

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the “PPTA”). In addition, Bicent has acquired the benefits and burdens of the City’s interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences (“CFD”), between Bicent (California) Hoover LLC, a Delaware limited liability company (“BCH”) and the City, dated as of April 10, 2008 (the “Hoover Differences Contract”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company (“BCM”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2015, a deferred gain of \$31,175,589 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 13 for disclosure on uncertainties).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

Project Commitments

A. Southern California Public Power Authority

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

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 2015 was \$4,807,239. 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, 2015, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2015, the outstanding note receivable was \$1,069,236. 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 \$517,117 due the City on the outstanding note receivable. The contract expires in September 2017.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

Power Purchase Commitments

As of June 30, 2015 under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2016	\$ 21,473,855
2017	36,017,284
2018	35,182,494
2019	34,904,231
2020	34,904,231
2021-2023	96,955,081
	<u>\$ 259,437,176</u>

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

Light and Power Enterprise

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

A Segment Information

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
Current assets:				
Cash and investments	\$ 59,290,400	\$ 103,064	\$ -	\$ 59,393,464
Accounts receivable, net of allowances of \$150,000	3,655,706	1,637,640	-	5,293,346
Accrued unbilled revenue	11,413,482	-	-	11,413,482
Accrued interest receivable	128,347	-	-	128,347
Escrow deposits	940,000	-	-	940,000
Inventories	45,730	-	-	45,730
Prepaid natural gas	28,664,653	-	-	28,664,653
Note receivable	449,235	-	-	449,235
Total current assets	<u>104,587,553</u>	<u>1,740,704</u>	<u>-</u>	<u>106,328,257</u>
Noncurrent assets:				
Restricted cash and investments	89,309,825	-	-	89,309,825
Advances to other funds	35,591,175	-	(22,299,748)	13,291,427
Prepaid expenses	3,753,784	-	-	3,753,784
Prepaid natural gas	139,988,561	-	-	139,988,561
Note receivable	620,001	-	-	620,001
Capital assets:				
Nondepreciable	61,621,452	-	-	61,621,452
Depreciable, net	127,361,583	19,358,538	-	146,720,121
Total noncurrent assets	<u>458,246,381</u>	<u>19,358,538</u>	<u>(22,299,748)</u>	<u>455,305,171</u>
Total assets	<u>562,833,934</u>	<u>21,099,242</u>	<u>(22,299,748)</u>	<u>561,633,428</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Current deferred outflows of resources:				
Deferred amount on refunding	745,099	-	-	745,099
Noncurrent deferred outflows of resources:				
Deferred amount on refunding	4,470,591	-	-	4,470,591
Total deferred outflows of resources	<u>5,215,690</u>	<u>-</u>	<u>-</u>	<u>5,215,690</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	6,327,038	1,520,805	-	7,847,843
Customer deposits	501,977	121,558	-	623,535
Derivative liabilities	36,335,318	-	-	36,335,318
Bond interest	9,286,815	-	-	9,286,815
Bonds payable, net	32,955,827	-	-	32,955,827
Compensated absences	190,607	11,367	-	201,974
Total current liabilities	<u>85,597,582</u>	<u>1,653,730</u>	<u>-</u>	<u>87,251,312</u>
Noncurrent liabilities:				
Advances from other funds	-	22,299,748	(22,299,748)	-
Bonds payable, net	349,803,421	-	-	349,803,421
Compensated absences	381,215	22,733	-	403,948
Total noncurrent liabilities	<u>350,184,636</u>	<u>22,322,481</u>	<u>(22,299,748)</u>	<u>350,207,369</u>
Total liabilities	<u>435,782,218</u>	<u>23,976,211</u>	<u>(22,299,748)</u>	<u>437,458,681</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	3,942,145	-	-	3,942,145
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	27,233,445	-	-	27,233,445
Total deferred inflows of resources	<u>31,175,590</u>	<u>-</u>	<u>-</u>	<u>31,175,590</u>
NET POSITION:				
Net investment in capital assets	118,089,599	19,358,538	-	137,448,137
Unrestricted (deficit)	(16,997,783)	(22,235,507)	-	(39,233,290)
Total net position	<u>\$ 101,091,816</u>	<u>\$ (2,876,969)</u>	<u>\$ -</u>	<u>\$ 98,214,847</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
OPERATING REVENUES:			
Charges for services	\$ 170,497,602	\$ 43,315,267	\$ 213,812,869
Total operating revenues	<u>170,497,602</u>	<u>43,315,267</u>	<u>213,812,869</u>
OPERATING EXPENSES:			
Cost of sales	116,966,459	41,960,884	158,927,343
Depreciation and amortization	5,875,320	765,939	6,641,259
Total operating expenses	<u>122,841,779</u>	<u>42,726,823</u>	<u>165,568,602</u>
Operating income (loss)	<u>47,655,823</u>	<u>588,444</u>	<u>48,244,267</u>
NONOPERATING REVENUE (EXPENSES):			
Investment income (loss)	(2,067,470)	287	(2,067,183)
Net decrease in fair value of investments	(6,497,127)	-	(6,497,127)
Interest expense	(17,299,775)	-	(17,299,775)
Loss on sale of assets	(947,693)	-	(947,693)
Total nonoperating revenue (expenses), net	<u>(26,812,065)</u>	<u>287</u>	<u>(26,811,778)</u>
Income (loss) before transfers	20,843,758	588,731	21,432,489
Transfers out	<u>(13,575,095)</u>	<u>(731,171)</u>	<u>(14,306,266)</u>
Change in net position	7,268,663	(142,440)	7,126,223
Net position, beginning of the year	<u>93,823,153</u>	<u>(2,734,529)</u>	<u>91,088,624</u>
Net position, end of the year	<u>\$ 101,091,815</u>	<u>\$ (2,876,969)</u>	<u>\$ 98,214,847</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 213,902,436	\$ 44,462,962	\$ 258,365,398
Cash paid to suppliers for goods and services	(114,346,505)	(42,944,895)	(157,291,400)
Cash paid to employees for services	(5,531,674)	(532,330)	(6,064,004)
Net cash provided by operating activities	<u>94,024,257</u>	<u>985,737</u>	<u>95,009,994</u>
Cash flows from noncapital financing activities:			
Transfers to City	(13,575,095)	(731,171)	(14,306,266)
Collection of note receivable	420,681	-	420,681
Net cash used in noncapital financing activities	<u>(13,154,414)</u>	<u>(731,171)</u>	<u>(13,885,585)</u>
Cash flows from capital and related financing activities:			
Repayment of bonds	(31,650,000)	-	(31,650,000)
Bond interest paid	(16,889,904)	-	(16,889,904)
Sale of environmental credits	15,752,916	-	15,752,916
Acquisition and construction of capital assets, net	(18,656,319)	(181,996)	(18,838,315)
Net cash provided by (used in) capital and related financing activities	<u>(51,443,307)</u>	<u>(181,996)</u>	<u>(51,625,303)</u>
Cash flows from investing activities:			
Purchases and sales of investments, net	12,102,564	-	12,102,564
Investment loss net of interest rate swap payments on investment derivatives	(2,016,115)	287	(2,015,828)
Net cash used in investing activities	<u>10,086,449</u>	<u>287</u>	<u>10,086,736</u>
Net increase (decrease) in cash and cash equivalents	39,512,985	72,857	39,585,842
Cash and cash equivalents, beginning of year	80,672,915	30,207	80,703,122
Cash and cash equivalents, end of year	<u>\$ 120,185,900</u>	<u>\$ 103,064</u>	<u>\$ 120,288,964</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 47,655,823	\$ 588,444	\$ 48,244,267
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,875,320	765,939	6,641,259
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(509,860)	915,897	406,037
Advance to (from) City	9,991,321	(223,708)	9,767,613
Accrued unbilled revenue	(1,595,485)	-	(1,595,485)
Inventories	9,621,692	455,506	10,077,198
Prepaid expenses and deposits	(2,681,177)	-	(2,681,177)
Prepaid natural gas	28,578,343	-	28,578,343
Increase (decrease) in:			
Accounts payable	896,406	(1,526,563)	(630,157)
Customer deposits	33,692	13,558	47,250
Compensated absences	100,327	(3,336)	96,991
Deferred gain from sale of generation assets	(3,942,145)	-	(3,942,145)
Net cash provided by (used in) operating activities	<u>\$ 94,024,257</u>	<u>\$ 985,737</u>	<u>\$ 95,009,994</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:			
Cash and investments	\$ 59,290,400	\$ 103,064	\$ 59,393,464
Noncurrent restricted cash and investments	89,309,825	-	89,309,825
Total	148,600,225	103,064	148,703,289
Less: Investments with maturities of more than 90 days	(28,414,325)	-	(28,414,325)
Total cash and cash equivalents	<u>\$ 120,185,900</u>	<u>\$ 103,064</u>	<u>\$ 120,288,964</u>
Noncash Capital, Investing and Financing Activities:			
Acquisition of capital assets in accounts payable	\$ 144,957	\$ 210	\$ 145,167
Increase (Decrease) in fair value of investments	(6,497,127)	-	(6,497,127)
Amortization of bond premiums and discounts	399,172	-	399,172
Amortization of deferred amount on refunding	745,099	-	745,099
Amortization of deferred gain from sale of generation assets	3,942,145	-	3,942,145
Capitalized interest	5,733,082	-	5,733,082

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

B. Pledged Revenues

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

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Resolution 2012-114, 2012-217, 2012-188, and 2013-06 provided the payment of medical and dental insurance premiums for certain categories of retired employees. Resolution No. 2012-114 state that the City will provide a single-employer postemployment benefit plan to employees who retire at age fifty (50) or later with twenty (20) years of continuous uninterrupted service up to the age of sixty-five (65). Alternatively, employees who retire before the age of fifty (50) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65). Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services has been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association 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, 2015, 340 employees (256 active employees and 84 retired employees), participated in the OPEB plan.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

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

As of June 30, 2015, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City estimated a payment of \$466,984 in benefits on a pay-as-you-go basis with an implicit subsidy credit of \$205,028 for a total employer contribution of \$672,012 for Fiscal 2015. The following represents the status of the Unfunded Actuarial Accrued Liability.

Actuarial Accrued Liability (AAL) (a)	\$	53,470,769
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>53,470,769</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	25,490,192
UAAL as a % of covered payroll (a-b/c)		209.8%

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

In the June 30, 2015 actuarial valuation, the Entry Age Normal Method was used. The investment return assumption was based on the expected return on employer assets which generally consist of short-term liquid investments.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

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

Based on the June 30, 2015 actuarial valuation, the June 30, 2015 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 1,962,764
Amortization of UAAL	1,993,926
Total ARC	\$ 3,956,690

Based on the June 30, 2015 actuarial valuation, the June 30, 2015 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 14,033,748
Annual OPEB Cost	3,960,324
Employer contributions	(672,012)
Increase in NOO	3,288,312
NOO - End of Year	\$ 17,322,060

The funded status of the OPEB plan as of June 30, 2015 and the ARC for the fiscal year ended June 30, 2015 was based on the following actuarial assumptions:

Valuation date:	June 30, 2015
Discount Rate:	4.0%
Attribution method:	Entry age normal method
Amortization method:	Level percentage of payroll
Amortization period:	30 year, open basis
Salary increases assumption:	3.25% per year
Plan Participation Percentage:	100%
Healthcare cost trend rates:	
Medical:	Graded down from 8.50% for 2016 to 4.50% for 2024 and later
Dental:	4.5%

The actuarial valuation presents a long-term perspective based on the types of benefits provided under the term of the resolution and assumptions about the probability of events in the future and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress on page 79 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 13– CONTINGENCIES

As of June 30, 2015, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

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

Uncertainties

Sale of Generation and Transmission Assets

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 14 – GASB PRONOUNCEMENTS

Pronouncements Issued but Not yet Effective:

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

- GASB Statement No. 72 – *Fair Value Measurement and Application.*
- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.*
- GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*
- GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*
- GASB Statement No. 77 – *Tax Abatement Disclosures.*

Implementation of Pronouncements

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

- 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.*

The implementation of GASB Statements No. 69 and 70 did not impact the financial statements of the City during the year ended June 30, 2015.

NOTE 15 – SUBSEQUENT EVENTS

2015 Taxable Series A Bond Issuance

On July 21, 2015, the City issued \$111,720,000 of Electric System Revenue Bonds, 2015 Taxable Series A. The bonds were issued to (i) refund a portion of the outstanding Electric System Revenues Bonds, 2009 Series A; (ii) finance the costs of certain capital improvements to the City's electric system by reimbursing the Electric System for the prior payment of such costs from the Light and Power Fund; (iii) fund a deposit to the debt service reserve fund; and (iv) pay the costs of issuance of the 2015 Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2015

NOTE 15 – SUBSEQUENT EVENTS (CONTINUED)

Change in Fair Value of Derivative Instruments

On July 21, 2015, the City terminated all its interest rate swaps. The notional amount of those derivative instruments, classified by type, and the change in fair value of such derivative instruments since June 30, 2015 were as follows:

	Change in Fair Value		Termination Value at July 21, 2015		Notional
	Classification	Amount	Classification	Amount	
Business-type activities					
Investment derivative instruments					
Variable to Fixed Swaps					
2004 Series A Bonds	increase in fair value	\$ 271,162	Derivative liability	\$ (22,310,000)	\$ 90,150,000
2004 Series B Bonds	decrease in fair value	(262,844)	Derivative liability	(14,017,000)	83,575,000
Total		\$ 8,318		\$ (36,327,000)	\$ 173,725,000

NOTE 16 – PRIOR PERIOD ADJUSTMENT

Implementation of GASB Statement No. 68 and 71

In the current year, the City adopted GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. In accordance with GASB 68 and 71, unfunded net pension liability was recorded as a restatement of beginning net position.

Governmental Activities:	
Net Position, Beginning of Year	\$ 3,307,154
Adjustment to report retroactive effect of Implementing GASB Statement No. 68	(91,359,452)
Net Position, Beginning of Year, Restated	\$ (88,052,298)

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 28,169,046	\$ 28,169,046	\$ 28,192,238	\$ 23,192
Special assessments	1,025,000	1,025,000	971,110	(53,890)
Licenses and permits	1,527,941	1,527,941	2,313,991	786,050
Fines, forfeitures and penalties	300,408	300,408	376,880	76,472
Investment income	10,200	10,200	17,733	7,533
Intergovernmental revenues	2,609,950	2,609,950	1,374,697	(1,235,253)
Charges for services	1,338,742	1,338,742	3,954,771	2,616,029
Other revenues	475,412	475,412	1,512,596	1,037,184
Total revenues	<u>35,456,699</u>	<u>35,456,699</u>	<u>38,714,016</u>	<u>3,257,317</u>
EXPENDITURES:				
General government	13,990,503	13,990,503	11,763,585	2,226,918
Public safety	24,742,010	24,742,010	25,640,501	(898,491)
Public works	5,491,394	5,491,394	5,819,353	(327,959)
Health services	1,664,599	1,664,599	1,617,216	47,383
Debt service	-	-	3,921,777	(3,921,777)
Capital outlay	7,991,270	7,991,270	4,416,670	3,574,600
Total expenditures	<u>53,879,776</u>	<u>53,879,776</u>	<u>53,179,102</u>	<u>700,674</u>
Deficiency of revenues under expenditures	<u>(18,423,077)</u>	<u>(18,423,077)</u>	<u>(14,465,086)</u>	<u>3,957,991</u>
Other financing sources (uses):				
Sale of property	510	510	6,992,149	6,991,639
Transfers in	17,673,975	17,673,975	14,871,631	(2,802,344)
Total other financing sources (uses)	<u>17,674,485</u>	<u>17,674,485</u>	<u>21,863,780</u>	<u>4,189,295</u>
Net change	(748,592)	(748,592)	7,398,694	8,147,286
FUND BALANCE, BEGINNING OF YEAR	<u>(23,246,758)</u>	<u>(23,246,758)</u>	<u>(23,041,512)</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ (23,995,350)</u>	<u>\$ (23,995,350)</u>	<u>\$ (15,642,818)</u>	<u>\$ 8,147,286</u>

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2015

NOTE 1 – BUDGET

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund;
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2015. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount of change in fund balance was \$8,147,286. The key reason for this variance was a sale of property of \$6,991,639.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$3,257,317. The key reason for this variance was charges for services of \$3,018,677 to the business-type funds budgeted as transfers in but recorded as charges for services.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$700,674. The key reasons for this variance were excess appropriations of \$3,574,600 for capital outlay and \$2,226,918 for general government offset by an excess expenditure over appropriations of \$3,921,777 for debt service.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount for other financing sources was \$4,189,295. The key reason for this variance was \$6,991,639 of sale of property offset by an excess appropriation over expenditures of \$2,802,344 for transfers in.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2015

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Years*

	2013-14 ¹	
	Miscellaneous	Safety
Total Pension Liability		
Service cost	\$ 1,955,694	\$ 3,448,760
Interest on total pension liability	9,609,274	15,255,372
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(2,388,449)	(9,639,123)
Net change in total pension liability	<u>9,176,519</u>	<u>9,065,009</u>
Total pension liability - beginning	128,340,045	206,500,143
Total pension liability - ending (a)	<u>\$ 137,516,564</u>	<u>\$ 215,565,152</u>
Plan fiduciary net position		
Contributions - employer	\$ 1,825,732	\$ 3,234,539
Contributions - employee	1,015,741	1,092,012
Net investment income ²	16,045,243	24,855,525
Benefit payments	(2,388,449)	(9,639,123)
Net change in plan fiduciary net position	<u>16,498,267</u>	<u>19,542,953</u>
Plan fiduciary net position - beginning	93,838,356	144,582,109
Plan fiduciary net position - ending (b)	<u>\$ 110,336,623</u>	<u>\$ 164,125,062</u>
Net pension liability - ending (a)-(b)	<u>\$ 27,179,941</u>	<u>\$ 51,440,090</u>
Plan fiduciary net position as a percentage of the total pension liability	80.24%	76.14%
Covered - employee payroll	\$ 11,084,188	\$ 12,510,920
Net pension liability as percentage of covered - employee payroll	245.21%	411.16%

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Net of administrative expenses.

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Schedule of Plan Contributions
Last Ten Years*

	FY 2013-2014	
	Miscellaneous Plan	Safety Plan
Actually determined contributions	\$ 1,825,732	\$ 3,234,539
Contributions in relation to the actuarially determined contributions	(1,825,732)	(3,234,539)
Contribution deficiency / (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered-Employee Payroll	 <u>\$ 11,084,188</u>	 <u>\$ 12,510,920</u>
 Contributions as a percentage of Covered-Employee Payroll	 <u>16.47%</u>	 <u>25.85%</u>

(1) The plan has no active members, and therefore, no covered-employee payroll.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Actuarial Cost Method	Entry age normal
Amortization method / Period	Level percent of payroll
Asset valuation method	15 year Smoothed Market
Inflation	2.75%
Salary increases	Varies by Entry age and Service
Payroll Growth	3.00%
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses including inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Benefit Changes:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes in assumption - There were no changes in assumptions as of the measurement date.

* Fiscal year 2015 was the first year of implementation, therefore only one year is shown.

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Schedule of Funding Progress for City of Vernon Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
6/30/2015	\$ -	\$ 53,470,769	\$ 53,470,769	00.0%	\$ 25,490,192	209.8%
6/30/2013	\$ -	\$ 41,731,558	\$ 41,731,558	00.0%	\$ 25,151,622	165.9%
7/01/2010	\$ -	\$ 25,475,000	\$ 25,475,000	00.0%	\$ 29,361,889	86.8%



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801 South Grand Avenue, Suite 400 • Los Angeles, California 90017-4646 • Ph. (213) 873-1700 • Fax (213) 873-1777