

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2015

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
For the 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 basic financial statements of the Light and Power Enterprise (the Enterprise), of the City of Vernon, California (City), as of and for the fiscal year ended June 30, 2015, and the related notes to financial statements which collectively comprise the Enterprise's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Light and Power Enterprise of the City of Vernon, California, as of June 30, 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

As discussed in Note 1 to the basic financial statements, the financial statements present only the Light and Power Enterprise Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2015, and the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vasquez + Company LLP

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

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

The management of the Light and Power Enterprise (“the Enterprise”), the Light and Power Department and the Gas Department of the City of Vernon (“the City”), offers the following overview and analysis of the basic financial statements of the Enterprise for the fiscal year ended June 30, 2015. Management encourages readers to utilize information in the Management’s Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the Enterprise's net position as of the current fiscal year ended June 30, 2015 and prior fiscal year ended June 30, 2014. The details of the current year's summary can be found on page 10 of this report.

**City of Vernon
Light and Power Enterprise
Fund Net Position
June 30, 2015 and 2014**

	2015	2014	Change
Assets:			
Current and other assets	\$ 263,982,030	\$ 266,388,662	\$ (2,406,632)
Restricted assets	89,309,825	110,740,591	(21,430,766)
Capital assets	208,341,573	206,932,643	1,408,930
Total assets	<u>561,633,428</u>	<u>584,061,896</u>	<u>(22,428,468)</u>
Deferred Outflows of Resources:			
Deferred amount on refunding	5,215,690	-	5,215,690
Liabilities			
Current liabilities	87,251,312	79,972,693	7,278,619
Long-term liabilities	350,207,369	377,882,844	(27,675,475)
Total liabilities	<u>437,458,681</u>	<u>457,855,537</u>	<u>(20,396,856)</u>
Deferred Inflows of Resources:			
Deferred gain from sale of generation assets	31,175,590	35,117,735	(3,942,145)
Net Assets:			
Net investment in capital assets	137,448,137	142,344,021	(4,895,884)
Unrestricted (deficit)	(39,233,290)	(51,255,397)	12,022,107
Total net position	<u>\$ 98,214,847</u>	<u>\$ 91,088,624</u>	<u>\$ 7,126,223</u>

The assets and deferred outflows of resources of the Enterprise exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$98,214,847 (*net position*).

The category of the Enterprise's net position with the largest balance totaling \$137,448,137 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(39,233,290) represents a deficit in unrestricted net position that is expected to be recovered from the Enterprise's future revenues.

Activities, net position:

- Restricted assets decreased \$21,430,766 from the prior year due primarily to the use of restricted cash and investments set aside for capital improvements and debt service.
- Due to a new reporting requirement effected by GASB 65, deferred amount on refunding previously netted against bonds payable was presented as deferred outflow of resources during the current year.
- Current liabilities increased \$7,278,619 from the prior year due primarily to a \$6,016,995 increase in derivative liabilities.
- Long-term liabilities decreased \$27,675,475 from the prior year due primarily to a principal repayment on bonds of \$31,650,000 (See Note 6).
- Deferred gain from sale of generation assets decreased \$3,942,145 from the prior year due to amortization.
- Unrestricted net deficit decreased \$12,022,107 from the prior year due primarily to an increase in net position from current year's activities of \$7,126,223 and \$4,895,884 decrease in invested in capital assets, net of related debt.

Changes in Net Position

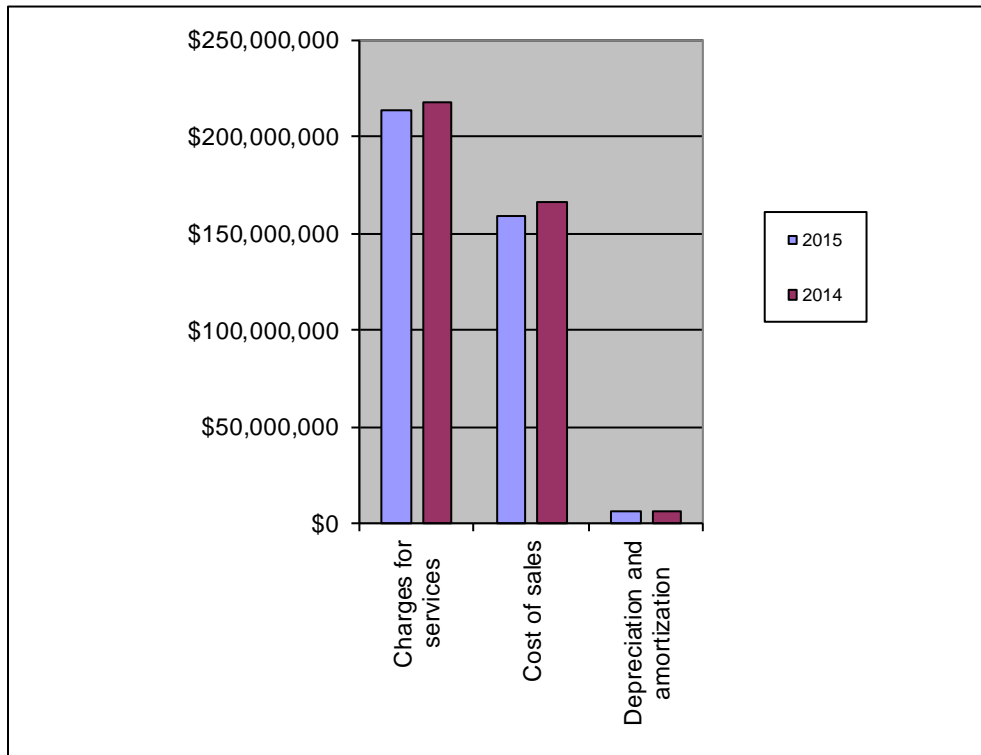
The table below summarizes the Enterprise's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 11 of this report.

	2015	2014	Change
Operating revenues:			
Charges for services	\$ 213,812,869	\$ 217,773,894	\$ (3,961,025)
Operating expenses:			
Cost of sales	158,927,343	166,733,589	(7,806,246)
Depreciation and amortization	6,641,259	6,045,380	595,879
Total operating expenses	165,568,602	172,778,969	(7,210,367)
Operating income	48,244,267	44,994,925	3,249,342
Nonoperating revenues (expenses):			
Investment loss	(2,067,183)	(2,001,301)	(65,882)
Net increase (decrease) in fair value of investments	(6,497,127)	(3,640,115)	(2,857,012)
Interest expense	(17,299,775)	(15,678,847)	(1,620,928)
Loss on sale of assets	(947,693)	(1,093,922)	146,229
Transfers to City	(14,306,266)	(12,652,719)	(1,653,547)
Total nonoperating expenses, net	(41,118,044)	(35,066,904)	(6,051,140)
Change in net position	7,126,223	9,928,021	(2,801,798)
Net position- beginning of year	91,088,624	81,160,603	9,928,021
Net position- end of year	\$ 98,214,847	\$ 91,088,624	\$ 7,126,223

The Enterprise's activities increased net position by \$7,126,223 which is \$2,801,798 lower than the prior year. The key reasons for this change are as follows:

- Charges for services was \$213,812,869 for the current year, which is \$3,961,025 lower than the previous year.
- Cost of sales was \$165,568,602 for the current year, which is \$7,210,367 lower than the previous year.
- Net decrease in fair value of investments was \$6,497,127 for the current year, which is \$2,857,012 higher than the previous year.
- Interest expense was \$17,299,775 for the current year, which is \$1,620,928 higher than the previous year.
- Transfers to City was \$14,306,266 for the current year, which is \$1,653,547 higher than the previous year.

Operating Revenues and Expenses
For the Fiscal Years Ended June 30, 2015 and 2014



The Enterprise's unrestricted net position at the end of the year amounted to a deficit of \$39,233,290 after the increase in net position of \$7,126,223 in the current year. The Enterprise expects to eliminate this deficit balance through future rate increases, cost reductions, debt payouts, and revenues from renewable energy projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets.

The Enterprise's investment in capital assets as of June 30, 2015 amounted to \$208,341,573 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the Enterprise's investment in capital assets for the current fiscal year was \$24,796,788, offset by a sale of intangible environmental credits of \$16,746,600, and depreciation of \$6,641,258, for a net increase of \$1,408,930.

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

Outstanding debt

As of June 30, 2015, the following Enterprise 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 Enterprise's long-term debt can be found in Note 6 on pages 26-30 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the Enterprise and 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.

REQUESTS FOR INFORMATION

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

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Position
Light and Power Enterprise
June 30, 2015

ASSETS:

Current assets:	
Cash and investments	\$ 59,393,464
Accounts receivable, net of allowances of \$150,000	5,293,346
Accrued unbilled revenue	11,413,482
Accrued interest receivable	128,347
Escrow deposits	940,000
Inventories	45,730
Prepaid natural gas	28,664,653
Note receivable	449,235
Total current assets	<u>106,328,257</u>
Noncurrent assets:	
Restricted cash and investments	89,309,825
Advances to City	13,291,427
Prepaid expenses	3,753,784
Prepaid natural gas	139,988,561
Note receivable	620,001
Capital assets:	
Nondepreciable	61,621,452
Depreciable, net	146,720,121
Total noncurrent assets	<u>455,305,171</u>
Total assets	<u>561,633,428</u>

DEFERRED OUTFLOWS OF RESOURCES:

Current deferred outflows of resources:	
Deferred amount on refunding	745,099
Noncurrent deferred outflows of resources:	
Deferred amount on refunding	4,470,591
Total deferred outflows of resources	<u>5,215,690</u>

LIABILITIES:

Current liabilities:	
Accounts payable	7,847,843
Customer deposits	623,535
Derivative liabilities	36,335,318
Bond interest	9,286,815
Bonds payable, net	32,955,827
Compensated absences	201,974
Total current liabilities	<u>87,251,312</u>
Noncurrent liabilities:	
Bonds payable, net	349,803,421
Compensated absences	403,948
Total noncurrent liabilities	<u>350,207,369</u>
Total liabilities	<u>437,458,681</u>

DEFERRED INFLOWS OF RESOURCES:

Current deferred inflows of resources:	
Deferred gain from sale of generation assets	3,942,145
Noncurrent deferred inflows of resources:	
Deferred gain from sale of generation assets	27,233,445
Total deferred inflows of resources	<u>31,175,590</u>

NET POSITION:

Net investment in capital assets	137,448,137
Unrestricted (deficit)	(39,233,290)
Total net position	<u>\$ 98,214,847</u>

See accompanying notes to the basic financial statements.

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

OPERATING REVENUES:	
Charges for services	\$ 213,812,869
Total operating revenues	213,812,869
 OPERATING EXPENSES:	
Cost of sales	158,927,343
Depreciation and amortization	6,641,259
Total operating expenses	165,568,602
Operating income (loss)	48,244,267
 NONOPERATING REVENUE (EXPENSES):	
Investment income (loss)	(2,067,183)
Net decrease in fair value of investments	(6,497,127)
Interest expense	(17,299,775)
Loss on sale of assets	(947,693)
Transfer to City	(14,306,266)
Total nonoperating revenue (expenses), net	(41,118,044)
Change in net position	7,126,223
Net position, beginning of the year	91,088,624
Net position, end of the year	\$ 98,214,847

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Light and Power Enterprise
For the Fiscal Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 258,365,398
Cash paid to suppliers for goods and services	(157,291,400)
Cash paid to employees for services	(6,064,004)
Net cash provided by operating activities	<u>95,009,994</u>
Cash flows from noncapital financing activities:	
Transfers to City	(14,306,266)
Collection of note receivable	420,681
Net cash used in noncapital financing activities	<u>(13,885,585)</u>
Cash flows from capital and related financing activities:	
Repayment of bonds	(31,650,000)
Bond interest paid	(16,889,904)
Sale of environmental credits	15,752,916
Acquisition and construction of capital assets, net	(18,838,315)
Net cash used in capital and related financing activities	<u>(51,625,303)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	12,102,564
Investment loss net of interest rate swap payments on investment derivatives	(2,015,828)
Net cash provided by investing activities	<u>10,086,736</u>
Net increase in cash and cash equivalents	39,585,842
Cash and cash equivalents, beginning of year	80,703,122
Cash and cash equivalents, end of year	<u>\$ 120,288,964</u>

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 48,244,267</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	6,641,259
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	406,037
Advance to (from) City	9,767,613
Accrued unbilled revenue	(1,595,485)
Inventories	10,077,198
Prepaid expenses and deposits	(2,681,177)
Prepaid natural gas	28,578,343
Increase (decrease) in:	
Accounts payable	(630,157)
Customer deposits	47,250
Compensated absences	96,991
Deferred gain from sale of generation assets	(3,942,145)
Net cash provided by operating activities	<u>\$ 95,009,994</u>

Reconciliation of cash and cash equivalents to Statement of Net Position:	
Cash and investments	\$ 59,393,464
Noncurrent restricted cash and investments	<u>89,309,825</u>
Total	148,703,289
Less: Investments with maturities of more than 90 days	<u>(28,414,325)</u>
Total cash and cash equivalents	<u>\$ 120,288,964</u>

Noncash Capital, Investing and Financing Activities:	
Acquisition of capital assets in accounts payable	\$ 145,167
Increase (Decrease) in fair value of investments	(6,497,127)
Amortization of bond premiums and discounts	399,172
Amortization of deferred amount on refunding	745,099
Amortization of deferred gain from sale of generation assets	3,942,145
Capitalized interest	5,733,082

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Light and Power Enterprise Fund (the Enterprise) of the City of Vernon, California (the City). The Enterprise accounts for the operations and the maintenance of the City's electric utility plant and gas utility system.

On December 15, 2011, City Council adopted a resolution to merge two enterprise funds, the Light and Power Department Fund and the Gas Department Fund for accounting and financial reporting purposes. Both are utility funds that provide power and gas utilities to the residents and businesses of the City. Over the course of time, these funds have accumulated both short-term and long-term interfund receivable and payable balances, by virtue of the impact of daily operations and the development of the Gas enterprise. The City merged these funds to eliminate both short-term and long-term receivables and payables. Accordingly, effective July 1, 2011, the City's Enterprise was created by combining the Light and Power Department and the Gas Department, which were established by the City under and by virtue of the City Charter enacted in 1988. These departments were established for the collection of revenues and the payment of expenses for the City's electric and gas utility plants. Prior to July 1, 2011, the departments were reported as separate enterprise funds.

All transactions of the Light and Power Enterprise (the Enterprise) are included in the reporting entity of the City of Vernon and are recorded in separate enterprise funds of the City. For additional information regarding the City of Vernon, refer to the City's annual financial report.

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

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

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

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

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

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

Receivables

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

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$150,000 as of June 30, 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 are recorded as an expense or capitalized into capital assets when used.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets include land, intangible assets, construction in progress, and plant assets including building, improvements, and machinery and equipment. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives. Intangible assets with an indefinite useful life are not amortized but are evaluated annually for any impairment.

The estimated useful lives are as follows:

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

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

Accumulated vacation is accrued when incurred. Upon termination of employment, the Enterprise will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the Enterprise recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. At June 30, 2015, the City has deferred inflow of resources representing the deferred gain from the sale of generation of assets.

Long-term Obligations

Bond discounts and premiums and deferred amounts on refunding are amortized over the life of the bonds using the straight-line method, which approximates the effective interest method.

Net Position

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2015 are classified in the accompanying statement of fund net position as follows:

Statement of net position:

Cash and investments	\$ 59,393,464
Restricted cash and investments	89,309,825
Total cash and investments	<u>\$ 148,703,289</u>

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

Deposits with financial institutions	\$ 32,057,580
Investments	116,645,709
Total cash and investments	<u>\$ 148,703,289</u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's Investment Policy

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

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

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 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 it agencies	5 years	None	None	None
Certain Asset-Backed Securities	5 years	None	None	AA
Certificates of Deposit	5 years	30%	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	P-1
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium-Term Notes	5 years	30%	None	A
Mutual Funds investing in eligible securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 years	20%	None	AA
State Administered Pool Investment	N/A	None	\$50 million	None

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
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NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

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

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

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2015	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
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	2,321,080	2,321,080	-	-	2.0%
Federal Home Loan Bank	2,262,756	2,262,756	-	-	2.0%
Total investments	\$ 116,645,709	\$ 105,609,769	\$ 11,035,940	\$ -	100.0%

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 32,051,305	21.6%
Local Agency Investment Fund	Not Rated	Not Rated	542,249	0.4%
Total in custody of Treasurer			32,593,554	22.0%
In custody of Trustee:				
Investments held by Trustee:				
Deposits with financial institutions	N/A	N/A	6,275	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	81,826,520	55.0%
U.S. Treasury Notes	None	Aaa / AA+	24,765,058	16.7%
Federal National Mortgage Association	None	Aaa / AA+	4,928,046	3.3%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	2,321,080	1.6%
Federal Home Loan Bank	None	Aaa / AA+	2,262,756	1.4%
Total in custody of Trustee			116,109,735	78.0%
Total cash and investments held by Treasurer and Trustee			\$ 148,703,289	100.0%

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 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 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 Enterprise 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 of \$250,000 made by state or local governmental units by pledging government securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Such collateral is held by the pledging financial institution's trust department or agent in the City's name.

At year-end, the carrying amount of the Enterprise's deposits was \$32,057,580 and the bank balance was \$31,667,232. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2015, none of the Enterprise's deposits with financial institutions in excess of federal depository insurance limit were held in uncollateralized accounts. \$31,417,232 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The Enterprise also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$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 Enterprise'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 structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 0.65 years as of June 30, 2015. LAIF does not maintain a credit rating.

NOTE 3 – ACCOUNTS RECEIVABLES

The Enterprise's accounts receivables at June 30, 2015 are as follows:

Accounts receivables	\$ 5,443,346
Less: Allowances for uncollectible accounts	<u>(150,000)</u>
Total receivables, net	<u>\$ 5,293,346</u>

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

NOTE 4 – RELATED PARTY TRANSACTIONS

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

The following table summarizes the Enterprise's loan balances and transactions with the City at June 30, 2015:

Advance to City

Advance to City, July 1, 2014	\$ 23,059,040
Payments from City	<u>(9,767,613)</u>
Advance to City, June 30, 2015	<u>\$ 13,291,427</u>

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

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

The City allocates certain administrative and overhead costs to the Enterprise which the Enterprise financial statements include as part of cost of sales. The allocated costs for the year ended June 30, 2015 were \$3,018,677.

Nonoperating Expenses

Transfers to City

The Enterprise's electric retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City's General Fund. For the current year, the Enterprise paid the City's General Fund \$4,549,455 for in lieu of franchise tax.

Under the City Charter and the Enterprise's bond indentures, the Enterprise is allowed to transfer to the City its electric utility's excess revenue after meeting debt service and certain debt coverage ratios. For the year ended June 30, 2015, the Enterprise transferred an additional \$9,756,811 of its excess revenue to the City for a total of \$14,306,266 as follows:

In lieu of franchise tax transfer	\$ 4,549,455
Excess revenue operating transfer	<u>9,756,811</u>
Total	<u><u>\$ 14,306,266</u></u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<i>Capital assets, not being depreciated:</i>				
Land - Electric	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Intangibles - Environmental credits - Electric	18,382,873	-	(16,746,600)	1,636,273
Construction in Progress - Electric	46,563,092	4,145,491	-	50,708,583
Total capital assets, not being depreciated	<u>74,222,561</u>	<u>4,145,491</u>	<u>(16,746,600)</u>	<u>61,621,452</u>
<i>Capital assets, being depreciated</i>				
Production plant - Electric	15,382,221	16,892	-	15,399,113
Transmission plant - Electric	4,888,113	-	-	4,888,113
Distribution plant - Electric	156,282,860	20,365,792	-	176,648,652
General plant - Electric	8,328,188	87,299	-	8,415,487
Gas utility plant	25,836,707	181,314	-	26,018,021
Total capital assets, being depreciated	<u>210,718,089</u>	<u>20,651,297</u>	<u>-</u>	<u>231,369,386</u>
Less accumulated depreciation for:				
Production plant - Electric	(7,570,354)	(438,759)	-	(8,009,113)
Transmission plant - Electric	(2,761,516)	(96,750)	-	(2,858,266)
Distribution plant - Electric	(58,507,019)	(4,978,221)	-	(63,485,240)
General plant - Electric	(3,275,573)	(361,589)	-	(3,637,162)
Gas utility plant	(5,893,545)	(765,939)	-	(6,659,484)
Total accumulated depreciation	<u>(78,008,007)</u>	<u>(6,641,258)</u>	<u>-</u>	<u>(84,649,265)</u>
Total capital assets, being depreciated, net				
Production plant - Electric	7,811,867	(421,867)	-	7,390,000
Transmission plant - Electric	2,126,597	(96,750)	-	2,029,847
Distribution plant - Electric	97,775,841	15,387,571	-	113,163,412
General plant - Electric	5,052,615	(274,290)	-	4,778,325
Gas utility plant	19,943,162	(584,625)	-	19,358,537
Total	<u>132,710,082</u>	<u>14,010,039</u>	<u>-</u>	<u>146,720,121</u>
Business-type activities capital assets, net	<u>\$ 206,932,643</u>	<u>\$ 18,155,530</u>	<u>\$ (16,746,600)</u>	<u>\$ 208,341,573</u>

Depreciation

The Enterprise's total depreciation expense for the year was \$6,641,258.

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

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
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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	\$ -
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
LIGHT AND POWER ENTERPRISE
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	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
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	508,931	266,635	(169,644)	605,922	201,974
	<u>\$ 465,815,081</u>	<u>\$ 266,635</u>	<u>\$ (31,420,471)</u>	<u>\$ 383,365,170</u>	<u>\$ 33,157,801</u>

Credit Ratings

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

NOTE 7 – DERIVATIVE INSTRUMENTS

In prior years, the City acquired 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
LIGHT AND POWER ENTERPRISE
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 increase.

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
LIGHT AND POWER ENTERPRISE
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 increase.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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NOTE 7 – DERIVATIVE INSTRUMENTS (CONTINUED)

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

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

C - Change in Fair Value of Derivative Instruments

The fair value balance and notional amount of the derivative instruments 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 Amount
	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. (See Note 15).

NOTE 8 – RISK MANAGEMENT

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

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

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

**CITY OF VERNON, CALIFORNIA
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Notes to Basic Financial Statements
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NOTE 8 – RISK MANAGEMENT (CONTINUED)

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

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

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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June 30, 2015**

NOTE 9 – PENSION PLAN

The Enterprise employees participate with other City employees in the California Public Employees' Retirement System (PERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employer and employee contributions are made by the City and such costs are not allocated to the Enterprise.

Further information regarding the pension plan is presented in the City's annual financial report.

NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS

Asset Sale

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the "PPTA"). In addition, Bicent has acquired the benefits and burdens of the City's interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences ("CFD"), between Bicent (California) Hoover LLC, a Delaware limited liability company ("BCH") and the City, dated as of April 10, 2008 (the "Hoover Differences Contract"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company ("BCM"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2015, a deferred gain of \$31,175,590 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 12 for disclosure on uncertainties).

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

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

Project Commitments

A. Southern California Public Power Authority

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

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

NOTE 10 – LIGHT AND POWER 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
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NOTE 10 – LIGHT AND POWER 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 City	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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

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

	Light and Power		Light and Power
	Fund	Gas Fund	Enterprise
OPERATING REVENUES:			
Charges for services	\$ 170,497,602	\$ 43,315,267	\$ 213,812,869
Total operating revenues	170,497,602	43,315,267	213,812,869
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	122,841,779	42,726,823	165,568,602
Operating income (loss)	47,655,823	588,444	48,244,267
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)
Transfer to City	(13,575,095)	(731,171)	(14,306,266)
Total nonoperating revenue (expenses), net	(40,387,160)	(730,884)	(41,118,044)
Change in net position	7,268,663	(142,440)	7,126,223
Net position, beginning of the year	93,823,153	(2,734,529)	91,088,624
Net position, end of the year	\$ 101,091,813	\$ (2,876,969)	\$ 98,214,847

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015

NOTE 10 – LIGHT AND POWER 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 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 provided by investing activities	<u>10,086,449</u>	<u>287</u>	<u>10,086,736</u>
Net increase 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 to net cash provided by operating activities:			
Operating income	\$ 47,655,823	\$ 588,444	\$ 48,244,267
Adjustments to reconcile operating income to net cash provided by 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 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2015**

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

B. Pledged Revenues

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

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

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

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

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NOTE 12 – CONTINGENCIES

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

Uncertainties

Sale of Generation and Transmission Assets

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

NOTE 13 – 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 Enterprise.

- 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.*

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NOTE 13 – GASB PRNOUNCEMENTS (CONTINUED)

Implementation of New Accounting Pronouncements

The City and the Enterprise had adopted and implemented the following GASB Statements during the year ended June 30, 2015:

- 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 Enterprise during the year ended June 30, 2015. Refer to the City’s annual financial report for details regarding implementation of GASB Statements No. 68 and 71.

NOTE 14 – DEFERRED INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities,*” the Enterprise recognized deferred inflows of resources in the Enterprise’s financial statements. The deferred inflow of resources pertains to the unamortized gain on the sale generation assets. Previous financial reporting standards require this amount to be presented as part of the Enterprise’s long-term debt. This deferred inflow of resources is recognized as a component of cost of sales in a systematic and rational manner over the remaining life of the Power Purchase Tolling Agreement (See Note 10).

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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.

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 Amount
	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		<u>\$ 8,318</u>		<u>\$ (36,327,000)</u>	<u>\$ 173,725,000</u>



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