

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2016

CITY OF VERNON
Fiscal Year Ended June 30, 2016

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City of Vernon, California
Finance Department

December 15, 2016
To the Honorable Mayor and City Council
Vernon, California

In accordance with the Charter of the City of Vernon (City), please accept submission of the Annual Financial Report for the fiscal year ending June 30, 2016. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the City. We believe the data included is accurate in all material aspects, and is presented in a manner designed to fairly set forth the financial position and operational achievements of the City, as measured by the financial activity of the various funds. In addition, all disclosures necessary to enable the reader to gain maximum understanding of the City's financial activities have been included.

The City Charter requires an annual audit of the City's financial statements by an independent Certified Public Accountant. Accordingly, this year's audit was completed by Vasquez & Company LLP. The auditors' report on the basic financial statements is included in the financial section of this report. Management's discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the City's basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

ECONOMIC CONDITION AND OUTLOOK

Vernon has been 'exclusively industrial' since the City was founded in 1905. Vernon has maintained a business-friendly environment that enables the City to remain one of Southern California's prime locations for business. Vernon offers businesses a range of advantages compared to nearby cities in L.A. County, including lower permit fees; lower electricity, water and natural gas utility rates; excellent City services custom tailored to specific business needs; easy access to major transportation hubs; and substantial skilled workforce availability.

Vernon is the industrial heart of Southern California. Major manufacturers, processors and distributors have made Vernon their home for more than a century. Vernon businesses employ more than 50,000 men and women from nearby communities throughout the Greater Los Angeles area. There are 1,800 businesses that call Vernon home. These include food processors, fashion apparel manufacturers, furniture manufacturers, electronics manufacturers, paper products producers and business logistics companies. Familiar firms with significant operations in Vernon include Farmer John, Seven for All Mankind and Tapatío Hot Sauce.

Vernon is a key contributor to the diverse Los Angeles County economy. After several years of slow and steady growth, the economy is finally shifting into a higher gear, with job growth contributing to the flourishing economy locally, as well as at the state and national levels. Vernon is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of adjacent communities is currently 5.0%. This compares favorably to the State of California's average unemployment rate of 5.7% and closely approximates the national average unemployment rate of 4.9%. The occupancy rate of the City's central business district has improved to 98.0% up from 96.1% during the prior year. The City will continue to build on the successes and achievements realized in the current year, and remains committed to efforts to grow service levels impacted by the most recent recession. The City's main revenue sources of utilities fees, property and parcel taxes, business license taxes, and sales and use tax, have all sustained steady growth this year. As the City moves into fiscal year 2016/17, we are optimistic about continued growth but will remain attentive to the prevailing economic climate and mindful of managing enhanced services within the limits of our five-year plan.

Vernon's Fashionable Business Resources

Vernon serves a major center for Southern California's fashion industry. Vernon is home to more than 10% of fashion-related jobs in Los Angeles County. The fashion industry accounts for nearly 15% of Vernon's businesses. The availability of specialized office and warehouse space in Vernon makes the City a top site for apparel, textile design, storage and manufacturing companies in the fashion industry. More than 265 fashion industry companies engaged in design, dyeing, cutting, sewing, importing and distribution are located in Vernon. Fashion industry businesses thrive in Vernon because they don't need to leave Vernon to connect with most of their key business partners. Fashion industry companies have quick access to Los Angeles, Orange County and the Inland Empire for their product distribution channels, and easy access to national and international trade routes through nearby freeways, railroads and ports. Vernon's low taxes, lower cost power and water rates, and business-friendly municipal services are why the fashion industry calls Vernon its home.

Powering Business Competitiveness

Vernon provides municipal electric, gas, water, and fiber optics utility services. The electric utility provides businesses reliable and low-cost electrical services. The electric utility has operated for more than 80 years. Its electrical power and distribution system helps guarantee uninterrupted electrical service for Vernon's businesses. Electricity costs for large businesses are less than power costs from competing utility providers in the Los Angeles region.

Vernon's natural gas distribution system offers significant advantages for businesses. Vernon's natural gas transportation rates are 50% less than those offered by a large private natural gas utility in the same service area. Vernon's natural gas is distributed through a robust network of more than 44 miles of six inch gas distribution pipelines and 7 miles of 10 inch gas transmission pipelines.

Vernon has 35 miles of fiber optic cable spanning its five-square miles, offering businesses “dark fiber” and “lit fiber” data services. Vernon's advanced network of fiber optic cable provides businesses new high-speed methods to virtually connect their buildings and offices to the Internet at lower costs with high reliability.

Vernon's water utility offers large industrial users water rates that are among the lowest in Southern California. Vernon maintains reliable water sources to serve a customer base that uses a high volume of water. Vernon supplies over 80% of the water it sells from City-owned wells and purchases the remaining water supplies from regional agencies through agreements with the Metropolitan Water District of Southern California (MWD).

Safeguarding The Environment

Vernon is one of four cities in the State of California with a health department. Vernon's Health and Environmental Control Department regulates industrial operations conducted in the City. Since Vernon maintains a municipal health authority, local businesses are able to deal directly with the City health department officials to address important environmental issues, which help businesses streamline the monitoring and enforcement of health-related Federal laws, and State, LA County and Municipal ordinances, rules and regulations.

Vernon is focused on protecting the environment. Vernon has strict ordinances governing the operations of heavy manufacturers, food processors, garment manufacturers, and hazardous waste storage and disposal companies.

Vernon manages several special programs to safeguard the public and protect the City's environment. Among these programs include: Accidental Release Prevention, Animal Control, Cross Connection Control Program (for drinking water), Food Program, Garment Manufacturing Program, Hazardous Materials Monitoring, Hazardous Waste, Public/Employee Health Education Solid Waste Management, Storm Water Control, Above Ground Storage Tank Inspection, Underground Storage Tank Inspection, Vector Control, and Water Quality programs. Each of these programs is designed to ensure a safe environment for residents and the business community.

Public Safety

Creating a safe environment for residents and businesses to thrive is a key factor to Vernon's success. The Vernon Police Department (VPD) responds to emergency calls in less than four minutes. Vernon police officers are specially trained and outfitted with the latest technology to investigate offenses unique to an industrial community. Using mobile computer terminals in their patrol cars, officers can query criminal databases from the field and connect seamlessly with the Department's advanced communications center, which is fully integrated with its records management and E911 systems. With its specialized units, the VPD maintains an effective community policing strategy.

Vernon's Fire Department (VFD) is a Class 1 Rated Fire Department, one of only ten such departments in California and fifty seven nationally. The City maintains four stations within the City's five square-miles that enable its firefighters and paramedics to achieve an average

emergency response time of three minutes. Vernon's firefighters are highly trained to manage complex emergency incidents and equipped to deal with industrial fires and toxic hazards.

Vernon's Police and Fire Departments serve as a major emergency response and disaster preparedness resource for the Greater Los Angeles region. Vernon works closely with L.A. County and municipal public safety agencies in neighboring cities to offer essential public safety resources and assistance at times of an emergency through mutual aid agreements. Vernon provides more police and fire emergency response mutual aid than the City requests through these agreements. Vernon's specialized emergency service of hazardous materials and search-and-rescue units frequently lend their expertise at major public safety incidents throughout Southern California.

MAJOR INITIATIVES

Under the direction of the Mayor and City Council, City management identifies the priorities that shape the path leading into the City's future. City initiatives are reevaluated regularly, and new ones are frequently added to ensure that City efforts are consistent with the priorities of our policy body and the community. The City strives each year to better fulfill its mission of delivering outstanding municipal services that are responsive to our entire community by continuing its tradition of fostering innovation, ingenuity, and opportunity in its operations. This helps achieve the primary goals of focusing on community needs, building neighborhood connections, and governing for results that strengthen communities. The City's dedication to improvement and modernization has created an environment where City of Vernon residents and businesses are free to choose how best to enjoy all that Vernon has to offer.

1. Vernon is very committed to meeting its debt service coverages. In order to address the budget deficit historically present in the General Fund, the City will be placing on the ballot a measure to increase the Utility Users Tax from 1% to 6% for consideration in the upcoming election. The ballot measure, if passed, will effectively eliminate operating transfers from its enterprise activities to the General Fund. To minimize the burden on the business community, an equivalent discount will be provided to Vernon's electric utility customers.
2. Vernon has the capacity to expand its services as new businesses emerge and as existing businesses flourish and expand. An attractive, business friendly approach is extended to customers in the form of discounts that are available for large electricity consumers. Revenue sharing mechanisms have also been implemented to help stimulate both growth and retention. The City's Good Governance and Reform initiatives provide a tangible demonstration of the overarching commitment to sound governance and best business practices.
3. In 2016, an \$80 million posting of collateral by Citi Group as a result of Citi Group's credit rating downgrade, as required under the long-term prepaid gas contract between the City

and Citi Group, has eliminated any risk associated with Citi Group not delivering gas to the City throughout the term of the long-term prepaid gas contract.

4. Based upon the City's electric debt service schedule, there will be a significant reduction in debt service starting in 2027. With input from business and residential communities, the City continues to evaluate its position and initiatives to ensure that electric rates remain competitive and that infrastructure needs are being addressed.
5. The inherent governance challenges in the City, due to a very small residential population, continues to be addressed by its residents, businesses, Chamber of Commerce, and City Council. Over the past 5 years, the public has become much more engaged in the political process and continues to keep a watchful eye on all important issues facing the City. The disincorporation controversy raised by assembly bill 46 in 2011 has been addressed with the whole-hearted adoption of key reforms and comprehensive implementation of best practices in all City operations.
6. The State of California Joint Legislative Audit Committee (JLAC) is no longer pursuing the disincorporation of the City. Vernon has addressed all outstanding JLAC recommendations with the exception of one item that is currently being addressed by the upcoming ballot measure Q. Measure Q will serve to alleviate the structural deficit historically present in the City's General Fund. The Utility Users Tax ballot measure proposed for the April 2017 election will essentially create a mechanism to realign the historical General Fund structural deficit stemming from decisions made decades ago. Moving forward, the City's enterprise activities operating transfer to fund the General Fund structural deficit will cease and will simply be limited to legitimate overhead allocation and voter approved taxes.
7. The shutdown of the Exide recycled battery plant operation has been and will continue to be under State of California oversight. The Department of Toxic Substances Control is completely responsible for monitoring the site on a continual basis. The State of California has established funding for the Exide plant cleanup effort collected through a fee on each battery recycled along with any restitution from Exide which remains to be a global company. There is no direct impact on City operations and does not pose a concern to existing Vernon businesses.
8. Vernon's electric rates remain competitive, and in many cases, lower than adjacent municipal and investor owned utilities. However, in many respects, Vernon's electric utility services continue to outperform its neighboring peers thanks to a higher reliability rating and greater customer satisfaction.

9. Vernon electric utility's financial liquidity continues to remain stable when considering the legally unrestricted funds of the utility. The ability to fund debt obligations and meet operating requirements remains strong.
10. Even with the recent electric utility rate increases, the vacancy level within the City limits fell from 3.9% to 2.0% between June 30, 2015 and June 30, 2016, with available space demanding a premium. The level of building permit activity within the City continues to strengthen for both new businesses and existing businesses' expansions.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining internal control designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

This report consists of management's representations concerning the finances of the City. As a result, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management asserts that, to the best of their knowledge and belief, this financial report is complete and reliable in all material respects.

BUDGETARY CONTROLS

The City maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, special revenue funds, debt service funds, capital projects funds, and all the proprietary funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances generally are re-appropriated as part of the following year's budget.

RELEVANT FINANCIAL POLICIES

Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2016, the City's overall total net position was \$42.5 million. This consisted of a positive business-type net position of \$124.3 million offset by a governmental activities net deficit of \$81.8 million. By continuing to develop sound fiscal management plans, the City intends to maintain an overall positive net position.

With the proposed Utility Users Tax ballot measure in the coming next election, we expect to gradually eliminate the General Fund structural deficit in conjunction with our long-term financial planning.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis is a team effort involving many dedicated people across the entire organization. I would like to extend a special thanks to the talented finance professionals throughout the City, led by William Fox, Finance Director and Treasurer; Masami Higa, Assistant Finance Director; and Joaquin Leon, Deputy City Treasurer. Appreciation is also expressed to Carlos Fandino, City Administrator; Hema Patel, City Attorney; Kelly Nguyen, Director of Light and Power Enterprise; and Michael Earl, Human Resource Director. In closing, without the leadership and support of the City Council, preparation and results of this report would not have been possible. Its leadership has made possible the implementation of these important and innovative concepts in fiscal management by the City.

Respectfully submitted,
William Fox
Finance Director

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2016, and the related notes to financial statements which, collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Vasquez + Company LLP

**Los Angeles, California
December 15, 2016**

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

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

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

The government-wide financial statements can be found on pages 24-25 of this report.

Fund financial statements

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

Governmental funds

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (See page 79 and 80).

The basic governmental funds financial statements can be found on pages 26-29 of this report.

Proprietary funds

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

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

The basic proprietary funds financial statements can be found on pages 30-32 of this report.

Fiduciary funds

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

The basic fiduciary funds financial statements can be found on pages 33-34 of this report.

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-78 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Position

The table below summarizes the City's net position as of June 30, 2016 and June 30, 2015. The details of the current year's summary can be found on page 24 of this report.

City of Vernon
Net Position
June 30, 2016 and 2015

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets	\$ 3,638,378	\$ 5,173,180	\$ 268,248,545	\$ 251,682,143	\$ 271,886,923	\$ 256,855,323
Restricted assets	3,656,716	3,481,434	38,533,372	89,309,825	42,190,088	92,791,259
Capital assets	45,948,616	44,016,579	226,025,175	216,292,952	271,973,791	260,309,531
Total assets	53,243,710	52,671,193	532,807,092	557,284,920	586,050,802	609,956,113
Deferred Outflows of Resources:						
Deferred amount on refunding	-	-	13,436,342	5,215,690	13,436,342	5,215,690
Deferred pension costs	8,566,585	8,719,504	-	-	8,566,585	8,719,504
Liabilities:						
Current liabilities	8,100,997	7,834,896	43,666,446	68,753,852	51,767,443	76,588,748
Long-term liabilities	114,970,482	119,883,939	349,863,869	350,333,988	464,834,351	470,217,927
Total liabilities	123,071,479	127,718,835	393,530,315	419,087,840	516,601,794	546,806,675
Deferred Inflows of Resources:						
Pension actuarial	20,559,336	18,584,160	-	-	20,559,336	18,584,160
Deferred gain from sale of generation assets	-	-	28,388,890	31,175,590	28,388,890	31,175,590
Net Position						
Net investment in capital assets	45,948,616	44,016,579	148,525,296	145,399,516	194,473,912	189,416,095
Restricted	1,047,526	891,731	-	-	1,047,526	891,731
Unrestricted	(128,816,662)	(129,820,608)	(24,201,067)	(33,162,336)	(153,017,729)	(162,982,944)
Total net position	\$ (81,820,520)	\$ (84,912,298)	\$ 124,324,229	\$ 112,237,180	\$ 42,503,709	\$ 27,324,882

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$42,503,709 (*net position*).

The category of the City's net position with the largest balance totaling \$194,473,912 (457.5%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net position, totaling \$1,047,526 (2.5%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net position, totaling (\$153,017,729) (-360.0%) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

Governmental activities, net position:

- Current and other assets decreased \$1,534,802 from the prior year mainly due to a decrease in cash and investments of \$2,666,619 offset by an increase in receivables of \$1,073,786.
- Restricted assets, deferred outflows of resources, current liabilities, and restricted net position remained fairly constant over the current year.
- Capital assets increased \$1,932,037 from the prior year, net of depreciation of \$2,465,482, mainly due to additions to City's infrastructure, building and improvements, machinery and equipment, and construction in progress during the current year.
- Long-term liability decreased \$4,913,457 from the prior year mainly due to a decrease in internal balances of \$6,289,278 offset by an increase in postemployment benefit liability of \$3,369,398 and a net pension liability decrease of \$2,128,095.
- Deferred inflows of resources increased \$1,975,176 from the prior year for difference between projected and actual earnings on plan investments as deferred pension actuarial during the current year.
- Net investment in capital assets increased \$1,932,037 from the prior year which is equivalent to the increase in capital assets during the current year.
- Unrestricted net deficit decreased \$1,003,946 from the prior year due primarily to an increase in net investment in capital assets of \$1,932,037 offset by current year's activities of \$3,091,778.

Business-type activities, net position:

- Current and other assets increased \$16,566,402 from the prior year mainly due to a reclassification of restricted cash and investments to cash and investments of \$50,776,453 offset by a decrease in prepaid natural gas of \$28,664,653.
- Restricted assets decreased by \$50,776,453 from the prior year due to a reclassification of restricted cash and investments to cash and investments.
- Capital assets increased \$9,732,223 from the prior year due primarily to an increase in construction in progress of \$3,869,699 and an increase in utility plants of \$13,902,000, net of depreciation of \$7,601,189 (See Note 5).
- Deferred amount on refunding increased \$8,220,652 from the prior year due to the issuance of the 2015 Taxable Series A bonds to partially refund the 2009 Series A bonds and to terminate all interest rate swaps associated with the 2004 Series A, B, and C bonds (See Notes 6 and 7).

- Current liabilities decreased \$26,993,385 from the prior year due primarily to the termination of the interest rate swaps associated with the 2004 Series A, B, and C bonds (See Notes 6 and 7).
- Long-term liabilities increased \$1,435,860 from the prior year due to the issuance of the 2015 Taxable Series A bonds to partially refund the 2009 Series A bonds and to terminate all interest rate swaps associated with the 2004 Series A, B, and C bonds (See Notes 6 and 7).
- Deferred gain from sale of generation assets decreased \$2,786,700 from the prior year due primarily to amortization of deferred gain from sale of generation assets of \$3,942,145.
- Unrestricted net deficit decreased \$8,961,269 from the prior year due primarily to an increase in net investment in capital assets of \$3,125,780 and current year's activities of \$12,087,049.

Changes in Net Position

The table below summarizes the City's changes in net position between the current and prior fiscal year. The details of the current year's changes in net position can be found on page 25 of this report.

City of Vernon
Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

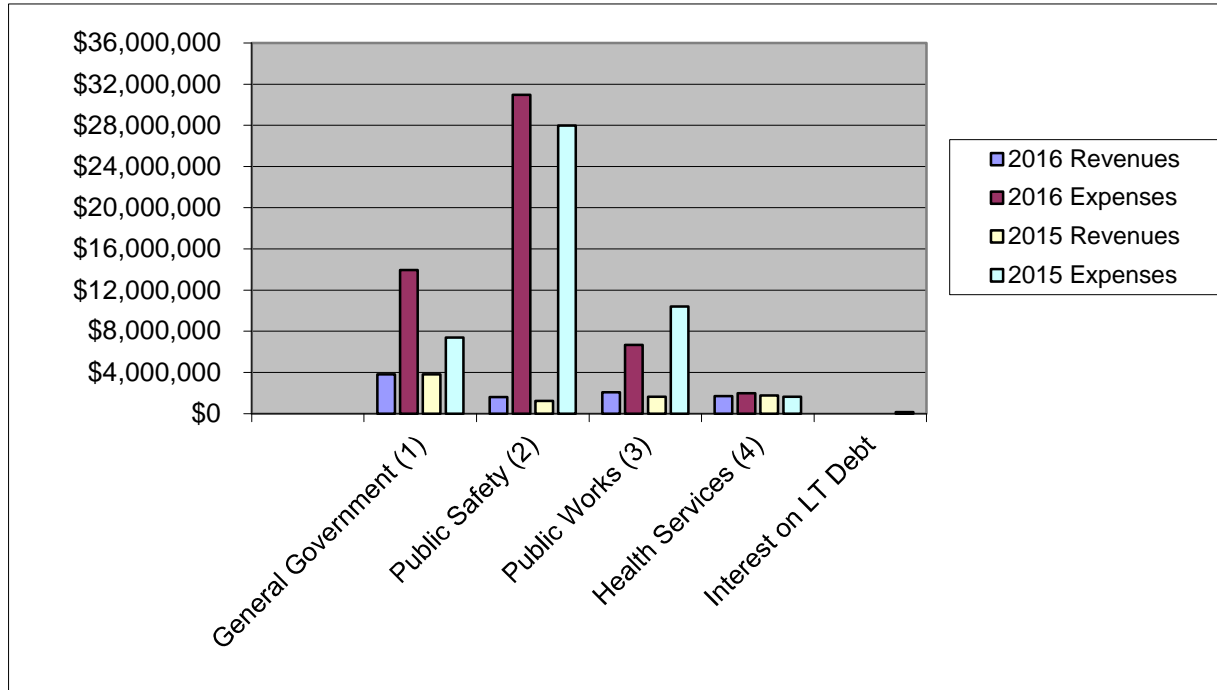
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program Revenues						
Charges for services	\$ 7,616,853	\$ 7,067,400			\$ 7,616,853	\$ 7,067,400
Light and power enterprise			\$ 199,501,501	\$ 213,812,869	199,501,501	213,812,869
Water			8,042,095	8,078,272	8,042,095	8,078,272
Fiber optics			487,230	378,565	487,230	378,565
Operating and capital grants and contributions	1,584,217	1,359,250	-	-	1,584,217	1,359,250
General Revenues						
Taxes	24,828,600	24,035,628	-	-	24,828,600	24,035,628
State allocations	6,114,503	5,161,540	-	-	6,114,503	5,161,540
Investment income (loss)	(21,005)	17,733	(4,345)	(8,564,310)	(25,350)	(8,546,577)
Gain (loss) on sale of land and assets	617,734	(2,244,238)	195,390	(947,693)	813,124	(3,191,931)
Other revenues	832,534	1,072,467	651,956	-	1,484,490	1,072,467
Total revenues	41,573,436	36,469,780	208,873,827	212,757,703	250,447,263	249,227,483
Expenses						
Governmental activities						
General government	13,937,697	7,714,943	-	-	13,937,697	7,714,943
Public safety	30,961,466	28,289,768	-	-	30,961,466	28,289,768
Public works	6,682,258	10,401,799	-	-	6,682,258	10,401,799
Health services	1,972,497	1,640,558	-	-	1,972,497	1,640,558
Interest on long-term debt	-	154,343	-	-	-	154,343
Business-type activities						
Light and power enterprise			174,294,995	182,868,377	174,294,995	182,868,377
Water			6,824,995	6,863,251	6,824,995	6,863,251
Fiber optics			594,528	596,560	594,528	596,560
Total expenses	53,553,918	48,201,411	181,714,518	190,328,188	235,268,436	238,529,599
Change in net position before transfers	(11,980,482)	(11,731,631)	27,159,309	22,429,515	15,178,827	10,697,884
Transfers						
Transfers	15,072,260	14,871,631	(15,072,260)	(14,871,631)	-	-
Change in net position	3,091,778	3,140,000	12,087,049	7,557,884	15,178,827	10,697,884
Net position - beginning of year, as restated	(84,912,298)	(88,052,298)	112,237,180	104,679,296	27,324,882	16,626,998
Net position - end of year	\$ (81,820,520)	\$ (84,912,298)	\$ 124,324,229	\$ 112,237,180	\$ 42,503,709	\$ 27,324,882

Governmental activities' net position increased by \$3,091,778 and business-type activities' net position increased by \$12,087,049 for a total of \$15,178,827 for the City. The increase in the governmental activities was caused by the governmental activities reporting a \$11,980,482 decrease in net position before transfers and an \$15,072,260 transfer in from the business-type activities.

Governmental activities, changes in net position:

Governmental activities increased the City's net position by \$3,091,778. This is fairly consistent with the prior year's increase in the City's net position of \$3,140,000.

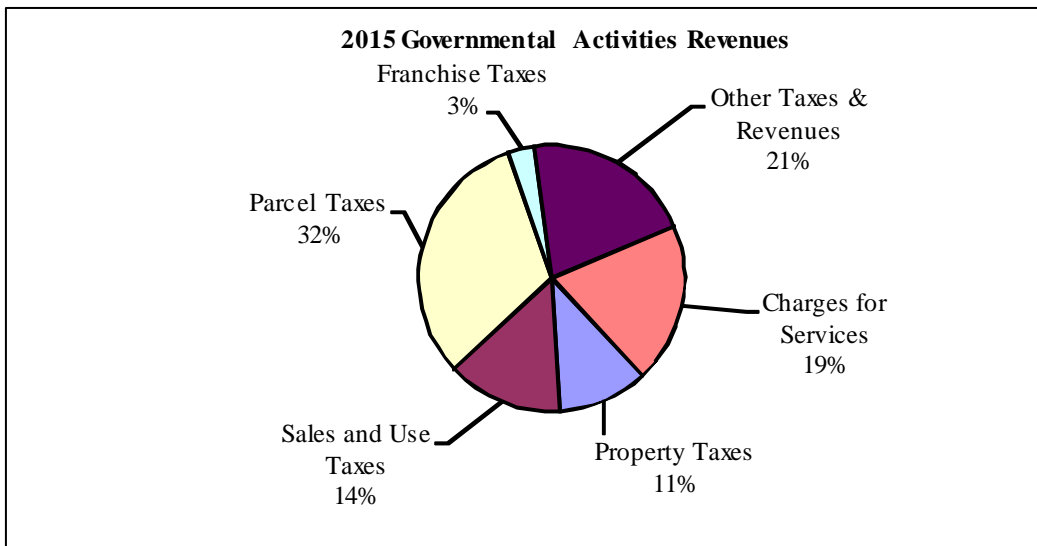
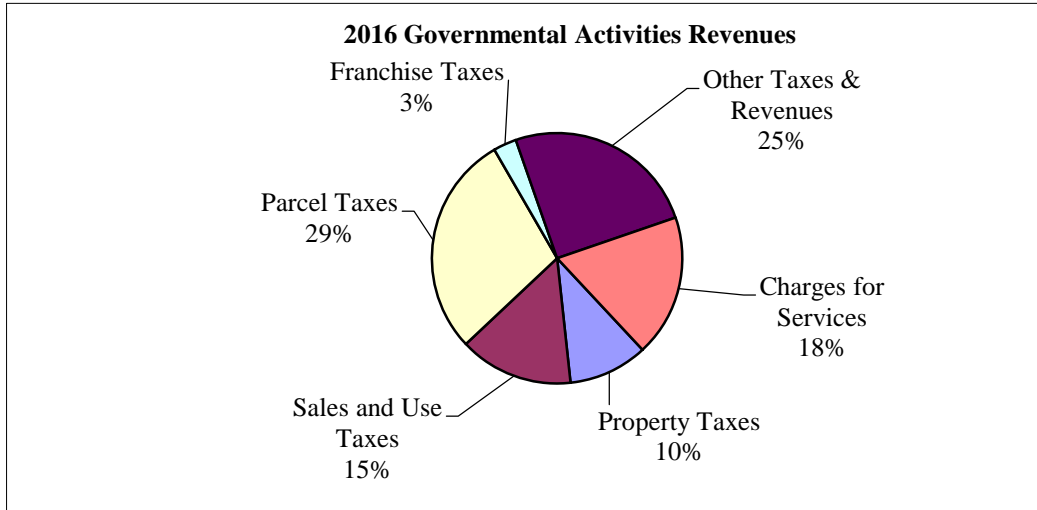
Expenses and Program Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2016 and 2015



Governmental activities consist of the following departments:

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

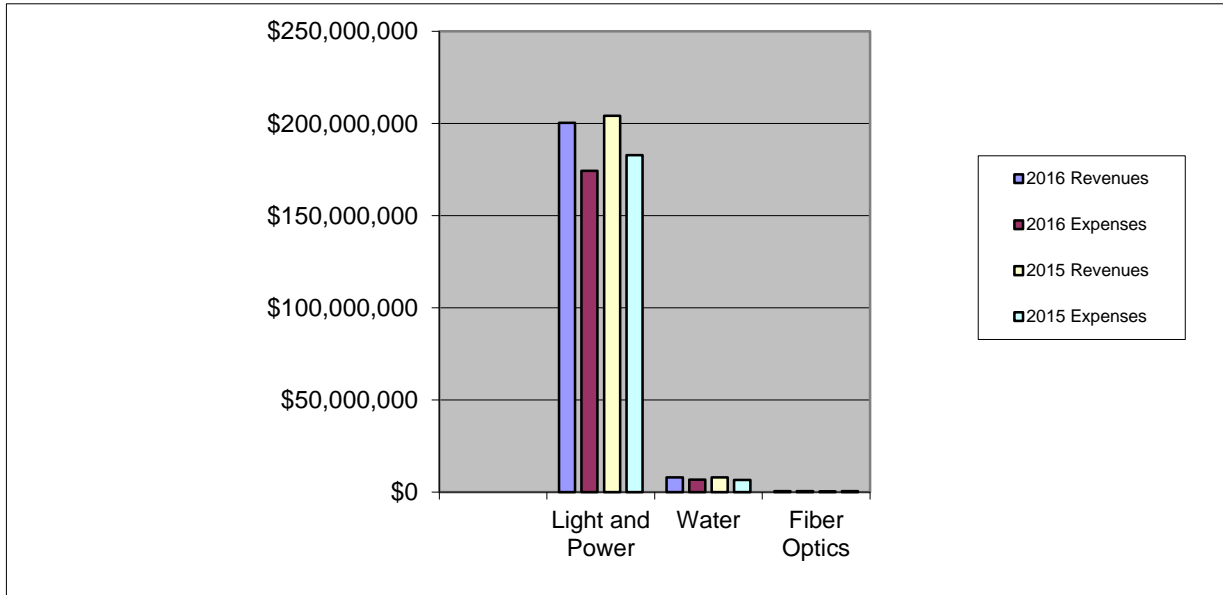
Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2016 and 2015



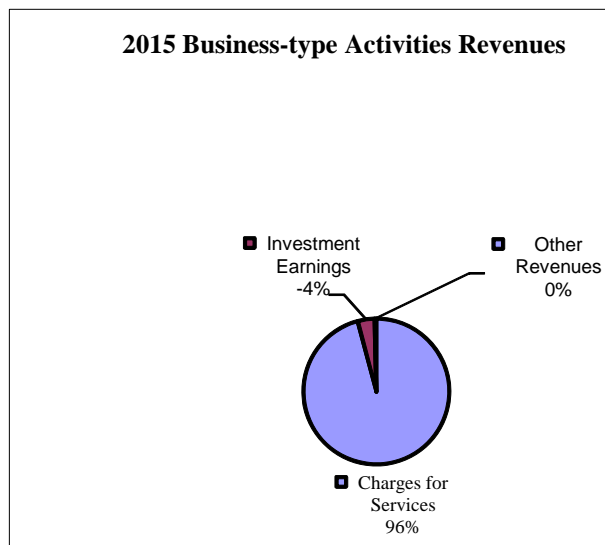
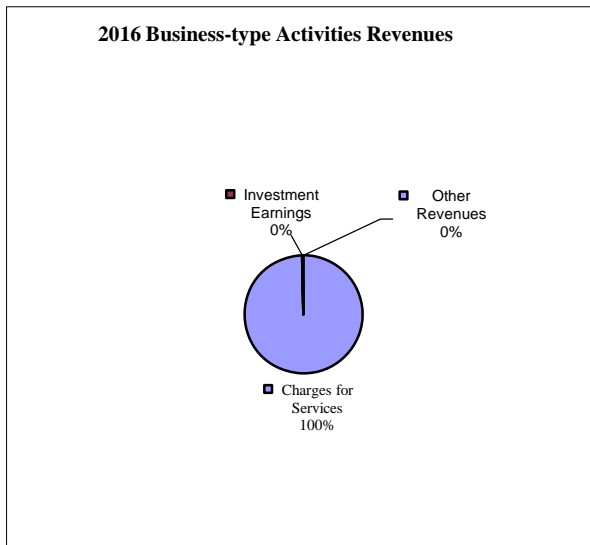
Business-type activities, changes in net position:

Business-type activities increased the City's net position by \$27,159,309 before transfers which is a \$4,729,794 increase from the prior year. The key reason for this increase was a decrease in Light and Power Enterprise's investment loss of \$8,559,965.

Revenues and Expenses — Business-type Activities
For the Fiscal Years Ended June 30, 2016 and 2015



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2016 and 2015



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

The fund accounting financial statements can be found on pages 26-29 of this report.

Governmental funds

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

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balances deficit of \$10,854,084 (See page 26), a decrease of \$4,788,734 from the prior year. Approximately 5.7% of total fund balance amount, \$618,450, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 9.7% of the total fund balance amount, \$1,047,526, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$12,520,060), is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance deficit was \$10,854,084 (See page 26). At the end of the current fiscal year, the total fund balance deficit was 20.7% as compared to the total expenditures for the year.

Proprietary funds

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

Unrestricted net position for the Light and Power Enterprise at the end of the year amounted to a deficit of \$29,862,598 (See page 30). Unrestricted net position of the Fiber Optics Fund at the end of the year amounted to a deficit of \$4,302,559. These deficit balances in unrestricted net position are primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

Total increase in net position for the Light and Power Enterprise was \$11,542,247 (See page 31). Total increase in net position for the Water Fund was \$652,100. Total decrease in net position for the Fiber Optics Fund was \$107,298. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount of change in fund balance was \$5,059,200. The key reasons for this variance was a sale of property of \$1,112,402 and excess appropriation of \$3,510,052 for capital outlay.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues were \$1,678,267. The key reason for this variance was charges for services of \$2,704,344 to the business-type funds budgeted as transfers in but recorded as charges for services.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$3,089,496. The key reasons for this variance were excess appropriations of \$3,510,052 for capital outlay.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount for other financing sources was \$291,437. The key reason for this variance was \$1,112,402 of sale of property offset by an excess appropriation over expenditure of \$820,965 for transfers in.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$271,973,791 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utilities system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$22,787,347, less sale of land of \$482,000, less sale of building and improvements of \$13,167, less write-off of construction in progress of \$122,961, less sale of intangibles (environmental credits) of \$438,285, less depreciation of \$10,066,671 for a net increase of \$11,664,260 (See Note 5).

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

- In the current year, Light and Power Enterprise added \$3,869,699 to its electrical construction in progress and \$6,094,229 to its electrical distribution plant (net of accumulated depreciation).

There were no significant construction commitments outstanding as of June 30, 2016.

Additional information on the City's capital assets can be found in Note 5 on pages 49-52 of this report.

Outstanding debt

As of June 30, 2016, the following debt remains outstanding:

- \$41,840,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$165,005,000 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
- \$111,720,000 City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A

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 City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue 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 costs of issuance of the 2015 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.

On August 19, 2016, Moody's placed the City of Vernon Electric's Baa1 rating under review for a possible downgrade.

Additional information on the City's long-term debt can be found in Note 6 on pages 52-58 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2017 fiscal year.

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of adjacent communities is currently 5.0%. This compares favorably to the State of California's average unemployment rate of 5.7% and closely approximates the national average unemployment rate of 4.9%.
- The occupancy rate of the City's central business district has improved to 98.0% from 96.1% during the current year.
- Inflationary trends in the region compare favorably to national indices.

CURRENTLY KNOWN FACTS

- The ratings on all Electric System Revenue Bonds of the City has not changed from the prior year with an A- rating by S&P.
- On October 18, 2016, Moody's downgraded the City of Vernon Electric's Baa1 rating to Baa3 with a negative outlook.

REQUESTS FOR INFORMATION

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

CITY OF VERNON, CALIFORNIA
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 916,576	\$ 107,464,883	\$ 108,381,459
Receivables, net of allowances of \$150,000 for business-type activities	2,103,352	5,851,656	7,955,008
Accrued unbilled revenue	-	11,828,490	11,828,490
Accrued interest receivable	-	42,885	42,885
Escrow deposits	-	940,000	940,000
Inventories	618,450	-	618,450
Prepaid expenses	-	1,512,031	1,512,031
Prepaid natural gas	-	139,988,561	139,988,561
Restricted cash and investments	3,656,716	38,533,372	42,190,088
Note receivable	-	620,039	620,039
Capital assets:			
Nondepreciable	15,838,010	66,627,563	82,465,573
Depreciable, net	30,110,606	159,397,612	189,508,218
Total assets	<u>53,243,710</u>	<u>532,807,092</u>	<u>586,050,802</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount on refunding	-	13,436,342	13,436,342
Deferred outflows related to pensions	8,566,585	-	8,566,585
Total deferred outflows of resources	<u>8,566,585</u>	<u>13,436,342</u>	<u>22,002,927</u>
LIABILITIES:			
Accounts payable	2,373,930	10,507,269	12,881,199
Due to Successor Agency	38,454	-	38,454
Accrued wages and benefits	1,948,687	-	1,948,687
Customer deposits and funds held for others	136,324	1,069,469	1,205,793
Unearned revenue	313,409	-	313,409
Derivative liabilities	-	8,318	8,318
Bond interest payable	-	9,113,697	9,113,697
Note interest payable	-	-	-
Current portion of long-term liabilities:			
Postemployment benefit liability	729,831	-	729,831
Bonds payable, net	-	22,720,088	22,720,088
Notes payable	-	-	-
Claims payable	1,104,482	-	1,104,482
Compensated absences	1,455,881	247,605	1,703,486
Noncurrent liabilities:			
Internal balances	13,338,374	(13,338,374)	-
Postemployment benefit liability	20,019,446	-	20,019,446
Bonds payable, net	-	362,707,033	362,707,033
Notes payable	-	-	-
Claims payable	2,208,963	-	2,208,963
Compensated absences	2,911,763	495,210	3,406,973
Net pension liability	76,491,935	-	76,491,935
Total liabilities	<u>123,071,479</u>	<u>393,530,315</u>	<u>516,601,794</u>
DEFERRED INFLOWS OF RESOURCES:			
Current deferred inflows of resources:			
Deferred inflows related to pensions	20,559,336	-	20,559,336
Deferred gain from sale of generation assets	-	5,478,716	5,478,716
Noncurrent deferred inflows of resources:			
Deferred gain from sale of generation assets	-	22,910,174	22,910,174
Total deferred inflows of resources	<u>20,559,336</u>	<u>28,388,890</u>	<u>48,948,226</u>
NET POSITION:			
Net investment in capital assets	45,948,616	148,525,296	194,473,912
Restricted for:			
Grants	1,047,526	-	1,047,526
Unrestricted (deficit)	(128,816,662)	(24,201,067)	(153,017,729)
Total net position	<u>\$ (81,820,520)</u>	<u>\$ 124,324,229</u>	<u>\$ 42,503,709</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
FUNCTION/PROGRAM ACTIVITIES:							
Governmental activities:							
General government	\$ 13,937,697	\$ 3,231,181	\$ 587,301	\$ -	\$ (10,119,215)	\$ -	\$ (10,119,215)
Public safety	30,961,466	722,065	899,850	-	(29,339,551)	-	(29,339,551)
Public works	6,682,258	2,058,110	-	1,891	(4,622,257)	-	(4,622,257)
Health services	1,972,497	1,605,497	95,175	-	(271,825)	-	(271,825)
Interest on long-term debt	-	-	-	-	-	-	-
Total governmental activities	<u>53,553,918</u>	<u>7,616,853</u>	<u>1,582,326</u>	<u>1,891</u>	<u>(44,352,848)</u>	<u>-</u>	<u>(44,352,848)</u>
Business-type activities:							
Light and power enterprise	174,294,995	199,501,501	-	-	-	25,206,506	25,206,506
Water	6,824,995	8,042,095	-	-	-	1,217,100	1,217,100
Fiber optics	594,528	487,230	-	-	-	(107,298)	(107,298)
Total business-type activities	<u>181,714,518</u>	<u>208,030,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,316,308</u>	<u>26,316,308</u>
Total	<u>\$ 235,268,436</u>	<u>\$ 215,647,679</u>	<u>\$ 1,582,326</u>	<u>\$ 1,891</u>	<u>(44,352,848)</u>	<u>26,316,308</u>	<u>(18,036,540)</u>
General revenues:							
Property taxes					4,251,386	-	4,251,386
Parcel taxes					11,913,720	-	11,913,720
Utility users taxes					1,944,586	-	1,944,586
Franchise taxes					1,255,747	-	1,255,747
Business license taxes					5,453,028	-	5,453,028
Other license taxes					10,133	-	10,133
Investment income (loss)					(21,005)	280,776	259,771
Net increase in fair value of investments					-	(285,121)	(285,121)
State contribution - sales and use taxes					6,114,503	-	6,114,503
Gain on sale of land					617,734	-	617,734
Gain on sale of assets					-	195,390	195,390
Other revenues					832,534	651,956	1,484,490
Transfers					<u>15,072,260</u>	<u>(15,072,260)</u>	<u>-</u>
Total general revenues and transfers					<u>47,444,626</u>	<u>(14,229,259)</u>	<u>33,215,367</u>
Change in net position					3,091,778	12,087,049	15,178,827
NET POSITION, BEGINNING OF YEAR					<u>(84,912,298)</u>	<u>112,237,180</u>	<u>27,324,882</u>
NET POSITION, END OF YEAR					<u>\$ (81,820,520)</u>	<u>\$ 124,324,229</u>	<u>\$ 42,503,709</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2016

	General Fund
ASSETS:	
Cash and investments	\$ 916,576
Receivables	2,103,352
Inventories	618,450
Restricted cash and investments	3,656,716
Land held for resale	-
Total assets	<u>\$ 7,295,094</u>
LIABILITIES:	
Liabilities:	
Accounts payable	\$ 2,373,930
Accrued wages and benefits	1,948,687
Due to Successor Agency	38,454
Advance from other funds	13,338,374
Customer deposits and funds held for others	136,324
Total liabilities	<u>17,835,769</u>
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenue	313,409
Total deferred inflows of resources	<u>313,409</u>
FUND BALANCES:	
Nonspendable:	
Inventories	618,450
Restricted for:	
Federal forfeiture funds	1,047,526
Unassigned	(12,520,060)
Total fund balances	<u>(10,854,084)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,295,094</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Position - Governmental Activities
 June 30, 2016

Fund balances - total governmental fund (page 26)	\$	(10,854,084)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		45,948,616
Because the focus of governmental fund is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets, such as land held for resale, are offset by unavailable revenue in the governmental fund.		-
Deferred pension cost are not financial resources and therefore are not reported in the governmental fund.		8,566,585
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.		(4,367,644)
The cost for postemployment benefits other than pensions are funded on a pay-as-you-go basis; however, the unfunded portion is not due and payable in the current period and therefore is not reported in the governmental fund.		(20,749,277)
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the governmental fund.		
Net pension liability		(76,491,935)
Deferred inflows - pension actuarial		(20,559,336)
Claims payable		(3,313,445)
		(81,364,716)
Net position of governmental activities (page 24)	\$	(81,820,520)

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund
REVENUES:	
Taxes	\$ 29,787,074
Special assessments	1,116,687
Licenses and permits	2,547,506
Fines, forfeitures and penalties	243,254
Investment income (loss)	(21,005)
Intergovernmental revenues	1,615,319
Charges for services	4,155,761
Other revenues	1,511,105
Total revenues	40,955,701
 EXPENDITURES:	
Current:	
General government	11,277,235
Public safety	28,154,132
Public works	5,879,125
Health services	2,025,989
Capital outlay:	
General government	822,782
Public safety	1,807,169
Public works	2,385,697
Health services	-
Debt service:	
Principal retirement	-
Note interest	-
Total expenditures	52,352,129
Revenues under expenditures	(11,396,428)
 Other financing sources (uses)	
Sale of property	1,112,902
Transfers in	15,072,260
Total other financing sources (uses)	16,185,162
 NET CHANGE IN FUND BALANCES	4,788,734
 FUND BALANCES (DEFICITS), BEGINNING OF YEAR	(15,642,818)
 FUND BALANCES (DEFICITS), END OF YEAR	\$ (10,854,084)

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities - Governmental Activities
 For the Fiscal Year Ended June 30, 2016

Net change in fund balances - total governmental fund (page 28) \$ 4,788,734

Amounts reported for governmental activities in the statement of activities are different because:

Expenditures for capital assets	\$ 5,015,648	
Capital asset write-off	(122,961)	
Less current year depreciation	<u>(2,465,482)</u>	2,427,205

The effect of various miscellaneous transactions involving sale of land is to decrease net assets.

Sale of and gain on sale of land		(495,168)
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Pension contribution after measurement date was reported as expenditure in the governmental fund but deferred in the Statement of Net Position

Change in pension contribution		(152,919)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental fund:

Change in net pension liability		2,128,095
Change in net difference between projected and actual earnings on pension plan		(1,975,176)
Change in long-term compensated absences		(249,619)
Change in net postemployment benefits other than pension obligation		(3,427,217)
Change in claims payable		<u>47,843</u>

Change in net position of governmental activities (page 25) \$ 3,091,778

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Position
Proprietary Funds
June 30, 2016

	Business-type Activities			Totals
	Enterprise Funds			
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
ASSETS:				
Current assets:				
Cash and investments	\$ 107,206,737	\$ -	\$ 258,146	\$ 107,464,883
Accounts receivable, net of allowances of \$150,000	5,295,746	533,632	22,278	5,851,656
Accrued unbilled revenue	11,567,556	260,934	-	11,828,490
Accrued interest receivable	42,885	-	-	42,885
Escrow deposits	940,000	-	-	940,000
Inventories	-	-	-	-
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	479,908	-	-	479,908
Total current assets	<u>154,111,175</u>	<u>794,566</u>	<u>280,424</u>	<u>155,186,165</u>
Noncurrent assets:				
Restricted cash and investments	38,533,372	-	-	38,533,372
Advances to other funds	7,118,325	10,774,621	-	17,892,946
Prepaid expenses	1,512,031	-	-	1,512,031
Prepaid natural gas	111,410,218	-	-	111,410,218
Note receivable	140,131	-	-	140,131
Capital assets:				
Nondepreciable	65,052,865	1,574,698	-	66,627,563
Depreciable, net	152,066,706	5,251,337	2,079,569	159,397,612
Total noncurrent assets	<u>375,833,648</u>	<u>17,600,656</u>	<u>2,079,569</u>	<u>395,513,873</u>
Total assets	<u>529,944,823</u>	<u>18,395,222</u>	<u>2,359,993</u>	<u>550,700,038</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Current deferred outflows of resources:				
Deferred amount on refunding	2,508,853	-	-	2,508,853
Noncurrent deferred outflows of resources:				
Deferred amount on refunding	10,927,489	-	-	10,927,489
Total deferred outflows of resources	<u>13,436,342</u>	<u>-</u>	<u>-</u>	<u>13,436,342</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	9,495,570	995,658	16,041	10,507,269
Customer deposits	623,685	445,784	-	1,069,469
Derivative liabilities	8,318	-	-	8,318
Bond interest	9,113,697	-	-	9,113,697
Bonds payable, net	22,720,088	-	-	22,720,088
Compensated absences	188,930	54,551	4,124	247,605
Total current liabilities	<u>42,150,288</u>	<u>1,495,993</u>	<u>20,165</u>	<u>43,666,446</u>
Noncurrent liabilities:				
Advances from other funds	-	-	4,554,572	4,554,572
Bonds payable, net	362,707,033	-	-	362,707,033
Compensated absences	377,860	109,104	8,246	495,210
Total noncurrent liabilities	<u>363,084,893</u>	<u>109,104</u>	<u>4,562,818</u>	<u>367,756,815</u>
Total liabilities	<u>405,235,181</u>	<u>1,605,097</u>	<u>4,582,983</u>	<u>411,423,261</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	5,478,716	-	-	5,478,716
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	22,910,174	-	-	22,910,174
Total deferred inflows of resources	<u>28,388,890</u>	<u>-</u>	<u>-</u>	<u>28,388,890</u>
NET POSITION:				
Net investment in capital assets	139,619,692	6,826,035	2,079,569	148,525,296
Unrestricted (deficit)	(29,862,598)	9,964,090	(4,302,559)	(24,201,067)
Total net position	<u>\$ 109,757,094</u>	<u>\$ 16,790,125</u>	<u>\$ (2,222,990)</u>	<u>\$ 124,324,229</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-type Activities Enterprise Funds			Totals
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
	Enterprise	Fund	Fund	
OPERATING REVENUES:				
Charges for services	\$ 199,501,501	\$ 8,042,095	\$ 487,230	\$ 208,030,826
Total operating revenues	<u>199,501,501</u>	<u>8,042,095</u>	<u>487,230</u>	<u>208,030,826</u>
OPERATING EXPENSES:				
Cost of sales	150,231,759	6,501,438	305,296	157,038,493
Depreciation and amortization	6,988,400	323,557	289,232	7,601,189
Total operating expenses	<u>157,220,159</u>	<u>6,824,995</u>	<u>594,528</u>	<u>164,639,682</u>
Operating income (loss)	<u>42,281,342</u>	<u>1,217,100</u>	<u>(107,298)</u>	<u>43,391,144</u>
NONOPERATING REVENUE (EXPENSES):				
Investment income	280,776	-	-	280,776
Net decrease in fair value of investments	(285,121)	-	-	(285,121)
Interest expense	(17,074,836)	-	-	(17,074,836)
Gain on sale of assets	195,390	-	-	195,390
Legal settlement	651,956	-	-	651,956
Total nonoperating revenue (expenses), net	<u>(16,231,835)</u>	<u>-</u>	<u>-</u>	<u>(16,231,835)</u>
Income (loss) before transfers	26,049,507	1,217,100	(107,298)	27,159,309
Transfers out	<u>(14,507,260)</u>	<u>(565,000)</u>	<u>-</u>	<u>(15,072,260)</u>
Change in net position	11,542,247	652,100	(107,298)	12,087,049
Net position, beginning of the year	98,214,847	16,138,025	(2,115,692)	112,237,180
Net position, end of the year	<u>\$ 109,757,094</u>	<u>\$ 16,790,125</u>	<u>\$ (2,222,990)</u>	<u>\$ 124,324,229</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Business-type Activities - Enterprise Funds			Total
	Light and Power Enterprise	Water Fund	Fiber Optics Fund	
Cash flows from operating activities:				
Cash received from customers	\$ 236,470,265	\$ 8,197,216	\$ 521,317	\$ 245,188,798
Cash paid to suppliers for goods and services	(145,046,558)	(4,501,707)	(241,391)	(149,789,656)
Cash paid to employees for services	(6,451,118)	(1,936,790)	(67,346)	(8,455,254)
Net cash provided by operating activities	<u>84,972,589</u>	<u>1,758,719</u>	<u>212,580</u>	<u>86,943,888</u>
Cash flows from noncapital financing activities:				
Transfers to City	(14,507,260)	(565,000)	-	(15,072,260)
Collection of note receivable	449,197	-	-	449,197
Net cash used in noncapital financing activities	<u>(14,058,063)</u>	<u>(565,000)</u>	<u>-</u>	<u>(14,623,063)</u>
Cash flows from capital and related financing activities:				
Proceeds from bond issuance	111,720,000	-	-	111,720,000
Repayment of bonds	(106,220,000)	-	-	(106,220,000)
Bond interest paid	(17,247,954)	-	-	(17,247,954)
Sale of environmental credits	633,675	-	-	633,675
Acquisition and construction of capital assets, net	(16,116,721)	(1,193,719)	(56,098)	(17,366,538)
Net cash provided by (used in) capital and related financing activities	<u>(27,231,000)</u>	<u>(1,193,719)</u>	<u>(56,098)</u>	<u>(28,480,817)</u>
Cash flows from investing activities:				
Purchases and sales of investments, net	(26,199,538)	-	-	(26,199,538)
Investment loss net of interest rate swap payments on investment derivatives	366,238	-	-	366,238
Net cash used in investing activities	<u>(25,833,300)</u>	<u>-</u>	<u>-</u>	<u>(25,833,300)</u>
Net increase (decrease) in cash and cash equivalents	17,850,226	-	156,482	18,006,708
Cash and cash equivalents, beginning of year	120,288,964	-	101,664	120,390,628
Cash and cash equivalents, end of year	<u>\$ 138,139,190</u>	<u>\$ -</u>	<u>\$ 258,146</u>	<u>\$ 138,397,336</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 42,281,342	\$ 1,217,100	\$ (107,298)	\$ 43,391,144
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	6,988,400	323,557	289,232	7,601,189
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Accounts receivable	(2,400)	11,953	(6,021)	3,532
Advance to (from) City	6,173,102	76,068	40,108	6,289,278
Accrued unbilled revenue	(154,074)	67,100	-	(86,974)
Inventories	45,730	-	-	45,730
Prepaid expenses and deposits	2,241,753	-	-	2,241,753
Prepaid natural gas	28,664,653	-	-	28,664,653
Increase (decrease) in:				
Accounts payable	1,559,765	(55,737)	(4,159)	1,499,869
Customer deposits	150	133,300	-	133,450
Compensated absences	(39,132)	(14,622)	718	(53,036)
Deferred gain from sale of generation assets	(2,786,700)	-	-	(2,786,700)
Net cash provided by (used in) operating activities	<u>\$ 84,972,589</u>	<u>\$ 1,758,719</u>	<u>\$ 212,580</u>	<u>\$ 86,943,888</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:				
Cash and investments	\$ 107,206,737	\$ -	\$ 258,146	\$ 107,464,883
Noncurrent restricted cash and investments	38,533,372	-	-	38,533,372
Total	145,740,109	-	258,146	145,998,255
Less: Investments with maturities of more than 90 days	(7,600,919)	-	-	(7,600,919)
Total cash and cash equivalents	<u>\$ 138,139,190</u>	<u>\$ -</u>	<u>\$ 258,146</u>	<u>\$ 138,397,336</u>
Noncash Capital, Investing and Financing Activities:				
Acquisition of capital assets in accounts payable	\$ 233,129	\$ 308,514	\$ 8,683	\$ 550,326
Increase (Decrease) in fair value of investments	(285,121)	-	-	(285,121)
Amortization of deferred gain from sale of generation assets	2,786,700	-	-	2,786,700
Capitalized interest	5,707,669	-	-	5,707,669

CITY OF VERNON, CALIFORNIA

Statement of Fiduciary Net Position

Fiduciary Fund

June 30, 2016

	Vernon Redevelopment Successor Agency Fund
	<hr/>
ASSETS:	
Current assets:	
Cash and investments	\$ -
Taxes receivable	22,364
Due from City	38,454
Other receivable	33,903
Total current assets	<hr/> 94,721 <hr/>
Noncurrent assets:	
Restricted cash and investments	46,634,002
Accumulated redevelopment project costs	
Nondepreciable	24,838,594
Capital assets:	
Nondepreciable	774,296
Depreciable, net	13,678,032
Total noncurrent assets	<hr/> 85,924,924 <hr/>
Total assets	<hr/> 86,019,645 <hr/>
LIABILITIES:	
Customer deposits	42,968
Unearned revenue	4,391,071
Bond interest	1,066,573
Long-term liabilities:	
Due within one year:	
Bonds payable, net	2,780,435
Total current liabilities	<hr/> 8,281,047 <hr/>
Due in more than one year:	
Bonds payable, net	52,974,500
Total noncurrent liabilities	<hr/> 52,974,500 <hr/>
Total liabilities	<hr/> 61,255,547 <hr/>
NET POSITION:	
Total net position held in trust for dissolution of former Redevelopment Agency	<hr/> \$ 24,764,098 <hr/>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Five Months Ended June 30, 2016

	Vernon Redevelopment Successor Agency Fund <hr/>
ADDITIONS:	
Property tax increment	\$ 1,613,387
Investment earnings	80,891
Net decrease in fair value of investments	(12,938)
Total additions	<hr/> <u>1,681,340</u>
DEDUCTIONS:	
Community development	701,679
Loss on sale of capital asset	1,258,501
Interest on long-term debt	3,266,445
Total deductions	<hr/> <u>5,226,625</u>
Change in net position	(3,545,285)
Net position, beginning of the year	<hr/> <u>28,309,383</u>
Net position, end of the year	<hr/> <u>\$ 24,764,098</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2016, the City had no blended component units or any discretely presented component units.

Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Cash Deposits and Investments

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

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

Receivables/Payables

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$150,000 as of June 30, 2016. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Inventories

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

The estimated useful lives are as follows:

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

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

Compensated Absences

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

Deferred Outflows and Inflows of Resources

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

Net Position

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

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

Fund Balance

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Encumbrances

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

Use of Estimates

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

Property Taxes

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Statement of net position:	Primary Government	Fiduciary Fund
Cash and investments	\$ 108,381,881	\$ -
Restricted cash and investments	42,190,088	46,634,002
Total cash and investments	\$ 150,571,969	\$ 46,634,002

Cash and investments as of June 30, 2016 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	36,346,197	18,434,388
Investments	114,224,472	28,199,614
Total cash and investments	\$ 150,571,969	\$ 46,634,002

The City's Investment Policy

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

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

Investments Authorized by Debt Agreements

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2016	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
<u>Primary Government:</u>					
Money Market Funds	\$ 100,183,818	\$ 100,183,818	\$ -	\$ -	87.7%
Local Agency Investment Fund	543,472	543,472	-	-	0.5%
U.S. Treasury Notes	10,926,787	10,926,787	-	-	9.6%
Federal Home Loan Mortgage Corporation	2,570,395	2,570,395	-	-	2.3%
Total Investments	\$ 114,224,472	\$ 114,224,472	\$ -	\$ -	100.0%
<u>Fiduciary Fund:</u>					
Money Market Funds	\$ 4,601,227	\$ 4,601,227	\$ -	\$ -	16.3%
U.S. Treasury Notes	1,073,552	1,073,552	-	-	3.8%
Local Agency Investment Fund	22,524,835	22,524,835	-	-	79.9%
Total Investments	\$ 28,199,614	\$ 28,199,614	\$ -	\$ -	100.0%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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, 2016	% of Total
<u>Primary Government:</u>				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	36,344,893	24.1%
Local Agency Investment Fund	None	Not Rated	543,472	0.4%
Federal Home Loan Mortgage Corporation	None	Aaa / AA+	2,570,397	1.7%
Total in custody of Treasurer			39,460,062	26.2%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	1,304	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	100,183,818	66.5%
U.S. Treasury Notes	None	Aaa / AA+	10,926,785	7.3%
Total in custody of Trustee			111,111,907	73.8%
Total cash and investments held by Treasurer and Trustee			\$ 150,571,969	100.0%

Fiduciary Fund:

In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 8,468,880	18.2%
Local Agency Investment Fund			22,524,835	48.3%
Total in custody of Treasurer			30,993,715	66.5%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	9,965,508	21.4%
Money Market Funds	Aaa / AAA	Aaa / AAA	4,601,227	9.9%
U.S. Treasury Notes	None	Aaa / AA+	1,073,552	2.2%
Total in custody of Trustee			15,640,287	33.5%
Total cash and investments held by Treasurer and Trustee			\$ 46,634,002	100.0%

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2016, there were no investments held by the City that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

Custodial Credit Risk

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

At year-end, the carrying amount of the City's and Fiduciary Fund's deposits were \$36,346,197 and \$18,434,388, respectively. The bank balances were \$36,674,487 and \$18,434,388, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2016, none of City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$36,424,487 and \$18,184,388 were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The City and Fiduciary Fund also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$543,472 and \$22,524,835, respectively, at June 30, 2016. 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 City's position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 2016 was \$30.59 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$75.37 billion at June 30, 2016. Of this amount, 1.55% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The weighted average maturity of PMIA investments was 0.46 years as of June 30, 2016. LAIF does not maintain a credit rating.

Fair Value Measurement

During the fiscal year ended June 30, 2016, the City implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The following table represents the City's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

Investments by fair value level	Fair value	Fair value measurement using significant other observable inputs (Level 2)
Money Market Funds	\$ 104,785,045	\$ 104,785,045
U.S. Treasury Notes	12,000,337	12,000,337
Federal Home Loan Mortgage Corporation	2,570,397	2,570,397
Total	119,355,779	\$ 119,355,779
Uncategorized:		
Local Agency Investment Fund	23,068,307	
Total investments measured at fair value	\$ 142,424,086	

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2016 are as follows:

Receivables - Governmental Activities:	General Fund	Total Governmental Activities
Accounts receivables	\$ 191,158	\$ 191,158
Taxes	1,889,269	1,889,269
Notes or loans	19,578	19,578
Other	3,347	3,347
Total receivables	\$ 2,103,352	\$ 2,103,352

Receivables - Business-type Activities:	Light and Power Enterprise	Water Fund	Fiber Optics Fund	Total Business-type Activities
Accounts receivables	\$ 5,445,746	\$ 533,632	\$ 22,278	\$ 6,001,656
Less: Allowances for uncollectible accounts	(150,000)	-	-	(150,000)
Total receivables, net	\$ 5,295,746	\$ 533,632	\$ 22,278	\$ 5,851,656

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2016:

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Light and Power Enterprise	General Fund	\$ 2,563,754
	Fiber Optics Fund	4,554,572
		<u>\$ 7,118,326</u>
Water Fund	General Fund	\$ 10,774,621
		<u>\$ 10,774,621</u>

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

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Enterprise	\$ 14,507,260
	Water Fund	565,000
		<u>\$ 15,072,260</u>

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

During the current year, the Light and Power Enterprise transferred a total of \$14,507,260 to the General Fund consisting of \$4,459,512 of in-lieu franchise taxes and \$10,047,748 of operating transfers. During the current year, the Water Fund transferred a total of \$565,000 of operating transfers.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 14,297,072	\$ -	\$ (482,000)	\$ 13,815,072
Construction in Progress	1,253,081	1,292,428	(522,571)	2,022,938
Total capital assets, not being depreciated	<u>15,550,153</u>	<u>1,292,428</u>	<u>(1,004,571)</u>	<u>15,838,010</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	31,622,266	1,945,261	-	33,567,527
Building and Improvements	14,930,501	87,820	(20,300)	14,998,021
Improvements Other Than Buildings	11,005,494	-	-	11,005,494
Machinery and Equipment	24,572,104	2,089,748	-	26,661,852
Total capital assets, being depreciated	<u>82,130,365</u>	<u>4,122,829</u>	<u>(20,300)</u>	<u>86,232,894</u>
Less accumulated depreciation for:				
Infrastructure	(23,328,522)	(653,047)	-	(23,981,569)
Building and Improvements	(6,955,502)	(310,860)	7,133	(7,259,229)
Improvements Other Than Buildings	(4,420,347)	(282,870)	-	(4,703,217)
Machinery and Equipment	(18,959,568)	(1,218,705)	-	(20,178,273)
Total accumulated depreciation	<u>(53,663,939)</u>	<u>(2,465,482)</u>	<u>7,133</u>	<u>(56,122,288)</u>
Total capital assets, being depreciated, net				
Infrastructure	8,293,744	1,292,214	-	9,585,958
Building and Improvements	7,974,999	(223,040)	(13,167)	7,738,792
Improvements Other Than Buildings	6,585,147	(282,870)	-	6,302,277
Machinery and Equipment	5,612,536	871,043	-	6,483,579
Total	<u>28,466,426</u>	<u>1,657,347</u>	<u>(13,167)</u>	<u>30,110,606</u>
Governmental activities capital assets, net	<u>\$ 44,016,579</u>	<u>\$ 2,949,775</u>	<u>\$ (1,017,738)</u>	<u>\$ 45,948,616</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 807,718
Public safety	813,946
Public works	835,338
Health services	8,480
Total depreciation expense - governmental functions	<u>\$ 2,465,482</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of fiduciary activities for the fiscal year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<u>Fiduciary activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Accumulated redevelopment project costs	\$ 24,838,594	\$ -	\$ -	\$ 24,838,594
Land	774,296	-	-	774,296
Total capital assets, not being depreciated	<u>25,612,890</u>	<u>-</u>	<u>-</u>	<u>25,612,890</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	18,398,638	-	-	18,398,638
Improvements Other Than Buildings	12,523	-	-	12,523
Machinery and Equipment	28,710	-	-	28,710
Total capital assets, being depreciated	<u>18,439,871</u>	<u>-</u>	<u>-</u>	<u>18,439,871</u>
Less accumulated depreciation for:				
Infrastructure	(4,153,894)	(590,328)	-	(4,744,222)
Improvements Other Than Buildings	(2,949)	(308)	-	(3,257)
Machinery and Equipment	(12,146)	(2,214)	-	(14,360)
Total accumulated depreciation	<u>(4,168,989)</u>	<u>(592,850)</u>	<u>-</u>	<u>(4,761,839)</u>
Total capital assets, being depreciated, net				
Infrastructure	14,244,744	(590,328)	-	13,654,416
Improvements Other Than Buildings	9,574	(308)	-	9,266
Machinery and Equipment	16,564	(2,214)	-	14,350
Total	<u>14,270,882</u>	<u>(592,850)</u>	<u>-</u>	<u>13,678,032</u>
Fiduciary activities capital assets, net	<u>\$ 39,883,772</u>	<u>\$ (592,850)</u>	<u>\$ -</u>	<u>\$ 39,290,922</u>

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land - L&P	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	467,640
Intangibles - Environmental credits - L&P	1,636,273	-	(438,285)	1,197,988
Construction in Progress - L&P	50,708,583	3,869,699	-	54,578,282
Construction in Progress - Water	1,107,057	-	-	1,107,057
Total capital assets, not being depreciated	<u>63,196,149</u>	<u>3,869,699</u>	<u>(438,285)</u>	<u>66,627,563</u>
<i>Capital assets, being depreciated</i>				
Production plant - L&P	15,399,113	662,330	-	16,061,443
Transmission plant - L&P	4,888,113	-	-	4,888,113
Distribution plant - L&P	176,648,651	11,407,796	-	188,056,447
General plant - L&P	8,415,487	100,966	-	8,516,453
Water utility plant	17,662,120	1,502,233	-	19,164,353
Gas utility plant	26,018,021	163,893	-	26,181,914
Fiber Optic utility plant	4,021,904	64,780	-	4,086,684
Total capital assets, being depreciated	<u>253,053,409</u>	<u>13,901,998</u>	<u>-</u>	<u>266,955,407</u>
Less accumulated depreciation for:				
Production plant - L&P	(8,009,113)	(442,114)	-	(8,451,227)
Transmission plant - L&P	(2,858,266)	(96,197)	-	(2,954,463)
Distribution plant - L&P	(63,485,240)	(5,313,567)	-	(68,798,807)
General plant - L&P	(3,637,162)	(369,774)	-	(4,006,936)
Water utility plant	(13,589,457)	(323,557)	-	(13,913,014)
Gas utility plant	(6,659,484)	(766,748)	-	(7,426,232)
Fiber Optic utility plant	(1,717,884)	(289,232)	-	(2,007,116)
Total accumulated depreciation	<u>(99,956,606)</u>	<u>(7,601,189)</u>	<u>-</u>	<u>(107,557,795)</u>
Total capital assets, being depreciated, net				
Production plant - L&P	7,390,000	220,216	-	7,610,216
Transmission plant - L&P	2,029,847	(96,197)	-	1,933,650
Distribution plant - L&P	113,163,411	6,094,229	-	119,257,640
General plant - L&P	4,778,325	(268,808)	-	4,509,517
Water utility plant	4,072,663	1,178,676	-	5,251,339
Gas utility plant	19,358,537	(602,855)	-	18,755,682
Fiber Optic utility plant	2,304,020	(224,452)	-	2,079,568
Total	<u>153,096,803</u>	<u>6,300,809</u>	<u>-</u>	<u>159,397,612</u>
Business-type activities capital assets, net	<u>\$ 216,292,952</u>	<u>\$ 10,170,508</u>	<u>\$ (438,285)</u>	<u>\$ 226,025,175</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Depreciation

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

Light and Power Fund	\$ 6,221,652
Gas Fund	766,748
Water Fund	323,557
Fiber Optics Fund	289,232
Total depreciation expense - business-type functions	\$ 7,601,189

NOTE 6 – LONG-TERM OBLIGATIONS

During the fiscal year 2016, a total of \$111,720,000 in bonds were issued and as of June 30, 2016, \$391,305,000 remained outstanding consisting of the following:

\$41,840,000 Electric System Revenue Bonds (2008 Taxable Series A)

At June 30, 2016, \$41,840,000 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 \$96,700,254, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,977,355 and \$169,087,031, 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, 2016, \$165,005,000 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 \$191,330,972, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$42,306,756 and \$169,087,031, 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, 2016, \$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 \$80,410,783, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$169,087,031, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

At June 30, 2016, \$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 \$53,394,004, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$169,087,031, 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.

\$111,720,000 Electric System Revenue Bonds (2015 Taxable Series A)

At June 30, 2016, \$111,720,000 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 \$154,665,124, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,685,079 and \$169,087,031, 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, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue 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 costs of issuance of the 2015 Bonds.

The advance refunding in 2016 resulted in a difference (a loss) between the reacquisition price and the net carrying amount of the old debt of \$7,874,237. The City decreased its debt service payment by \$13,959,243 resulting in an economic gain of \$904,994.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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, 2016
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	\$ 41,840,000
City of Vernon Electric System Revenue Bonds, 2009 Series A	08/01/21	5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	165,005,000
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
City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A	08/01/26	4.050% - 4.850%	To begin 08/01/23: \$15,295,000 - \$22,540,000	\$ 111,720,000	\$ 111,720,000
Premium					168,950
Discounts					(6,046,829)
Total Revenue Bonds				<u>\$ 647,625,000</u>	<u>\$ 385,427,121</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2016, 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*
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	865,000	3,373,508
2022-2026	5,640,000	15,553,484
2027-2031	8,670,000	12,525,079
2032-2036	13,315,000	7,872,520
2037-2039	11,215,000	1,500,458
Total requirements	<u>\$ 41,840,000</u>	<u>\$ 54,860,254</u>

*As of June 30, 2016, 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*
2017	\$ 23,060,000	\$ 7,865,594
2018	25,370,000	6,624,575
2019	28,825,000	5,235,828
2020	29,755,000	3,734,716
2021	31,085,000	2,175,691
2022	26,910,000	689,569
Total requirements	<u>\$ 165,005,000</u>	<u>\$ 26,325,972</u>

*As of June 30, 2016, debt service for 2009 Series A was calculated based upon fixed coupon rate of 5.125%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2017	\$ -	\$ 2,031,394
2018	-	2,031,394
2019	-	2,031,394
2020	-	2,031,394
2021	-	2,031,394
2022-2026	-	10,156,969
2027-2031	4,645,000	9,610,323
2032-2036	7,315,000	7,925,122
2037-2041	18,560,000	4,888,767
2042	7,120,000	32,632
	<u>\$ 37,640,000</u>	<u>\$ 42,770,783</u>

*As of June 30, 2016, 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*
2017	\$ -	\$ 2,222,900
2018	-	2,222,900
2019	-	2,222,900
2020	-	2,222,900
2021	-	2,222,900
2022-2026	27,160,000	7,136,496
2027-2028	7,940,000	43,008
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 18,294,004</u>

*As of June 30, 2016, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 6.250% to 6.500%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2015 Taxable Series A	
	Principal	Interest*
2017	\$ -	\$ 5,087,518
2018	-	5,087,518
2019	-	5,087,518
2020	-	5,087,518
2021	-	5,087,518
2022-2026	96,425,000	17,136,633
2027	15,295,000	370,904
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 42,945,124</u>

*As of June 30, 2016, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 4.050% to 4.850%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2016, annual debt service requirements of fiduciary activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2005	
	Principal	Interest*
2017	\$ 1,630,000	1,891,944
2018	1,340,000	1,832,544
2019	1,455,000	1,775,734
2020	1,575,000	1,704,381
2021	1,720,000	1,617,888
2022-2026	7,300,000	6,972,026
2027-2031	10,020,000	5,046,720
2032-2036	15,215,000	2,012,873
	\$ 40,255,000	\$ 22,854,110

* As of June 30, 2016, debt service was calculated at the actual fixed rates of the coupons ranging from 4.000% to 5.250%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2011	
	Principal	Interest*
2017	\$ 1,150,000	\$ 1,284,750
2018	1,025,000	1,216,938
2019	1,125,000	1,138,625
2020	1,250,000	1,043,625
2021	1,385,000	938,225
2022-2026	4,525,000	3,303,825
2027-2031	5,240,000	1,265,862
Total requirements	\$ 15,700,000	\$ 10,191,850

*As of June 30, 2016, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 6.000% to 9.250%.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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, 2016:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
<u>Governmental activities:</u>					
Postemployment benefit liability	\$ 17,322,060	\$ 4,157,048	\$ (729,831)	\$ 20,749,277	\$ 729,831
Claims payable	3,361,288	1,072,586	(1,120,429)	3,313,445	1,104,482
Compensated absences	4,118,025	1,622,294	(1,372,675)	4,367,644	1,455,881
Net pension liability	78,620,030	-	(2,128,095)	76,491,935	8,566,585
	<u>\$ 103,421,403</u>	<u>\$ 6,851,928</u>	<u>\$ (5,351,030)</u>	<u>\$ 104,922,301</u>	<u>\$ 11,856,779</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 385,805,000	\$ 111,720,000	\$ (106,220,000)	\$ 391,305,000	\$ 23,475,000
Bond premium	175,663	-	(6,713)	168,950	6,713
Bond discount	(3,221,415)	(3,557,393)	731,979	(6,046,829)	(761,625)
Compensated absences	795,851	212,248	(265,284)	742,815	247,605
	<u>\$ 383,555,099</u>	<u>\$ 108,374,855</u>	<u>\$ (105,760,018)</u>	<u>\$ 386,169,936</u>	<u>\$ 22,967,693</u>
<u>Fiduciary activities:</u>					
Bonds payable	\$ 58,545,000	\$ -	\$ (2,590,000)	\$ 55,955,000	\$ 2,780,000
Bond premium	502,939	-	(44,345)	458,594	44,345
Bond discount	(702,569)	-	43,910	(658,659)	(43,910)
	<u>\$ 58,345,370</u>	<u>\$ -</u>	<u>\$ (2,590,435)</u>	<u>\$ 55,754,935</u>	<u>\$ 2,780,435</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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, 2016, all derivative instruments have been terminated with no derivative instruments outstanding.

NOTE 8 – RISK MANAGEMENT

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 8 – RISK MANAGEMENT (CONTINUED)

The insurance limits for fiscal year 2015-16 are as follows (amounts in thousands):

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

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

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

	Fiscal Year Ended June 30	
	2016	2015
Claims payable, beginning of fiscal year	\$ 3,361,288	\$ 3,353,007
Incurred claims and change in estimates	1,021,838	1,143,528
Claims payments	(1,069,681)	(1,135,247)
Claims payable, end of fiscal year	<u>\$ 3,313,445</u>	<u>\$ 3,361,288</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS

A. General Information about the Pension Plans

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 62
Monthly benefits, as a % of eligible	2.0% to 2.7%	1.0% to 2.0%
Required employee contribution rates	8.00%	6.75%
Required employer contribution rates	18.568%	18.568%
	Safety	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50 - 57
Monthly benefits, as a % of eligible	3.0%	2.0% to 2.7%
Required employee contribution rates	9.00%	12.00%
Required employer contribution rates	32.578%	32.578%

Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	154	254
Inactive employees entitled to but not yet receiving benefits	176	134
Active employees	144	107
Total	474	495

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

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

B. Net Pension Liability

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	Varies by Entry Age and Service (1)	Varies by Entry Age and Service (1)
Investment Rate of Return	7.65%	7.65%
Mortality	Derived using CalPERS’ Membership Data for all Funds	Derived using CalPERS’ Membership Data for all Funds
	(1) Depending on age, service and type of employment	
	(2) Net of pension plan investment expenses, including inflation	

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the 2010 CalPERS Experience Study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was changed from 7.50% to 7.65% for each Plan.

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

C. Changes in the Net Pension Liability

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

<i>Miscellaneous Plan:</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	\$137,516,564	\$110,336,623	\$27,179,941
Changes in the year:			
Service cost	1,962,270		1,962,270
Interest on the total pension liability	9,447,012		9,447,012
Contribution - employer		2,340,002	(2,340,002)
Changes of assumptions	(2,466,126)		(2,466,126)
Difference between expected and actual experience	(9,700,904)		(9,700,904)
Contribution - employee		1,054,426	(1,054,426)
Net investment income		2,337,855	(2,337,855)
Benefit payments, including refunds of employee contributions	(5,680,624)	(5,680,624)	-
Plan to plan resource movement		18	(18)
Administrative expense		(124,052)	124,052
Net changes	(6,438,372)	(72,375)	(6,365,997)
Balance at June 30, 2015	\$131,078,192	\$110,264,248	\$20,813,944

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

<i>Safety Plan:</i>	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2014	\$215,565,152	\$164,125,062	\$51,440,090
Changes in the year:			
Service cost	3,388,157		3,388,157
Interest on the total pension liability	15,777,736		15,777,736
Contribution - employer		4,147,441	(4,147,441)
Changes of assumptions	(3,878,396)		(3,878,396)
Difference between expected and actual experience	(2,400,883)		(2,400,883)
Contribution - employee		1,167,329	(1,167,329)
Net investment income		3,525,241	(3,525,241)
Benefit payments, including refunds of employee contributions	(9,470,058)	(9,470,058)	-
Plan to plan resource movement		24	(24)
Administrative expense		(191,323)	191,323
Net changes	3,416,556	(821,346)	4,237,902
Balance at June 30, 2015	\$218,981,708	\$163,303,716	\$55,677,992

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

	Miscellaneous	Safety
1% Decrease	6.65%	6.65%
Net Pension Liability	\$39,628,000	\$85,205,110
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$20,813,944	\$55,677,992
1% Increase	8.65%	8.65%
Net Pension Liability	\$5,475,841	\$31,443,837

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 9 – PENSION PLANS (CONTINUED)

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

For the year ended June 30, 2016, the City recognized pension expense of \$8,719,504. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$8,566,585	
Changes of Assumptions		(\$3,481,219)
Differences between Expected and Actual Experiences		(7,604,529)
Net differences between projected and actual earnings on plan investments		(9,473,588)
Total	\$8,566,585	(\$20,559,336)

The \$8,566,585 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended			
June 30	Miscellaneous	Safety	Total
2017	(\$4,656,965)	(\$1,075,441)	(\$5,732,406)
2018	(601,287)	(1,075,443)	(1,676,730)
2019	1,199,486	1,769,820	2,969,306
2020	-	-	-

E. Payable to the Pension Plan

At June 30, 2016, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 10 – DEFICITS IN FUND EQUITY

The General Fund has a fund balance deficit of \$10,854,084 at June 30, 2016, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

The Fiber Optic Fund has a net position deficit of \$2,222,990 at June 30, 2016, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

NOTE 11 – LIGHT AND POWER ENTERPRISE OPERATIONS AND COMMITMENTS

Asset Sale

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the “PPTA”). In addition, Bicent has acquired the benefits and burdens of the City’s interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences (“CFD”), between Bicent (California) Hoover LLC, a Delaware limited liability company (“BCH”) and the City, dated as of April 10, 2008 (the “Hoover Differences Contract”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company (“BCM”). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2016, a deferred gain of \$28,388,890 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 13 for disclosure on uncertainties).

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

Project Commitments

A. Southern California Public Power Authority

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

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 2016 was \$4,503,801. 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, 2016, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2016, the outstanding note receivable was \$620,039. 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 \$509,524 due the City on the outstanding note receivable. The contract expires in September 2017.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

Power Purchase Commitments

As of June 30, 2016 under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2017	\$ 36,017,284
2018	35,182,494
2019	34,904,231
2020	34,904,231
2021	34,904,231
2022-2023	62,050,850
	<u>\$ 237,963,321</u>

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

Light and Power Enterprise

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

A Segment Information

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
Current assets:				
Cash and investments	\$ 107,162,558	\$ 44,179	\$ -	\$ 107,206,737
Accounts receivable, net of allowances of \$150,000	4,059,515	1,236,231	-	5,295,746
Accrued unbilled revenue	11,567,556	-	-	11,567,556
Accrued interest receivable	42,885	-	-	42,885
Escrow deposits	940,000	-	-	940,000
Prepaid natural gas	28,578,343	-	-	28,578,343
Note receivable	479,908	-	-	479,908
Total current assets	<u>152,830,765</u>	<u>1,280,410</u>	<u>-</u>	<u>154,111,175</u>
Noncurrent assets:				
Restricted cash and investments	38,533,372	-	-	38,533,372
Advances to other funds	28,686,897	-	(21,568,572)	7,118,325
Prepaid expenses	1,512,031	-	-	1,512,031
Prepaid natural gas	111,410,218	-	-	111,410,218
Note receivable	140,131	-	-	140,131
Capital assets:				
Nondepreciable	65,052,865	-	-	65,052,865
Depreciable, net	133,311,024	18,755,682	-	152,066,706
Total noncurrent assets	<u>378,646,538</u>	<u>18,755,682</u>	<u>(21,568,572)</u>	<u>375,833,648</u>
Total assets	<u>531,477,303</u>	<u>20,036,092</u>	<u>(21,568,572)</u>	<u>529,944,823</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Current deferred outflows of resources:				
Deferred amount on refunding	2,508,853	-	-	2,508,853
Noncurrent deferred outflows of resources:				
Deferred amount on refunding	10,927,489	-	-	10,927,489
Total deferred outflows of resources	<u>13,436,342</u>	<u>-</u>	<u>-</u>	<u>13,436,342</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	7,962,804	1,532,766	-	9,495,570
Customer deposits	502,127	121,558	-	623,685
Derivative liabilities	8,318	-	-	8,318
Bond interest	9,113,697	-	-	9,113,697
Bonds payable, net	22,720,088	-	-	22,720,088
Compensated absences	175,784	13,146	-	188,930
Total current liabilities	<u>40,482,818</u>	<u>1,667,470</u>	<u>-</u>	<u>42,150,288</u>
Noncurrent liabilities:				
Advances from other funds	-	21,568,572	(21,568,572)	-
Bonds payable, net	362,707,033	-	-	362,707,033
Compensated absences	351,567	26,293	-	377,860
Total noncurrent liabilities	<u>363,058,600</u>	<u>21,594,865</u>	<u>(21,568,572)</u>	<u>363,084,893</u>
Total liabilities	<u>403,541,418</u>	<u>23,262,335</u>	<u>(21,568,572)</u>	<u>405,235,181</u>
DEFERRED INFLOWS OF RESOURCES:				
Current deferred inflows of resources:				
Deferred gain from sale of generation assets	5,478,716	-	-	5,478,716
Noncurrent deferred inflows of resources:				
Deferred gain from sale of generation assets	22,910,174	-	-	22,910,174
Total deferred inflows of resources	<u>28,388,890</u>	<u>-</u>	<u>-</u>	<u>28,388,890</u>
NET POSITION:				
Net investment in capital assets	120,864,010	18,755,682	-	139,619,692
Unrestricted (deficit)	(7,880,673)	(21,981,925)	-	(29,862,598)
Total net position	<u>\$ 112,983,337</u>	<u>\$ (3,226,243)</u>	<u>\$ -</u>	<u>\$ 109,757,094</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
OPERATING REVENUES:			
Charges for services	\$ 169,087,031	\$ 30,414,470	\$ 199,501,501
Total operating revenues	169,087,031	30,414,470	199,501,501
OPERATING EXPENSES:			
Cost of sales	120,965,614	29,266,145	150,231,759
Depreciation and amortization	6,221,652	766,748	6,988,400
Total operating expenses	127,187,266	30,032,893	157,220,159
Operating income (loss)	41,899,765	381,577	42,281,342
NONOPERATING REVENUE (EXPENSES):			
Investment income (loss)	280,456	320	280,776
Net decrease in fair value of investments	(285,121)	-	(285,121)
Interest expense	(17,074,836)	-	(17,074,836)
Gain on sale of assets	195,390	-	195,390
Legal settlement	651,956	-	651,956
Total nonoperating revenue (expenses), net	(16,232,155)	320	(16,231,835)
Income (loss) before transfers	25,667,610	381,897	26,049,507
Transfers out	(13,776,089)	(731,171)	(14,507,260)
Change in net position	11,891,521	(349,274)	11,542,247
Net position, beginning of the year	101,091,816	(2,876,969)	98,214,847
Net position, end of the year	\$ 112,983,337	\$ (3,226,243)	\$ 109,757,094

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 206,385,562	\$ 30,084,703	\$ 236,470,265
Cash paid to suppliers for goods and services	(116,341,702)	(28,704,856)	(145,046,558)
Cash paid to employees for services	(5,803,515)	(647,603)	(6,451,118)
Net cash provided by operating activities	<u>84,240,345</u>	<u>732,244</u>	<u>84,972,589</u>
Cash flows from noncapital financing activities:			
Transfers to City	(13,776,089)	(731,171)	(14,507,260)
Collection of note receivable	449,197	-	449,197
Net cash used in noncapital financing activities	<u>(13,326,892)</u>	<u>(731,171)</u>	<u>(14,058,063)</u>
Cash flows from capital and related financing activities:			
Proceeds from bond issuance	111,720,000	-	111,720,000
Repayment of bonds	(106,220,000)	-	(106,220,000)
Bond interest paid	(17,247,954)	-	(17,247,954)
Sale of environmental credits	633,675	-	633,675
Acquisition and construction of capital assets, net	(16,056,443)	(60,278)	(16,116,721)
Net cash provided by (used in) capital and related financing activities	<u>(27,170,722)</u>	<u>(60,278)</u>	<u>(27,231,000)</u>
Cash flows from investing activities:			
Purchases and sales of investments, net	(26,199,538)	-	(26,199,538)
Investment loss net of interest rate swap payments on investment derivatives	365,918	320	366,238
Net cash used in investing activities	<u>(25,833,620)</u>	<u>320</u>	<u>(25,833,300)</u>
Net increase (decrease) in cash and cash equivalents	17,909,111	(58,885)	17,850,226
Cash and cash equivalents, beginning of year	120,185,900	103,064	120,288,964
Cash and cash equivalents, end of year	<u>\$ 138,095,011</u>	<u>\$ 44,179</u>	<u>\$ 138,139,190</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 41,899,765	\$ 381,577	\$ 42,281,342
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,221,652	766,748	6,988,400
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(403,809)	401,409	(2,400)
Advance to (from) City	6,904,278	(731,176)	6,173,102
Accrued unbilled revenue	(154,074)	-	(154,074)
Inventories	45,730	-	45,730
Prepaid expenses and deposits	2,241,753	-	2,241,753
Prepaid natural gas	28,664,653	-	28,664,653
Increase (decrease) in:			
Accounts payable	1,651,418	(91,653)	1,559,765
Customer deposits	150	-	150
Compensated absences	(44,471)	5,339	(39,132)
Deferred gain from sale of generation assets	(2,786,700)	-	(2,786,700)
Net cash provided by (used in) operating activities	<u>\$ 84,240,345</u>	<u>\$ 732,244</u>	<u>\$ 84,972,589</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:			
Cash and investments	\$ 107,162,558	\$ 44,179	\$ 107,206,737
Noncurrent restricted cash and investments	38,533,372	-	38,533,372
Total	145,695,930	44,179	145,740,109
Less: Investments with maturities of more than 90 days	(7,600,919)	-	(7,600,919)
Total cash and cash equivalents	<u>\$ 138,095,011</u>	<u>\$ 44,179</u>	<u>\$ 138,139,190</u>
Noncash Capital, Investing and Financing Activities:			
Acquisition of capital assets in accounts payable	\$ 129,305	\$ 103,824	\$ 233,129
Increase (Decrease) in fair value of investments	(285,121)	-	(285,121)
Amortization of deferred gain from sale of generation assets	2,786,700	-	2,786,700
Capitalized interest	5,707,669	-	5,707,669

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

B. Pledged Revenues

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

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Resolution 2012-114, 2012-217, 2012-188, and 2013-06 provided the payment of medical and dental insurance premiums for certain categories of retired employees. Resolution No. 2012-114 state that the City will provide a single-employer postemployment benefit plan to employees who retire at age fifty (50) or later with twenty (20) years of continuous uninterrupted service up to the age of sixty-five (65). Alternatively, employees who retire before the age of fifty (50) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65). Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services has been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association Memorandum of Understanding and the Vernon Police Officers' Benefit Association Memorandum of Understanding. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will become a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future. As of June 30, 2016, 340 employees (256 active employees and 84 retired employees), participated in the OPEB plan.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

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

As of June 30, 2015, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City estimated a payment of \$508,401 in benefits on a pay-as-you-go basis with an implicit subsidy credit of \$221,430 for a total employer contribution of \$729,831 for Fiscal 2016. The following represents the status of the Unfunded Actuarial Accrued Liability as of the most recent actuarial; valuation date.

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

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

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

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

Based on the June 30, 2015 actuarial valuation, the June 30, 2016 projected Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 2,026,554
Amortization of UAAL	2,126,005
Total ARC	<u>\$ 4,152,559</u>

Based on the June 30, 2015 actuarial valuation, the June 30, 2016 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 17,322,060
Annual OPEB Cost	4,157,048
Employer contributions	<u>(729,831)</u>
Increase in NOO	3,427,217
NOO - End of Year	<u>\$ 20,749,277</u>

The funded status of the OPEB plan as of June 30, 2016 and the ARC for the fiscal year ended June 30, 2016 was based on the following actuarial assumptions:

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

The actuarial valuation presents a long-term perspective based on the types of benefits provided under the term of the resolution and assumptions about the probability of events in the future and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress on page 83 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 13– CONTINGENCIES

As of June 30, 2016, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

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

Uncertainties

Sale of Generation and Transmission Assets

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

NOTE 14 – GASB PRONOUNCEMENTS

Pronouncements Issued but Not yet Effective:

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

- GASB Statement No. 77 – *Tax Abatement Disclosures*.
- GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*
- GASB Statement No. 80 – *Blending Requirements for Certain Component Unites – an amendment of GASB Statement No. 14*
- GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*
- GASB Statement No. 82 – *Pension Issues – an amendment of GASB Statement No. 67, No. 68, and No. 73*

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2016

NOTE 14 – GASB PRONOUNCEMENTS CONTINUED

Implementation of Pronouncements

The City had adopted and implemented the following GASB Statements during the year ended June 30, 2016:

- 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.*

The implementation of GASB Statements No. 72 through 76 did not impact the financial statements of the City during the year ended June 30, 2016.

NOTE 15 – SUBSEQUENT EVENTS

On August 9, 2016, the City entered into a settlement agreement with Citigroup Energy Inc. (CEI), which provides for among other things, CEI to post with the City a letter of credit to cover the cost of gas for the remainder of the term under its prepaid natural gas contract from 2006 (i.e. until 2021). The letter of credit issued by U.S. Bank is approximately \$82.1 million.

On August 19, 2016, Moody's placed the City of Vernon Electric's Baa1 rating under review for a possible downgrade. On October 18, 2016, Moody's downgraded the City of Vernon Electric's Baa1 rating to Baa3 with a negative outlook.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 29,266,752	\$ 29,266,752	\$ 29,787,074	\$ 520,322
Special assessments	1,025,000	1,025,000	1,116,687	91,687
Licenses and permits	1,582,174	1,582,174	2,547,506	965,332
Fines, forfeitures and penalties	258,500	258,500	243,254	(15,246)
Investment income	15,000	15,000	(21,005)	(36,005)
Intergovernmental revenues	3,925,381	3,925,381	1,615,319	(2,310,062)
Charges for services	1,451,417	1,451,417	4,155,761	2,704,344
Other revenues	1,753,210	1,753,210	1,511,105	(242,105)
Total revenues	<u>39,277,434</u>	<u>39,277,434</u>	<u>40,955,701</u>	<u>1,678,267</u>
EXPENDITURES:				
General government	11,580,941	11,580,941	11,277,235	303,706
Public safety	27,139,755	27,139,755	28,154,132	(1,014,377)
Public works	6,370,267	6,370,267	5,879,125	491,142
Health services	1,824,962	1,824,962	2,025,989	(201,027)
Debt service	-	-	-	-
Capital outlay	8,525,700	8,525,700	5,015,648	3,510,052
Total expenditures	<u>55,441,625</u>	<u>55,441,625</u>	<u>52,352,129</u>	<u>3,089,496</u>
Deficiency of revenues under expenditures	<u>(16,164,191)</u>	<u>(16,164,191)</u>	<u>(11,396,428)</u>	<u>4,767,763</u>
Other financing sources (uses):				
Sale of property	500	500	1,112,902	1,112,402
Transfers in	15,893,225	15,893,225	15,072,260	(820,965)
Total other financing sources (uses)	<u>15,893,725</u>	<u>15,893,725</u>	<u>16,185,162</u>	<u>291,437</u>
Net change	(270,466)	(270,466)	4,788,734	5,059,200
FUND BALANCE, BEGINNING OF YEAR	<u>(15,642,818)</u>	<u>(15,642,818)</u>	<u>(15,642,818)</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ (15,913,284)</u>	<u>\$ (15,913,284)</u>	<u>\$ (10,854,084)</u>	<u>\$ 5,059,200</u>

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Note to Required Supplementary Information
June 30, 2016

NOTE 1 – BUDGET

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund;
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2016. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount of change in fund balance was \$5,059,200. The key reasons for this variance was a sale of property of \$1,112,402 and excess appropriation of \$3,510,052 for capital outlay.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues were \$1,678,267. The key reason for this variance was charges for services of \$2,704,344 to the business-type funds budgeted as transfers in but recorded as charges for services.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$3,089,496. The key reasons for this variance were excess appropriations of \$3,510,052 for capital outlay.

For the current year, the General Fund's total positive variance between the final budgeted amounts and actual amount for other financing sources was \$291,437. The key reason for this variance was \$1,112,402 of sale of property offset by an excess appropriation over expenditure of \$820,965 for transfers in.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2016

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

	2013-14 ¹			2014-15 ¹		
	Miscellaneous	Safety	Total	Miscellaneous	Safety	Total
Total Pension Liability						
Service cost	\$ 1,955,694	\$ 3,448,760	\$ 5,404,454	\$ 1,962,270	\$ 3,388,157	\$ 5,350,427
Interest on total pension liability	9,609,274	15,255,372	24,864,646	9,447,012	15,777,736	25,224,748
Changes of benefit terms	-	-	-	-	-	-
Changes of assumptions	-	-	-	(2,466,126)	(3,878,396)	(6,344,522)
Differences between expected and actual experience	-	-	-	(9,700,904)	(2,400,883)	(12,101,787)
Benefit payments, including refunds of employee contributions	(2,388,449)	(9,639,123)	(12,027,572)	(5,680,624)	(9,470,058)	(15,150,682)
Net change in total pension liability	9,176,519	9,065,009	18,241,528	(6,438,372)	3,416,556	(3,021,816)
Total pension liability - beginning	128,340,045	206,500,143	334,840,188	137,516,564	215,565,152	353,081,716
Total pension liability - ending (a)	\$ 137,516,564	\$ 215,565,152	\$ 353,081,716	\$ 131,078,192	\$ 218,981,708	\$ 350,059,900
Plan fiduciary net position						
Contributions - employer	\$ 1,825,732	\$ 3,234,539	\$ 5,060,271	\$ 2,340,002	\$ 4,147,441	\$ 6,487,443
Contributions - employee	1,015,741	1,092,012	2,107,753	1,054,426	1,167,329	2,221,755
Net investment income ²	16,045,243	24,855,525	40,900,768	2,337,855	3,525,241	5,863,096
Benefit payments, including refunds of employee contributions	(2,388,449)	(9,639,123)	(12,027,572)	(5,680,624)	(9,470,058)	(15,150,682)
Plan to plan resource movement	-	-	-	18	24	42
Administrative expense	-	-	-	(124,052)	(191,323)	(315,375)
Net change in plan fiduciary net position	16,498,267	19,542,953	36,041,220	(72,375)	(821,346)	(893,721)
Plan fiduciary net position - beginning	93,838,356	144,582,109	238,420,465	110,336,623	164,125,062	274,461,685
Plan fiduciary net position - ending (b)	\$ 110,336,623	\$ 164,125,062	\$ 274,461,685	\$ 110,264,248	\$ 163,303,716	\$ 273,567,964
Net pension liability - ending (a)-(b)	\$ 27,179,941	\$ 51,440,090	\$ 78,620,031	\$ 20,813,944	\$ 55,677,992	\$ 76,491,936
Plan fiduciary net position as a percentage of the total pension liability	80.24%	76.14%	77.73%	84.12%	74.57%	78.15%
Covered - employee payroll	\$ 11,084,188	\$ 12,510,920	\$ 23,595,108	\$ 11,708,057	\$ 12,740,785	\$ 24,448,842
Net pension liability as percentage of covered - employee payroll	245.21%	411.16%	333.20%	177.77%	437.01%	312.87%

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

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

² 2013-14 Net of administrative expenses.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2016

SCHEDULE OF PLAN CONTRIBUTIONS
Last 10 Years*

	2013-14 ¹			2014-15 ¹		
	Miscellaneous	Safety	Total	Miscellaneous	Safety	Total
Actually determined contributions	\$ 1,825,732	\$ 3,234,539	\$ 5,060,271	\$ 2,340,002	\$ 4,147,441	\$ 6,487,443
Contributions in relation to the actuarially determined contributions	(1,825,732)	(3,234,539)	(5,060,271)	(2,340,002)	(4,147,441)	(6,487,443)
Contribution deficiency / (excess)	-	-	-	-	-	-
Covered-Employee Payroll	11,084,188	12,510,920	23,595,108	11,708,057	12,740,785	24,448,842
Contributions as a percentage of Covered-Employee Payroll	16.47%	25.85%	21.45%	19.99%	32.55%	26.53%

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

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal 2014-15 were from the June 30, 2012 public agency valuations.

Actuarial Cost Method	Entry age normal
Amortization method / Period	Level percent of payroll
Asset valuation method	15 year Smoothed Market
Inflation	2.75%
Salary increases	Varies by Entry age and Service
Payroll Growth	3.00%
Investment rate of return	7.65%, net of pension plan investment expense including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Benefit Changes:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in assumptions:

The discount rate used to measure the total pension liability was changed from 7.50% to 7.65% for each Plan.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
June 30, 2016

Schedule of Funding Progress for City of Vernon Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
6/30/2015	\$ -	\$ 53,470,769	\$ 53,470,769	00.0%	\$ 25,490,192	209.8%
6/30/2013	\$ -	\$ 41,731,558	\$ 41,731,558	00.0%	\$ 25,151,622	165.9%
7/1/2010	\$ -	\$ 25,475,000	\$ 25,475,000	00.0%	\$ 29,361,889	86.8%