

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

Annual Financial Report

For the Fiscal Year Ended June 30, 2016

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
For the Fiscal Year Ended June 30, 2016**

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Introduction

A message from Kelly Nguyen, Director of Vernon Gas & Electric

The Light and Power Enterprise (“the Enterprise”), strives to operate in an efficient and productive manner in order to provide the Vernon community with a comprehensive and competitive array of services. As a publicly-owned, community-based local utility, the Enterprise is distinctly different from the investor-owned utility sector. Public power is customer-focused, yielding responsiveness, competitive rate structures and local control over essential services. Unlike an investor-owned utility focused only on the bottom line and serving the stockholder, the Enterprise is fully accountable to its customers, providing reliable and safe not-for-profit electricity and gas at reasonable rates. Local control affords the Vernon business community some recognizable advantages: transparency in governance; competitive rates; the ability to tailor utility policies to customer needs, programs to serve the priorities of the local community; and a strong voice in the decision making process.

We work earnestly as responsible stewards to supply critical utility services to our community in a cost effective and environmentally conscious manner. I appreciate the leadership provided by the City Council, City Administration and specifically, the efforts and support of the Enterprise staff. We are committed to partnering with the local community in shaping and constructing a sustainable future for the City of Vernon.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

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-making body and the community. It is the aspiration of the City to fulfill its mission of delivering outstanding, responsive municipal services to our entire community by fostering operational innovation, ingenuity, and opportunity. This overall direction and purpose promotes the realization of the City’s primary goals that center around satisfying community needs, enriching neighborhood connections, and governing to strengthen local economies and communities. The City’s dedication to development, performance and service is meant to cultivate an environment in which City of Vernon residents and businesses can reap the benefits of these offerings.

1. The Enterprise's financial liquidity continues to remain stable when considering the legally unrestricted funds of the electric utility. The ability to fund debt obligations and meet operating requirements remains strong.
2. The Enterprise is very committed to meeting its debt service coverages. In order for the Enterprise to reflect those coverages without the impact of its operating transfers to the General Fund, the City will be placing in the upcoming election a ballot measure to increase its Utility Users Tax by 5% (from 1% to 6%). Also, to minimize the burden on the business community, a 5% discount will be provided to electric customers. The ballot measure, if passed, will effectively eliminate and replace the operating transfers from the Enterprise to the General Fund with an equivalent amount of Utility Users Tax.
3. The Enterprise 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.
4. 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 Enterprise and Citi Group, has eliminated any risk associated with Citi Group not delivering gas to the Enterprise throughout the term of the long-term prepaid gas contract.
5. Based upon the Enterprise's current debt service schedule, there will be a significant reduction in debt service starting in 2027. Any future borrowing or refunding will be considered with input from business and residential communities to ensure electric rates remain competitive yet infrastructure needs are properly addressed.
6. The inherent governance challenges in the City, due to a very small residential population, continue 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.

7. 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 Enterprise operating transfer to fund the General Fund structural deficit will cease and will simply be limited to legitimate overhead allocation and voter approved taxes.
8. 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 a global company. There is no direct impact on City operations and the matter does not pose a concern to existing Vernon businesses.
9. Even with the recent electric utility rate increases, the occupancy level within the City improved from 96.1% to 98.0% 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.

Nationally Recognized Electrical Service

In April of 2016, the electric utility of the Enterprise was awarded the prestigious Diamond Level designation of Reliable Public Power Provider (RP3) from the American Public Power Association (APPA). The electric utility earned this honor by providing exceptionally reliable and safe electric service. The electric utility compiled a 1,400 page submission that was scrutinized by industry experts. The RP3 distinction recognizes public power utilities that demonstrate proficiency in four key disciplines: reliability, safety, workforce development, and system improvement. The electric utility of the Enterprise is one of just 8 utilities among over 2,000 public power utilities in the U.S. achieving Diamond level recognition for this 3 year period.

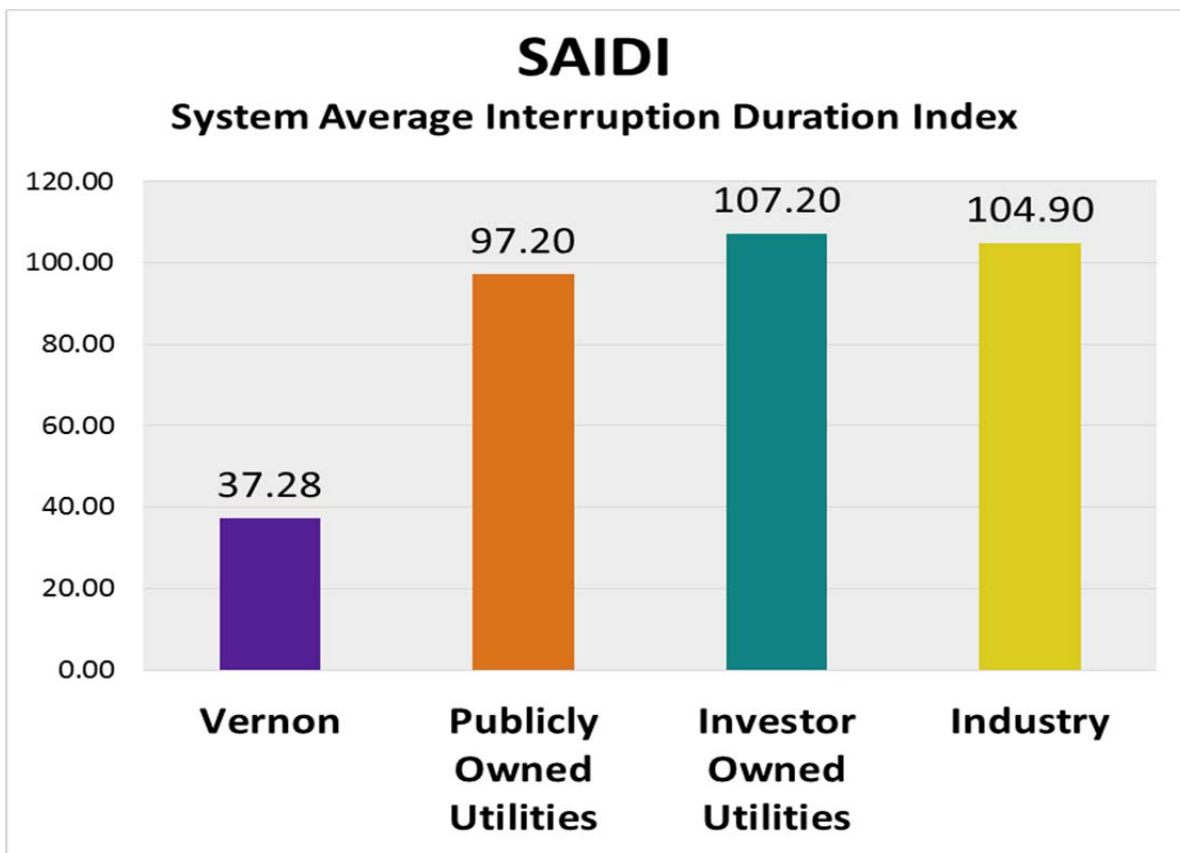
Reliable Power Service

The electric utility of the Enterprise ranks in the top 10% for electric system reliability in the US according to a nation-wide benchmarking study that the utility participates in annually. The Enterprise serves essential and dependable gas and electric resources to its customers at very

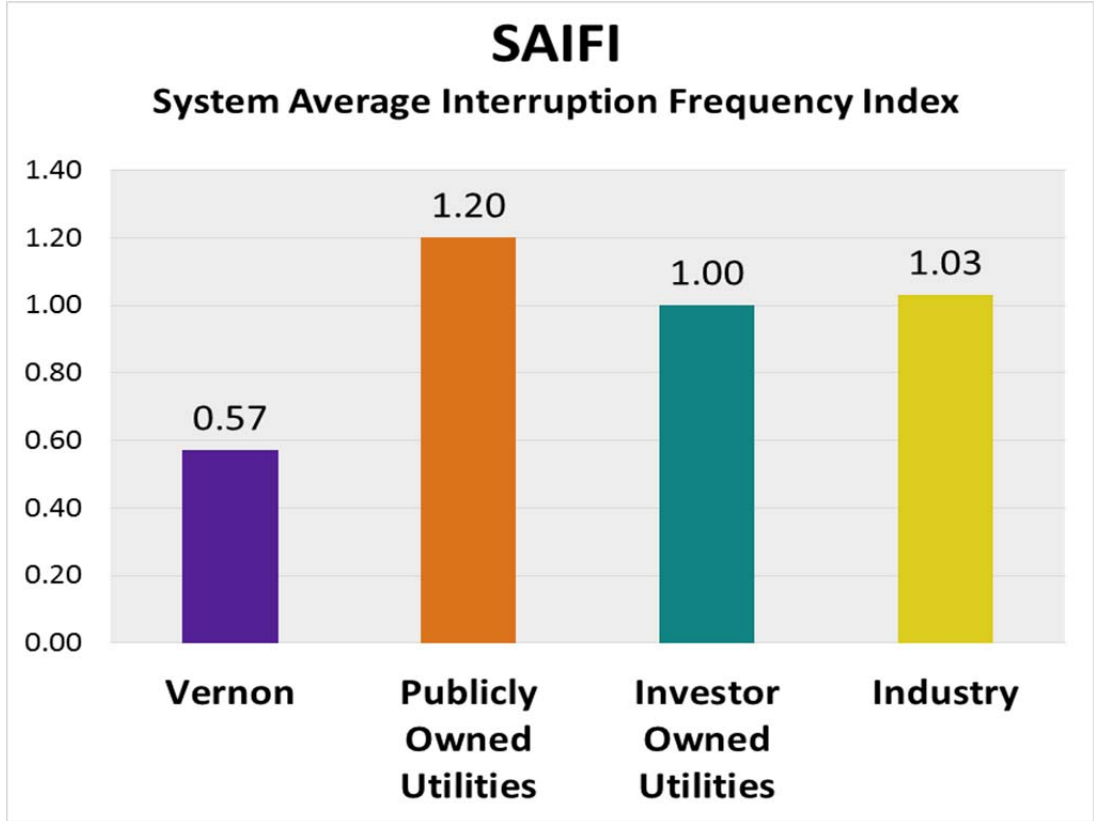
competitive rates in comparison to neighboring utility providers. The City owned and operated utility systems have a well-established, strong, history of reliability, capable of efficiently and serving the needs of the City’s unique business community and residents.

Reliability Metrics

Annual participation in a nation-wide benchmarking study has consistently resulted in the electric utility of the Enterprise being ranked in the top 10% of both publicly-owned and investor-owned utilities. For the calendar year 2015, the Enterprise’s electric system was measured to be 99.99% reliable with the System Average Interruption Duration Index (SAIDI) of 37 minutes. The SAIDI index measures the amount of time over the course of the year that an average customer service is interrupted.



The electric utility of the Enterprise System Average Interruption Frequency Index (SAIFI) of .57 also ranks very favorably versus both publicly-owned and investor-owned utilities. The SAIFI index shows that customers experience less than one interruption in service over the course of a year.



Preparedness

One very key component of a resilient and reliable service provider is the extent to which it is prepared to quickly recover from major system events and disasters. The Enterprise monitors, assesses, and bolsters the physical and cyber security of the systems on a continual basis to ensure resiliency in the event of a natural or man-made disaster. The Enterprise has signed mutual assistance agreements with APPA and the California Utilities Emergency Association (CUEA). These agreements provide the avenue to garner federal funding from the Federal Emergency Management Association (FEMA) to restore and rebuild utility systems impacted in a disaster. On a monthly basis, Electric Operations and Engineering staff members meet with other Southern California Public Power Authority (SCPPA) members to discuss mutual assistance issues and recovery scenarios. The 11 utilities involved have committed to help one another in emergencies and have developed and subscribe to a mutual aid playbook. Annually, the SCPPA utilities design tabletop disaster exercises, and drill together to successfully recover from unforeseen emergency events. The SCPPA mutual aid committee enables participants to share best practices and even supply one another with equipment and parts that may not be

readily available in inventory or through a vendor to help maintain continuity of service. Actively participating in this collaborative group establishes networking and industry relationships that can serve to positively impact system reliability.

Capital Improvements

The Enterprise developed a 10 year strategy via a Master Plan to sustain reliability, quality of service and competitive rates. The Plan details a solid capital improvement plan that aims to achieve an overarching strategic vision that addresses the 5 square miles and uniquely industrial characteristics that make up the City. The Plan defines strategies that involve an in-depth evaluation of the condition of the electric system; performs a detailed engineering analysis of distribution system capability and performance; and lists construction and upgrade projects to transform the system into an intelligent electric system. Below are the significant enhancements and upgrades that were implemented.

Subsequent to completion of comprehensive system protection coordination studies, a strategy was developed that covered the replacement of all electromechanical relays with SEL solid state device relays at various substations. The net results of the replacement are enhanced safety to personnel and public, superior system performance and a substantial reduction in customer outages.

The Supervisory Control and Data Acquisition (SCADA) system was upgraded to receive massive quantity of data from substation equipment and remote facilities. A system that accommodates data transfer was fully developed using a secure and private fiber optic cabling system and a state of the art communication infrastructure.

A Remote Intelligent Gateway (RIG) system is responsible for communicating real-time metering data to an assortment of intelligent electronic devices such as control systems. The gateway is a critical component within the Enterprise operations and enables communication and monitoring functionality with the California Independent System Operator (CAISO) who serves as our balancing authority.

The Enterprise recently deployed the installation of a geographic information system technology (GIS). The system improves construction, inspections and maintenance, outage management and customer service. GIS integrates hardware, software, and data for capturing, managing, analyzing and displaying all forms of utility data. GIS shows the location of every structure in the city including utility poles, underground vaults and switches. The maps digitally identify the voltage and location of electric lines feeding into each building and facility in the city. The system also maps the City's fiber communications network, gas, water, sewer, and streetlight systems.

Along with public right of way infrastructure improvements, 65 new sectionalizing switches have been deployed, providing new tools and restoration abilities to the operations crew in restoring electric services safely and much more efficiently.

The largest electric utility distribution substation is currently undergoing a circuit breaker upgrade involving all its 7kV and 16kV circuit breakers. In 2016, 15 of the 20 - 7kV circuit breakers have been replaced with the remaining 5 - 7kV and all 10 - 16kV circuit breakers scheduled for completion in 2017.

As part of the capital improvement plan budget, 5 power transformers at this same substation will be upgraded with larger capacity, state of the art distribution transformers fostering increased reliability and enabling the electric utility to efficiently transfer electric load between substations.

In the fiscal year 2015/16, system-wide, 2.76 miles of medium voltage cables have been replaced; 136 poles were replaced, 107 transformers were replaced; 16 field switches were replaced; 2 field capacitor banks were replaced; 2 gas switches were replaced; 15 oil filled substructure switches have been replaced; and 65 new electric meters have been installed. Overall, in compliance with CPUC's General Order 165, the electric utility has performed detailed inspections of over 3,000 wood poles and has replaced over 447 poles since 2013.

The electric utility proactively implemented a Spill Prevention, Control, and Countermeasure program that addresses all its electric substations to prevent any unintended discharge of oil into navigable waters and adjoining shorelines.

The electric utility also completed a study that evaluated the electric substation ground grid integrity in every substation; identified any necessary upgrades to reinforce safety.

The electric utility embarked on a comprehensive study to evaluate the impact of Distributed Generation. The study consisted of physical electric distribution system impact analysis and also took an extensive look at environmental, safety and financial impacts to the system.

Power Supply

Energy Projects Procurement Procedure

The electric utility of the Enterprise adopted an energy projects procurement procedure to ensure that necessary investments are made in a timely manner. The goal of the procedure is to ensure a highly reliable power system through acquiring the best mix of generation and transmission resources in order to meet demand from a fully integrated system perspective.

This energy projects procurement procedure works in conjunction with the Integrated Resource Plan and other forward looking resource management plans.

The energy projects procurement procedure assures, on a long-term basis, an adequate and reliable electricity supply at a reasonable cost and in a manner consistent with the long-run public interest. The procedure serves as a roadmap for evaluating and procuring the long-term electric utility energy related projects, while taking into account state-mandated resource requirements, the electric utility business goals, risk, and uncertainty. It supports informed decision-making on resource procurement by providing an analytical framework for assessing resource investment tradeoffs.

Built into the procedure is a certain amount of flexibility in order to incorporate necessary adjustments over time. It also sets a steady course and pace to allow for reasoned and deliberate action by the Enterprise staff to avoid situations leading to unfavorable pricing or rate impacts. The procedure implementation also incorporates viability from a technical and financial perspective to best balance all the priorities of reliability, environmental stewardship, and cost.

Integrated Resource Plan

The Enterprise utilizes an Integrated Resource Plan (IRP) to identify, evaluate and procure its power supply needs. The goal of the IRP is to provide a long term strategy to meet the Vernon's future electric needs. As such, the plan designates the amount, timing, and type of resources that achieve this goal in accordance with applicable the standards, while reducing greenhouse gas emission standards. These challenges must be met while safeguarding energy costs affordable to retail customers.

The plan provides information associated with resource acquisitions to meet the future electricity demand of the customer base, including capacity and energy supply resources, renewable energy and demand side management. In this context, the Enterprise's power system and compliance with regulatory and legislative mandates:

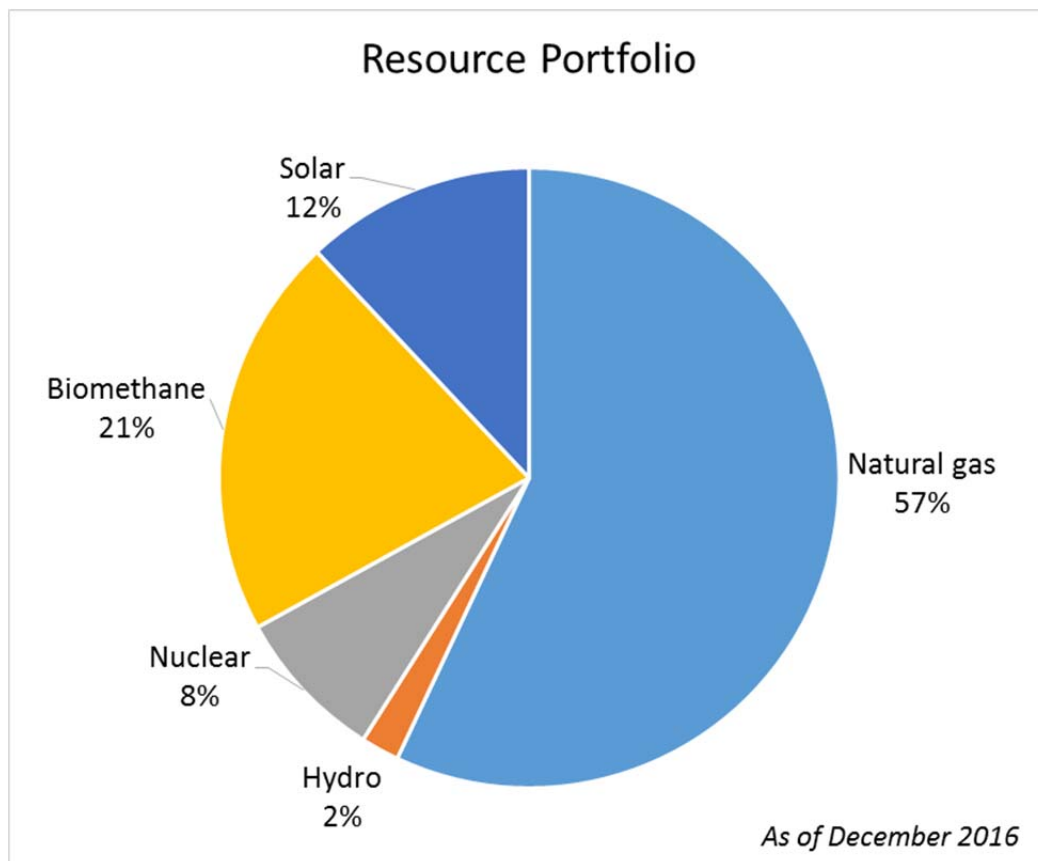
- Provides reliable and affordable energy to ratepayers;
- Maintains compliance with all laws and regulations governing the Enterprise and pertinent business activities;
- Continues to pursue and implement energy efficiency and demand side management programs that are cost effective and achieve demand reduction.
- Reduces greenhouse gas emissions to fully comply with California law as enacted by Senate Bill 350, "the Clean Energy and Pollution Reduction Act of 2015" (SB 350), which mandates Greenhouse Gas (GHG) emissions reduction in California of 40 percent from 1990 by 2030;

- Increase the amount of qualifying renewable energy resources in its power supply portfolio to 50% of total energy by 2030.

The Enterprise has acquired multi-year contracts for solar and landfill gas power generation to satisfy the RPS requirement as required by the State of California and Senate Bill X1 2. With the addition of these resources, the proportion of the overall portfolio supplied by bundled renewable energy will enable the City to attain an RPS of 33% by 2020, as required by Senate Bill x1 2. The Enterprise will continue to procure additional resource to meet Vernon’s long-term goal of reaching an RPS of 50% by 2030 as required by Senate Bill 350.

Resource Used to Satisfy City Load Requirement

The Enterprise maintains a diversified power resources portfolio. The system load requirement is met predominantly through committed resources. Approximately 62% of the Enterprise’s current portfolio is comprised of natural gas generation, 10% coming from hydro and nuclear power, and 15% by renewable resources. The remaining load requirement is met through short-term contracts and purchases from the California Independent System Operator.



Trading Activities

In addition to resource procurement activities to meet customer demand, the Enterprise staff engages in a number of cost saving and revenue generation transactions in the areas of resources adequacy, renewable energy transactions, and procurement of greenhouse gas credit allowances. Staff assesses its resource portfolio and makes trades wherever an opportunity arises to maximize the resource value.

In calendar year 2016, the Enterprise entered into mutual option agreements with two biomethane fuel suppliers that will provide the Enterprise an option to purchase renewable energy and related carbon allowances at the most competitive price available in the market in-lieu of receiving biomethane from the suppliers. The savings from this arrangement will reduce the Renewable Portfolio Standard (RPS) pass-through cost to our customers. The Enterprise estimates a cost savings of about \$5 million dollars a year from these option agreements.

Also in calendar year 2016, staff swapped excess local attributes resources adequacy capacity for system attributes resources adequacy capacity netting revenue of over \$0.5 million. The Enterprise staff will continue to look for opportunities that would maximize the value of its assets. Another avenue staff uses to reduce cost is increasing the number of counterparties to transact with. With a large number of counterparties available to trade with, staff trades on a daily basis at the lowest possible cost for a transaction.

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Customer Mix

The Enterprise's customer base is primarily industrial and commercial. Large and small industrial customers comprise 93% of the customer base. The electric system benefits from a very stable customer base. Many industrial customers have an occupancy history of between 10 years and 80 years in Vernon, with the top ten customers having an average tenancy of 39 years. Further, the electric system boasts an annual average load factor of 70%, which is much higher than other utilities in the area. The electric demand in the City is poised to grow in the upcoming years. Currently there are 16 new properties being developed and under construction in the City, totaling over 1.5 million square feet of development. These commercial and industrial facilities will potentially increase the City's peak demand by a net

increase of 5%. In addition to these newly built property developments, the City's largest electric customer is currently expanding its operations which is expected to double its electrical demand starting in 2018.

Natural Gas Service

The gas utility of the Enterprise serves as an important resource for the city's business community by providing reliable, high quality service at some of the lowest rates in the State of California. The Vernon-owned natural gas distribution system has a history of strong and steady operation and has advanced capabilities to effectively serve the City's large manufacturing sector.

The Enterprise natural gas system is relatively new compared to most gas systems in the United States. Commissioned only 10 years ago, the system now serves 80 customers, including all of Vernon's largest gas consumers. The Vernon gas utility continues to be an economically attractive option to the remaining medium sized commercial and industrial load, with an estimated one hundred potential customer connections remaining. Vernon's gas transportation rates are approximately 50 percent lower than those of the Southern California Gas Company, making connection to the Vernon system very attractive. In 2015, the Vernon gas division implemented a rebate program offering rebates of up to \$100,000 for improvement in gas consumption efficiency, such as boiler replacement.

Customer Service: Responsive Service

The City of Vernon's unique size and infrastructure allows the Enterprise to provide expeditious personalized service to its industrial customers and residents. Along with providing safe and reliable utility services, the Enterprise accommodates customers with personal, face to face interaction resulting in efficient resolution of any issues or discrepancies.

- Customer Service handles on average, 30 telephone calls and 15 walk-in customers per day.
- Customer Service advertises, supports and implements customer incentives such as the Economic Development Rate Tariff and Energy Efficiency programs. Program efficiency is measured on an individual basis, totaling savings of 1,978,948 KWh and 480 KW in FY 2015/16.
- Due to the Enterprise's responsive service, the cost and frequency of claims against the utility are extremely low in comparison to other neighboring utilities, and are often resolved in person.

- Customer Service has plans to update its billing system to CIS Utility Billing Version 4, which is a fully-integrated payment suite designed to increase productivity, decrease cost of operations, and increase quality of service.
- The amount of write-off debt of Electric utility receivables averages less than \$100,000 per fiscal year.
- Electric meter reading is accomplished via devices utilizing Automated Meter Reading (AMR) technology. The Enterprise has installed 1,068 AMR devices, resulting in faster and more accurate response to service requests.

Customer Validation

The Enterprise takes great pride in servicing customer needs effectively, efficiently and responsively. Below is a sampling of customer statements regarding services provided.

- “If you’re fortunate enough to be in a position where it’s necessary to expand your operation to accommodate growing business, you will be in need of your City’s various departments and specifically their personnel to assist with the regulations, procedures and successful permitting to the end of the project. This can be an extremely tedious and frustrating unless you do business in arguably the friendliest city in the State of California..... The City of Vernon.” – *Senior Plant Manager, Artic Glacier (2015)*
- “Farmer John has been conducting business operations in the City of Vernon for over 80 years. Farmer John is currently completing a joint project with City in Transferring from So Cal Gas to City of Vernon Gas. We chose City Gas because of our prior experience with other electrical and water utilities. Through our experience, the City has worked with us and surrounding business to ensure that these utilities are reliable.” –*Vice President of Operations, Farmer John (2014)*
- “Matheson manufactures and distributes industrial and medical atmosphere gases, helium, electronic gases, and welding supplies. We operate in seven countries around the world with over 200 locations and 3,000 employees in the U.S. In 2006, in order to expand our existing operations in Southern California, we chose the City of Vernon over many other locations under consideration at the time as the best place to build a new Air Separation Plant. I can honestly say I have never regretted our decision to do so.” –*ASU Operations Manager – West Zone, Matheson TriGas (2015)*
- “I am writing this letter to commend the crew of Petrelli Electric and the Vernon Light and Power staff. I’ve worked in the City of Vernon for over twenty years. In those twenty years I’ve had numerous encounters with various government agencies; both in Vernon and abroad. I can say, without hesitation, that the staff of the Enterprise shine,

head and shoulders, above all other entities that I have had the pleasure or displeasure of working with.” – *Vice President for U.S. Growers Cold Storage Inc. (2015)*

- “On Wednesday, August 24, 2016 our meter caught on fire and burnt out. The response from your department/team was awesome!! Your team understood our needs of the business and worked with us. Thank you so much for the quick turnaround to get our office up and running.” – *Executive Assistant, Ryerson (2016)*

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Light and Power Enterprise (the Enterprise), of the City of Vernon, California (City), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Enterprise's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Enterprise of the City, as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Light and Power Enterprise Fund of the City and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2016, and the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vasquez + Company LLP

**Los Angeles, California
December 14, 2016**

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

The management of the Light and Power Enterprise ("the Enterprise"), the Light and Power Department and the Gas Department of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the Enterprise for the fiscal year ended June 30, 2016. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The *statement of net position* presents information on the Enterprise'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.

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

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

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

FINANCIAL HIGHLIGHTS

Net Position

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

**City of Vernon
Light and Power Enterprise
Fund Net Position
June 30, 2016 and 2015**

	2016	2015	Change
Assets:			
Current and other assets	\$ 274,291,880	\$ 263,982,030	\$ 10,309,850
Restricted assets	38,533,372	89,309,825	(50,776,453)
Capital assets	217,119,571	208,341,573	8,777,998
Total assets	<u>529,944,823</u>	<u>561,633,428</u>	<u>(31,688,605)</u>
Deferred Outflows of Resources:			
Deferred amount on refunding	13,436,342	5,215,690	8,220,652
Liabilities:			
Current liabilities	42,150,288	87,251,312	(45,101,024)
Long-term liabilities	363,084,893	350,207,369	12,877,524
Total liabilities	<u>405,235,181</u>	<u>437,458,681</u>	<u>(32,223,500)</u>
Deferred Inflows of Resources:			
Deferred gain from sale of generation assets	28,388,890	31,175,590	(2,786,700)
Net Position:			
Net investment in capital assets	139,619,692	137,448,137	2,171,555
Unrestricted (deficit)	(29,862,598)	(39,233,290)	9,370,692
Total net position	<u>\$ 109,757,094</u>	<u>\$ 98,214,847</u>	<u>\$ 11,542,247</u>

The assets and deferred outflows of resources of the Enterprise exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$109,757,094 (*net position*).

The category of the Enterprise's net position with the largest balance totaling \$139,619,692 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(29,862,598) represents a deficit in unrestricted net position that is expected to be recovered from the Enterprise's future revenues.

Activities, net position:

- Current and other assets increased \$10,309,850 from the prior year due primarily to the reclassification of restricted cash and investments to unrestricted cash and investments for amounts which are not legally restricted.
- Restricted assets decreased \$50,776,453 from the prior year due primarily to the use of restricted cash and investments set aside for capital improvements and debt service and reclassification of restricted cash and investments to unrestricted cash and investments.
- Capital assets increased \$8,777,998 from the prior year due primarily to a \$3,869,699 addition to nondepreciable capital assets and a \$5,346,585 addition to depreciable capital assets net of current year depreciation (See Note 5).
- Deferred outflows of resources for deferred amount on refunding increased \$8,220,652 from the prior year due primarily to the issuance of the 2015 Taxable Series A Bonds (See Note 6).
- Current liabilities decreased \$45,101,024 from the prior year due primarily to a \$36,335,318 decrease in derivative liabilities from the termination of all interest rate swaps.
- Deferred gain from sale of generation assets decreased \$2,786,700 from the prior year due to amortization.
- Unrestricted net deficit decreased \$9,370,692 from the prior year due primarily to an increase in net position from current year's activities of \$11,542,247 and a \$2,171,555 increase in net investment in capital assets, net of related debt.

Changes in Net Position

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

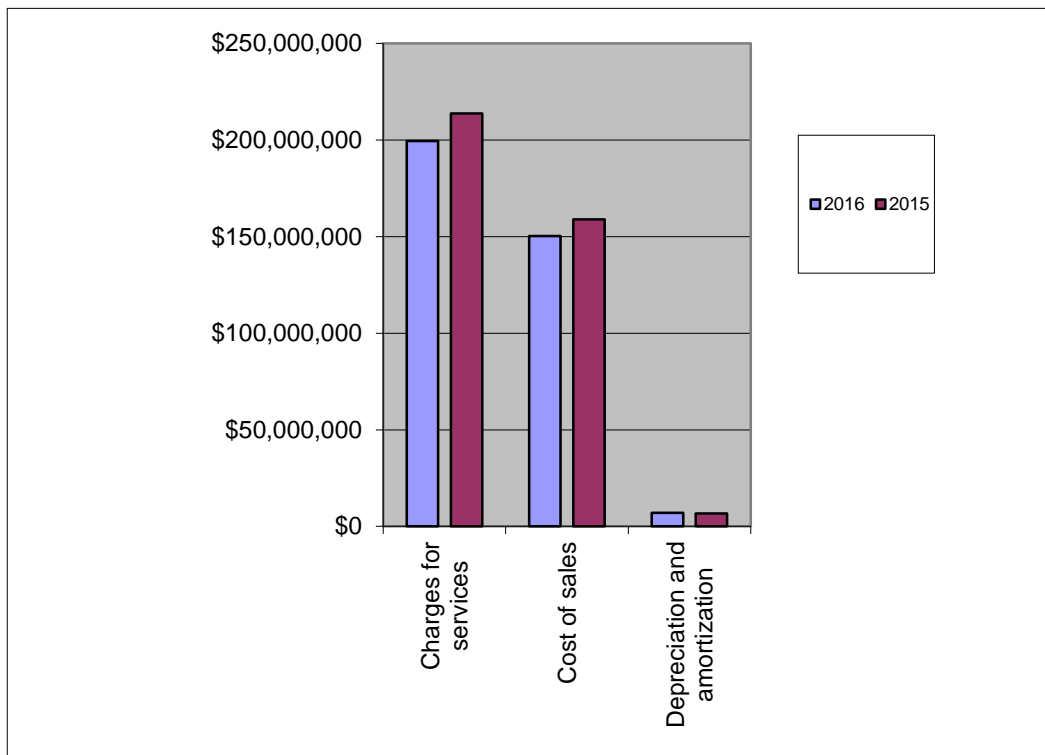
	2016	2015	Change
Operating revenues:			
Charges for services	\$199,501,501	\$213,812,869	\$(14,311,368)
Operating expenses:			
Cost of sales	150,231,759	158,927,343	(8,695,584)
Depreciation and amortization	6,988,400	6,641,259	347,141
Total operating expenses	157,220,159	165,568,602	(8,348,443)
Operating income	42,281,342	48,244,267	(5,962,925)
Nonoperating revenues (expenses):			
Investment income (loss)	280,776	(2,067,183)	2,347,959
Net increase (decrease) in fair value of investments	(285,121)	(6,497,127)	6,212,006
Interest expense	(17,074,836)	(17,299,775)	224,939
Gain (loss) on sale of assets	195,390	(947,693)	1,143,083
Legal settlement	651,956	-	651,956
Nonoperating expenses, net	(16,231,835)	(26,811,778)	10,579,943
Transfers to City	(14,507,260)	(14,306,266)	(200,994)
Change in net position	11,542,247	7,126,223	4,416,024
Net position - beginning of year	98,214,847	91,088,624	7,126,223
Net position - end of year	<u>\$109,757,094</u>	<u>\$ 98,214,847</u>	<u>\$ 11,542,247</u>

The Enterprise improved its unrestricted net position at the end of the year by reducing the deficit to \$29,862,598, which represents an increase in net position of \$11,542,247 in the current year. The Enterprise expects to eliminate this deficit balance through future rate increases, cost reductions, debt payouts, and revenues from renewable energy projects.

The Enterprise's activities increased net position by \$11,542,247 which is \$4,416,024 higher than the prior year. The key reasons for this change are as follows:

- Charges for services was \$199,501,501 for the current year, which is \$14,311,368 lower than the previous year.
- Cost of sales was \$150,231,759 for the current year, which is \$8,695,584 lower than the previous year.
- Investment income was \$280,776 for the current year, which is \$2,347,959 higher than the previous year.
- Net decrease in fair value of investments was \$285,121 for the current year, which is \$6,212,006 lower than the previous year.
- Gain on sale of assets was \$195,390 for the current year, which is \$1,143,083 higher than the previous year.

Operating Revenues and Expenses
For the Fiscal Years Ended June 30, 2016 and 2015



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Enterprise's investment in capital assets as of June 30, 2016 amounted to \$217,119,571 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the Enterprise's investment in capital assets for the current fiscal year was \$16,204,684, offset by a sale of intangible environmental credits of \$438,286, and depreciation of \$6,988,400, for a net increase of \$8,777,998.

Additional information on the Enterprise's capital assets can be found in Note 5 on page 40 of this report.

Outstanding debt

As of June 30, 2016, the following Enterprise 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 Electric System is the electrical energy generation, transmission and distribution system established by City ordinance.

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.

Additional information on the Enterprise's long-term debt can be found in Note 6 on pages 41-46 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

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

- The City is strictly industrial and does not maintain an unemployment rate study of its small population. However, the unemployment rate of 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.

REQUESTS FOR INFORMATION

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

CITY OF VERNON, CALIFORNIA

Light and Power Enterprise

Statement of Net Position

June 30, 2016

ASSETS:

Current assets:

Cash and investments	\$ 107,206,737
Accounts receivable, net of allowances of \$150,000	5,295,746
Accrued unbilled revenue	11,567,556
Accrued interest receivable	42,885
Escrow deposits	940,000
Prepaid natural gas	28,578,343
Note receivable	479,908
Total current assets	<u>154,111,175</u>

Noncurrent assets:

Restricted cash and investments	38,533,372
Advances to City	7,118,325
Prepaid expenses	1,512,031
Prepaid natural gas	111,410,218
Note receivable	140,131

Capital assets:

Nondepreciable	65,052,865
Depreciable, net	152,066,706
Total noncurrent assets	<u>375,833,648</u>
Total assets	<u>529,944,823</u>

DEFERRED OUTFLOWS OF RESOURCES:

Current deferred outflows of resources:

Deferred amount on refunding	2,508,853
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Noncurrent deferred outflows of resources:

Deferred amount on refunding	10,927,489
Total deferred outflows of resources	<u>13,436,342</u>

LIABILITIES:

Current liabilities:

Accounts payable	9,495,570
Customer deposits	623,685
Derivative liabilities	8,318
Bond interest	9,113,697
Bonds payable, net	22,720,088
Compensated absences	188,930
Total current liabilities	<u>42,150,288</u>

Noncurrent liabilities:

Bonds payable, net	362,707,033
Compensated absences	377,860
Total noncurrent liabilities	<u>363,084,893</u>
Total liabilities	<u>405,235,181</u>

DEFERRED INFLOWS OF RESOURCES:

Current deferred inflows of resources:

Deferred gain from sale of generation assets	5,478,716
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Noncurrent deferred inflows of resources:

Deferred gain from sale of generation assets	22,910,174
Total deferred inflows of resources	<u>28,388,890</u>

NET POSITION:

Net investment in capital assets	139,619,692
Unrestricted (deficit)	(29,862,598)
Total net position	<u>\$ 109,757,094</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Light and Power Enterprise
 Statement of Revenues, Expenses and Changes in Net Position
 For the Fiscal Year Ended June 30, 2016

OPERATING REVENUES:	
Charges for services	\$ 199,501,501
Total operating revenues	199,501,501
 OPERATING EXPENSES:	
Cost of sales	150,231,759
Depreciation and amortization	6,988,400
Total operating expenses	157,220,159
Operating income (loss)	42,281,342
 NONOPERATING REVENUES (EXPENSES):	
Investment income	280,776
Net decrease in fair value of investments	(285,121)
Interest expense	(17,074,836)
Gain on sale of assets	195,390
Legal settlement	651,956
Nonoperating revenues (expenses), net	(16,231,835)
Transfers to City	(14,507,260)
Change in net position	11,542,247
Net position, beginning of the year	98,214,847
Net position, end of the year	\$ 109,757,094

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Light and Power Enterprise
For the Fiscal Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	\$ 236,470,265
Cash paid to suppliers for goods and services	(145,046,558)
Cash paid to employees for services	(6,451,118)
Net cash provided by operating activities	<u>84,972,589</u>
Cash flows from noncapital financing activities:	
Transfers to City	(14,507,260)
Collection of note receivable	449,197
Net cash used in noncapital financing activities	<u>(14,058,063)</u>
Cash flows from capital and related financing activities:	
Proceeds from bond issuance	111,720,000
Repayment of bonds	(106,220,000)
Bond interest paid	(17,247,954)
Sale of environmental credits	633,675
Acquisition and construction of capital assets, net	(16,116,721)
Net cash provided by (used in) capital and related financing activities	<u>(27,231,000)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	(26,199,538)
Investment loss net of interest rate swap payments on investment derivatives	366,238
Net cash used in investing activities	<u>(25,833,300)</u>
Net increase in cash and cash equivalents	17,850,226
Cash and cash equivalents, beginning of year	120,288,964
Cash and cash equivalents, end of year	<u>\$ 138,139,190</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ 42,281,342
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	6,988,400
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(2,400)
Advance to (from) City	6,173,102
Accrued unbilled revenue	(154,074)
Inventories	45,730
Prepaid expenses and deposits	2,241,753
Prepaid natural gas	28,664,653
Increase (decrease) in:	
Accounts payable	1,559,765
Customer deposits	150
Compensated absences	(39,132)
Deferred gain from sale of generation assets	(2,786,700)
Net cash provided by operating activities	<u>\$ 84,972,589</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:	
Cash and investments	\$ 107,206,737
Noncurrent restricted cash and investments	38,533,372
Total	145,740,109
Less: Investments with maturities of more than 90 days	(7,600,919)
Total cash and cash equivalents	<u>\$ 138,139,190</u>
Noncash Capital, Investing and Financing Activities:	
Acquisition of capital assets in accounts payable	\$ 233,129
Increase (decrease) in fair value of investments	(285,121)
Amortization of deferred gain from sale of generation assets	2,786,700
Capitalized interest	5,707,669

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Light and Power Enterprise (the Enterprise) of the City of Vernon, California (the City). The Enterprise accounts for the operations and the maintenance of the City's electric utility plant and gas utility system. All transactions of the Enterprise are included in the reporting entity of the City and are recorded in a separate enterprise fund of the City. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

For additional information regarding the City of Vernon, refer to the City's annual financial report.

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

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

As of June 30, 2016, the Enterprise had no blended component units or any discretely presented component units.

Basis of Presentation

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

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

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2016, the Enterprise adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 72, *Fair Value measurements and Applications*. This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement did not have a significant impact on the Enterprise's financial statements for the fiscal year ended June 30, 2016.
- 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*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The implementation of this statement did not have a significant impact on the Enterprise's financial statements for the fiscal year ended June 30, 2016.
- GASB Statement No. 76, *the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not materially impact the Enterprise's financial statements for the fiscal year ended June 30, 2016.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

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

Receivables

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

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

Capital Assets

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

The estimated useful lives are as follows:

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Absences

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the Enterprise recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. At June 30, 2016, the City has deferred inflows of resources representing the deferred gain from the sale of generation assets and deferred outflows of resources representing deferred amounts on bond refunding.

Long-term Obligations

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

Net Position

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2016 are classified in the accompanying statement of fund net position as follows:

Statement of net position:

Cash and investments	\$ 107,206,737
Restricted cash and investments	38,533,372
	<hr/>
Total cash and investments	\$ 145,740,109
	<hr/> <hr/>

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

Deposits with financial institutions	\$ 34,086,031
Investments	111,654,078
	<hr/>
Total cash and investments	\$ 145,740,109
	<hr/> <hr/>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's Investment Policy

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

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

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

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

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

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

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

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2016	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
Money Market Funds	\$ 100,183,818	\$ 100,183,818	\$ -	\$ -	89.7%
Local Agency Investment Fund	543,472	543,472	-	-	0.5%
U.S. Treasury Notes	10,926,788	10,926,788	-	-	9.8%
Total investments	\$ 111,654,078	\$ 111,654,078	\$ -	\$ -	100.0%

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 34,086,031	23.4%
Local Agency Investment Fund	Not Rated	Not Rated	543,472	0.4%
Total in custody of Treasurer			34,629,503	23.8%
In custody of Trustee:				
Investments held by Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	100,183,818	68.7%
U.S. Treasury Notes	None	Aaa / AA+	10,926,788	7.5%
Total in custody of Trustee			111,110,606	76.2%
Total cash and investments held by Treasurer and Trustee			\$ 145,740,109	100.0%

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 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 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 Enterprise that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

Custodial Credit Risk

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

At year-end, the carrying amount of the Enterprise's deposits was \$34,086,031 and the bank balance was \$33,848,580. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2016, none of the Enterprise's deposits with financial institutions in excess of federal depository insurance limit were held in uncollateralized accounts. \$33,598,580 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The Enterprise also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$543,472 at June 30, 2016. LAIF is an external investment pool sponsored by the State of California. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Enterprise’s position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 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 structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to the California State Code. The 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 Enterprise 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 Enterprise 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 Enterprise’s fair value hierarchy for its financial assets measured at fair value on a recurring basis:

<u>Investments by fair value level</u>	<u>Fair value</u>	<u>Fair value measurement using significant other observable inputs (Level 2)</u>
Money Market Funds	\$ 100,183,818	\$ 100,183,818
U.S. Treasury Notes	10,926,788	10,926,788
Total	111,110,606	<u>\$ 111,110,606</u>
Uncategorized:		
Local Agency Investment Fund	<u>543,472</u>	
Total investments measured at fair value	<u>\$ 111,654,078</u>	

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
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June 30, 2016**

NOTE 3 – ACCOUNTS RECEIVABLES

The Enterprise’s accounts receivables at June 30, 2016 are as follows:

Accounts receivables	\$ 5,445,746
Less: Allowances for uncollectible accounts	<u>(150,000)</u>
Total receivables, net	<u><u>\$ 5,295,746</u></u>

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

NOTE 4 – RELATED PARTY TRANSACTIONS

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

The following table summarizes the Enterprise’s loan balances and transactions with the City at June 30, 2016:

Advances to City

Advances to City, July 1, 2015	\$ 13,291,427
Payments from City	<u>(6,173,102)</u>
Advances to City, June 30, 2016	<u><u>\$ 7,118,325</u></u>

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)

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

The City allocates certain administrative and overhead costs to the Enterprise which the Enterprise financial statements include as part of cost of sales. The allocated costs for the year ended June 30, 2016 were \$3,018,677.

Transfers to City

The Enterprise’s electric retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City’s General Fund. For the current year, the Enterprise paid the City’s General Fund \$4,459,512 for in lieu of franchise tax.

Under the City Charter and the Enterprise’s bond indentures, the Enterprise is allowed to transfer up 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. For the year ended June 30, 2016, the Enterprise transferred an additional \$10,047,748 of its excess revenue to the City for a total of \$14,507,260 as follows:

In lieu of franchise tax transfer	\$ 4,459,512
Excess revenue operating transfer	<u>10,047,748</u>
Total	<u><u>\$ 14,507,260</u></u>

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<i>Capital assets, not being depreciated:</i>				
Land - Electric	\$ 9,276,596	\$ -	\$ -	\$ 9,276,596
Intangibles - Environmental credits - Electric	1,636,273	-	(438,286)	1,197,987
Construction in Progress - Electric	50,708,583	3,869,699	-	54,578,282
Total capital assets, not being depreciated	<u>61,621,452</u>	<u>3,869,699</u>	<u>(438,286)</u>	<u>65,052,865</u>
<i>Capital assets, being depreciated</i>				
Production plant - Electric	15,399,113	662,330	-	16,061,443
Transmission plant - Electric	4,888,113	-	-	4,888,113
Distribution plant - Electric	176,648,652	11,407,796	-	188,056,448
General plant - Electric	8,415,487	100,966	-	8,516,453
Gas utility plant	26,018,021	163,893	-	26,181,914
Total capital assets, being depreciated	<u>231,369,386</u>	<u>12,334,985</u>	<u>-</u>	<u>243,704,371</u>
Less accumulated depreciation for:				
Production plant - Electric	(8,009,113)	(442,114)	-	(8,451,227)
Transmission plant - Electric	(2,858,266)	(96,197)	-	(2,954,463)
Distribution plant - Electric	(63,485,240)	(5,313,567)	-	(68,798,807)
General plant - Electric	(3,637,162)	(369,774)	-	(4,006,936)
Gas utility plant	(6,659,484)	(766,748)	-	(7,426,232)
Total accumulated depreciation	<u>(84,649,265)</u>	<u>(6,988,400)</u>	<u>-</u>	<u>(91,637,665)</u>
Total capital assets, being depreciated, net				
Production plant - Electric	7,390,000	220,216	-	7,610,216
Transmission plant - Electric	2,029,847	(96,197)	-	1,933,650
Distribution plant - Electric	113,163,412	6,094,229	-	119,257,641
General plant - Electric	4,778,325	(268,808)	-	4,509,517
Gas utility plant	19,358,537	(602,855)	-	18,755,682
Total	<u>146,720,121</u>	<u>5,346,585</u>	<u>-</u>	<u>152,066,706</u>
Business-type activities capital assets, net	<u>\$ 208,341,573</u>	<u>\$ 9,216,284</u>	<u>\$ (438,286)</u>	<u>\$ 217,119,571</u>

Depreciation

The Enterprise's total depreciation expense for the year was \$6,988,400.

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

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:

\$43,765,000 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
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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:

<u>Bonds</u>	<u>Maturity</u>	<u>Fixed Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2016</u>
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
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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
LIGHT AND POWER ENTERPRISE
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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	Amounts Due Within One Year
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	605,922	162,842	(201,974)	566,790	188,930
	<u>\$ 383,365,170</u>	<u>\$ 108,325,449</u>	<u>\$ (105,696,708)</u>	<u>\$ 385,993,911</u>	<u>\$ 22,909,018</u>

Credit Ratings

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 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.

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.

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

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

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

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

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

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

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

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

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

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

NOTE 10 – LIGHT AND POWER OPERATIONS AND COMMITMENTS

Asset Sale

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

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

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

Project Commitments

A. Southern California Public Power Authority

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

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt in the form 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.

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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 10 – LIGHT AND POWER 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

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

	Light and Power Fund	Gas Fund	Eliminating Entries	Light and Power Enterprise
ASSETS:				
Current assets:				
Cash and investments	\$ 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

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

	<u>Fund</u>	<u>Gas Fund</u>	<u>Enterprise</u>
OPERATING REVENUES:			
Charges for services	\$ 169,087,031	\$ 30,414,470	\$ 199,501,501
Total operating revenues	<u>169,087,031</u>	<u>30,414,470</u>	<u>199,501,501</u>
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	<u>127,187,266</u>	<u>30,032,893</u>	<u>157,220,159</u>
Operating income (loss)	<u>41,899,765</u>	<u>381,577</u>	<u>42,281,342</u>
NONOPERATING REVENUES (EXPENSES):			
Investment income	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	65,1956	-	65,1956
Total nonoperating revenues (expenses), net	<u>(16,232,155)</u>	<u>320</u>	<u>(16,231,835)</u>
Transfers to City	<u>(13,776,089)</u>	<u>(731,171)</u>	<u>(14,507,260)</u>
Change in net position	11,891,521	(349,274)	11,542,247
Net position, beginning of the year	<u>101,091,816</u>	<u>(2,876,969)</u>	<u>98,214,847</u>
Net position, end of the year	<u>\$ 112,983,337</u>	<u>\$ (3,226,243)</u>	<u>\$ 109,757,094</u>

CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016

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

	Light and Power Fund	Gas Fund	Light and Power Enterprise
Cash flows from operating activities:			
Cash received from customers	\$ 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
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016

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

B. Pledged Revenues

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

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

Resolution 2012-114, 2012-217, 2012-188, and 2013-06 provided the payment of medical and dental insurance premiums for certain categories of retired employees. Resolution No. 2012-114 state that the City will provide a single-employer postemployment benefit plan to employees who retire at age fifty (50) or later with twenty (20) years of continuous uninterrupted service up to the age of sixty-five (65). Alternatively, employees who retire before the age of fifty (50) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65). Resolution 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. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will be 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 costs 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. Costs related to the OPEB plan are not allocated to the Enterprise.

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

**CITY OF VERNON, CALIFORNIA
LIGHT AND POWER ENTERPRISE
Notes to Basic Financial Statements
June 30, 2016**

NOTE 12 – CONTINGENCIES

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

Uncertainties

Sale of Generation and Transmission Assets

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

NOTE 13 – SUBSEQUENT EVENTS

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.



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