

**CITY OF VERNON, CALIFORNIA**

**Annual Financial Report**

**Fiscal Year Ended June 30, 2017**

**CITY OF VERNON**  
**Fiscal Year Ended June 30, 2017**

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City of Vernon, California  
Finance Department

December 28, 2017

To the Honorable Mayor and City Council  
Vernon, California

In accordance with the Charter of the City of Vernon (City), please accept submission of the Annual Financial Report for the fiscal year ending June 30, 2017. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the City. We believe the data included is accurate in all material aspects, and is presented in a manner designed to fairly set forth the financial position and operational achievements of the City, as measured by the financial activity of its various funds. In addition, all disclosures necessary to enable the reader to gain a maximum understanding of the City's financial activities have been included.

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

## **ECONOMIC CONDITION AND OUTLOOK**

Since it was founded in 1905, Vernon has maintained a business-friendly environment, thus allowing the City to remain one of Southern California's prime locations for industry of all types. Vernon offers businesses a range of advantages compared to nearby cities in L.A. County. Features such as lower permit fees; lower electricity, water and natural gas utility rates; excellent City services tailored to specific business needs; easy access to major transportation hubs; and proximity to a substantially skilled workforce enable business and industry to thrive in Vernon.

Vernon is the industrial heart of Southern California. Major manufacturers, processors and distributors have made Vernon their home for more than a century. Vernon businesses employ more than 50,000 men and women from nearby communities throughout the Greater Los Angeles area. There are 1,800 businesses that

call Vernon home. These include food processors, fashion apparel manufacturers, furniture manufacturers, electronics manufacturers, paper products producers and business logistics companies. Familiar firms with significant operations in Vernon include Farmer John, Whole Foods, Seven for All Mankind, and Tapatío Hot Sauce.

Vernon is a key contributor to the diverse Los Angeles County economy. After several years of slow and steady growth, the economy is finally shifting into a higher gear as it continues to recover from the impact of the most recent recession. Job growth is contributing to the flourishing local economy, as well as at the state and national levels. Vernon is largely industrial and does not maintain an unemployment rate tally of its small population. However, the unemployment rate of adjacent communities is currently 5.2%. This approximates the State of California's average unemployment rate of 4.8% and closely approximates the national average unemployment rate of 4.4%. The occupancy rate of the City's central business district changed 98.0% to 96.4% during the prior year.

The City will continue to build on the successes and achievements realized in the current year, and remains committed in its efforts to grow service levels. The City's main revenue sources consisting of utilities fees, property and parcel taxes, business license taxes, and sales and use tax, have all sustained steady growth this year. As the City moves into fiscal year 2017/18, we are optimistic about continued growth but will remain attentive to the prevailing economic climate and mindful of managing enhanced services within the limits of our five-year plan.

### **Vernon's Fashionable Business Resources**

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

### **Powering Business Competitiveness**

The City of Vernon Public Utilities Department (VPU) serves as an essential resource to the City's business and residential community, providing dependable, high-quality utility services at very competitive rates. VPU offers electricity, natural gas, water, and fiber optic services to Vernon based businesses and residents, often at a cost savings compared to neighboring utility providers. The City-owned electric, natural gas and fiber optic distribution systems have a strong, established history of reliability, capable of efficiently and successfully serving the needs of the City's unique largely industrial community.

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

Vernon's natural gas distribution system offers significant advantages for businesses. Vernon's natural gas transportation rates are 43% less than those offered by a large private natural gas utility in the same service area. Vernon's natural gas is distributed through a robust network of more than 44 miles of six inch gas distribution pipelines and 7 miles of 10 inch gas transmission pipelines.

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

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

### **Safeguarding the Environment**

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

Vernon is focused on protecting the environment. Accordingly, Vernon has in place strict ordinances governing the practices of heavy manufacturers, food processors, garment manufacturers, and hazardous waste storage and disposal. Each function in a manner that allows the City to effectively serve the community in protecting public health.

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

### **Public Safety**

Creating a safe environment for residents and businesses to thrive is a key factor to Vernon's success. The City's skilled Police and Fire Department personnel are some of the best in their respective fields. Expedient response times and community engagement are hallmarks of their exceptional service.

The mission of the Vernon Police Department is to provide swift, skillful and responsive law enforcement services to the people and businesses of our community through the application of proactive problem-solving strategies and the development of equal partnerships with the people served. Officers seek to ensure a sense of well-being in the community and they are guided by their commitment to working closely with the industrial population. VPD is dedicated to maintaining the highest degree of professionalism and ethical standards in its pursuit of this mission, ever mindful of the need to safeguard the individual liberties of all members of the community.

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

The Vernon Fire Department continues to be the leader in "exclusively Industrial" firefighting among its peers and has been awarded a Class 1 Public Classification rating by the Insurances Services Office (ISO), an organization that independently evaluates municipal fire protection efforts in communities throughout the United States. The Class 1 rating is the highest possible score that agencies in California can receive. A total of 10 such departments in California and 58 departments nationally have achieved this prestigious, significant ranking. Vernon Fire Department team members are public servant oriented and take immense pride in the superior service provided to the community.

The City maintains four stations within the City's five square-miles that enable its firefighters and paramedics to achieve an average emergency response time of three minutes. Vernon's firefighters are highly trained to manage complex emergency incidents and equipped to deal with industrial fires and toxic hazards. The Fire Department consists of seven main Divisions which are key to its successful operation: Fire Suppression, Emergency Medical Services (EMS), Emergency Management, Fire Apparatus & Equipment, Training & Safety, Hazardous Materials and Administration. These divisions function in a manner that allows the department to effectively serve the community in emergency and non-emergency situations.

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

## MAJOR INITIATIVES

Under the direction of the Mayor and City Council, City management identifies the priorities that shape the path leading into the City's future. City initiatives are reevaluated regularly, and new goals are frequently vetted to ensure that City efforts are consistent with the priorities of our policy body and the community. The City strives each year to better fulfill its mission of delivering outstanding municipal services that are responsive, comprehensive, and beneficial to the entire community by continuing its tradition of fostering innovation, ingenuity, and opportunity within its operations. City staff remains focused on actions that achieve the primary goals of tending to the public's needs, building neighborhood connections, and governing for results that strengthen our community. The City's dedication to improvement and modernization has created an environment where City of Vernon residents and businesses are dialed in and able to collaborate with staff, voice their concerns, and have access to a plethora of information on the City and their chosen topic(s) of interest. As these relationships flourish, businesses and residents alike are able to enjoy all that Vernon has to offer while also participating in guiding Vernon down its path into the future.

1. Vernon is very committed to meeting its debt service coverages. In order to address the budget deficit historically present in the General Fund, the City will be placing on the ballot a measure to increase the Utility Users Tax from 1% to 6% for consideration in the upcoming election. The ballot measure, if passed, will effectively eliminate operating transfers from its enterprise activities to the General Fund. To minimize the burden on the business community, an equivalent discount will be provided to Vernon's electric, gas, fiber, and water utility customers.
2. Vernon is committed to maintaining fiscal accountability and presenting an accurate financial picture of its financial conditions. Over the last 10 years, Vernon worked hard to develop a Geographic Information System (GIS) to visualize, question, analyze and interpret data to understand relationships, patterns, and trends associated with its capital assets. While the GIS project is still ongoing, Vernon concurrently retained Epic Land Solutions, Inc. to conduct an infrastructure valuation of Vernon capital assets mapped out within the GIS system. The outcome of the study verified many capital assets owned by Vernon that were not historically reflected as an asset on its books, indicating that those capital assets were historically expensed as opposed to being capitalized. As a result of the study, Vernon's governmental infrastructure value was increased by \$131 million, net of accumulated depreciation. While the increase in the governmental infrastructure value will increase depreciation expense, Vernon believes in presenting an accurate financial picture to its community in order to make sound decisions together to better plan its future.
3. Vernon has the capacity to expand its services as new businesses emerge and as existing businesses flourish and expand. An attractive, business friendly approach is extended to customers in the form of discounts that are available for large electricity consumers. Revenue sharing mechanisms have also been implemented to help stimulate both growth and retention. The City's Good Governance and Reform initiatives provide a tangible demonstration of the overarching commitment to sound governance and best business practices.



4. Vernon is a party to a long-term pre-paid natural gas agreement with Citigroup Energy, Inc. (“CEI”), which obligates Vernon to take natural gas for 15 years (from 2006 to 2021). At the end of 2015, the credit rating of Citigroup, Inc., CEI’s parent and guarantor under the pre-paid agreement (“Citigroup”), was downgraded. Vernon believed this downgrade triggered a credit support obligation under the agreement. CEI and Citigroup disagreed. In March 2016, the City brought an action for declaratory relief in federal district court against, among others, Citigroup and CEI, alleging that the defendants had breached the pre-paid agreement. In August 2016, the parties entered into a confidential settlement agreement and ended the litigation. Under the terms of the settlement agreement, Vernon does not believe it has any exposure under the pre-paid agreement should either CEI or Citigroup fail to perform.
5. Based upon the City’s electric debt service schedule, there will be a significant reduction in debt service starting in 2027. With input from business and residential communities, the City continues to evaluate its position and initiatives to ensure that electric rates remain competitive and that infrastructure needs are being addressed.
6. The inherent governance challenges in the City, due to a very small residential population, continues to be addressed by its residents, businesses, Chamber of Commerce, and City Council. Over the past 5 years, the public has become much more engaged in the political process and continues to keep a watchful eye on all important issues facing the City. The disincorporation controversy raised by assembly bill 46 in 2011 has been addressed with the whole-hearted adoption of key reforms and comprehensive implementation of best practices in all City operations.
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 effective July 2017. Emphatically committed to good governance and transparency, the City is proud of its success in satisfying each reform that JLAC recommended. As a result, the City moves forward with clear, concise, and comprehensive policies and procedures that uphold best practices.
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 and all related cleanup 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 Exide does not pose a concern to existing Vernon businesses.
9. Vernon’s electric rates remain competitive, and in many cases, lower than adjacent municipal and investor owned utilities. However, in many respects, Vernon’s electric utility services continue to outperform its neighboring peers thanks to a higher reliability rating and greater customer satisfaction. In fact, VPU’s electric reliability ranked in the top 10% nationwide in a recent benchmarking study.
10. Vernon electric utility’s financial liquidity continues to remain stable when considering the legally unrestricted funds of the utility, the ability to fund debt obligations and meet operating requirements remains strong.

## **FINANCIAL INFORMATION**

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

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

## **BUDGETARY CONTROLS**

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

## **RELEVANT FINANCIAL POLICIES**

Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2017, the City's overall total net position was \$189.5 million. This consisted of positive net position of \$77.8 million in governmental activities and \$111.7 million in business-type activities. By continuing to develop sound fiscal management plans, the City intends to maintain an overall positive net position. With the proposed Utility Users Tax ballot measure in the coming next election, we expect to gradually eliminate the General Fund structural deficit in conjunction with our long-term financial planning.

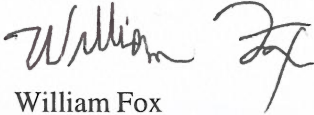
## **ACKNOWLEDGMENTS**

The preparation of this report on a timely basis is a team effort involving many dedicated people across the entire organization. I would like to extend a special thanks to the talented finance professionals throughout the City, led by Masami Higa, Assistant Finance Director and Joaquin Leon, Deputy City Treasurer. Appreciation is also expressed to Carlos Fandino, City Administrator; Hema Patel, City Attorney; Kelly Nguyen, General Manager of Public Utilities; Michael Earl, Human Resource Director, and Diana Figueroa, Administrative Analyst.

In closing, without the leadership and support of the City Council, the preparation and results presented within this report would not have been conceivable. Their steadfast leadership has made possible the implementation of the City's important, innovative concepts in fiscal management discussed herein.

Should you have any questions regarding the documentation provided, please do not hesitate to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "William Fox". The signature is written in a cursive style with a large, stylized "F" at the end.

William Fox  
Finance Director

## REPORT OF INDEPENDENT AUDITORS

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

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2017, and the related notes to financial statements which, collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

As discussed in Note 13, the beginning balance of the City's net position has been restated to retroactively reflect the proprietary funds' share in the net pension liability and other postemployment benefits obligation and to report infrastructure assets effective for the Fiscal Year 2016-2017. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 24 and budgetary comparison information and funded status of pension and other postemployment benefits plans on pages 80 through 86 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Vasquez + Company LLP*

**Los Angeles, California  
December 28, 2017**

**CITY OF VERNON, CALIFORNIA**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2017**  
**(Unaudited)**

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

***Government-wide financial statements***

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and health services. The business-type activities of the City is administered by the Vernon Public Utilities which consists of the Electric, Gas, Water, and Fiber Optics utilities.

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

The government-wide financial statements can be found on pages 25-26 of this report.

### ***Fund financial statements***

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

### ***Governmental funds***

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (See page 80 and 81).

The governmental fund financial statements can be found on pages 27-30 of this report.

### ***Proprietary funds***

The City's proprietary funds consist of enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Vernon Public Utilities which consists of the Electric, Gas, Water, and Fiber Optics utilities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Vernon Public Utilities. Segment information for each of the Electric, Gas, Water, and Fiber Optics utilities is presented in Note 10 on pages 70-73 of this report.

The proprietary funds financial statements can be found on pages 31-33 of this report.



## *Fiduciary funds*

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

The fiduciary fund financial statements can be found on pages 34-35 of this report.

## **Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-79 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### *City's Net Position*

The table below summarizes the City's net position as of June 30, 2017 and June 30, 2016. The details of the current year's summary can be found on page 25 of this report.

City of Vernon  
Net Position  
June 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>Assets:</b>						
Current and other assets	\$ 3,183,665	\$ 3,638,378	\$ 243,109,674	\$ 268,248,545	\$ 246,293,339	\$ 271,886,923
Restricted assets	4,209,844	3,656,716	32,793,332	38,533,372	37,003,176	42,190,088
Capital assets	179,389,591	179,717,246	231,294,182	226,025,175	410,683,773	405,742,421
Total assets	186,783,100	187,012,340	507,197,188	532,807,092	693,980,288	719,819,432
<b>Deferred Outflows of Resources:</b>						
Deferred amount on refunding	-	-	10,927,489	13,436,342	10,927,489	13,436,342
Deferred outflows related to pensions	20,668,345	7,246,444	3,835,296	1,320,141	24,503,641	8,566,585
	20,668,345	7,246,444	14,762,785	14,756,483	35,431,130	22,002,927
<b>Liabilities:</b>						
Current liabilities	7,940,716	8,100,997	43,164,408	43,666,446	51,105,124	51,767,443
Long-term liabilities	118,063,616	99,985,272	343,287,331	364,849,079	461,350,947	464,834,351
Total liabilities	126,004,332	108,086,269	386,451,739	408,515,525	512,456,071	516,601,794
<b>Deferred Inflows of Resources:</b>						
Deferred inflows related to pensions	3,685,604	17,391,071	741,420	3,168,265	4,427,024	20,559,336
Deferred gain from sale of generation assets	-	-	23,024,857	28,388,890	23,024,857	28,388,890
	3,685,604	17,391,071	23,766,277	31,557,155	27,451,881	48,948,226
<b>Net Position</b>						
Net investment in capital assets	178,181,004	179,717,246	151,981,027	148,525,296	330,162,031	328,242,542
Restricted	1,258,832	1,047,526	-	-	1,258,832	1,047,526
Unrestricted	(101,678,327)	(111,983,328)	(40,239,070)	(41,034,401)	(141,917,397)	(153,017,729)
Total net position	\$ 77,761,509	\$ 68,781,444	\$ 111,741,957	\$ 107,490,895	\$ 189,503,466	\$ 176,272,339

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$189,503,466 (*net position*).

The category of the City's net position with the largest balance totaling \$330,162,031 (174.2%) represents resources that are invested in capital assets, net of related debt. The City restated the capital assets beginning balances to retroactively recognize additional infrastructure assets of \$133,768,630, net of accumulated depreciation, based on a comprehensive inventory and historical valuation by an appraisal firm, in accordance with GASB Statement No. 34.

The second largest category of net position, totaling \$1,258,832 (0.7%) represents the City's restricted assets, which is restricted for grants.

The last remaining category of net position, totaling (\$141,917,397) (-74.9%) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

**Governmental activities, net position:**

- Current and other assets decreased \$454,713 from the prior year mainly due to a decrease in receivables of \$661,081.
- Restricted assets increased \$553,128 from the prior year mainly due to an increase in restricted cash and investments.
- Capital assets decreased by \$327,655 from the prior year due to depreciation of \$5,250,265, offset by current year additions on the City's infrastructure, building and improvements, machinery and equipment, and construction in progress totaling \$4,922,610.
- Deferred outflows of resources related to pensions increased \$13,421,901 from the prior year mainly due to an increase in the net difference between projected and actual earnings on pension plan investments.
- Current liabilities decreased \$160,281 from the prior year mainly due to the decrease in the unearned revenue.
- Long-term liability increased \$18,078,344 from the prior year mainly due to an increase in net pension liability of \$15,853,513.
- Deferred inflows of resources related to pensions decreased \$13,705,467 from the prior year mainly due to reductions from the differences between expected and actual experiences and differences between projected and actual earnings on pension plan investments.
- Net investment in capital assets increased \$974,346 from the prior year which is equivalent to the increase in capital assets during the current year, net of related debt.
- Unrestricted net deficit decreased \$10,305,001 from the prior year due mainly due to the positive change in net position for the current year.

**Business-type activities, net position:**

- Current and other assets decreased \$25,138,871 from the prior year mainly due to a decrease in prepaid natural gas of \$28,578,343.
- Restricted assets decreased by \$5,740,040 from the prior year mainly due to a decrease in the 2012 Series capital improvement funds of \$4,341,237. These funds were used in capital improvement projects and payment of interest.
- Capital assets increased \$5,269,007 from the prior year mainly due to an increase in utility plants of \$12,579,711, net of depreciation of \$8,093,296 (See Note 5).
- Deferred outflows of resources for deferred amount on bond refunding decreased \$2,508,853 from the prior year for amortization to interest expense during the current year (See Note 6).
- Long-term liabilities decreased \$21,561,748 from the prior year due to debt service and amortization of bond premium and discounts (See Note 6).
- Deferred inflows of resources for deferred gain from sale of generation assets decreased \$5,364,033 from the prior year due to amortization to capacity expense during the current year.
- Deferred inflows of resources on pension related items decreased \$2,426,845 from the prior year mainly due to reductions from the differences between expected and actual experiences and differences between projected and actual earnings on pension plan investments.
- Unrestricted net deficit decreased \$795,331 from the prior year due primarily to the positive change in net position of \$4,251,062, offset by the increase in net investment in capital assets of \$3,455,731.

## Changes in Net Position

The table below summarizes the City's changes in net position between the current and prior fiscal year. The details of the current year's changes in net position can be found on page 26 of this report.

City of Vernon  
Changes in Net Position  
For the Fiscal Years Ended June 30, 2017 and 2016

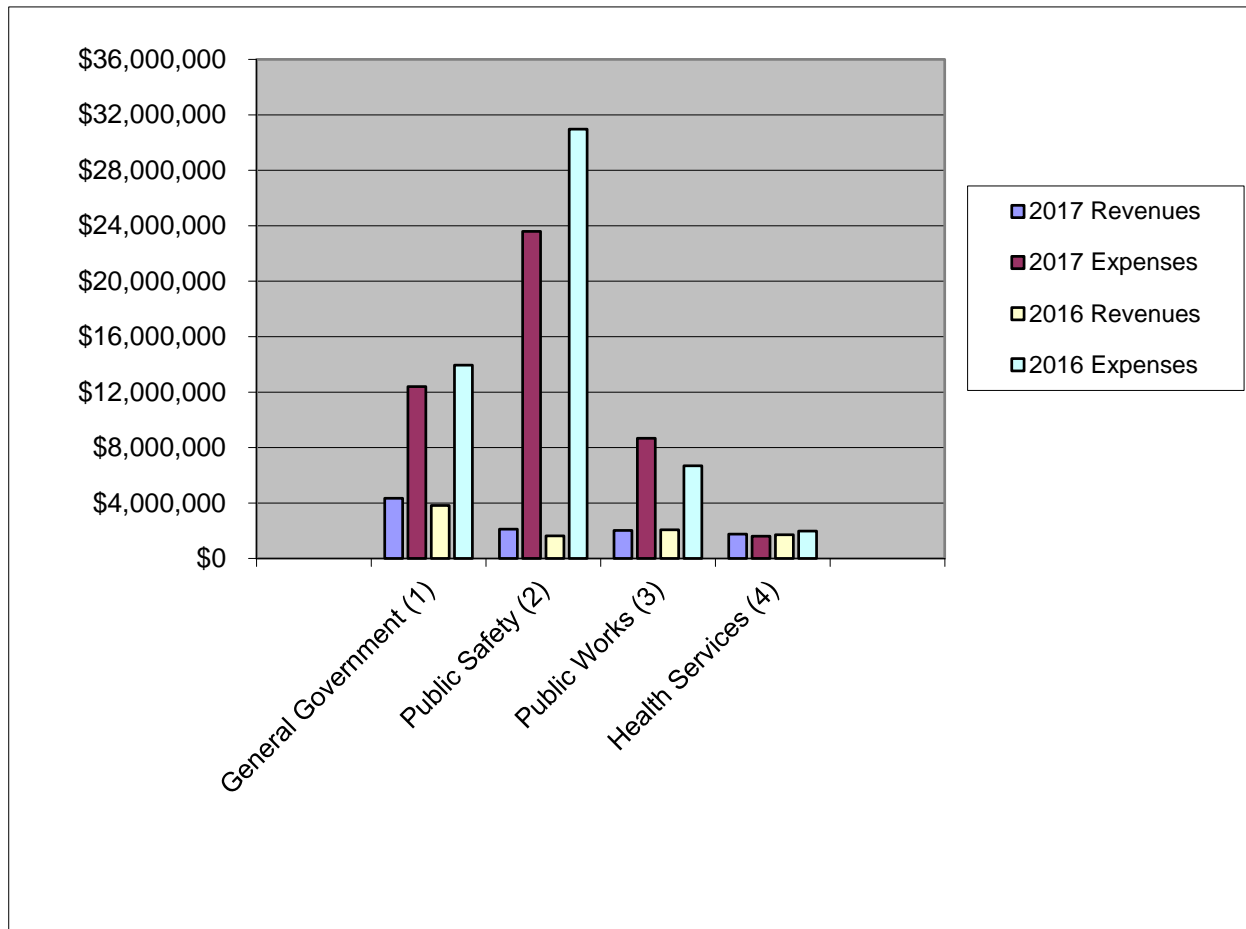
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program Revenues						
Charges for services	\$ 7,885,075	\$ 7,616,853	\$ -	\$ -	\$ 7,885,075	\$ 7,616,853
Vernon Public Utilities	-	-	223,988,452	208,030,826	223,988,452	208,030,826
Operating and capital grants and contributions	2,318,740	1,584,217	-	-	2,318,740	1,584,217
General Revenues						
Taxes	24,929,710	24,828,600	-	-	24,929,710	24,828,600
State allocations	6,081,507	6,114,503	-	-	6,081,507	6,114,503
Investment income (loss)	66,058	(21,005)	341,770	(4,345)	407,828	(25,350)
Gain (loss) on sale of land and assets	230	617,734	(37,704)	195,390	(37,474)	813,124
Other revenues	833,162	832,534	40,773	651,956	873,935	1,484,490
Total revenues	42,114,482	41,573,436	224,333,291	208,873,827	266,447,773	250,447,263
<b>Expenses</b>						
Governmental activities						
General government	12,392,825	13,937,697	-	-	12,392,825	13,937,697
Public safety	23,594,556	30,961,466	-	-	23,594,556	30,961,466
Public works	8,666,951	6,682,258	-	-	8,666,951	6,682,258
Health services	1,601,600	1,972,497	-	-	1,601,600	1,972,497
Business-type activities						
Vernon Public Utilities	-	-	206,960,714	181,714,518	206,960,714	181,714,518
Total expenses	46,255,932	53,553,918	206,960,714	181,714,518	253,216,646	235,268,436
Change in net position before transfers	(4,141,450)	(11,980,482)	17,372,577	27,159,309	13,231,127	15,178,827
<b>Transfers</b>						
	13,121,515	15,072,260	(13,121,515)	(15,072,260)	-	-
Change in net position	8,980,065	3,091,778	4,251,062	12,087,049	13,231,127	15,178,827
Net position - beginning of year, as restated	68,781,444	65,689,666	107,490,895	95,403,846	176,272,339	161,093,512
Net position - end of year	\$ 77,761,509	\$ 68,781,444	\$ 111,741,957	\$ 107,490,895	\$ 189,503,466	\$ 176,272,339

Governmental activities' net position increased by \$8,980,065 and business-type activities' net position increased by \$4,251,062 for a total positive change in net position of \$13,231,127 for the City. The increase in the governmental activities was caused by the governmental activities reporting a \$4,141,450 decrease in net position before transfers and a \$13,121,515 transfer in from the business-type activities.

### **Governmental activities, changes in net position:**

Governmental activities increased the City's net position by \$8,980,065. This is higher by \$5,888,287 as compared to the prior year's increase in the City's net position of \$3,091,778.

**Expenses and Program Revenues — Governmental Activities**  
**For the Fiscal Years Ended June 30, 2017 and 2016**



Governmental activities consist of the following departments:

(1) General Government:

- a. City Council
- b. City Administrator
- c. City Clerk
- d. Finance
- e. Treasurer
- f. Purchasing
- g. Community Promotion
- h. City Attorney
- i. Risk Management
- j. Human Resources
- k. City Building
- l. Parcel Tax
- m. Information Technology

(2) Public Safety

- a. Police
- b. Fire
- c. Civil Defense
- d. Fire - Hazardous Material

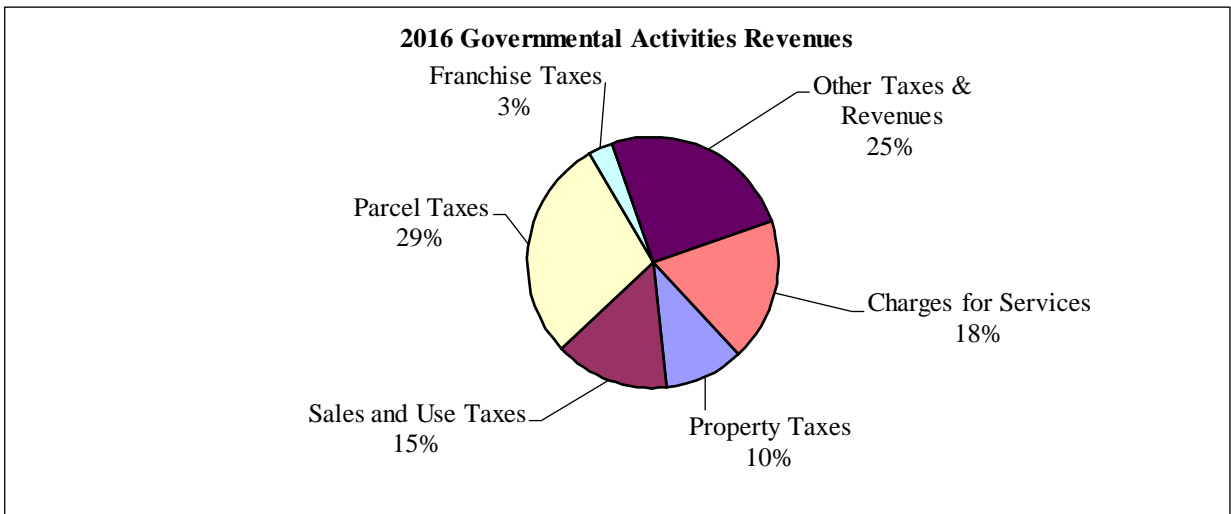
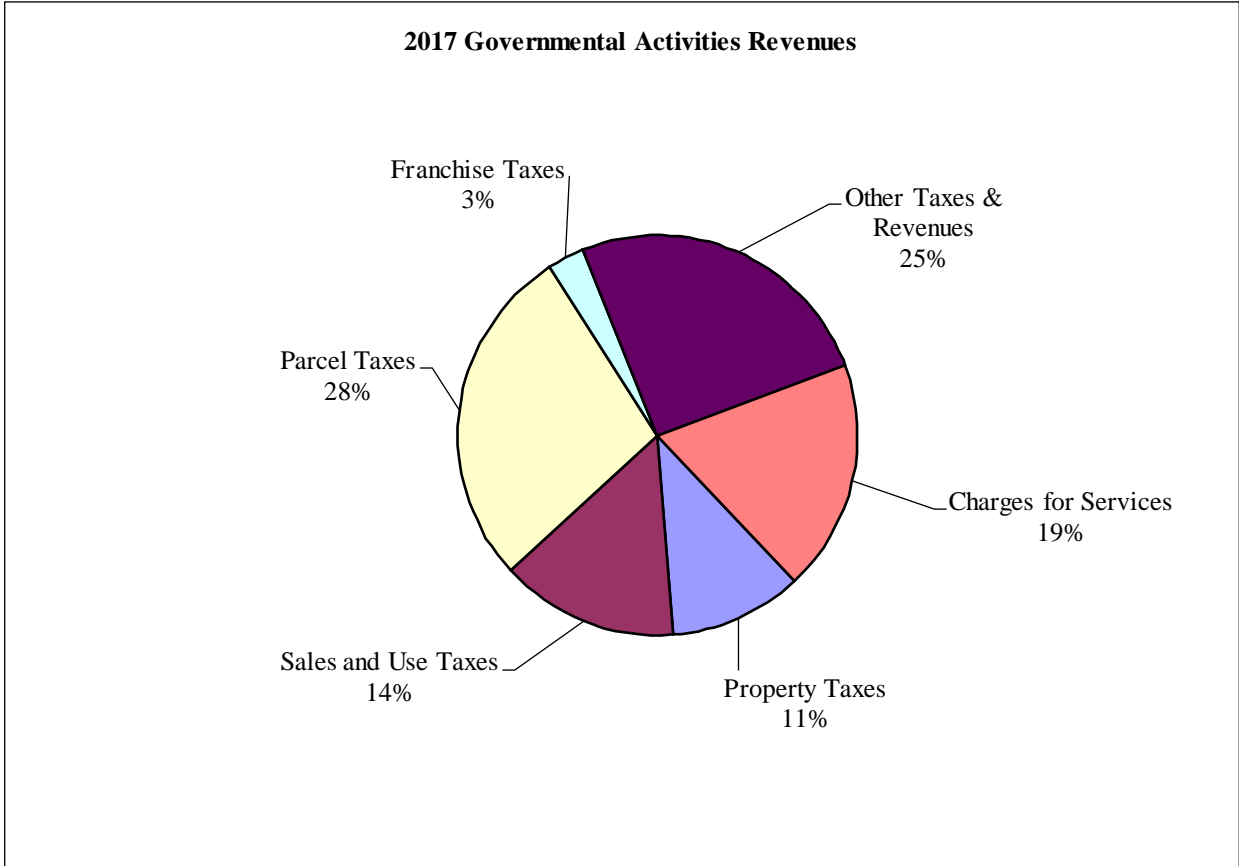
(3) Public Works

- a. Community Services Administration
- b. Building Department
- c. Street Lighting
- d. Street Operations
- e. City Garage
- f. City Warehouse
- g. City Housing
- h. Industrial Development

(4) Health Services

- a. Health
- b. Health - Solid Waste
- c. Health - Hazardous Material

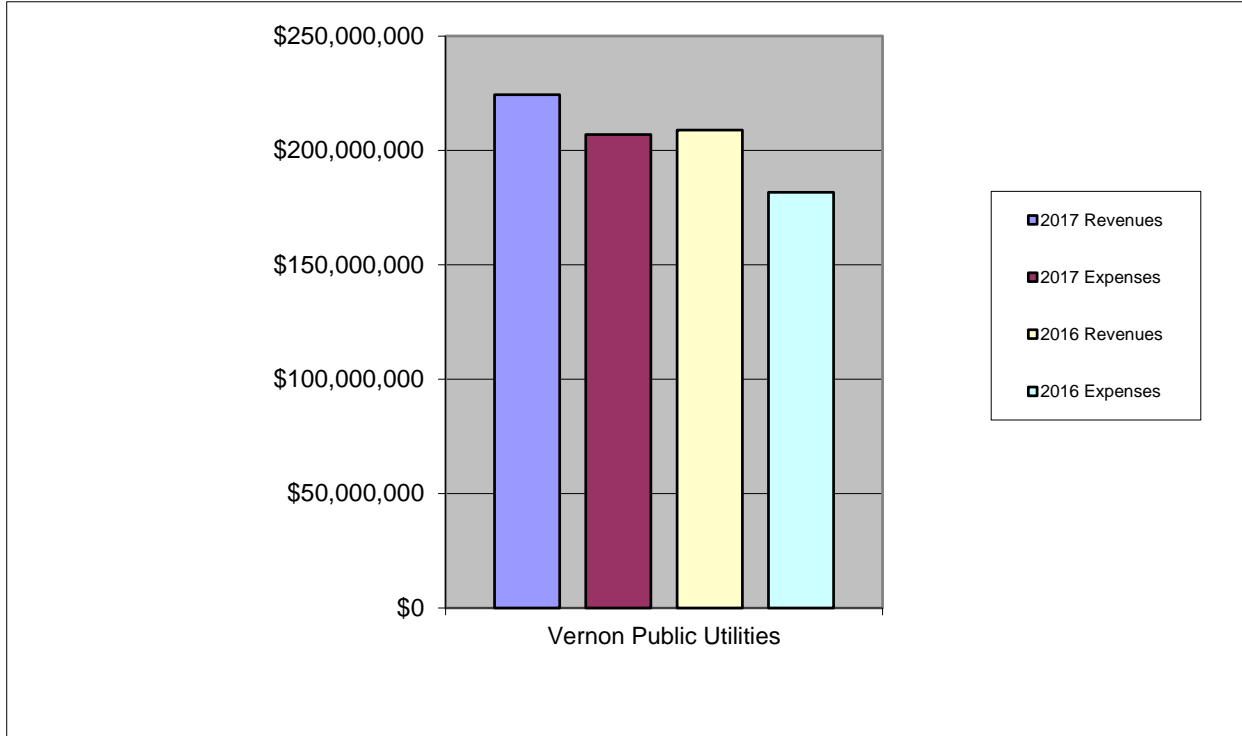
Revenues by Source — Governmental Activities  
For the Fiscal Years Ended June 30, 2017 and 2016



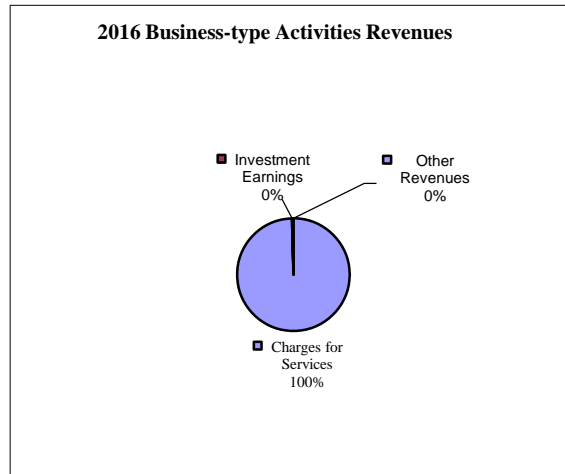
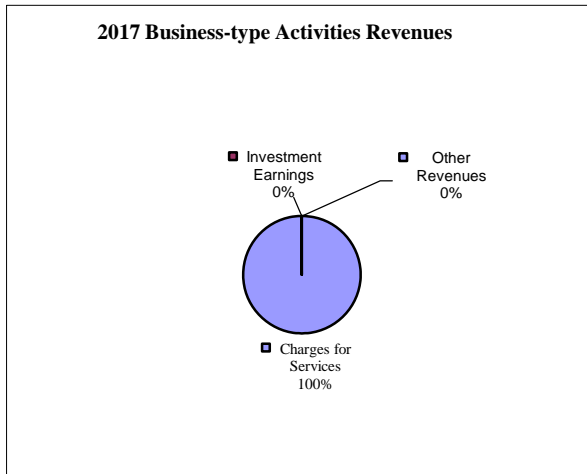
**Business-type activities, changes in net position:**

Business-type activities increased the City's net position by \$17,372,577 before transfers which is a \$9,786,732 decrease from the prior year. The key reason for this decrease was the increase in cost of sales and interest expense totaling \$25,246,196, offset by an increase in charges for services of \$15,459,464.

**Revenues and Expenses — Business-type Activities  
For the Fiscal Years Ended June 30, 2017 and 2016**



**Revenues by Source — Business-type Activities  
For the Fiscal Years Ended June 30, 2017 and 2016**



## FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

The fund accounting financial statements can be found on pages 27-30 of this report.

### *Governmental funds*

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

At the end of the current fiscal year, the City's governmental fund reported a combined ending fund balance deficit of \$10,858,310 (See page 27), a slight increase of \$4,226 from the prior year. Approximately 6.1% of total fund balance amount, \$663,709, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 11.6% of the total fund balance amount, \$1,258,832, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$12,780,851), is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance deficit was \$10,858,310 (See page 29). At the end of the current fiscal year, the total fund balance deficit was 19.7% as compared to the total expenditures for the year.

### *Proprietary funds*

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

Unrestricted net position for the Vernon Public Utilities at the end of the year amounted to a deficit of \$40,239,070 (See page 31). These deficit balances in unrestricted net position are primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested and unfunded pension and other postemployment liabilities. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

Total increase in net position for the Vernon Public Utilities was \$4,251,062 (See page 32). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



## **GENERAL FUND AND BUDGETARY HIGHLIGHTS**

For the current year, the General Fund showed a positive variance between the final budgeted amounts and actual amount of change in fund balance of \$216,474. The key reason for this variance was due to lower actual expenditures than budgeted by \$593,352, offset by the shortfall in actual revenues than projected by \$325,642.

For the current year, the General Fund's total negative variance between the final budgeted estimated revenues and actual revenues were \$325,642. The key reason for this variance was deficiency of revenues over estimated revenues of \$1,672,450 of intergovernmental revenues.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$593,352. The key reason for this variance was the excess appropriations of \$2,020,348 for capital outlay.

For the current year, the General Fund's total negative variance between the final budgeted amounts and actual amount for other financing sources was \$51,236. The key reason for this variance was due to the lower actual amount of transfer in over the estimated fund transfer by \$51,466.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### *Capital assets*

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2017, amounts to \$410,683,773 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utilities system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$18,287,655, less write-off of construction in progress of \$2,742, less depreciation of \$13,343,561, for a net increase of \$4,941,352 (See Note 5).

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

- Beginning balances of the capital assets were restated to retroactively recognize additional infrastructure assets of \$133,768,630, net of accumulated depreciation, based on a comprehensive inventory and historical valuation prepared by an appraisal firm, in accordance with GASB Statement No. 34.
- In the current year, the Vernon Public Utilities added \$785,334 to its construction in progress and \$4,486,415 to its utility plants (net of accumulated depreciation).

There were no significant construction commitments outstanding as of June 30, 2017.

Additional information on the City's capital assets can be found in Note 5 on pages 50-53 of this report.

## ***Outstanding debt***

As of June 30, 2017, the following debt remains outstanding:

- \$41,425,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$141,945,000 City of Vernon Electric System Revenue Bonds, 2009 Series A
- \$37,640,000 City of Vernon Electric System Revenue Bonds, 2012 Series A
- \$35,100,000 City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B
- \$111,720,000 City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A

The City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A were issued to provide funds to (i) finance the cost of certain capital improvements to the City's Electric System, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2008 Bonds.

The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

The City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B were issued to provide funds to (i) refund the \$28,680,000 aggregate principal amount of 2009 Bonds maturing on August 1, 2012, (ii) to pay a portion of the Costs of the 2012 Project, and (iii) to pay costs of issuance of the 2012 Taxable Series B Bonds.

The City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue Bonds, 2009 Series A; (ii) finance the costs of certain capital improvements to the City's Electric System by reimbursing the Electric System for the prior payment of such costs from the Light and Power Fund; (iii) fund a deposit to the Debt Service Reserve Fund; and (iv) pay costs of issuance of the 2015 Bonds.

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

On October 18, 2016, Moody's downgraded the City of Vernon Electric's Baa1 rating to Baa3 with a negative outlook. Moody's affirmed this rating on December 4, 2017.

Additional information on the City's long-term debt can be found in Note 6 on pages 53-59 of this report.

## **ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES**

These factors were considered in preparing the City's budget for the 2018 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 5.2%. This approximates the State of California's average unemployment rate of 4.8% and closely approximates the national average unemployment rate of 4.4%.
- The occupancy rate of the City's central business district changed from 98.0% to 96.4% 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 City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

**CITY OF VERNON, CALIFORNIA**  
**Statement of Net Position**  
**June 30, 2017**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and investments	\$ 1,077,185	\$ 110,886,556	\$ 111,963,741
Receivables, net of allowances of \$1,088,000 for business-type activities	1,442,271	7,111,587	8,553,858
Accrued unbilled revenue	-	10,998,619	10,998,619
Escrow deposits	-	940,000	940,000
Inventories	663,709	-	663,709
Deposits and prepaid expenses	500	1,637,278	1,637,778
Prepaid natural gas	-	111,410,218	111,410,218
Restricted cash and investments	4,209,844	32,793,332	37,003,176
Note receivable	-	125,416	125,416
Capital assets:			
Nondepreciable	63,391,277	66,414,719	129,805,996
Depreciable, net	115,998,314	164,879,463	280,877,777
Total assets	<u>186,783,100</u>	<u>507,197,188</u>	<u>693,980,288</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred amount on refunding	-	10,927,489	10,927,489
Deferred outflows related to pensions	20,668,345	3,835,296	24,503,641
Total deferred outflows of resources	<u>20,668,345</u>	<u>14,762,785</u>	<u>35,431,130</u>
<b>LIABILITIES:</b>			
Accounts payable	2,819,155	8,304,859	11,124,014
Due to Successor Agency	38,454	-	38,454
Accrued wages and benefits	2,351,161	-	2,351,161
Customer deposits and funds held for others	108,218	928,549	1,036,767
Bond interest payable	-	8,603,286	8,603,286
Current portion of long-term liabilities:			
Bonds payable, net	-	25,060,088	25,060,088
Capital lease obligation	117,088	-	117,088
Claims payable	981,588	-	981,588
Compensated absences	1,525,053	267,626	1,792,679
Noncurrent liabilities:			
Internal balances	12,934,831	(12,934,831)	-
Other postemployment benefit liability	18,466,231	3,364,135	21,830,366
Bonds payable, net	-	337,646,945	337,646,945
Capital lease obligation	1,091,499	-	1,091,499
Claims payable	1,963,175	-	1,963,175
Compensated absences	3,050,105	535,252	3,585,357
Net pension liability	80,557,774	14,675,830	95,233,604
Total liabilities	<u>126,004,332</u>	<u>386,451,739</u>	<u>512,456,071</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Current deferred inflows of resources:			
Deferred gain from sale of generation assets	-	4,135,506	4,135,506
Noncurrent deferred inflows of resources:			
Deferred inflows related to pensions	3,685,604	741,420	4,427,024
Deferred gain from sale of generation assets	-	18,889,351	18,889,351
Total deferred inflows of resources	<u>3,685,604</u>	<u>23,766,277</u>	<u>27,451,881</u>
<b>NET POSITION:</b>			
Net investment in capital assets	178,181,004	151,981,027	330,162,031
Restricted for:			
Grants	1,258,832	-	1,258,832
Unrestricted (deficit)	<u>(101,678,327)</u>	<u>(40,239,070)</u>	<u>(141,917,397)</u>
Total net position	<u>\$ 77,761,509</u>	<u>\$ 111,741,957</u>	<u>\$ 189,503,466</u>

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2017**

FUNCTION/PROGRAM ACTIVITIES:	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business- type Activities	Total
			Grants and Contributions	Grants and Contributions			
<b>Governmental activities:</b>							
General government	\$ 12,392,825	\$ 3,836,147	\$ 498,598	\$ -	\$ (8,058,080)	\$ -	\$ (8,058,080)
Public safety	23,549,746	566,948	1,536,214	-	(21,446,584)	-	(21,446,584)
Public works	8,666,951	1,738,715	-	272,373	(6,655,863)	-	(6,655,863)
Health services	1,601,600	1,743,265	11,555	-	153,220	-	153,220
Interest on long-term debt	44,810	-	-	-	(44,810)	-	(44,810)
<b>Total governmental activities</b>	<b>46,255,932</b>	<b>7,885,075</b>	<b>2,046,367</b>	<b>272,373</b>	<b>(36,052,117)</b>	<b>-</b>	<b>(36,052,117)</b>
<b>Business-type activities:</b>							
Vernon Public Utilities	206,960,714	223,988,452	-	-	-	17,027,738	17,027,738
<b>Total business-type activities</b>	<b>206,960,714</b>	<b>223,988,452</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,027,738</b>	<b>17,027,738</b>
<b>Total</b>	<b>\$ 253,216,646</b>	<b>\$ 231,873,527</b>	<b>\$ 2,046,367</b>	<b>\$ 272,373</b>	<b>(36,052,117)</b>	<b>17,027,738</b>	<b>(19,024,379)</b>
<b>General revenues:</b>							
Property taxes					4,507,801	-	4,507,801
Parcel taxes					11,667,885	-	11,667,885
Utility users taxes					1,983,319	-	1,983,319
Franchise taxes					1,260,032	-	1,260,032
Business license taxes					5,500,213	-	5,500,213
Other license taxes					10,460	-	10,460
Investment income					66,058	341,770	407,828
Net increase (decrease) in fair value of investments					-	(37,704)	(37,704)
State contribution - sales and use taxes					6,081,507	-	6,081,507
Gain on sale of assets					230	-	230
Other revenues					833,162	40,773	873,935
Transfers					13,121,515	(13,121,515)	-
<b>Total general revenues and transfers</b>					<b>45,032,182</b>	<b>(12,776,676)</b>	<b>32,255,506</b>
Change in net position					8,980,065	4,251,062	13,231,127
Net position, beginning of year, as restated					68,781,444	107,490,895	176,272,339
Net position, end of year					<b>\$ 77,761,509</b>	<b>\$ 111,741,957</b>	<b>\$ 189,503,466</b>

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2017**

	General Fund
<b>ASSETS:</b>	
Cash and investments	\$ 1,077,185
Receivables	1,442,271
Inventories	663,709
Deposits and prepaid expenses	500
Restricted cash and investments	4,209,844
Total assets	\$ 7,393,509
 <b>LIABILITIES:</b>	
Liabilities:	
Accounts payable	\$ 2,819,155
Accrued wages and benefits	2,351,161
Due to Successor Agency	38,454
Advance from other funds	12,934,831
Customer deposits and funds held for others	108,218
Total liabilities	18,251,819
 <b>FUND BALANCES:</b>	
Nonspendable:	
Inventories	663,709
Restricted for:	
Asset forfeiture funds	1,258,832
Unassigned	(12,780,851)
Total fund balances	(10,858,310)
Total liabilities and fund balances	\$ 7,393,509

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Reconciliation of the Governmental Fund Balance Sheet to the**  
**Statement of Net Position – Governmental Activities**  
**June 30, 2017**

Total government fund balance (page 27)	\$	(10,858,310)
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental fund.		179,389,591
Deferred pension costs are not financial resources and therefore are not reported in the governmental fund.		20,668,345
Deferred inflows related to pensions are not current obligations and therefore are not reported in the government fund.		(3,685,604)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.		(4,575,158)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Net pension liability		(80,557,774)
Other postemployment benefit liability		(18,466,231)
Claims payable		(2,944,763)
		(2,944,763)
Net position of governmental activities (page 25)	\$	77,761,509

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Fund**  
**For the Fiscal Year Ended June 30, 2017**

	<u>General Fund</u>
REVENUES:	
Taxes	\$ 29,846,014
Special assessments	1,141,464
Licenses and permits	2,518,016
Fines, forfeitures and penalties	214,554
Investment income	66,058
Intergovernmental revenues	2,349,766
Charges for services	4,679,445
Other revenues	1,298,937
Total revenues	<u>42,114,254</u>
EXPENDITURES:	
Current:	
General government	13,156,245
Public safety	30,355,986
Public works	6,239,289
Health services	1,887,931
Capital outlay:	
General government	487,332
Public safety	1,956,322
Public works	1,157,120
Total expenditures	<u>55,240,225</u>
Revenues under expenditures	(13,125,971)
Other financing sources (uses)	
Gain on sale of assets	230
Transfers in	13,121,515
Total other financing sources (uses)	<u>13,121,745</u>
NET CHANGE IN FUND BALANCE	(4,226)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>(10,854,084)</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (10,858,310)</u>

*See accompanying notes to the basic financial statements.*



**CITY OF VERNON, CALIFORNIA**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of**  
**Governmental Fund to the Statement of Activities – Governmental Activities**  
**For the Fiscal Year Ended June 30, 2017**

Net change in fund balance - total governmental fund (page 29)	\$	(4,226)
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets	\$ 3,600,774	
Less current year depreciation	<u>(5,250,265)</u>	(1,649,491)
Pension contribution after measurement date was reported as expenditure in the governmental fund but deferred in the Statement of Net Position		
Change in pension contribution		832,914
Principal payment of long term debt uses current financial resources but is not reported in the statement of activities.		
Principal payment of capital lease obligation		113,249
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental fund:		
Change in net pension liability		(15,853,513)
Change in deferred inflows related to pensions		13,705,467
Change in deferred outflows related to pensions		12,588,987
Change in long-term compensated absences		(207,514)
Change in other postemployment benefit liability		(914,490)
Change in claims payable		<u>368,682</u>
Change in net position of governmental activities (page 26)	\$	<u>8,980,065</u>

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Fund Net Position**  
**Proprietary Funds**  
**June 30, 2017**

		Vernon Public Utilities
<b>ASSETS:</b>		
Current assets:		
Cash and investments	\$	110,886,556
Accounts receivable, net of allowances of \$1,088,000		7,111,587
Accrued unbilled revenue		10,998,619
Deposits and prepaid expenses		940,000
Prepaid natural gas		28,549,572
Note receivable		125,416
Total current assets		158,611,750
Noncurrent assets:		
Restricted cash and investments		32,793,332
Advances to other funds		12,934,831
Prepaid expenses		1,637,278
Prepaid natural gas		82,860,646
Capital assets:		
Nondepreciable		66,414,719
Depreciable, net		164,879,463
Total noncurrent assets		361,520,269
Total assets		520,132,019
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Current deferred outflows of resources:		
Deferred amount on refunding		2,508,853
Noncurrent deferred outflows of resources:		
Deferred outflows related to pensions		3,835,296
Deferred amount on refunding		8,418,636
Total deferred outflows of resources		14,762,785
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable		8,304,859
Customer deposits		928,549
Bond interest		8,603,286
Bonds payable, net		25,060,088
Compensated absences		267,626
Total current liabilities		43,164,408
Noncurrent liabilities:		
Bonds payable, net		337,646,945
Compensated absences		535,252
Other postemployment benefit liability		3,364,135
Net pension liability		14,675,830
Total noncurrent liabilities		356,222,162
Total liabilities		399,386,570
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Current deferred inflows of resources:		
Deferred gain from sale of generation assets		4,135,506
Noncurrent deferred inflows of resources:		
Deferred inflows related to pensions		741,420
Deferred gain from sale of generation assets		18,889,351
Total deferred inflows of resources		23,766,277
<b>NET POSITION:</b>		
Net investment in capital assets		151,981,027
Unrestricted (deficit)		(40,239,070)
Total net position	\$	111,741,957

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2017**

	Vernon Public Utilities
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 223,988,452
Total operating revenues	223,988,452
<b>OPERATING EXPENSES:</b>	
Cost of sales	175,343,905
Depreciation and amortization	8,093,296
Total operating expenses	183,437,201
Operating income (loss)	40,551,251
<b>NONOPERATING REVENUE (EXPENSES):</b>	
Investment income	341,770
Net decrease in fair value of investments	(37,704)
Interest expense	(23,523,513)
Legal settlement	40,773
Total nonoperating revenue (expenses), net	(23,178,674)
Income (loss) before transfers	17,372,577
Transfers out	(13,121,515)
Change in net position	4,251,062
Net position, beginning of the year, as restated	107,490,895
Net position, end of the year	\$ 111,741,957

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2017**

	<u>Vernon Public Utilities</u>
Cash flows from operating activities:	
Cash received from customers	\$ 223,417,472
Cash paid to suppliers for goods and services	(126,490,100)
Cash paid to employees for services	<u>(9,602,147)</u>
Net cash provided by operating activities	<u>87,325,225</u>
Cash flows from noncapital financing activities:	
Transfers to City	(13,121,515)
Advance (from) to City	403,543
Collection of note receivable	<u>494,623</u>
Net cash used in noncapital financing activities	<u>(12,223,349)</u>
Cash flows from capital and related financing activities:	
Repayment of bonds	(23,475,000)
Bond interest paid	(24,033,924)
Acquisition and construction of capital assets	<u>(13,870,555)</u>
Net cash used in capital and related financing activities	<u>(61,379,479)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	(9,370,610)
Investment loss net of interest rate swap payments on investment derivatives	<u>384,655</u>
Net cash used in investing activities	<u>(8,985,955)</u>
Net increase (decrease) in cash and cash equivalents	4,736,442
Cash and cash equivalents, beginning of year	<u>138,397,336</u>
Cash and cash equivalents, end of year	<u>\$ 143,133,778</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	<u>\$ 40,551,251</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	8,093,296
Provision for bad debts	850,000
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(1,259,931)
Accrued unbilled revenue	829,871
Prepaid expenses and deposits	(125,247)
Prepaid natural gas	28,578,343
Deferred outflows of resources	(1,326,443)
Increase (decrease) in:	
Accounts payable	(2,202,410)
Customer deposits	(140,920)
Compensated absences	60,063
Other postemployment benefit liability	3,364,135
Net pension liability	14,675,830
Deferred inflows of resources	<u>(4,622,613)</u>
Net cash provided by operating activities	<u>\$ 87,325,225</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:	
Cash and investments	\$ 110,886,556
Noncurrent restricted cash and investments	<u>32,793,332</u>
Total	143,679,888
Less: Investments with maturities of more than 90 days	<u>(546,110)</u>
Total cash and cash equivalents	<u>\$ 143,133,778</u>
Noncash Capital, Investing and Financing Activities:	
Acquisition of capital assets in accounts payable	\$ (505,513)
Increase (decrease) in fair value of investments	(37,704)

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2017**

	Vernon Redevelopment Successor Agency Fund
<b>ASSETS:</b>	
Current assets:	
Cash and investments	\$ -
Taxes receivable	22,364
Due from City	38,454
Total current assets	60,818
Noncurrent assets:	
Restricted cash and investments	46,298,274
Capital assets:	
Nondepreciable	774,296
Depreciable, net	13,085,732
Total noncurrent assets	60,158,302
Total assets	60,219,120
<b>LIABILITIES:</b>	
Customer deposits	43,217
Bond interest	1,022,448
Long-term liabilities:	
Due within one year:	
Bonds payable, net	2,365,435
Total current liabilities	3,431,100
Due in more than one year:	
Bonds payable, net	50,609,065
Total noncurrent liabilities	50,609,065
Total liabilities	54,040,165
<b>NET POSITION:</b>	
Total net position held in trust for dissolution of former Redevelopment Agency	\$ 6,178,955

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the Fiscal Year Ended June 30, 2017**

	Vernon Redevelopment Successor Agency Fund
<b>ADDITIONS:</b>	
Property tax increment	\$ 9,909,515
Investment earnings	152,348
Net decrease in fair value of investments	(41,537)
Total additions	10,020,326
 <b>DEDUCTIONS:</b>	
Community development	634,742
Loss on impairment of capital asset	24,838,594
Interest on long-term debt	3,132,133
Total deductions	28,605,469
Change in net position	(18,585,143)
Net position, beginning of the year	24,764,098
Net position, end of the year	\$ 6,178,955

*See accompanying notes to the basic financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2017, the City had no blended component units or any discretely presented component units.

**Basis of Presentation**

*Government-wide Financial Statements*

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

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

*Fund Financial Statements*

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City reports one major governmental fund:

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

The City reports one major enterprise fund:

The *Vernon Public Utilities* accounts for the maintenance and operations of the City's electric, gas, water, and fiber optics utility plants. Revenues for these funds are primarily from charges for services. Segment information pertaining to each utility administered by the Vernon Public Utilities can be found in Note 10.

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

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

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



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

**Cash Deposits and Investments**

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

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

**Receivables/Payables**

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$1,088,000 as of June 30, 2017. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

**Inventories**

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

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

The estimated useful lives are as follows:

Infrastructure	10 to 100 years
Utility plant and buildings	25 to 50 years
Improvements	10 to 20 years
Machinery and equipment	3 to 35 years

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

**Compensated Absences**

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

**Deferred Outflows and Inflows of Resources**

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Long-term Obligations**

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

**Net Position**

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

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

**Fund Balance**

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

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

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

**Encumbrances**

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

**Use of Estimates**

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

**Property Taxes**

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

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

Statement of net position:	Primary Government	Fiduciary Fund
Cash and investments	\$ 111,963,741	\$ -
Restricted cash and investments	37,003,176	46,298,274
Total cash and investments	\$ 148,966,917	\$ 46,298,274

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

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	53,320,360	18,093,444
Investments	95,645,257	28,204,830
Total cash and investments	\$ 148,966,917	\$ 46,298,274

**The City's Investment Policy**

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

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

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

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

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

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

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

**Investments Authorized by Debt Agreements**

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Disclosure Relating to Interest Rate Risk**

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

Investment Type	Fair Value as of June 30, 2017	Investment Maturities (in Months)			% of Total
		Less than 12 Months	13 - 24 Months	25 - 60 Months	
<b><u>Primary Government:</u></b>					
Money Market Funds	\$ 95,099,148	\$ 95,099,148	\$ -	\$ -	99.4%
Local Agency Investment Fund	546,109	546,109	-	-	0.6%
Total Investments	\$ 95,645,257	\$ 95,645,257	\$ -	\$ -	100.0%
<b><u>Fiduciary Fund:</u></b>					
Money Market Funds	\$ 5,571,400	\$ 5,571,400	\$ -	\$ -	19.8%
Local Agency Investment Fund	22,633,430	22,633,430	-	-	80.2%
Total Investments	\$ 28,204,830	\$ 28,204,830	\$ -	\$ -	100.0%

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**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, 2017	% of Total
<b>Primary Government:</b>				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	0.0%
Deposits with financial institutions	N/A	N/A	53,319,175	35.8%
Local Agency Investment Fund	None	Not Rated	546,109	0.4%
Total in custody of Treasurer			53,866,584	36.2%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	1,185	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	95,099,148	63.8%
Total in custody of Trustee			95,100,333	63.8%
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 148,966,917</b>	<b>100.0%</b>
<b>Fiduciary Fund:</b>				
In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 12,522,685	27.0%
Local Agency Investment Fund			22,633,430	48.9%
Total in custody of Treasurer			35,156,115	75.9%
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	5,570,759	12.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	5,571,400	12.0%
Total in custody of Trustee			11,142,159	24.0%
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 46,298,274</b>	<b>99.9%</b>



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk**

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2017, there were no investments held by the City that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. Under the California Government Code, a financial institution is required to secure deposits, in excess of the FDIC insurance amount 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 City's and Fiduciary Fund's deposits were \$53,320,360 and \$18,093,444, respectively. The bank balances were \$53,549,425 and \$12,522,685, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2017, none of City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$53,299,425 and \$12,272,685 were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**Local Agency Investment Fund (LAIF)**

The City and Fiduciary Fund also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$546,109 and \$22,633,430, respectively, as of June 30, 2017. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City’s position in the pool.

The total amount invested by all public agencies in LAIF as of June 30, 2017 was \$33.92 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$77.56 billion as of June 30, 2017. Of this amount, 2.25% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The weighted average maturity of PMIA investments was 0.53 years as of June 30, 2017. LAIF does not maintain a credit rating.

**Fair Value Measurement**

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

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

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

<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	\$ 100,670,548	\$ 100,670,548
Total	100,670,548	\$ 100,670,548
Uncategorized:		
Local Agency Investment Fund	23,179,539	
Total investments measured at fair value	\$ 123,850,087	

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 3 - RECEIVABLES**

The City's receivables at June 30, 2017 are as follows:

<b>Receivables - Governmental Activities:</b>	General Fund	Total Governmental Activities
Accounts receivables	\$ 247,817	\$ 247,817
Taxes	1,170,849	1,170,849
Notes or loans	20,822	20,822
Other	2,783	2,783
Total receivables	<u>\$ 1,442,271</u>	<u>\$ 1,442,271</u>

<b>Receivables - Business-type Activities:</b>	Vernon Public Utilities	Total Business-type Activities
Accounts receivables	\$ 8,199,587	\$ 8,199,587
Less: Allowances for uncollectible accounts	<u>(1,088,000)</u>	<u>(1,088,000)</u>
Total receivables, net	<u>\$ 7,111,587</u>	<u>\$ 7,111,587</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 4 – INTERFUND TRANSACTIONS**

The following tables summarize the City’s interfund balances and transactions at June 30, 2017:

**Advances to/from other funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Vernon Public Utilities	General Fund	\$ 12,934,831
		<u>\$ 12,934,831</u>

Transactions between funds commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, and legal services) and occasionally to fund capital projects on behalf of one another such as the City’s natural gas system and the development of the City’s base load electric generating station. The above balances represent interfund borrowings payable beyond one year.

**Transfers**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Vernon Public Utilities	\$ 13,121,515
		<u>\$ 13,121,515</u>

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

During the current year, the Vernon Public Utilities transferred a total of \$13,121,515 to the General Fund consisting of \$4,513,678 of in-lieu franchise taxes and \$8,607,837 of operating transfers.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity of governmental activities for the fiscal year ended June 30, 2017 was as follows:

	Balance June 30, 2016 As Restated	Additions	Deletions	Reclassification	Balance June 30, 2017
<b>Governmental activities:</b>					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 61,365,812	\$ -	\$ -	\$ -	\$ 61,365,812
Construction in Progress	2,022,938	1,050,530	-	(1,048,003)	2,025,465
Total capital assets, not being depreciated	<u>63,388,750</u>	<u>1,050,530</u>	<u>-</u>	<u>(1,048,003)</u>	<u>63,391,277</u>
<i>Capital assets, being depreciated</i>					
Infrastructure	153,728,661	701,098	-	-	154,429,759
Building and Improvements	14,998,021	729,062	-	955,818	16,682,901
Improvements Other Than Buildings	11,005,494	87,970	-	92,185	11,185,649
Machinery and Equipment	26,661,852	2,353,950	-	-	29,015,802
Total capital assets, being depreciated	<u>206,394,028</u>	<u>3,872,080</u>	<u>-</u>	<u>1,048,003</u>	<u>211,314,111</u>
Less accumulated depreciation for:					
Infrastructure	(57,924,813)	(3,298,815)	-	-	(61,223,628)
Building and Improvements	(7,259,229)	(382,182)	-	-	(7,641,411)
Improvements Other Than Buildings	(4,703,217)	(290,033)	-	-	(4,993,250)
Machinery and Equipment	(20,178,273)	(1,279,235)	-	-	(21,457,508)
Total accumulated depreciation	<u>(90,065,532)</u>	<u>(5,250,265)</u>	<u>-</u>	<u>-</u>	<u>(95,315,797)</u>
Total capital assets, being depreciated, net					
Infrastructure	95,803,848	(2,597,717)	-	-	93,206,131
Building and Improvements	7,738,792	346,880	-	955,818	9,041,490
Improvements Other Than Buildings	6,302,277	(202,063)	-	92,185	6,192,399
Machinery and Equipment	6,483,579	1,074,715	-	-	7,558,294
Total	<u>116,328,496</u>	<u>(1,378,185)</u>	<u>-</u>	<u>1,048,003</u>	<u>115,998,314</u>
Governmental activities capital assets, net	<u>\$ 179,717,246</u>	<u>\$ (327,655)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 179,389,591</u>

Beginning balances of capital assets were restated to retroactively recognize additional infrastructure assets of \$133,768,630, net of accumulated depreciation, based on a comprehensive inventory and historical valuation prepared by an appraisal firm, in accordance with GASB Statement No. 34.

Depreciation expense was charged to governmental functions as follows:

General government	\$ 871,894
Public safety	895,405
Public works	3,474,487
Health services	8,479
Total depreciation expense - governmental functions	<u>\$ 5,250,265</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Capital asset activity of fiduciary activities for the fiscal year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deletions	Reclassification	Balance June 30, 2017
<b><u>Fiduciary activities:</u></b>					
<i>Capital assets, not being depreciated:</i>					
Accumulated redevelopment project costs	\$ 24,838,594	\$ -	\$(24,838,594)	\$ -	\$ -
Land	774,296	-	-	-	774,296
Total capital assets, not being depreciated	<u>25,612,890</u>	<u>-</u>	<u>(24,838,594)</u>	<u>-</u>	<u>774,296</u>
<i>Capital assets, being depreciated</i>					
Infrastructure	18,398,638	-	-	-	18,398,638
Improvements Other Than Buildings	12,523	-	-	-	12,523
Machinery and Equipment	28,710	-	-	-	28,710
Total capital assets, being depreciated	<u>18,439,871</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,439,871</u>
Less accumulated depreciation for:					
Infrastructure	(4,744,222)	(590,328)	-	-	(5,334,550)
Improvements Other Than Buildings	(3,257)	(309)	-	-	(3,566)
Machinery and Equipment	(14,360)	(1,663)	-	-	(16,023)
Total accumulated depreciation	<u>(4,761,839)</u>	<u>(592,300)</u>	<u>-</u>	<u>-</u>	<u>(5,354,139)</u>
Total capital assets, being depreciated, net					
Infrastructure	13,654,416	(590,328)	-	-	13,064,088
Improvements Other Than Buildings	9,266	(309)	-	-	8,957
Machinery and Equipment	14,350	(1,663)	-	-	12,687
Total	<u>13,678,032</u>	<u>(592,300)</u>	<u>-</u>	<u>-</u>	<u>13,085,732</u>
Fiduciary activities capital assets, net	<u>\$ 39,290,922</u>	<u>\$ (592,300)</u>	<u>\$(24,838,594)</u>	<u>\$ -</u>	<u>\$ 13,860,028</u>

During the current year, the fiduciary fund wrote off \$24,838,594 of accumulated redevelopment project costs associated with the Southeast Region Energy Project as the site for the project was sold in furtherance of the winding down of the former Vernon Redevelopment Agency.

Depreciation expense charged to the fiduciary fund was \$592,300.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

Capital asset activity of business-type activities for the fiscal year ended June 30, 2017 was as follows:

	Balance June 30, 2016	Additions	Deletions	Reclassification	Balance June 30, 2017
<b>Business-type activities:</b>					
<i>Capital assets, not being depreciated:</i>					
Land - L&P	\$ 9,276,596	\$ -	\$ -	\$ -	\$ 9,276,596
Land - Water	467,640	-	-	-	467,640
Intangibles - Environmental credits - L&P	1,197,988	-	-	-	1,197,988
Construction in progress - L&P	54,578,282	131,945	(2,742)	-	54,707,485
Construction in progress - Water	1,107,057	653,389	-	(995,436)	765,010
<b>Total capital assets, not being depreciated</b>	<b>66,627,563</b>	<b>785,334</b>	<b>(2,742)</b>	<b>(995,436)</b>	<b>66,414,719</b>
<i>Capital assets, being depreciated</i>					
Production plant - L&P	16,061,443	127,860	-	-	16,189,303
Transmission plant - L&P	4,888,113	-	-	-	4,888,113
Distribution plant - L&P	188,056,447	11,794,597	-	-	199,851,044
General plant - L&P	8,516,453	220,439	-	-	8,736,892
Water utility plant	19,164,353	340,824	-	995,436	20,500,613
Gas utility plant	26,181,914	87,647	-	-	26,269,561
Fiber Optic utility plant	4,086,684	8,344	-	-	4,095,028
<b>Total capital assets, being depreciated</b>	<b>266,955,407</b>	<b>12,579,711</b>	<b>-</b>	<b>995,436</b>	<b>280,530,554</b>
<i>Less accumulated depreciation for:</i>					
Production plant - L&P	(8,451,227)	(460,119)	-	-	(8,911,346)
Transmission plant - L&P	(2,954,463)	(95,864)	-	-	(3,050,327)
Distribution plant - L&P	(68,798,807)	(5,701,536)	-	-	(74,500,343)
General plant - L&P	(4,006,936)	(392,036)	-	-	(4,398,972)
Water utility plant	(13,913,014)	(360,737)	-	-	(14,273,751)
Gas utility plant	(7,426,232)	(787,598)	-	-	(8,213,830)
Fiber Optic utility plant	(2,007,116)	(295,406)	-	-	(2,302,522)
<b>Total accumulated depreciation</b>	<b>(107,557,795)</b>	<b>(8,093,296)</b>	<b>-</b>	<b>-</b>	<b>(115,651,091)</b>
<i>Total capital assets, being depreciated, net</i>					
Production plant - L&P	7,610,216	(332,259)	-	-	7,277,957
Transmission plant - L&P	1,933,650	(95,864)	-	-	1,837,786
Distribution plant - L&P	119,257,640	6,093,061	-	-	125,350,701
General plant - L&P	4,509,517	(171,597)	-	-	4,337,920
Water utility plant	5,251,339	(19,913)	-	995,436	6,226,862
Gas utility plant	18,755,682	(699,951)	-	-	18,055,731
Fiber Optic utility plant	2,079,568	(287,062)	-	-	1,792,506
<b>Total</b>	<b>159,397,612</b>	<b>4,486,415</b>	<b>-</b>	<b>995,436</b>	<b>164,879,463</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 226,025,175</b>	<b>\$ 5,271,749</b>	<b>\$ (2,742)</b>	<b>\$ -</b>	<b>\$ 231,294,182</b>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

**Depreciation**

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

Electric Fund	\$	6,649,554
Gas Fund		787,598
Water Fund		360,737
Fiber Optics Fund		295,407
Total depreciation expense - business-type functions	<u>\$</u>	<u>8,093,296</u>

**NOTE 6 – LONG-TERM OBLIGATIONS**

There were no new bond issued during fiscal year 2017. As of June 30, 2017, outstanding debt obligations consisted of the following:

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

At June 30, 2017, \$41,425,000 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 \$92,722,500, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,977,355 and \$174,537,560, 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, 2017, \$141,945,000 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 \$160,405,378, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$30,925,594 and \$174,537,560, 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, 2017, \$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 \$79,225,804, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$174,537,560, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City’s Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

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

At June 30, 2017, \$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 \$52,097,313, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$174,537,560, 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, 2017, \$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 \$149,577,607, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$5,087,518 and \$174,537,560, 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.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

A summary of bonds payable for business-type activities is as follows:

<b>Bonds</b>	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
<b>City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A</b>	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 41,425,000
<b>City of Vernon Electric System Revenue Bonds, 2009 Series A</b>	08/01/21	5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	141,945,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Series A</b>	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B</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
<b>City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A</b>	08/01/26	4.050% - 4.850%	To begin 08/01/23: \$15,295,000 - \$22,540,000	111,720,000	111,720,000
<b>Premium</b>					162,237
<b>Discounts</b>					(5,285,204)
<b>Total Revenue Bonds</b>				<u>\$ 647,625,000</u>	<u>\$ 362,707,033</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

As of June 30, 2017, 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*
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	945,000	3,295,768
2023-2027	6,145,000	15,047,318
2028-2032	9,445,000	11,747,040
2033-2037	14,510,000	6,677,437
2038-2039	7,795,000	683,979
Total requirements	<u>\$ 41,425,000</u>	<u>\$ 51,297,500</u>

\*As of June 30, 2017, 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*
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>\$ 141,945,000</u>	<u>\$ 18,460,378</u>

\*As of June 30, 2017, debt service for 2009 Series A was calculated based upon fixed coupon rate of 5.125%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Series A	
	Principal	Interest*
2018	\$ -	\$ 2,031,394
2019	-	2,031,394
2020	-	2,031,394
2021	-	2,031,394
2022	-	2,031,394
2023-2027	-	10,156,969
2028-2032	5,960,000	9,441,147
2033-2037	7,715,000	7,686,056
2038-2042	23,965,000	4,144,663
	<u>\$ 37,640,000</u>	<u>\$ 41,585,804</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*
2018	\$ -	\$ 2,222,900
2019	-	2,222,900
2020	-	2,222,900
2021	-	2,222,900
2022	-	2,222,900
2023-2027	35,100,000	5,882,813
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 16,997,313</u>

\*As of June 30, 2017, 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*
2018	\$ -	\$ 5,087,518
2019	-	5,087,518
2020	-	5,087,518
2021	-	5,087,518
2022	-	5,087,518
2023-2027	111,720,000	12,420,019
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 37,857,607</u>

\*As of June 30, 2017, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 4.050% to 4.850%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

As of June 30, 2017, annual debt service requirements of fiduciary activities to maturity are as follows:

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2005	
	Principal	Interest*
2018	\$ 1,340,000	1,832,544
2019	1,455,000	1,775,734
2020	1,575,000	1,704,381
2021	1,720,000	1,617,888
2022	1,750,000	1,526,800
2023-2027	7,200,000	6,631,245
2028-2032	10,960,000	4,556,701
2033-2036	12,625,000	1,316,875
	\$ 38,625,000	\$ 20,962,168

\* As of June 30, 2017, debt service was calculated at the actual fixed rates of the coupons ranging from 4.000% to 5.250%.

Year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds, Series 2011	
	Principal	Interest*
2018	\$ 1,025,000	\$ 1,216,938
2019	1,125,000	1,138,625
2020	1,250,000	1,043,625
2021	1,385,000	938,225
2022	1,635,000	817,425
2023-2027	3,825,000	2,927,856
2028-2031	4,305,000	824,406
Total requirements	\$ 14,550,000	\$ 8,907,100

\*As of June 30, 2017, debt service was calculated based upon the actual fixed coupon rates of the bonds ranging from 6.500% to 9.250%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**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, 2017:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
<b><u>Governmental activities:</u></b>					
Postemployment benefit liability	\$ 17,551,741 *	\$ 1,531,854	\$ (617,364)	\$ 18,466,231	\$ -
Claims payable	3,313,445	38,132	(406,814)	2,944,763	981,588
Compensated absences	4,367,644	1,663,395	(1,455,881)	4,575,158	1,525,053
Capital lease obligation	-	1,321,836	(113,249)	1,208,587	117,088
Net pension liability	64,704,261 *	23,099,987	(7,246,474)	80,557,774	-
	<u>\$ 89,937,091</u>	<u>\$ 27,655,204</u>	<u>\$ (9,839,782)</u>	<u>\$ 107,752,513</u>	<u>\$ 2,623,729</u>
<b><u>Business-type activities:</u></b>					
Bonds payable	\$ 391,305,000	\$ -	\$ (23,475,000)	\$ 367,830,000	\$ 25,815,000
Bond premium	168,950	-	(6,713)	162,237	6,713
Bond discount	(6,046,829)	-	761,625	(5,285,204)	(761,625)
Postemployment benefit liability	3,197,536 *	279,066	(112,467)	3,364,135	-
Compensated absences	742,815	307,668	(247,605)	802,878	267,626
Net pension liability	11,787,674 *	4,208,267	(1,320,111)	14,675,830	-
	<u>\$ 401,155,146</u>	<u>\$ 4,795,001</u>	<u>\$ (24,400,271)</u>	<u>\$ 381,549,876</u>	<u>\$ 25,327,714</u>
<b><u>Fiduciary activities:</u></b>					
Bonds payable	\$ 55,955,000	\$ -	\$ (2,780,000)	\$ 53,175,000	\$ 2,365,000
Bond premium	458,594	-	(44,345)	414,249	44,345
Bond discount	(658,659)	-	43,910	(614,749)	(43,910)
	<u>\$ 55,754,935</u>	<u>\$ -</u>	<u>\$ (2,780,435)</u>	<u>\$ 52,974,500</u>	<u>\$ 2,365,435</u>

\*Prior period adjustments transferring proprietary funds' share in net pension liability and postemployment benefit liability.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 7 – RISK MANAGEMENT**

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

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

The insurance limits for fiscal year 2016-17 are as follows (amounts in thousands):

Insurance Type	Program Limits	Deductible / SIR (self-insured retention)
Excess Liability Insurance	\$ 20,000	\$2,000 SIR per occurrence
D & O Employment Practice	\$ 2,000	\$250 SIR non-safety; safety \$250
Excess Workers Compensation	\$ 50	\$1,000 SIR per occurrence
Property Insurance	\$ 241,000	\$ various up to \$500
Employee Dishonest – Crime	\$ 1,000	\$ 25
Pollution – Site Owned	\$ 5,000	\$ 25
Pollution – Haulers	\$ 5,000	\$ 25

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

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

	Fiscal Year Ended June 30	
	2017	2016
Claims payable, beginning of fiscal year	\$ 3,313,445	\$ 3,361,288
Incurred claims and change in estimates	38,132	1,021,838
Claims payments	(406,814)	(1,069,681)
Claims payable, end of fiscal year	<u>\$ 2,944,763</u>	<u>\$ 3,313,445</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS**

**A. General Information about the Pension Plans**

**Plan Descriptions** – All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked a minimum of 1,000 hours in a fiscal year are eligible to participate in the City’s agent multiple-employer defined benefit pension Safety and Miscellaneous Plans administered by the California Public Employees’ Retirement System (CalPERS) that acts as a common investment and administrative agent for participating public entities within the State of California. Benefits vest after five years of service. Employees who retire at the minimum retirement age with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on a percentage of an employee’s average compensation for his or her highest consecutive 12 or 36 months of compensation for each year of credited service.

**Benefits Provided** – Miscellaneous members hired prior to January 1, 2013 with five years of credited service may retire at age 55 based on a benefit factor derived from the 2.7% at 55 Miscellaneous formula or may retire between age 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 based on a benefit factor derived from the 2% at 62 Miscellaneous formula or may retire between age 52 and 61 with reduced retirement benefits. The benefit factor increases to a maximum of 2.5% at age 67. Safety members with five years of credited service may retire at age 50 based on a benefit factor derived from the 3% at 50 Safety formula for sworn Police and Fire Department employees. New Safety members (PEPRA) with five years of credited service may retire at age 57 based on a benefit factor derived from the 2.7% at 57 Safety (PEPRA) formula or may retire between age 50 and 56 with reduced retirement benefits for new Safety (PEPRA) members of both Police and Fire Departments. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute provided through a contract between the City and CalPERS.



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	8.00%	5.75%
Required employer contribution rates	23.829%	23.829%
	<b>Safety</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible	3.0%	2.0% to 2.7%
Required employee contribution rates	9.00%	11.00%
Required employer contribution rates	41.677%	41.677%

**Employees Covered** – At June 30, 2017, the following employees were covered by the benefit terms for each Plan: \*Information obtained from the CalPERS Valuation Report valued as of June 30, 2016.

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	160	253
Inactive employees entitled to but not yet receiving benefits	175	125
Active employees	152	109
<b>Total</b>	<b>487</b>	<b>487</b>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

**B. Net Pension Liability**

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

*Actuarial Assumptions* – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	Varies by Entry Age and Service (1)	Varies by Entry Age and Service (1)
Investment Rate of Return	7.50% (2)	7.50% (2)
Mortality Rate Table (3)	Derived using CalPERS’ Membership Data for all Funds	Derived using CalPERS’ Membership Data for all Funds

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The mortality table used was developed based on CalPERS’s specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.65 percent used for the June 30, 2016 measurement date is without reduction of pension plan administrative expense.

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

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

**C. Changes in the Net Pension Liability**

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

***Miscellaneous Plan***

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>Balance at June 30, 2015</b>	<b>\$ 131,078,192</b>	<b>\$ 110,264,248</b>	<b>\$ 20,813,944</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	2,129,659	-	2,129,659
Interest on total pension liability	9,969,103	-	9,969,103
Differences between expected and actual experience	1,046,363	-	1,046,363
Plan to Plan resource movement	-	(780)	780
Contributions – employer	-	3,140,644	(3,140,644)
Contributions – employees	-	1,095,824	(1,095,824)
Net investment income	-	583,692	(583,692)
Benefit payments, including refunds of employee contributions	(5,748,657)	(5,748,657)	-
Administrative expense	-	(67,200)	67,200
<b>Net changes during 2015-16</b>	<b>7,396,468</b>	<b>(996,477)</b>	<b>8,392,945</b>
<b>Balance at June 30, 2016</b>	<b>\$ 138,474,660</b>	<b>\$ 109,267,771</b>	<b>\$ 29,206,889</b>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

*Safety Plan*

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
<b>Balance at June 30, 2015</b>	<b>\$218,981,708</b>	<b>\$163,303,716</b>	<b>\$55,677,992</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	3,454,025	-	3,454,025
Interest on total pension liability	16,325,879	-	16,325,879
Differences between expected and actual experience	(2,430,394)	-	(2,430,394)
Plan to Plan resource movement	-	780	(780)
Contributions – employer	-	5,116,412	(5,116,412)
Contributions – employees	-	1,222,561	(1,222,561)
Net investment income	-	760,559	(760,559)
Benefit payments, including refunds of employee contributions	(9,736,302)	(9,736,302)	-
Administrative expense	-	(99,525)	99,525
<b>Net changes during 2015-16</b>	<b>7,613,208</b>	<b>(2,735,515)</b>	<b>10,348,723</b>
<b>Balance at June 30, 2016</b>	<b>\$226,594,916</b>	<b>\$160,568,201</b>	<b>\$66,026,715</b>

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

	Miscellaneous	Safety
1% decrease	6.65%	6.65%
Net pension liability	\$49,083,735	\$96,153,357
Current discount rate	7.65%	7.65%
Net pension liability	\$29,206,889	\$66,026,715
1% increase	8.65%	8.65%
Net pension liability	\$12,985,638	\$41,241,026

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 8 – PENSION PLANS (CONTINUED)**

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

For the year ended June 30, 2017, the City recognized pension expense of \$10,575,441. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$9,399,499	\$ -
Changes of assumptions	-	(822,042)
Differences between expected and actual experiences	-	(3,604,982)
Net differences between projected and actual earnings on pension plan investments	15,104,142	-
Total	\$24,503,641	(\$4,427,024)

The \$9,399,499 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended			
June 30	Miscellaneous	Safety	Total
2017	(\$2,764,213)	\$ 161,242	(\$2,602,971)
2018	1,291,465	1,241,415	2,532,880
2019	2,788,457	4,086,678	6,875,135
2020	1,555,215	2,316,859	3,872,074

***E. Payable to the Pension Plan***

At June 30, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 9 – DEFICITS IN FUND EQUITY**

The General Fund has a fund balance deficit of \$10,858,310 at June 30, 2017, which management expects to eliminate by future revenue increases, cost reduction and transfers from other funds.

**NOTE 10 – VERNON PUBLIC UTILITIES 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, 2017, a deferred gain of \$23,024,857 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 13 for disclosure on uncertainties).

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

**Project Commitments**

**A. Southern California Public Power Authority**

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

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 2017 was \$12,010,174. The City expects no significant increases in costs related to its nuclear resources.

**B. Hoover Dam Power Plant Upgrade Program**

In January 1987, the City entered into a contract with the Federal Bureau of Reclamation to fund part of an upgrading program of the Hoover Dam power plant to increase the plant’s generating capacity. In exchange, the City will receive its pro rata share of the additional power produced. Total program costs are estimated to be \$155 million.

As of June 30, 2017, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2017, the outstanding note receivable was \$125,416. The City has no obligation to advance funds in the future. The note is being repaid with interest over a period of 30 years. The City must also make payments for its pro rata share of operating and maintenance costs not recovered by the plant through revenues. The amount paid during the current year for purchased power was reduced by principal and interest amounts totaling \$509,524 due the City on the outstanding note receivable. The contract expires in September 2017.



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

**Power Purchase Commitments**

As of June 30, 2017 under the Bicient Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year	Amount*
2018	\$ 35,182,494
2019	34,904,231
2020	34,904,231
2021	34,904,231
2022	34,904,231
2023	27,146,619
	<u>\$ 201,946,037</u>

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

**Vernon Public Utilities**

Ordinance No. 1242, adopted May 16, 2017, requires each utility of the City to be independent with its assets, liabilities, and equities segregated, budgeted, and accounted for in separate funds. Ordinance No. 1240, adopted March 21, 2017, consolidates all utilities-related services under the management of the stand-alone entity “Vernon Public Utilities” for better oversight and management of the day-to-day activities of such independent utilities. Each of the City’s utilities, namely the electric, gas, water, and fiber optics utilities, was established by the City under and by virtue of the City Charter and the City Code enacted in 1988. Prior to July 1, 2016, the electric and gas utilities were consolidated and reported as the Light & Power Enterprise for financial reporting purposes. Ordinance No. 1242 continues to require each utility to be independent with its assets, liabilities, and equities segregated, budgeted, and accounted for in separate funds, while Ordinance No. 1240 enables the consolidated financial reporting of those independent utilities for better oversight and management.

**A. Segment Information**

All utilities of the City are reported under the Vernon Public Utilities. However, investors in the debt rely solely on the revenue generated by the individual activities for repayment. Financial information of each utilities administered by the Vernon Public Utilities is presented below.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
<b>ASSETS:</b>					
Current assets:					
Cash and investments	\$ 110,655,999	\$ (167)	\$ -	\$ 230,724	\$ 110,886,556
Accounts receivable, net of allowances of \$1,088,000	4,643,627	1,894,937	552,392	20,631	7,111,587
Accrued unbilled revenue	10,724,502	-	274,117	-	10,998,619
Deposits and prepaid expenses	940,000	-	-	-	940,000
Prepaid natural gas	28,549,572	-	-	-	28,549,572
Note receivable	125,416	-	-	-	125,416
Total current assets	<u>155,639,116</u>	<u>1,894,770</u>	<u>826,509</u>	<u>251,355</u>	<u>158,611,750</u>
Noncurrent assets:					
Restricted cash and investments	32,793,332	-	-	-	32,793,332
Advances to other funds	27,137,571	-	10,977,451	-	38,115,022
Prepaid expenses	1,637,278	-	-	-	1,637,278
Prepaid natural gas	82,860,646	-	-	-	82,860,646
Capital assets:					
Nondepreciable	65,182,069	-	1,232,650	-	66,414,719
Depreciable, net	138,804,364	18,055,731	6,226,861	1,792,507	164,879,463
Total noncurrent assets	<u>348,415,260</u>	<u>18,055,731</u>	<u>18,436,962</u>	<u>1,792,507</u>	<u>386,700,460</u>
Total assets	<u>504,054,376</u>	<u>19,950,501</u>	<u>19,263,471</u>	<u>2,043,862</u>	<u>545,312,210</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Current deferred outflows of resources:					
Deferred amount on refunding	2,508,853	-	-	-	2,508,853
Noncurrent deferred outflows of resources:					
Deferred outflows related to pensions	2,590,820	272,833	945,991	25,652	3,835,296
Deferred amount on refunding	8,418,636	-	-	-	8,418,636
Total deferred outflows of resources	<u>13,518,309</u>	<u>272,833</u>	<u>945,991</u>	<u>25,652</u>	<u>14,762,785</u>
<b>LIABILITIES:</b>					
Current liabilities:					
Accounts payable	5,640,931	2,003,361	655,730	4,837	8,304,859
Customer deposits	472,157	13,558	442,834	-	928,549
Bond interest	8,603,286	-	-	-	8,603,286
Bonds payable, net	25,060,088	-	-	-	25,060,088
Compensated absences	209,062	14,232	39,678	4,655	267,626
Total current liabilities	<u>39,985,524</u>	<u>2,031,151</u>	<u>1,138,242</u>	<u>9,492</u>	<u>43,164,408</u>
Noncurrent liabilities:					
Advances from other funds	-	20,839,283	-	4,340,908	25,180,191
Bonds payable, net	337,646,945	-	-	-	337,646,945
Compensated absences	418,124	28,463	79,355	9,309	535,252
Other postemployment benefit liability	2,272,541	239,316	829,777	22,501	3,364,135
Net pension liability	9,913,819	1,044,000	3,619,851	98,160	14,675,830
Total noncurrent liabilities	<u>350,251,429</u>	<u>22,151,062</u>	<u>4,528,983</u>	<u>4,470,878</u>	<u>381,402,353</u>
Total liabilities	<u>390,236,953</u>	<u>24,182,213</u>	<u>5,667,225</u>	<u>4,480,370</u>	<u>424,566,761</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Current deferred inflows of resources:					
Deferred gain from sale of generation assets	4,135,506	-	-	-	4,135,506
Noncurrent deferred inflows of resources:					
Deferred inflows related to pensions	500,844	52,743	182,874	4,959	741,420
Deferred gain from sale of generation assets	18,889,351	-	-	-	18,889,351
Total deferred inflows of resources	<u>23,525,701</u>	<u>52,743</u>	<u>182,874</u>	<u>4,959</u>	<u>23,766,277</u>
<b>NET POSITION:</b>					
Net investment in capital assets	124,673,278	18,055,731	7,459,511	1,792,507	151,981,027
Unrestricted (deficit)	(20,863,247)	(22,067,353)	6,899,852	(4,208,322)	(40,239,070)
Total net position	<u>\$ 103,810,031</u>	<u>\$ (4,011,622)</u>	<u>\$ 14,359,363</u>	<u>\$ (2,415,815)</u>	<u>\$ 111,741,957</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 174,537,560	\$ 40,162,656	\$ 8,805,108	\$ 483,128	\$ 223,988,452
Total operating revenues	<u>174,537,560</u>	<u>40,162,656</u>	<u>8,805,108</u>	<u>483,128</u>	<u>223,988,452</u>
<b>OPERATING EXPENSES:</b>					
Cost of sales	129,348,624	39,004,201	6,723,125	267,955	175,343,905
Depreciation and amortization	6,649,554	787,598	360,737	295,407	8,093,296
Total operating expenses	<u>135,998,178</u>	<u>39,791,799</u>	<u>7,083,862</u>	<u>563,362</u>	<u>183,437,201</u>
Operating income (loss)	<u>38,539,382</u>	<u>370,857</u>	<u>1,721,246</u>	<u>(80,234)</u>	<u>40,551,251</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>					
Investment income	341,300	470	-	-	341,770
Net decrease in fair value of investments	(37,704)	-	-	-	(37,704)
Interest expense	(23,523,513)	-	-	-	(23,523,513)
Legal settlement	-	40,773	-	-	40,773
Total nonoperating revenue (expenses), net	<u>(23,219,917)</u>	<u>41,243</u>	<u>-</u>	<u>-</u>	<u>(23,178,674)</u>
Income (loss) before transfers	15,319,465	412,100	1,721,246	(80,234)	17,372,577
Transfers out	<u>(13,121,515)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,121,515)</u>
Change in net position	2,197,950	412,100	1,721,246	(80,234)	4,251,062
Net position, beginning of the year, as restated	<u>101,612,081</u>	<u>(4,423,722)</u>	<u>12,638,117</u>	<u>(2,335,581)</u>	<u>107,490,895</u>
Net position, end of the year	<u>\$ 103,810,031</u>	<u>\$ (4,011,622)</u>	<u>\$ 14,359,363</u>	<u>\$ (2,415,815)</u>	<u>\$ 111,741,957</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 174,766,532	\$ 39,395,950	\$ 8,770,215	\$ 484,775	\$ 223,417,472
Cash paid to suppliers for goods and services	(88,282,139)	(36,732,099)	(1,367,098)	(108,764)	(126,490,100)
Cash paid to employees for services	(6,744,223)	(735,025)	(2,054,066)	(68,833)	(9,602,147)
Net cash provided by operating activities	<u>79,740,170</u>	<u>1,928,826</u>	<u>5,349,051</u>	<u>307,178</u>	<u>87,325,225</u>
<b>Cash flows from noncapital financing activities:</b>					
Transfers to City	(13,121,515)	-	-	-	(13,121,515)
Advance (from) to City	1,549,326	(729,289)	(202,830)	(213,664)	403,543
Collection of note receivable	494,623	-	-	-	494,623
Net cash used in noncapital financing activities	<u>(11,077,566)</u>	<u>(729,289)</u>	<u>(202,830)</u>	<u>(213,664)</u>	<u>(12,223,349)</u>
<b>Cash flows from capital and related financing activities:</b>					
Repayment of bonds	(23,475,000)	-	-	-	(23,475,000)
Bond interest paid	(24,033,924)	-	-	-	(24,033,924)
Acquisition and construction of capital assets	(12,380,584)	(173,971)	(1,298,974)	(17,026)	(13,870,555)
Net cash used in capital and related financing activities	<u>(59,889,508)</u>	<u>(173,971)</u>	<u>(1,298,974)</u>	<u>(17,026)</u>	<u>(61,379,479)</u>
<b>Cash flows from investing activities:</b>					
Purchases and sales of investments, net	(4,349,071)	(1,070,382)	(3,847,247)	(103,910)	(9,370,610)
Investment loss net of interest rate swap payments on investment derivatives	384,185	470	-	-	384,655
Net cash used in investing activities	<u>(3,964,886)</u>	<u>(1,069,912)</u>	<u>(3,847,247)</u>	<u>(103,910)</u>	<u>(8,985,955)</u>
Net increase (decrease) in cash and cash equivalents	4,808,210	(44,346)	-	(27,422)	4,736,442
Cash and cash equivalents, beginning of year	138,095,011	44,179	-	258,146	138,397,336
Cash and cash equivalents, end of year	<u>\$ 142,903,221</u>	<u>\$ (167)</u>	<u>\$ -</u>	<u>\$ 230,724</u>	<u>\$ 143,133,778</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 38,539,382	\$ 370,857	\$ 1,721,246	\$ (80,234)	\$ 40,551,251
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	6,649,554	787,598	360,737	295,407	8,093,296
Provision for bad debts	850,000	-	-	-	850,000
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	(584,112)	(658,706)	(18,760)	1,647	(1,259,931)
Accrued unbilled revenue	843,054	-	(13,183)	-	829,871
Prepaid expenses and deposits	(125,247)	-	-	-	(125,247)
Prepaid natural gas	28,578,343	-	-	-	28,578,343
Deferred outflows of resources	(81,967)	(272,833)	(945,991)	(25,652)	(1,326,443)
Increase (decrease) in:					
Accounts payable	(2,321,873)	470,595	(339,928)	(11,204)	(2,202,410)
Customer deposits	(29,970)	(108,000)	(2,950)	-	(140,920)
Compensated absences	99,835	3,256	(44,622)	1,594	60,063
Other postemployment benefit liability	2,272,541	239,316	829,777	22,501	3,364,135
Net pension liability	9,913,819	1,044,000	3,619,851	98,160	14,675,830
Deferred inflows of resources	(4,863,189)	52,743	182,874	4,959	(4,622,613)
Net cash provided by operating activities	<u>\$ 79,740,170</u>	<u>\$ 1,928,826</u>	<u>\$ 5,349,051</u>	<u>\$ 307,178</u>	<u>\$ 87,325,225</u>
<b>Reconciliation of cash and cash equivalents to Statement of Net Position:</b>					
Cash and investments	\$ 110,655,999	\$ (167)	\$ -	\$ 230,724	\$ 110,886,556
Noncurrent restricted cash and investments	32,793,332	-	-	-	32,793,332
Total	143,449,331	(167)	-	230,724	143,679,888
Less: Investments with maturities of more than 90 days	(546,110)	-	-	-	(546,110)
Total cash and cash equivalents	<u>\$ 142,903,221</u>	<u>\$ (167)</u>	<u>\$ -</u>	<u>\$ 230,724</u>	<u>\$ 143,133,778</u>
<b>Noncash Capital, Investing and Financing Activities:</b>					
Acquisition of capital assets in accounts payable	\$ (105,744)	\$ (86,325)	\$ (304,761)	\$ (8,683)	\$ (505,513)
Increase (decrease) in fair value of investments	(37,704)	-	-	-	(37,704)

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 10 – VERNON PUBLIC UTILITIES 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)**

Retiree medical and dental benefits are established through the City's Fringe Benefits and Salary Resolution as well as individual memoranda of understanding between the City and the City's various employee bargaining groups. Generally, the City will provide a postemployment benefit plan for the employee only to those who retire at age sixty (60) 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 sixty (60) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65).

Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services has been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association Memorandum of Understanding and the Vernon Police Officers' Benefit Association Memorandum of Understanding. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will become a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future.

As of June 30, 2017, 348 employees (266 active employees and 82 retired employees), participated in the OPEB plan.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) CONTINUED**

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

As of June 30, 2017, the most recent actuarial valuation date, the City did not use a trust fund to administer the financing and payment of benefits for its OPEB. Instead, the City estimated a payment of \$548,437 in benefits on a pay-as-you-go basis with an implicit subsidy credit of \$274,384 for a total employer contribution of \$822,821 for Fiscal 2017. The following represents the status of the Unfunded Actuarial Accrued Liability as of the most recent actuarial valuation date.

Actuarial Accrued Liability (AAL) (a)	\$	35,365,567
Actuarial Value of Plan Assets (b)		-
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$</u>	<u>35,365,567</u>
Funded ratio (b/a)		0.0%
Covered payroll (c)	\$	28,953,136
UAAL as a % of covered payroll (a-b/c)		122.1%

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

In the June 30, 2017 actuarial valuation, the Entry Age Normal Method was used. The investment return assumption was based on the expected return on employer assets which generally consist of short-term liquid investments.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) CONTINUED**

Based on the actuarial valuation, the June 30, 2017 Annual Required Contribution (ARC) was as follows:

Normal Cost	\$ 1,056,345
Amortization of UAAL	1,672,004
Total ARC	<u>\$ 2,728,349</u>

The June 30, 2017 Net OPEB Obligation (NOO) was as follows:

NOO - Beginning of Year	\$ 20,749,277
Annual OPEB Cost	2,963,231
Employer contributions	<u>(1,882,141)</u>
Increase in NOO	1,081,090
NOO - End of Year	<u>\$ 21,830,367</u>

The funded status of the OPEB plan as of June 30, 2017 and the ARC for the fiscal year ended June 30, 2017 was based on the following actuarial assumptions:

Valuation date:	January 1, 2017
Discount Rate:	4.0%
Attribution method:	Entry age normal method
Amortization method:	Level percentage of payroll
Amortization period:	30 year, open basis
Salary increases assumption:	3.25% per year
Plan Participation Percentage:	100%
Healthcare cost trend rates:	
Medical:	Graded down from 8.50% for 2016 to 4.50% for 2024 and later
Dental:	4.5%

The actuarial valuation presents a long-term perspective based on the types of benefits provided under the term of the resolution and assumptions about the probability of events in the future and determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress on page 86 presents information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 12 – CONTINGENCIES**

As of June 30, 2017, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

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

**Uncertainties**

**Sale of Generation and Transmission Assets**

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

**NOTE 13 – RESTATEMENTS OF BEGINNING NET POSITION**

The beginning balance of City’s net position has been restated to reflect the following adjustments:

	Governmental Activities	Business-type Activities	Total
Net position at June 30, 2016, as previously reported	(\$ 81,820,520)	\$ 124,324,229	\$42,503,709
Prior period adjustments:			
Adjustment to reflect VPU’s share in the City’s net OPEB obligation	3,197,536	(3,197,536)	-
Adjustment to reflect VPU’s share in the City’s net pension liability	13,635,798	(13,635,798)	-
Adjustment to record infrastructure assets based on comprehensive inventory and valuation	133,768,630	-	133,768,630
Net position at June 30, 2016, as restated	\$ 68,781,444	\$ 107,490,895	\$176,272,339

The net position balance as of June 30, 2016 was restated to retroactively report the net OPEB obligation and net pension liability of VPU as of the beginning of the fiscal year to reflect VPU’s share in the liabilities. The City also retroactively recognized additional infrastructure assets based on a comprehensive inventory and historical valuation prepared by an appraisal firm, in accordance with GASB Statement No. 34.



**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 14 – GASB PRONOUNCEMENTS**

**Pronouncements Issued but Not Yet Effective:**

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

- GASB Statement No. 83 – *Certain Asset Retirement Obligations*
- GASB Statement No. 84 – *Fiduciary Activities*
- GASB Statement No. 85 – *Omnibus 2017*
- GASB Statement No. 86 – *Certain Debt Extinguishment Issues*
- GASB Statement No. 87 – *Leases*

**Implementation of Pronouncements**

The City had adopted and implemented the following GASB Statements during the year ended June 30, 2017:

- GASB Statement No. 77, Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for periods beginning after December 15, 2015. This statement did not have a material effect on the financial statements.
- GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement is effective for periods beginning after December 15, 2015. This statement did not have a material effect on the financial statements.
- GASB Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The Statement is effective for periods beginning after June 15, 2016. This statement did not have a material effect on the financial statements.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2017**

**NOTE 14 – GASB PRONOUNCEMENTS CONTINUED**

- GASB Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement is effective for periods beginning after December 15, 2016. This statement did not have a material effect on the financial statements.
  
- GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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 Statement. This statement did not have a material effect on the financial statements.

**NOTE 15 – SUBSEQUENT EVENTS**

The City has evaluated events or transactions that occurred subsequent to the balance sheet date through December 28, 2017, the date the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined that, except as noted below, no other subsequent matters required disclosure or adjustment to the accompanying financial statements.

On July 25, 2017, the DOF approved the recognition of \$22,595,532 as the amount of excess 2005 bond proceeds to be transferred from the Agency to the City within the agreement approved by Oversight Board Resolution No. 44.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF VERNON, CALIFORNIA**  
**General Fund Budgetary Comparison Schedule**  
**Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 29,302,326	\$ 29,302,326	\$ 29,846,014	\$ 543,688
Special assessments	1,020,000	1,020,000	1,141,464	121,464
Licenses and permits	2,186,557	2,186,557	2,518,016	331,459
Fines, forfeitures and penalties	209,667	209,667	214,554	4,887
Investment income	19,000	19,000	66,058	47,058
Intergovernmental revenues	4,022,216	4,022,216	2,349,766	(1,672,450)
Charges for services	4,621,697	4,621,697	4,679,445	57,748
Other revenues	1,058,433	1,058,433	1,298,937	240,504
Total revenues	<u>42,439,896</u>	<u>42,439,896</u>	<u>42,114,254</u>	<u>(325,642)</u>
<b>EXPENDITURES:</b>				
General government	12,753,453	12,753,453	13,156,245	(402,792)
Public safety	28,362,901	28,362,901	30,355,986	(1,993,085)
Public works	7,130,164	7,130,164	6,239,289	890,875
Health services	1,965,937	1,965,937	1,887,931	78,006
Debt service	-	-	-	-
Capital outlay	5,621,122	5,621,122	3,600,774	2,020,348
Total expenditures	<u>55,833,577</u>	<u>55,833,577</u>	<u>55,240,225</u>	<u>593,352</u>
Deficiency of revenues under expenditures	<u>(13,393,681)</u>	<u>(13,393,681)</u>	<u>(13,125,971)</u>	<u>267,710</u>
<b>Other financing sources (uses):</b>				
Sale of property	-	-	230	230
Transfers in	13,172,981	13,172,981	13,121,515	(51,466)
Total other financing sources (uses)	<u>13,172,981</u>	<u>13,172,981</u>	<u>13,121,745</u>	<u>(51,236)</u>
Net change in fund balance	(220,700)	(220,700)	(4,226)	216,474
FUND BALANCE, BEGINNING OF YEAR	<u>(10,854,084)</u>	<u>(10,854,084)</u>	<u>(10,854,084)</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$(11,074,784)</u></u>	<u><u>\$(11,074,784)</u></u>	<u><u>\$(10,858,310)</u></u>	<u><u>\$ 216,474</u></u>

**CITY OF VERNON, CALIFORNIA**  
**Note to General Fund Budgetary Comparison Schedule**  
**Year Ended June 30, 2017**

**NOTE 1 – BUDGET**

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund;
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2017. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund showed a positive variance between the final budgeted amounts and actual amount of change in fund balance of \$216,474. The key reason for this variance was due to lower actual expenditures than budgeted by \$593,352, offset by the shortfall in actual revenues than projected by \$325,642.

For the current year, the General Fund's total negative variance between the final budgeted estimated revenues and actual revenues were \$325,642. The key reason for this variance was deficiency of revenues over estimated revenues of \$1,672,450 of intergovernmental revenues. This was due to a road construction project to be partially funded by a federal grant that did not fully materialize yet.

For the current year, the General Fund's total positive variance between the final budgeted amount and actual amount for expenditures was \$593,352. The key reason for this variance was the excess appropriations of \$2,020,348 for capital outlay.

For the current year, the General Fund's total negative variance between the final budgeted amounts and actual amount for other financing sources was \$51,236. The key reason for this variance was due to the lower actual amount of transfer in over the estimated fund transfer by \$51,466.

**CITY OF VERNON, CALIFORNIA**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Last 10 Years\***

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

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

<sup>1</sup> Historical information is required only for measurement periods for which GASB 68 is applicable.

<sup>2</sup> 2013-14 Net of administrative expenses.

**CITY OF VERNON, CALIFORNIA**  
**Schedule of Changes in the Net Pension Liability and Related Ratios**  
**Last 10 Years\***

	2015-16 <sup>1</sup>		
	Miscellaneous	Safety	Total
<b>Total Pension Liability</b>			
Service cost	\$ 2,129,659	\$ 3,454,025	\$ 5,583,684
Interest on total pension liability	9,969,103	16,325,879	26,294,982
Differences between expected and actual experience	1,046,363	(2,430,394)	(1,384,031)
Benefit payments, including refunds of employee contributions	(5,748,657)	(9,736,302)	(15,484,959)
<b>Net change in total pension liability</b>	7,396,468	7,613,208	15,009,676
<b>Total pension liability - beginning</b>	131,078,192	218,981,708	350,059,900
<b>Total pension liability - ending (a)</b>	<u>\$ 138,474,660</u>	<u>\$ 226,594,916</u>	<u>\$ 365,069,576</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 3,140,644	\$ 5,116,412	\$ 8,257,056
Contributions - employee	1,095,824	1,222,561	2,318,385
Net investment income <sup>2</sup>	583,692	760,559	1,344,251
Benefit payments, including refunds of employee contributions	(5,748,657)	(9,736,302)	(15,484,959)
Plan to plan resource movement	(780)	780	-
Administrative expense	(67,200)	(99,525)	(166,725)
<b>Net change in plan fiduciary net position</b>	(996,477)	(2,735,515)	(3,731,992)
<b>Plan fiduciary net position - beginning</b>	110,264,248	163,303,716	273,567,964
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 109,267,771</u>	<u>\$ 160,568,201</u>	<u>\$ 269,835,972</u>
 Net pension liability - ending (a)-(b)	 <u>\$ 29,206,889</u>	 <u>\$ 66,026,715</u>	 <u>\$ 95,233,604</u>
 Plan fiduciary net position as a percentage of the total pension liability	 78.91%	 70.86%	 73.91%
Covered - employee payroll	\$ 13,150,103	\$ 12,971,888	\$ 26,121,991
Net pension liability as percentage of covered - employee payroll	222.10%	509.00%	364.57%

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

<sup>1</sup> Historical information is required only for measurement periods for which GASB 68 is applicable.

<sup>2</sup> 2013-14 Net of administrative expenses.

**CITY OF VERNON, CALIFORNIA**  
**Schedule of Plan Contributions – Miscellaneous Plan**  
**Last 10 Years\***

	2017	2016	2015	2014
Actuarially determined contributions	\$ 2,959,873	\$ 3,140,644	\$ 2,340,002	\$ 1,825,732
Contributions in relation to the actuarially determined contributions	(2,959,873)	(3,140,644)	(2,340,002)	(1,825,732)
Contribution deficiency / (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 12,421,078	\$ 13,150,103	\$ 11,708,057	\$ 11,084,188
Contributions as a percentage of covered employee payroll	23.83%	23.88%	19.99%	16.47%

**Notes to Schedule:**

Valuation date	6/30/2014	6/30/2013	6/30/2012	6/30/2011
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The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-16 were from the June 30, 2013 public agency valuations.

Actuarial cost method	Entry Age Normal Cost Method
Amortization method/period	For details, see June 30, 2013 Funding Valuation Report
Asset valuation method	Market Value of Assets. For details, see June 30, 2013 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.5%, net of pension plan investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.



**CITY OF VERNON, CALIFORNIA**  
**Schedule of Plan Contributions – Safety Plan**  
**Last 10 Years\***

	2017	2016	2015	2014
Actuarially determined contributions	\$ 5,633,416	\$ 5,116,412	\$ 4,147,441	\$ 3,234,539
Contributions in relation to the actuarially determined contributions	(5,633,416)	(5,116,412)	(4,147,441)	(3,234,539)
Contribution deficiency / (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 13,516,699	\$ 12,971,888	\$ 12,740,785	\$ 12,510,920
Contributions as a percentage of covered employee payroll	41.68%	39.44%	32.55%	25.85%

**Notes to Schedule:**

Valuation date	6/30/2014	6/30/2013	6/30/2012	6/30/2011
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The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-16 were from the June 30, 2013 public agency valuations.

Actuarial cost method	Entry Age Normal Cost Method
Amortization method/period	For details, see June 30, 2013 Funding Valuation Report
Asset valuation method	Market Value of Assets. For details, see June 30, 2013 Funding Valuation Report.

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Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.5%, net of pension plan investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CITY OF VERNON, CALIFORNIA**  
**Schedule of Funding Progress for Other Postemployment Benefit Plans**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/(c)
1/1/2017	\$ -	\$ 35,365,567	\$ 35,365,567	00.0%	\$ 28,953,136	122.1%
6/30/2015	\$ -	\$ 53,470,769	\$ 53,470,769	00.0%	\$ 25,490,192	209.8%
6/30/2013	\$ -	\$ 41,731,558	\$ 41,731,558	00.0%	\$ 25,151,622	165.9%
7/1/2010	\$ -	\$ 25,475,000	\$ 25,475,000	00.0%	\$ 29,361,889	86.8%
7/1/2008	\$ -	\$ 22,115,000	\$ 22,115,000	00.0%	\$ 26,479,226	83.5%

