

VERNON PUBLIC UTILITIES
(THE ELECTRIC, GAS, WATER, AND FIBER OPTICS FUNDS
OF THE CITY OF VERNON, CALIFORNIA)

Annual Financial Report

For the Fiscal Year Ended June 30, 2017

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
For the Fiscal Year Ended June 30, 2017**

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Introduction

A message from Kelly Nguyen, Director of Vernon Public Utilities

On March 21, 2017, the City Council of the City of Vernon adopted Ordinance No. 1240, consolidating 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.

Vernon Gas & Electric is now called Vernon Public Utilities (“VPU”), and provides electric services in addition to water, gas, and fiber services. As changes occur locally, nationally, and on a global scale, VPU is committed to building a resilient utility which will not only withstand challenges, but also take advantage of the opportunities that arise. While VPU remains dedicated to reliability, safety, and continuity of service, we strive to move forward in a manner that is sustainable both environmentally and financially. As a publicly owned utility, VPU is community focused by design, and residents and business owners alike are partners in addressing local matters. Local control affords the Vernon business community some recognizable advantages: transparency in governance; competitive rates; the ability to tailor utility policies to customer needs, programs to serve the priorities of the local community; and a strong voice in the decision making process.

We work earnestly as responsible stewards to supply valuable, responsive, and reliable services to businesses and residents cost effectively, sustainably, and with a customer oriented approach. I appreciate the leadership provided by the City Council, City Administration and specifically, the efforts and support of VPU staff. We are committed to partnering with the local community in shaping and constructing a sustainable future for the City of Vernon.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Under the direction of the Mayor and City Council, City management identifies the priorities that shape the path leading the City into the future. City initiatives are re-evaluated regularly, and new programs are frequently implemented to ensure that City efforts are consistent with the priorities of our policy-making body and the community. The City aspires to fulfill its mission of delivering outstanding, responsive municipal services to our entire community by fostering operational innovation, ingenuity, and opportunity. This overall direction and purpose promotes the realization of the City’s primary goals that center around satisfying community needs, enriching neighborhood connections, and governing to strengthen local economies and communities. The City’s dedication to development, performance and service cultivates an

environment in which City of Vernon residents and businesses can reap the benefits of these offerings.

1. VPU's financial liquidity continues to improve and the ability to fund debt obligations and meet operating requirements remains strong.
2. The City's low electric rates, proximity to major transportation arteries and ports, Class 1 Fire Department, impeccable customer service and the almost exclusively industrial business make up has attracted new customers such as Romeo Power and Rplanet Earth and has stimulated the expansion of existing businesses including Millennium Products and Matheson Tri-Gas.
3. In March 2017, the City initiated the transfer of the Water Division from Public Works and implemented a Transition Plan to integrate the Water Division into VPU. VPU then prepared a detailed Assessment and Recommendation Report for the Water Division, including a comprehensive CIP plan, operational analysis plan and strategic plan.
4. In order to promote efficiency and accuracy, VPU developed a Geographical Information System (GIS) that maps the City's gas, water and electric distribution systems.
5. In an ongoing effort to update aging infrastructure, 120 deteriorating wood power poles were replaced along with many other upgrades and replacements of capital infrastructure.
6. The final Reform Monitor Report was issued in January, and implementation of the few remaining audit recommendations requiring clearance from the California State Auditor were submitted for review. Effective July 2017, the California State Auditor notified the City that the implementation of all the audit recommendations was deemed complete. Currently, the City has no pending items with the State of California. The City continues to become a model city, become transparent in all proceedings and transactions and seeks opportunities for improvement.
7. Although Measure Q was not passed by the voters in 2017, the City will be placing a new measure – Measure R – on the ballot for voter approval in April 2018. In Measure R the existing Utility User Tax will be increased from 1% to 6% to equal or exceed the existing operating transfer from the utility to the general fund. Should the voters pass this ballot measure, it will enable the City government side to sustain itself financially and will effectively eliminate operating transfers from utility enterprise operations.

8. The Exide plant closure and remediation effort continues to be under the sole jurisdiction of the State of California through the Department of Toxic Substances Control. The City has no legal standing or jurisdiction regarding the Exide plant cleanup and remediation of the plant site and the surrounding properties, which will take approximately 2 years. In the meantime, electricity is still being served to Exide from the utility as part of the plant shutdown process.
9. VPU participated in the Hoover power contract extension negotiations which extended the zero-emissions power contract for another fifty (50) years (through 2067), procuring renewable energy products at historically low prices.

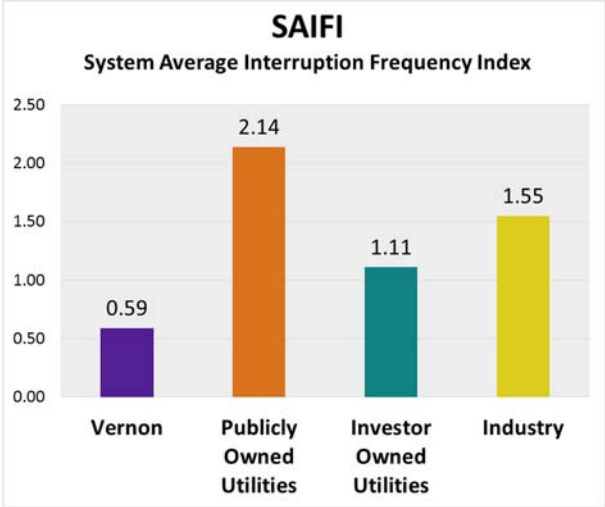
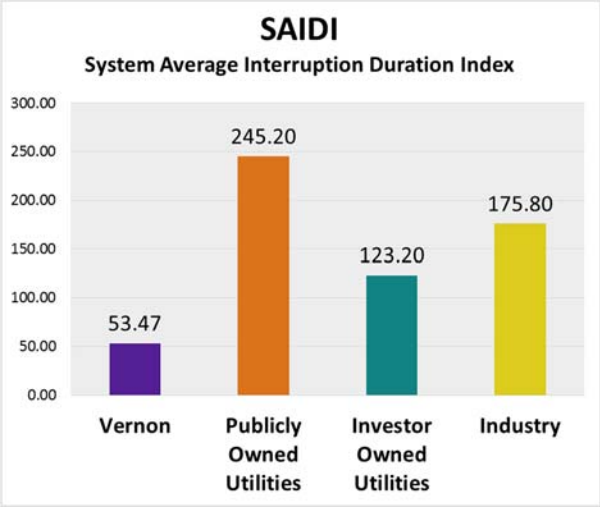
Nationally Recognized Reliable Electrical Service

VPU's electric division strives to achieve safety and reliability metrics ranks top 10% among in a national benchmarking study.

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

Annual participation in a nation-wide benchmarking study has consistently resulted in the electric utility of VPU being ranked in the top 10% of both publicly-owned and investor-owned utilities. For the calendar year 2016, VPU's electric system was measured to be 99.99% reliable with the System Average Interruption Duration Index (SAIDI) of 33 minutes. The SAIDI index measures the amount of time over the course of the year that an average customer service is interrupted.

The electric utility of VPU System Average Interruption Frequency Index (SAIFI) of 0.49 also ranks very favorably versus both publicly owned and investor-owned utilities. The SAIFI index shows that customers experience less than one interruption in service over the course of a year.



Preparedness

Preparing for a disaster is a fundamental part of maintaining reliability and continuity of service. VPU is signatory to agreements with APPA, the California Utilities Emergency Association (CUEA), and Southern California Public Power Association (SCPPA) to provide and receive mutual assistance in the event of emergencies and disasters.

In January of 2017, a series of six major winter storms rolled across Northern California, dumping more than a dozen feet of snow and 2 feet of rain. VPU provided mutual assistance crews along with Los Angeles Department of Water & Power, Imperial Irrigation District, and Pasadena Water & Power to assist with the restoration of power in the Pacific Gas & Electric territory.

Participation in emergency restoration efforts not only extends goodwill to neighboring agencies, but participating in the mutual assistance process proved

extremely valuable in order to gain the necessary experience should VPU encounter such an emergency.



Engineering and Capital Improvements

VPU developed a 7 year Capital Improvement Plan to sustain reliability, high quality service and competitive rates. The \$64M Plan details a solid capital improvement program that aims to achieve an overarching strategic vision that addresses the 5 square miles and uniquely industrial characteristics that make up the City. The Plan defines strategies that involve an in-depth evaluation of the condition of the electric system; performs a detailed engineering analysis of

distribution system capability and performance; and lists construction and upgrade projects to transform the system into an intelligent electric system.

While VPU is not subject to California Public Utilities Commission (CPUC) jurisdiction, it follows CPUC General Orders (GO) as a best practice. Below are the inspections performed in adherence to GO 165 and GO 174.

City of Vernon Public Utilities			
Inspections of Electric Distribution Facilities			
Fiscal Year 2016 - 2017			
Type of Inspections	Due	Outstanding	Units
Patrols	67	0	Circuits
OH Detailed	1000	0	Poles
UG Detailed	109	0	Vaults
Wood Pole Intrusive	1000	0	Poles

City of Vernon Public Utilities			
Electric Utility Substations			
Fiscal Year 2016-2017			
Type of Inspections	Due	Outstanding	Units
Substations	36	0	substations

As a result of the above inspections, VPU has replaced 120 deteriorating wood power poles that were identified under the CPUC general order standards and performed many other upgrades and replacements of capital infrastructure. Construction of a new distribution substation and upgrades to existing substations have been prioritized in the 7 year Capital Improvement Plan to address the needs of an aging infrastructure.

Power Supply

Energy Projects Procurement Procedure

The electric utility of VPU maintains an energy projects procurement procedure to ensure that necessary investments are made in a timely manner. The goal of the procedure is to ensure a highly reliable power system through acquiring the best mix of generation and transmission resources in order to meet demand from a fully integrated system perspective. This energy projects procurement procedure works in conjunction with the Integrated Resource Plan and other forward-looking resource management tools and planning.

Integrated Resource Plan

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

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

- Provides reliable and affordable energy to ratepayers;
- Maintains compliance with all laws and regulations governing VPU and pertinent business activities;
- Continues to pursue and implement energy efficiency and demand side management programs that are cost effective and achieve demand reduction.
- Reduces greenhouse gas emissions to fully comply with California law as enacted by Senate Bill 350, "the Clean Energy and Pollution Reduction Act of 2015" (SB 350), which mandates Greenhouse Gas (GHG) emissions reduction in California of 40 percent from 1990 by 2030;
- Increase the amount of qualifying renewable energy resources in its power supply portfolio to 50% of total energy by 2030.

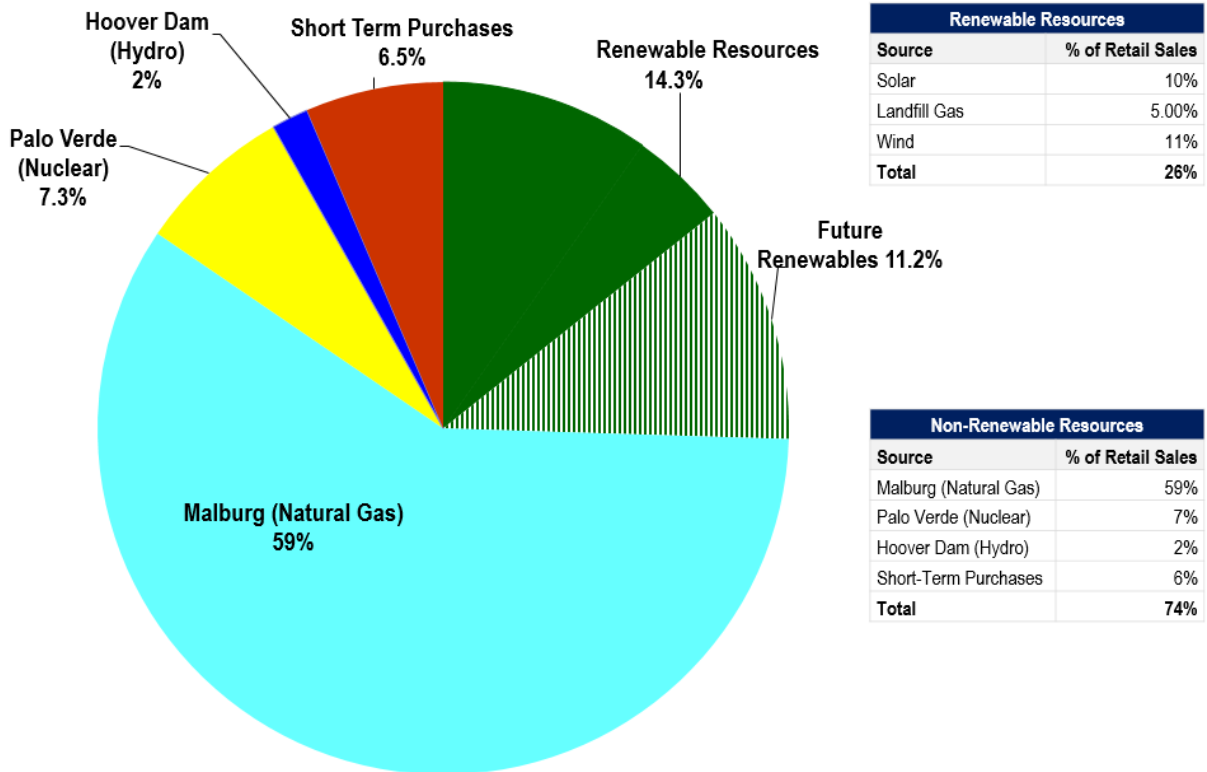
Resource Used to Satisfy City Load Requirement

VPU maintains a diversified power resources portfolio. The system load requirement is met predominantly through committed resources. Approximately 50% of VPU's current portfolio is comprised of natural gas generation, 11% coming from hydro and nuclear power, and 36% by renewable resources. The remaining load requirement is met through short-term contracts and purchases from the California Independent System Operator.

VPU successfully met its Compliance Period 2 (CP2) procurement target by delivering 24% of its retail sales from Renewable Portfolio Standard (RPS) eligible resources between 2014 and 2016. While RPS targets fell short in 2015 due to a moratorium placed on biomethane contracts, the City compensated for this shortfall by procuring RPS resources equal to 33% of retail sales in 2016. The excess procurement from CP2 can be carried over to the next compliance period to help meet future procurement targets. The City will continue to seek diversification of its renewable energy portfolio in order to reach the 33% RPS procurement requirement by 2020.

As of January 1, 2017, Vernon added to its renewable energy portfolio from three new long-term PPAs acquired through SCPPA. The addition of the Antelope DSR Solar Project, the Astoria Phase II, Solar Project, and the Puente Hills Landfill to Energy Project will help Vernon meet its RPS mandate. In addition, Vernon has approximately 18,000 acres of land in the Jawbone Canyon area located in Kern County. The land is suitable for solar and wind renewable project development. Wind studies have been conducted to identify meteorological data, wind flows, bird migration, and optimal wind turbine siting. An analysis to determine which wind turbine design to implement has been initiated, including discussions with two manufacturers regarding different sizes and technologies. The City is interested in entering into a partnership arrangement with a local wind developer or SCPPA participants as a diversification strategy. Considering the prospect of State of California’s efforts to mandate 100% renewable energy, this land will be an important element in meeting this mandate.

RESOURCES MIX FOR COMPLIANCE PERIOD 3



Customer Mix

VPU's customer base is primarily industrial and commercial. Large and small commercial/industrial load comprise 99% of the system usage. The electric system benefits from a very stable customer base. Many industrial customers have an occupancy history of between 10 years and 80 years in Vernon. The top twenty five utility electric customers have an average tenancy of 31 years in the City. Further, the electric system boasts an annual average load factor of over 70%, which is much higher than other utilities in the area. The gas and electric demand in the City is poised to grow in the upcoming years.

Natural Gas Service

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

VPU natural gas system is relatively new compared to most gas systems in the United States. Commissioned only 10 years ago, the system now serves 87 customers. The Vernon gas utility continues to be an economically attractive option to the remaining medium sized commercial and industrial load, with an estimated one hundred potential customer connections remaining. Vernon's gas transportation rates are approximately 50 percent lower than those of the Southern California Gas Company, making connection to the Vernon system very attractive. Since 2015, the Vernon gas division has offered a rebate program offering customers up to \$100,000 for improvement in gas consumption efficiency and greenhouse gas reduction, such as boiler replacement and installation of EV chargers.

Water Service

Formerly part of Vernon's Public Works Department, the water division operates a domestic water system that serves a population of 50,000 people. The water distribution system provides over 7,000 acre feet or 2.4 billion gallons of potable water annually. The City is also a party to the Third Amendment Basic Judgement that awarded the City 7,539 acre feet of groundwater rights in perpetuity.

The domestic water system is comprised of the following facilities:

- Forty-nine miles of distribution pipelines
- Eight active groundwater production wells
- Three booster pump stations with 16 pumps
- Eight storage reservoirs
 - Six above ground 1 million gallon steel tanks
 - One underground 10 million gallon concrete tank
 - One elevated 750,000 gallon tank

With the move to VPU, the water division has undertaken a number of notable initiatives including:

1. Staff established one-on-one working relationships with critical personnel from Central Basin Municipal Water District (CBMWD) the wholesaler of imported water, and the Water Replenishment District (WRD) the groundwater basin manager to solicit programs. The City is working with WRD or completed the following projects:
 - a. Profiling Well 12 to determine which aquifers are producing contaminants as well as the volume of water produced from each aquifer.
 - b. Grants to fund well head treatment to mitigate any possible contaminants.
 - c. Upcoming grants/no-interest loans to fund new well construction.
2. Staff also established working relationships with local purveyor group associations—GWMA, SEWC, CBWA, Big 5—to collaborate on matters regarding the Metropolitan Water District (MWD) as well as legislation that could impact water purveyors. Recently, in discussion with SEWC, the idea was introduced for member purveyors to collaborate and jointly apply for grants to fund projects that will benefit all.
3. Staff commissioned Preliminary Design Reports and prepared Request for Proposals, utilizing engineering and hydrogeological consultants to put science into the design and operation of facilities. Implementation of the recommendations coming out of these studies will allow the division to operate in a much more strategic and efficient manner.
4. Staff is attending American Water Works Association (AWWA) conferences and webinars in order to evaluate industry standards, proven methodologies and new technologies that can be implemented to improve and modernize the City's water system.
5. Staff has begun putting together large scale replacement programs for valves, hydrants, mains, and meters.
6. Staff has met with neighboring water agencies to exchange operational practices, construction methods, and ideas to upgrade and enhance the City's water system.
7. Staff developed a PDR for a new well siting and design.
8. Staff was able to establish an in-house Capital Improvement Program.
9. An in-house water system assessment was undertaken to determine the condition of all water facilities and the most efficient utilization of the labor force.
10. Staff developed an in-house Strategic Plan for the Water Division to determine the appropriate steps to take in order to improve the resiliency and operational efficiency of the City's water system.
11. Staff initiated an Operational Analysis to improve production and conveyance as well as addressing the overall storage capacity to reduce water facilities thereby decreasing the CIP and operations and maintenance costs.
12. Staff played a prominent role in the completion of a water rate study with the City's consultant and made a presentation on the results to executive City staff.
13. Staff commissioned the update of the City's Hydraulic Model to assist in the operations and the right sizing of all water facilities to current system demand.
14. Started the process of populating the Division's GIS model into a working tool and model versus a view only program.
15. Staff finalized the leasing of previously unused water rights for a one-time revenue of \$474,000.

Customer Service: Responsive Service

The City of Vernon's unique size and infrastructure allows VPU to provide expeditious personalized service to its industrial customers and residents. Along with providing safe and reliable utility services, VPU accommodates customers with personal, face-to-face interaction resulting in efficient resolution of any issues or discrepancies. VPU's responsive customer service supports a specifically tailored Energy Efficiency Program for customers resulting in a total savings of 2,609,488 KWh and 530 KW - or about \$352,000 - for the FY 2016/17.

In 2017, VPU launched an Outage Notification Service which notifies customers of service interruptions on their electric circuit via cell phone text, email, or phone call.

While most other utilities are experiencing a noticeable reduction in their electric load, the City's load is projected to increase significantly in the next few years. The City's low electric rates, proximity to major transportation arteries and ports, Class 1 Fire Department, impeccable customer service and almost exclusively industrial business makeup are some of the reasons Vernon has become the first choice for businesses to reside and expand. In the past year, VPU has assisted in the expansion and establishment of the following notable businesses:

- Bon Appetit Danish Inc
- Serv-rite Meat Co Inc
- Romeo Systems Inc
- Flying Foods Group, LLC
- F. Gavina & Sons
- Sol-pak Inc
- Popcornopolis LLC
- Whole Foods Market

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Vernon Public Utilities (“VPU”), of the City of Vernon, California (City), which comprise the statement of net position as of June 30, 2017, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to financial statements, which collectively comprise VPU’s basic financial statements.

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.

Auditors’ 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of Vernon Public Utilities of the City of Vernon, California, as of June 30, 2017, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Vernon Public Utilities of the City of Vernon, California and do not purport to, and do not, present fairly the financial position of the City of Vernon, California as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 12, the beginning balance of the VPU's net position has been restated to retroactively reflect VPU's share in the net pension liability and other postemployment benefits obligation as reflected in the City's audited financial statements. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 9, effective for the fiscal year ended June 30, 2017, the Water and Fiber Optics Utility Funds were combined with the Light and Power Utilities for financial reporting purposes. 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 14 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Vasquez + Company LLP

**Los Angeles, California
December 14, 2017**

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

The management of the Vernon Public Utilities (VPU), the electric, gas, water, and fiber optics utilities of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the VPU for the fiscal year ended June 30, 2017. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

The *statement of net position* presents information on the VPU's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources, with the difference between the two reported as net position.

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

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

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

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the VPU'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 24 of this report.

	2017	2016*	Change
Assets:			
Current and other assets	\$ 256,044,505	\$ 286,141,491	\$ (30,096,986)
Restricted assets	32,793,332	38,533,372	(5,740,040)
Capital assets	231,294,182	226,025,175	5,269,007
Total assets	<u>520,132,019</u>	<u>550,700,038</u>	<u>(30,568,019)</u>
Deferred Outflows of Resources	<u>14,762,785</u>	<u>14,756,483</u>	<u>6,302</u>
Liabilities:			
Current liabilities	43,164,408	43,666,446	(502,038)
Long-term liabilities	356,222,162	382,742,025	(26,519,863)
Total liabilities	<u>399,386,570</u>	<u>426,408,471</u>	<u>(27,021,901)</u>
Deferred Inflows of Resources	<u>23,766,277</u>	<u>31,557,155</u>	<u>(7,790,878)</u>
Net Position:			
Net investment in capital assets	151,981,027	148,525,296	3,455,731
Unrestricted (deficit)	(40,239,070)	(41,034,401)	795,331
Total net position	<u>\$ 111,741,957</u>	<u>\$ 107,490,895</u>	<u>\$ 4,251,062</u>

* 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 utility-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. The 2016 column has been restated to include the electric, gas, water, and fiber optics utilities for comparison purposes with the fiscal year 2017 amounts.

The assets and deferred outflows of resources of the VPU exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$111,741,957 (*net position*).

The category of the VPU's net position with the largest balance totaling \$151,981,027 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(40,239,070), represents a deficit in unrestricted net position that is expected to be recovered from the VPU's future revenues.

Activities, net position:

- Current and other assets decreased \$30,096,986 from the prior year mainly due to the amortization 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.
- Capital assets increased \$5,269,007 from the prior year mainly due to an increase in utility plants of \$12,579,710, net of depreciation of \$8,093,295 (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 Notes 6 and 7). This decrease was offset by an increase in the amount of deferred outflows of resources related to pensions recognized in the VPU's financial statements for fiscal years 2016 and 2017.
- Long-term liabilities decreased \$26,519,863 from the prior year mainly due to debt service and amortization of bond premium and discounts (See Notes 6 and 7).
- Deferred inflows of resources decreased by \$7,790,878 largely due to the decrease in the deferred gain from sale of generation assets of \$5,364,033 from the prior year due to amortization to capacity expense during the current year. There was also a decrease of \$2,426,845 in the deferred inflows of resources from pension-related transactions.
- Unrestricted net deficit decreased \$795,331 from the prior year due primarily to an increase in net investment in capital assets of \$3,455,731 and current year's activities of \$4,251,062.

Changes in Net Position

The table on the next page summarizes the VPU's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 22 of this report.

	2017	2016*	Change
Operating revenues:			
Charges for services	\$ 223,988,452	\$ 208,030,826	\$ 15,957,626
Operating expenses:			
Cost of sales	175,343,905	157,038,493	18,305,412
Depreciation and amortization	8,093,296	7,601,189	492,107
Total operating expenses	183,437,201	164,639,682	18,797,519
Operating income	40,551,251	43,391,144	(2,839,893)
Nonoperating revenues (expenses):			
Investment income (loss)	341,770	280,776	60,994
Net increase (decrease) in fair value of investments	(37,704)	(285,121)	247,417
Interest expense	(23,523,513)	(17,074,836)	(6,448,677)
Gain (loss) on sale of assets	-	195,390	(195,390)
Legal settlement	40,773	651,956	(611,183)
Total nonoperating revenues (expenses), net	(23,178,674)	(16,231,835)	(6,946,839)
Income before transfers	17,372,577	27,159,309	(9,786,732)
Transfers to City	(13,121,515)	(15,072,260)	1,950,745
Change in net position	4,251,062	12,087,049	(7,835,987)
Net position - beginning of year, as restated	107,490,895	95,403,846	12,087,049
Net position - end of year	\$ 111,741,957	\$ 107,490,895	\$ 4,251,062

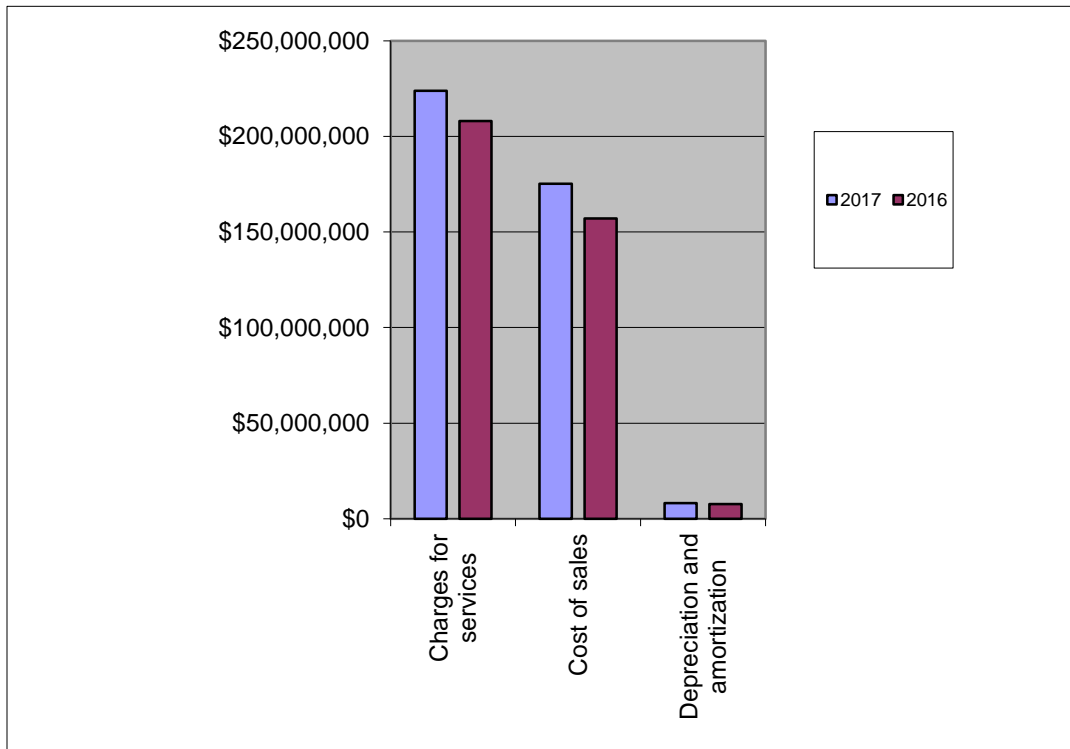
* Ordinance No. 1242, adopted May 16, 2017, requires each utility of the City to be independent with its assets, liabilities, and equities segregated, budgeted, and accounted for in separate funds. Ordinance No. 1240, adopted March 21, 2017, consolidates all utilities-related services under the management of the stand-alone entity "Vernon Public Utilities" for better oversight and management of the day-to-day activities of such independent utilities. The 2016 column has been restated to include the electric, gas, water, and fiber optics utilities for comparison purposes with the fiscal year 2017 amounts.

The VPU’s income before transfers of \$17,372,577, less transfers to the City of \$13,121,515, resulted in an increase in net position of \$4,251,062 during the current year. The VPU expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, debt payouts, and revenues from renewable energy projects.

The VPU’s activities increased net position by \$4,251,062 which is \$7,835,987 lower than the prior year. The key reasons for this change are as follows:

- Charges for services was \$223,988,452 for the current year, which is \$15,957,626 higher than the previous year.
- Cost of sales was \$175,343,905 for the current year, which is \$18,305,412 higher than the previous year.
- Interest expense was \$23,523,513 for the current year, which is \$6,448,677 higher than the previous year.

Operating Revenues and Expenses
For the Fiscal Years Ended June 30, 2017 and 2016



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The VPU's investment in capital assets as of June 30, 2017 amounted to \$231,294,182 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the VPU's investment in capital assets for the current fiscal year was \$13,365,044, offset by depreciation of \$8,093,295, write-off of \$2,742, for a net increase of \$5,269,007.

Additional information on the VPU's capital assets can be found in Note 5 on page 40 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.

On October 18, 2016, Moody's downgraded the City of Vernon Electric's Baa1 rating to Baa3.

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

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the VPU and 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 VPU's finances for all those with an interest in the VPU'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.

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

ASSETS:

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	<u>158,611,750</u>

Noncurrent assets:

Restricted cash and investments	32,793,332
Advances to City	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	<u>361,520,269</u>

Total assets	<u>520,132,019</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Current deferred outflows of resources:

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

Deferred outflows related to pension	3,835,296
Deferred amount on refunding	8,418,636
Total deferred outflows of resources	<u>14,762,785</u>

LIABILITIES:

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	<u>43,164,408</u>

Noncurrent liabilities:

Bonds payable, net	337,646,945
Compensated absences	535,252
Other postemployment benefit (OPEB) liability	3,364,135
Net pension liability	14,675,830
Total noncurrent liabilities	<u>356,222,162</u>

Total liabilities	<u>399,386,570</u>
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DEFERRED INFLOWS OF RESOURCES:

Current deferred inflows of resources:

Deferred gain from sale of generation assets	4,135,506
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Noncurrent deferred inflows of resources:

Deferred inflows related to pension	741,420
Deferred gain from sale of generation assets	18,889,351
Total deferred inflows of resources	<u>23,766,277</u>

NET POSITION:

Net investment in capital assets	151,981,027
Unrestricted (deficit)	(40,239,070)
Total net position	<u>\$ 111,741,957</u>

See accompanying notes to basic financial statements.

VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017

OPERATING REVENUES:	
Charges for services	\$ 223,988,452
Total operating revenues	<u>223,988,452</u>
OPERATING EXPENSES:	
Cost of sales	175,343,905
Depreciation and amortization	8,093,296
Total operating expenses	<u>183,437,201</u>
Operating income (loss)	<u>40,551,251</u>
NONOPERATING REVENUE (EXPENSES):	
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	<u>(23,178,674)</u>
Income (loss) before transfers	17,372,577
Transfers to City	<u>(13,121,515)</u>
Change in net position	4,251,062
Net position, beginning of the year, as restated	<u>107,490,895</u>
Net position, end of the year	<u>\$ 111,741,957</u>

See accompanying notes to basic financial statements.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Statement of Cash Flows
Year Ended June 30, 2017**

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)
Advances 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>
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	<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 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
Deposits and prepaid expenses	(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 basic financial statements.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Vernon Public Utilities (VPU) of the City of Vernon, California (the City). The VPU accounts for the independent operations and the maintenance of the City's electric, gas, water, and fiber optics utilities in separate funds within the City's accounting system. A fund, or utility, administered by the VPU is an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

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, 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 utility-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. Accordingly, effective for fiscal year ended June 30, 2017, the water and fiber optics utilities were combined with the Light and Power Enterprise for financial reporting purposes.

The financial statements of the VPU 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 VPU's significant accounting policies are described below.

As of June 30, 2017, the VPU had no blended component units or any discretely presented component units.

Basis of Presentation

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

The VPU distinguishes *operating* revenues and expenses from *nonoperating* items. *Operating* revenues, such as charges for services, result from exchange transactions associated with the sale of electricity, gas, water and fiber optics utilities. 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.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2017, the VPU adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- 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 VPU's 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 VPU's 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 VPU's 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. The Statement is effective or periods beginning after June 15, 2016. This Statement did not have a material effect on the VPU's financial statements.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

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

Receivables

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

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible accounts 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 are recorded as an expense or capitalized into capital assets when used.

Capital Assets

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

The estimated useful lives are as follows:

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

Compensated Absences

Accumulated vacation is accrued when incurred. Upon termination of employment, the VPU will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate up to a maximum cap of 480 hours.

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the VPU recognizes deferred outflows and inflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. At June 30, 2017, the City has deferred inflows of resources representing the deferred gain from the sale of generation assets and pension-related transactions and deferred outflows of resources representing deferred amounts on bond refunding and pension-related transactions.

Long-term Obligations

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

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

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2017 are classified in the accompanying statement of fund net position as follows:

Statement of net position:

Cash and investments	\$	110,886,556
Restricted cash and investments		32,793,332
		<hr/>
Total cash and investments	\$	<u>143,679,888</u>

Cash and investments as of June 30, 2017 consist of the following:

Deposits with financial institutions	\$	48,034,631
Investments		95,645,257
		<hr/>
Total cash and investments	\$	<u>143,679,888</u>

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The City's Investment Policy

The City's Investment Policy sets forth the investment guidelines for all funds of the City. The Investment Policy conforms to the California Government Code Section 53600 et. seq. The authority to manage the City's investment program is derived from the City Council. Pursuant to Section 53607 of the California Government Code, the City Council annually appoints the City Treasurer to manage the City's investment program and approves the City's investment policy. The City 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 City 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 should 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

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

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

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

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

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 2017	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
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%

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
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
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 48,034,631	33.4%
Local Agency Investment Fund	Not Rated	Not Rated	546,109	0.4%
Total in custody of Treasurer			48,580,740	33.8%
In custody of Trustee:				
Investments held by Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	95,099,148	66.2%
Total in custody of Trustee			95,099,148	66.2%
Total cash and investments held by Treasurer and Trustee			\$ 143,679,888	100.0%

Concentration of Credit Risk

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

At year-end, the carrying amount of the VPU's deposits was \$48,034,631 and the bank balance was \$47,787,011. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2017, none of the VPU's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$47,537,011 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

Local Agency Investment Fund (LAIF)

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

The total amount invested by all public agencies in LAIF at 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 at June 30, 2017. Of this amount, 2.25% was invested in structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to the California State Code. The average maturity of PMIA investments was 0.53 years as of June 30, 2017. LAIF does not maintain a credit rating.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

GASB 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The VPU 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 VPU’s fair value hierarchy for its financial assets measured at fair value on a recurring basis:

Investments by fair value level	Fair value	Fair value measurement using significant other observable inputs (Level 2)
Money Market Funds	\$ 95,099,148	\$ 95,099,148
Total	95,099,148	\$ 95,099,148
Uncategorized:		
Local Agency Investment Fund	546,109	
Total investments measured at fair value	\$ 95,645,257	

NOTE 3 – ACCOUNTS RECEIVABLES

The VPU’s accounts receivables at June 30, 2017 are as follows:

Accounts receivables	\$ 8,199,587
Less: Allowances for uncollectible accounts	(1,088,000)
Total receivables, net	\$ 7,111,587

For information on the VPU’s note receivable, see Note 9 regarding Hoover Dam Power Plant Upgrade Program.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 4 – RELATED PARTY TRANSACTIONS

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

The following table summarizes the VPU’s loan balances and transactions with the City at June 30, 2017:

Advances to City

Advances to City, July 1, 2016	\$ 13,338,374
Payments from City	<u>(403,543)</u>
Advances to City, June 30, 2017	<u><u>\$ 12,934,831</u></u>

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

The City allocates certain administrative and overhead costs to the VPU which the VPU financial statements include as part of cost of sales. The allocated costs for the year ended June 30, 2017 were \$3,593,676.

Transfers to City

The VPU’s electric retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City’s General Fund. For the current year, the VPU paid the City’s General Fund \$4,513,678 in lieu of franchise tax.

Under the City Charter and the VPU’s electric revenue bond indentures, the VPU’s electric utility is allowed to transfer up to 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. For the year ended June 30, 2017, the VPU made the following transfers to the City in total:

In lieu of franchise tax transfer	\$ 4,513,678
Excess revenue operating transfer	<u>8,607,837</u>
Total	<u><u>\$ 13,121,515</u></u>

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 5 – CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Deletions	Reclassification	Balance June 30, 2017
<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
Total capital assets, not being depreciated	<u>66,627,563</u>	<u>785,334</u>	<u>(2,742)</u>	<u>(995,436)</u>	<u>66,414,719</u>
<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
Total capital assets, being depreciated	<u>266,955,407</u>	<u>12,579,711</u>	<u>-</u>	<u>995,436</u>	<u>280,530,554</u>
<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)
Total accumulated depreciation	<u>(107,557,795)</u>	<u>(8,093,296)</u>	<u>-</u>	<u>-</u>	<u>(115,651,091)</u>
<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
Total	<u>159,397,612</u>	<u>4,486,415</u>	<u>-</u>	<u>995,436</u>	<u>164,879,463</u>
Business-type activities capital assets, net	<u>\$ 226,025,175</u>	<u>\$ 5,271,749</u>	<u>\$ (2,742)</u>	<u>\$ -</u>	<u>\$ 231,294,182</u>

Depreciation

The VPU's total depreciation expense for the year was \$8,093,296.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LONG-TERM OBLIGATIONS

There were no new bonds issued during fiscal year 2016-2017. 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 \$3,977,755 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.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
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.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

<u>Bonds</u>	<u>Maturity</u>	<u>Fixed Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2017</u>
City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 41,425,000
City of Vernon Electric System Revenue Bonds, 2009 Series A	08/01/21	5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	141,945,000
City of Vernon Electric System Revenue Bonds, 2012 Series A	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B	08/01/26	6.250% - 6.500%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A	08/01/26	4.050% - 4.850%	To begin 08/01/23: \$15,295,000 - \$22,540,000	\$ 111,720,000	\$ 111,720,000
Premium					162,237
Discounts					(5,285,204)
Total Revenue Bonds				<u>\$ 647,625,000</u>	<u>\$ 362,707,033</u>

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
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%.

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, 2017, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 5.000% to 5.500%.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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%.

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 6/30/2017*	Amounts Due Within One Year
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)
Compensated absences	742,815	307,668	(247,605)	802,878	267,626
	<u>\$ 386,169,936</u>	<u>\$ 307,668</u>	<u>\$ (22,967,693)</u>	<u>\$ 363,509,911</u>	<u>\$ 25,327,714</u>

*This summary does not include net pension liability and other postemployment benefit (OPEB) liability.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Credit Ratings

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

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

NOTE 7 – RISK MANAGEMENT

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

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

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

The insurance limits for fiscal year 2017 are as follows (amounts in thousands):

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

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

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 8 – PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions – All full-time miscellaneous personnel and temporary or part-time employees who have worked 1,000 hours in a fiscal year are eligible to participate in the City’s agent multiple-employer defined benefit pension Miscellaneous Plan 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 53 and 61 with reduced retirement benefits. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and provided through a contract between the City and CalPERS.

With the implementation of GASB Statement No. 68, the City of Vernon allocates about 15% of the City’s net pension liability and pension-related transactions to VPU based on VPU’s share in the pension contribution. Please refer to the City’s audited financial statements for the fiscal year ended June 30, 2017 for more information about the City’s pension plan required note disclosures in accordance with GASB Statement No. 68.

NOTE 9 – VPU FINANCIAL INFORMATION 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.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 – VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

Asset Sale (Continued)

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 Uprating 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 Uprating 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 11 for disclosure on uncertainties).

Project Commitments

A. Southern California Public Power Authority

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

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

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

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 –VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

B. Hoover Dam Power Plant Upgrade Program

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

As of June 30, 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 expired in September 2017.

Power Purchase Commitments

As of June 30, 2017, under the Bicent 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 utility-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.

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 for each of the utilities administered by the Vernon Public Utilities are presented below:

VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017

NOTE 9 – VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
ASSETS:					
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 City	27,137,571	(20,839,283)	10,977,451	(4,340,908)	12,934,831
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>(2,783,552)</u>	<u>18,436,962</u>	<u>(2,548,401)</u>	<u>361,520,269</u>
Total assets	<u>504,054,376</u>	<u>(888,782)</u>	<u>19,263,471</u>	<u>(2,297,046)</u>	<u>520,132,019</u>
DEFERRED OUTFLOWS OF RESOURCES:					
Current deferred outflows of resources:					
Deferred amount on refunding	2,508,853	-	-	-	2,508,853
Noncurrent deferred outflows of resources:					
Deferred outflows related to pension	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>
LIABILITIES:					
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:					
Bonds payable, net	337,646,945	-	-	-	337,646,945
Compensated absences	418,124	28,463	79,355	9,309	535,252
Other postemployment benefit (OPEB) 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>1,311,779</u>	<u>4,528,983</u>	<u>129,970</u>	<u>356,222,162</u>
Total liabilities	<u>390,236,953</u>	<u>3,342,930</u>	<u>5,667,225</u>	<u>139,462</u>	<u>399,386,570</u>
DEFERRED INFLOWS OF RESOURCES:					
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 pension	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>
NET POSITION:					
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>

VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017

NOTE 9 –VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
OPERATING REVENUES:					
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>
OPERATING EXPENSES:					
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>
NONOPERATING REVENUE (EXPENSES):					
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 to City	<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>

VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017

NOTE 9 –VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
Cash flows from operating activities:					
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>
Cash flows from noncapital financing activities:					
Transfers to City	(13,121,515)	-	-	-	(13,121,515)
Advances 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>
Cash flows from capital and related financing activities:					
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)
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>
Cash flows from investing activities:					
Purchases and sales of investments, net	(4,349,071)	(1,070,382)	(3,847,247)	(103,910)	(9,370,610)
Investment loss	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>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
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>
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
Deposits and prepaid expenses	(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>
Reconciliation of cash and cash equivalents to Statement of Net Position:					
Cash and investments	\$110,655,999	\$ (167)	\$ -	\$ 230,724	\$110,886,556
Noncurrent restricted cash and investments	<u>32,793,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,793,332</u>
Total	143,449,331	(167)	-	230,724	143,679,888
Less: Investments with maturities of more than 90 days	<u>(546,110)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(546,110)</u>
Total cash and cash equivalents	<u>\$142,903,221</u>	<u>\$ (167)</u>	<u>\$ -</u>	<u>\$ 230,724</u>	<u>\$143,133,778</u>
Noncash Capital, Investing and Financing Activities:					
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)

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 9 –VPU FINANCIAL INFORMATION AND COMMITMENTS (CONTINUED)

B. Pledged Revenues

The VPU's Electric Utility has pledged future electric revenues for the repayment of its electric revenue bonds (See Note 6 regarding long-term obligations).

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

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 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 sixty (60), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65).

Resolution 2012-217 granted specific retiree medical benefits to employees who retired during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will be a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future. As of June 30, 2017, 348 employees (266 active employees and 82 retired employees), participated in the OPEB plan.

The City allocates about 15% of the City's net OPEB obligation to VPU based on VPU's share in pension contribution. Further information regarding the City's participation in OPEB may be found in the City's Comprehensive Annual Financial Report.

**VERNON PUBLIC UTILITIES
CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
Year Ended June 30, 2017**

NOTE 11 – CONTINGENCIES

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

Uncertainties

Sale of Generation and Transmission Assets

The financial and operational effects of the 2008 sale of generation and transmission assets, while reducing the electric utility's debt burden and providing liquidity, puts the utility at some risks in terms of dependency on external sources of supply, potential for increasing fixed-charge obligations and long-term power resource uncertainty.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

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

Net position at June 30, 2016, as previously reported	\$ 124,324,229
Prior period adjustments:	
Adjustment to reflect VPU's share in the City's net OPEB obligation	(3,197,536)
Adjustment to reflect VPU's share in the City's net pension liability	(13,635,798)
Net position at June 30, 2016, as restated	\$ 107,490,895

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 as reported in the City's audited financial statements.

NOTE 13 – SUBSEQUENT EVENTS

VPU has evaluated events or transactions that occurred subsequent to the balance sheet date through December 14, 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 December 4, 2017, Moody's affirmed its Baa3 rating on Vernon, CA Electric Revenue Bonds with outlook remaining negative.



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