

**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, 2018**

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**For the Fiscal Year Ended June 30, 2018**

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## Introduction

### A message from Carlos Fandino, City Administrator

Incorporating resiliency and sustainability into the utility has been an overarching goal of Vernon Public Utilities (“VPU”) over the past year. VPU has diligently built onto a foundation of plans, programs and partnerships to ensure the resilience and growth of the City and its customers. As the local publicly-owned utility provider for the City of Vernon, we are positioned to support the livelihood of Vernon businesses and residents within the City and surrounding communities. VPU consistently delivers personal, dependable, high-quality electric, water, natural gas and fiber optics services to its customers at competitive rates. The publicly owned electric, water, natural gas and fiber optic distribution infrastructure has proven to be reliable and capable of efficiently and successfully serving the needs of the City's uniquely industrial customer base. As a steward to the community, it is the charge of VPU to ensure that this model of service is enduring, improving and adapting to the changing technologies and environment.

In September 2017, VPU hosted the Southern California Public Power Authority’s (SCPPA) annual State Staffer Tour. VPU welcomed over 30 legislative and regulatory representatives from Sacramento at Station A to help familiarize them on the operations, advancements, values and achievements of all Southern California Publicly Owned Utilities. Vernon showcased its businesses, historic diesel engine power plant and Vernon-made products. Attendees enjoyed Vernon-made My/Mo Mochi Ice Cream and Gaviña Cold Brew Coffee while speaking directly to business owners from the City. Thanks to the contributions from many Vernon businesses and City staff, SCPPA received glowing reviews on the Vernon stop.

VPU is now well into development of an Integrated Resource Plan which sets the roadmap for future operations and financial transactions. As a partner to customer growth, business community input is invaluable to VPU in forecasting demand for electricity in the era of changing technology, ever growing environmental concerns and financial challenges. VPU has conducted a series of outreach activities including City-hosted lunch meetings, phone calls and customer site visits to elicit feedback from the Vernon community. As a result, customers have shown appreciation for our efforts to be transparent while we have been able to gain a much better understanding of our customer needs and expectations. Moving forward, VPU plans to launch unique incentives and programs which support customer goals and reinforce the relationship between VPU and its customer base.

## Utility Statistics at a Glance

<b>Electric</b>	
<b>Service area</b>	5 square miles
<b>Service meters</b>	1916
<b>Number of poles</b>	4750
<b>Number of substations</b>	8
<b>Peak load</b>	184.7 MW (August 2, 2017 at 1 PM)

<b>Water</b>	
<b>Service area</b>	4.2 square miles
<b>Service meters</b>	950
<b>Number of miles of water mains</b>	45
<b>Number of wells</b>	8
<b>Number of reservoirs</b>	8
<b>Total reservoir capacity (gallons)</b>	16.375 MG
<b>Number of booster stations</b>	3
<b>Average day demand</b>	19 acre feet
<b>Maximum day peak factor</b>	1.6

<b>Gas</b>	
<b>Service area</b>	5 square miles
<b>Service meters</b>	118
<b>Number of miles of gas distribution</b>	44
<b>Number of miles of gas transmission</b>	4.15
<b>Number of regulating stations</b>	2
<b>Peak month in decatherms (Month Year)</b>	180,400 (March 2018)
<b>Average month in decatherms</b>	168,300

## Major Initiatives and Accomplishments

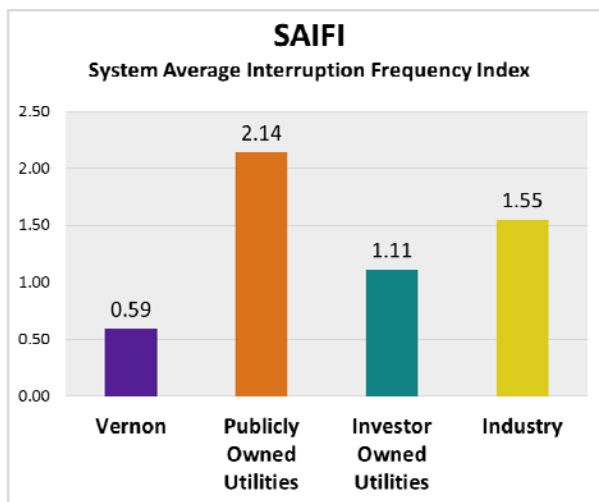
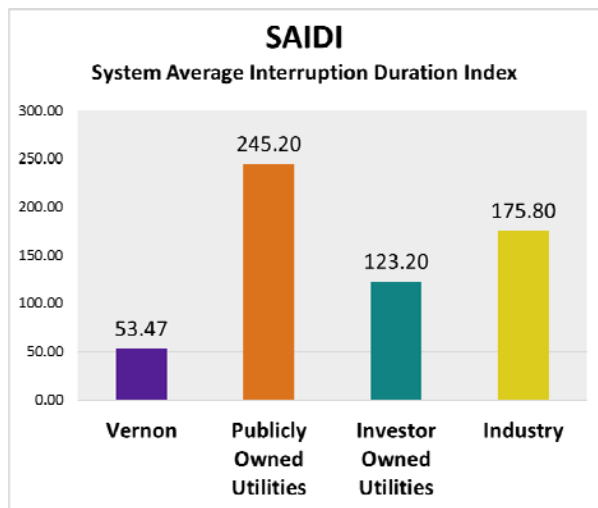
1. The ratings on all Electric System Revenue Bonds continues to be rated A- by S&P as of June 30, 2018.
2. In April 2018, Measure R passed increasing the City's Utility User Tax from 1% to 6% to equal the existing operating transfer from VPU to the City's General Fund. With the passage of this ballot measure, the City's General Fund is expected to sustain itself financially with less reliance on operating transfers from VPU.
3. Vernon hosted the Southern California Public Power Authority (SCPPA) Legislative and Regulatory tour. 30 legislative and regulatory staff members from Sacramento got a first-hand look at what Vernon's unique makeup. In attendance were representatives from the California Energy Commission, California Air Resources Board, and Assembly Member Santiago's office.
4. Vernon is receiving over 140 electric vehicle charging stations through a grant for SCPPA Members to help fund a program for VPU customers.
5. Electric reliability metrics continue to be in the top decile in nationwide benchmarking studies.
6. The Water Utility has developed an ambitious and necessary Capital Improvement Plan. Implementation has begun by addressing production side infrastructure including construction of new wells and well rehabilitation. The plan incorporates Well 16 pump and motor design (in-house) and installation; Well 17 and 11 electrical upgrades; demo of the loading dock at OE Clark RFB (in-house design with help from Public Works); Well 11 hydrogeological studies, design and RFB; proposed new wells 22 & 23 hydrogeological studies, design and RFB; and new well construction management RFP.
7. The Water Utility has been able to meet system demand almost exclusively through pumping far less expensive ground water in 2018 versus relying on a combination of ground water and expensive imported water.
8. The Gas Utility has created an internal Gas Training Program which trains and certifies City employees to assist in performing natural gas service installations versus utilizing more expensive contracted services. By efficiently utilizing internal resources, this program has benefitted the City's natural gas community by reducing installation costs. The Gas Utility has been providing a safe, uninterrupted and reliable service to its customers since 2006.
9. VPU established the first Intra-Departmental Cross Training for all VPU employees and other City Departments to promote a better broad understanding and focus on common goals.
10. Vernon placed a member on the SCPPA Executive Committee in 2018.
11. VPU Implemented the Vernon Notification System to notify customers of outages and other important events.

## Nationally Recognized Reliable Electrical Service

VPU strives to achieve safe and reliable practices. 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) for the period of 2016 – 2019 and will be awarded for the period of 2019 – 2022 this Spring. The electric utility earned this honor by demonstrating excellence in 4 key disciplines of reliability, safety, workforce development, and system improvement. VPU was one of just 8 utilities among 2,000 public power utilities in the U.S. achieving Diamond level recognition for 2016-2019.

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 2017, the VPU electric system attained 99.99% reliability with a 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.

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.



## Emergency Response and Mutual Assistance

Preparing for disaster recovery is a fundamental part of a resilient utility. With the rising frequency and magnitude of natural disasters in California, it is increasingly necessary to conduct drills at all levels, participate in industry workshops and working groups, and ensure emergency agreements are properly maintained. As such, VPU is signatory to agreements with APPA, the California Utilities Emergency Association (CUEA), and SCPPA to provide and receive mutual assistance in the event of emergencies and disasters. VPU is an active member of the SCPPA Mutual Assistance Working Group, chairing the working group during the calendar year 2017. VPU also actively participates in meetings, conferences, and exercises sponsored by the APPA and SCPPA Mutual Assistance Working Groups and CUEA events. Staff works diligently to stock the warehouses and yards with sufficient inventory should the need arise to rapidly repair infrastructure or to share materials with other utilities in need. While preparedness ensures sufficient resources are available in times of emergency, the connections and knowledge gained by mutual assistance activities further strengthen VPU’s resilience.

VPU actively participates in a collaborative quarterly Direction and Control Meeting in which all City Departments discuss topics regarding emergency preparedness and emergency response. The meetings are called to order by the Mayor and administered by the Fire Chief. Table top emergency exercises are

conducted at least annually at the Direction and Control Meeting. This type of activity reinforces each Department's readiness to respond to a disaster.

## Engineering and Capital Improvements

VPU developed a 7-year Electric Capital Improvement Plan to sustain reliability, high quality service and competitive rates. The plan contains a strategic vision to address the 5 square mile, uniquely industrial service territory. 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 entails construction and upgrade projects to transform the system into an increasingly resilient and intelligent electric system.



The entire electric industry as a whole is currently facing issues of repairing and replacing aging infrastructure. In addressing these issues locally, VPU has implemented a proactive equipment replacement plan. For the fiscal year 2018, the preceding equipment was installed or replaced:

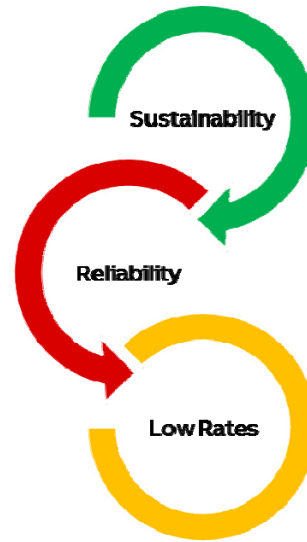
- 1 Substation circuit breaker;
- 5 Substation CT's & PTs;
- 2 Substation capacitors;
- 108 wood poles;
- 129 polemount (OH) distribution transformers;
- 20 padmount distribution transformers;
- 5 padmount switches;
- 1 customer substation transformers;
- 34,267 ft. cable throughout the system;
- 11 field capacitor banks;
- 21 field switches; and
- 88 electric meters.

The Engineering group has commissioned 2 large solar installations on customer facilities and is currently working with 2 major customers regarding system expansion.

## Resource Planning

### Integrated Resource Plan

In January 2018, the City of Vernon began to examine short and long-term goals and objectives through a comprehensive Integrated Resource Plan (IRP) and a Rate Design based on a Cost of Service study. The IRP is a thorough planning tool that identifies a resource acquisition strategy favoring more renewable energy and fewer carbon-emitting resources. The plan sets a course to meet state mandates, while balancing the need for reliable and affordable electric service to customers. Moving forward, the IRP will guide Utility decision making in the procurement of resources and the delivery of critical services.



VPU utilized an integrated approach in the development of this IRP including the consideration of several goals such as supplying reliable and affordable energy to its customers, achieving the 60% renewable portfolio standard (RPS) mandated by 2030 and reducing greenhouse gas emissions (GHG) by 40% from 1990 levels by 2030 as required by Senate Bill 32 (SB 32).

VPU plans to meet its targets in the third RPS compliance period (2017-2020) by maintaining an average RPS of 30% for the entire period. Table 1 below lists the committed renewable energy products, including RECs, which VPU has secured to meet its RPS for the third compliance period.

Figure 1 VPU RPS Third Compliance Period Procurement

Calendar Year	2017	2018	2019	2020
<b>Retail Sales (MWhs)</b>	1,061,829	1,083,066	1,193,636	1,204,467
<b>RPS Requirement (MWhs)</b>	286,694	314,089	370,027	397,474
<b>Resource (MWhs)</b>				
Biomethane	92,841	93,684	94,522	92,289
Wind	74,162	64,000	64,000	64,000
Solar	138,485	198,194	190,221	189,603
<b>TOTAL</b>	<b>305,488</b>	<b>355,878</b>	<b>348,743</b>	<b>345,892</b>
<i>Annual RPS %</i>	29%	33%	29%	29%
<i>VPU Average RPS</i>				<b>30%</b>
<i>Compliance period Requirement</i>				<b>30%</b>



Throughout the study, VPU has solicited feedback from Vernon stakeholders to ensure that the plan meets customer needs. Vernon business customers were able to voice expectations of the utility through a survey which gauged their priorities in balancing reliability, finances, technology, and the environment. Additionally, VPU conducted an IRP outreach meetings which were well attended by City customers, real estate developers and City Council members alike. Recommendations and input gathered from this process is incorporated into the IRP which will be finalized by the end of calendar year 2018.

#### 2018 Resource Planning Accomplishments

- Procured renewable energy products at historically low prices.
- Engaged in a number of cost saving and revenue generating transactions.
- Completed a 25-year term power purchase agreement for solar power through SCPPA at favorable pricing.
- Lowered gas transportation charges by revising a gas reservation agreement with SoCal Gas Company.

#### Natural Gas Service

The utility aims to be a trusted partner in reaching customer goals. Although most VPU natural gas customers opt to pay commodity rates in accordance with the natural gas market, VPU now offers a flat or fixed gas commodity rate. The Vernon-owned natural gas distribution system provides a safe and stable operation of high pressure transmission and distribution lines to effectively serve the City's large manufacturing sector.

The City-owned gas utility continues to be an economically attractive option to commercial and industrial load, with 12 new natural gas customer connections. The Vernon Gas Utility offers 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

As a party to the Third Amendment Basic Judgement, the City owns 7,539 acre feet of groundwater rights in perpetuity. As such, the Water Utility aims to minimize the usage of imported water and has developed a Strategic Plan and Capital Improvement Plan. The first phase of the plan includes an estimated 2-year production facility rehabilitation and installation plan. The Water Utility has also performed an Operational Analysis to guide efficient operations that are appropriately resourced.

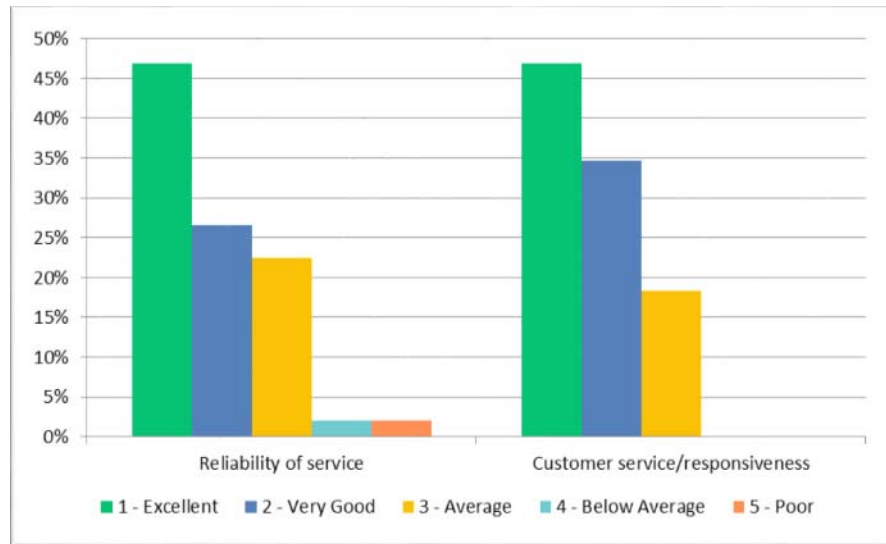
In the current year, the Water Utility’s major accomplishments included the following:

- Electrical rehabilitation of Well 17.
- Successful completion of approximately 15 construction projects.
- Put 2 ground water wells back into service and began projects to construct 2 additional ground water wells in order to use less imported water in order to reduce cost yet increase productivity.

## Customer Service

The VPU Customer Service group excels at delivering customized, fast and friendly service that caters to its customers’ unique needs. A survey conducted in April 2018 for the IRP process indicated high levels of customer satisfaction, with comments commending VPU’s responsive customer service.

**Figure 2 - Survey response by customers indicating satisfaction levels**



VPU’s customer service group supports a specifically tailored Energy Efficiency Program for customers, which rewards them for installing energy efficiency technology of their choosing. This program has resulted in a total savings of 5,383,804 KWh or 948 KW, equivalent to \$391,662 in the current year.

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. Low electric rates, proximity to major transportation arteries and ports, a Class 1 Fire Department, responsive customer service and an 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:

- Rplanet Earth
- Matheson Tri-Gas
- Wimatex
- Urban Trends
- Fashion Magazine
- Lineage Cold Storage
- GBYM
- Fashion Nova
- Sarang Trading
- Pabco Paper
- Whole Foods Market
- National Ready Mix
- Millennium Products-GTS Kombucha
- Derby Dolls

## 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 fund net position as of June 30, 2018, and the related statement of revenues, expenses and changes in fund 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 an opinion on these financial statements based on our audit. Except as discussed in the following paragraph, 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.

### ***Basis for Qualified Opinion***

As disclosed in Note 5, the City hired a professional firm to perform an inventory and a valuation of the City's utility infrastructure assets in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to determine the amount of any unreported utility infrastructure assets and to prepare an infrastructure asset listing to be maintained by the City. The valuation is on-going as of the date of this report. While management expects the amount to be significant, management is unable to determine the estimated amount of unreported utility infrastructure assets as of June 30, 2018. Adjustments if any, will not have an impact on the VPU's cash flows.

### ***Qualified Opinion***

In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, 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, 2018, 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance 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 the implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (OPEB). As a result of this adjustment, the VPU's beginning net position was reduced by \$279,103. 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 13 through 19 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*

**Glendale, California**  
**April 24, 2019**

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2018**  
**(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, 2018. 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 fund 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 fund 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.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2018**  
**(Unaudited)**

**FINANCIAL HIGHLIGHTS**

*Net Position*

The table below summarizes the VPU's net position as of the current fiscal year ended June 30, 2018 and prior fiscal year ended June 30, 2017. The details of the current year's summary can be found on page 20 of this report.

	<b>2018</b>	2017	Change
<b>Assets:</b>			
Current and other assets	\$ 254,231,657	\$ 256,044,505	\$ (1,812,848)
Restricted assets	<b>28,051,380</b>	32,793,332	(4,741,952)
Capital assets	<b>234,115,783</b>	231,294,182	2,821,601
Total assets	<b>516,398,820</b>	520,132,019	(3,733,199)
<b>Deferred Outflows of Resources</b>	<b>12,647,368</b>	14,762,785	(2,115,417)
<b>Liabilities:</b>			
Current liabilities	<b>50,138,430</b>	43,164,408	6,974,022
Long-term liabilities	<b>330,666,041</b>	356,222,162	(25,556,121)
Total liabilities	<b>380,804,471</b>	399,386,570	(18,582,099)
<b>Deferred Inflows of Resources</b>	<b>17,880,184</b>	23,766,277	(5,886,093)
<b>Net Position:</b>			
Net investment in capital assets	<b>155,342,824</b>	151,981,027	3,361,797
Unrestricted (deficit)	<b>(24,981,291)</b>	(40,239,070)	15,257,779
Total net position	<b>\$ 130,361,533</b>	\$ 111,741,957	\$ 18,619,576

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 \$130,361,533 (*net position*).

The category of the VPU's net position with the largest balance totaling \$155,342,824 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(24,981,291) represents a deficit in unrestricted net position that is expected to be recovered from the VPU's future revenues.



**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
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**(Unaudited)**

**Activities, net position:**

- Current and other assets decreased \$1,812,848 from the prior year mainly due to a decrease in prepaid natural gas of \$28,549,572 offset by increases in cash and investments of \$22,802,600 and receivables of \$4,613,186.
- Restricted assets decreased by \$4,741,952 from the prior year mainly due to a decrease in debt service reserve requirement based on the reduction in outstanding bond principal.
- Capital assets increased \$2,821,601 from the prior year mainly due to an increase in construction in progress of \$163,701 and an increase in utility plants of \$16,242,813, net of depreciation of \$8,390,690 (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 pension of \$127,908 and other postemployment benefits of \$265,528.
- Current liabilities increased \$6,974,022 from the prior year mainly due to a \$3,605,321 increase in accounts payable and \$3,490,037 increase in the current portion of the bonds payable, net.
- Deferred inflows of resources decreased \$5,886,093 largely due to the decrease in the deferred gain from sale of generation assets of \$5,405,635 from the prior year due to amortization to capacity expense during the current year. Other deferred inflows of resources pertain to deferred items related to pensions and other postemployment benefits.
- Unrestricted net deficit decreased \$15,257,779 from the prior year due primarily to current year's activities of \$18,898,679 offset by an increase in net investment in capital assets of \$3,361,797.

***Changes in Net Position***

The table below 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 21 of this report.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2018**  
**(Unaudited)**

	2018	2017	Change
<b>Operating revenues:</b>			
Charges for services	\$ 222,093,902	\$ 223,988,452	\$ (1,894,550)
<b>Operating expenses:</b>			
Cost of sales	183,142,153	175,343,905	7,798,248
Depreciation and amortization	8,390,690	8,093,296	297,394
Total operating expenses	191,532,843	183,437,201	8,095,642
Operating income	30,561,059	40,551,251	(9,990,192)
<b>Nonoperating revenues (expenses):</b>			
Investment income	1,154,353	341,770	812,583
Net increase (decrease) in fair value of investments	19,980	(37,704)	57,684
Interest expense	(22,209,504)	(23,523,513)	1,314,009
Gain on sale of assets	792,378	-	792,378
Legal settlement	329,385	40,773	288,612
Total nonoperating revenues (expenses), net	(19,913,408)	(23,178,674)	3,265,266
Income before transfers	10,647,651	17,372,577	(6,724,926)
<b>Transfers:</b>			
Transfers from the Successor Agency	22,595,532	-	22,595,532
Transfers to the General Fund of the City	(14,344,504)	(13,121,515)	(1,222,989)
Net transfers	8,251,028	(13,121,515)	21,372,543
<b>Change in net position</b>	18,898,679	4,251,062	14,647,617
<b>Net position - beginning of year, as restated</b>	111,462,854	107,490,895	3,971,959
<b>Net position - end of year</b>	\$ 130,361,533	\$ 111,741,957	\$ 18,619,576

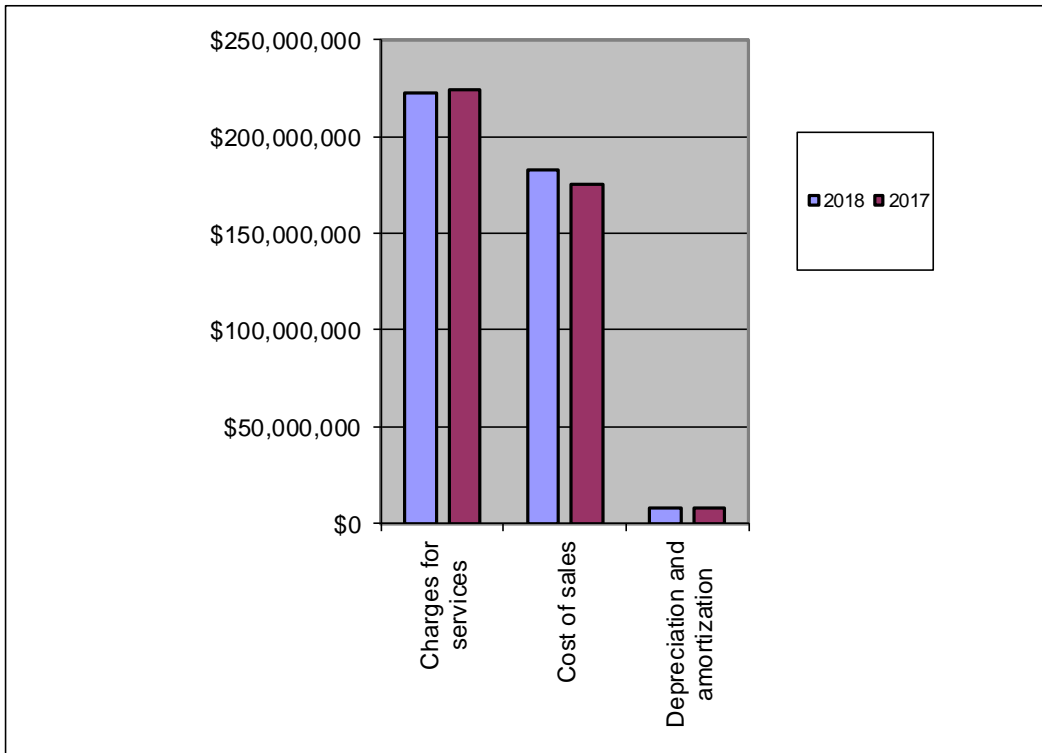
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The VPU's income before transfers of \$10,647,651, plus transfers from the Successor Agency of \$22,595,532 and transfers to the City of \$14,344,504, resulted in an increase in net position of \$18,898,679 during the current year. The VPU expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, and revenues from renewable energy projects.

The VPU's activities increased net position by \$18,898,679 which is \$14,647,617 higher than the prior year. The key reasons for this change are as follows:

- Transfers from the Successor Agency of \$22,595,532 and transfers to the City of \$14,344,504 for the current year, whereas transfers to the City was \$13,121,515 in the prior year.
- Operating income was \$30,561,059 for the current year, which is \$9,990,192 lower than the prior year.
- Nonoperating expenses, net, was \$19,913,408 for the current year, which is \$3,265,266 lower than the prior year.

Operating Revenues and Expenses  
For the Fiscal Years Ended June 30, 2018 and 2017



**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2018**  
**(Unaudited)**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital assets*

The VPU's investment in capital assets as of June 30, 2018 amounted to \$234,115,783 (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 \$16,406,513, offset by depreciation of \$8,390,690, sale of land of \$5,036,467, write-off of \$157,755, for a net increase of \$2,821,601.

Additional information on the VPU's capital assets can be found in Note 5 on pages 35-36 of this report.

*Outstanding debt*

As of June 30, 2018, the following debt remains outstanding:

- \$43,765,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$116,575,000 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.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2018**  
**(Unaudited)**

The ratings on all Electric System Revenue Bonds of the City has not changed from the prior year with an A- rating by S&P and Baa3 rating by Moody's as of June 30, 2018. On April 3, 2019, S&P revised its rating from A- to BBB+.

Additional information on the VPU's long-term debt can be found in Note 6 on pages 36-40 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 2019 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 4.6%, which is slightly higher than the State of California's average unemployment rate of 4.1%, and the national average unemployment rate of 3.7%.
- Inflationary trends in the region compare favorably to national indices.
- The occupancy rate of the City's central business district ranges between 96% and 98%.

**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.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
Statement of Fund Net Position  
June 30, 2018

**ASSETS:**

Current assets:	
Cash and investments	\$ 133,689,156
Accounts receivable, net of allowances of \$1,088,000	11,724,773
Accrued unbilled revenue	10,518,994
Accrued interest receivable	123,026
Escrow deposits	940,000
Prepaid natural gas	28,549,572
Total current assets	<u>185,545,521</u>
Noncurrent assets:	
Restricted cash and investments	28,051,380
Advances to other funds	12,612,421
Prepaid expenses	1,762,641
Prepaid natural gas	54,311,074
Capital assets:	
Nondepreciable	61,295,532
Depreciable, net	172,820,251
Total noncurrent assets	<u>330,853,299</u>
Total assets	<u>516,398,820</u>

**DEFERRED OUTFLOWS OF RESOURCES:**

Current deferred outflows of resources:	
Deferred amount on refunding	2,508,853
Noncurrent deferred outflows of resources:	
Deferred outflows related to pensions	3,963,204
Deferred outflows related to other postemployment benefit liability	265,528
Deferred amount on refunding	5,909,783
Total deferred outflows of resources	<u>12,647,368</u>

**LIABILITIES:**

Current liabilities:	
Accounts payable	11,910,180
Accrued wages and benefits	523,007
Customer deposits	788,625
Bond interest payable	8,051,741
Bonds payable, net	28,550,125
Compensated absences	314,752
Total current liabilities	<u>50,138,430</u>
Noncurrent liabilities:	
Bonds payable, net	309,096,783
Compensated absences	629,504
Other postemployment benefit liability	3,887,475
Net pension liability	17,052,279
Total noncurrent liabilities	<u>330,666,041</u>
Total liabilities	<u>380,804,471</u>

**DEFERRED INFLOWS OF RESOURCES:**

Current deferred inflows of resources:	
Deferred gain from sale of generation assets	3,687,769
Noncurrent deferred inflows of resources:	
Deferred inflows related to pensions	193,152
Deferred inflows related to other postemployment benefit liability	67,810
Deferred gain from sale of generation assets	13,931,453
Total deferred inflows of resources	<u>17,880,184</u>

**NET POSITION:**

Net investment in capital assets	155,342,824
Unrestricted (deficit)	(24,981,291)
Total net position	<u>\$ 130,361,533</u>

*See accompanying notes to financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Fiscal Year June 30, 2018

OPERATING REVENUES:	
Charges for services	\$ 222,093,902
Total operating revenues	<u>222,093,902</u>
OPERATING EXPENSES:	
Cost of sales	183,142,153
Depreciation	8,390,690
Total operating expenses	<u>191,532,843</u>
Operating income	<u>30,561,059</u>
NONOPERATING REVENUE (EXPENSES):	
Investment income	1,154,353
Net increase in fair value of investments	19,980
Interest expense	(22,209,504)
Gain on sale of assets	792,378
Legal settlement	329,385
Total nonoperating revenue (expenses), net	<u>(19,913,408)</u>
Income (loss) before transfers	10,647,651
TRANSFERS:	
Transfers from the Successor Agency	22,595,532
Transfers out	(14,344,504)
Net transfers	<u>8,251,028</u>
Change in net position	18,898,679
Net position, beginning of the year, as restated	<u>111,462,854</u>
Net position, end of the year	<u>\$ 130,361,533</u>

*See accompanying notes to financial statements.*

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
Statement of Cash Flows  
For the Fiscal Year June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 248,376,941
Cash paid to suppliers for goods and services	(172,588,215)
Cash paid to employees for services	(9,490,076)
Net cash provided by operating activities	<u>66,298,650</u>
Cash flows from noncapital financing activities:	
Transfers from the Successor Agency	22,595,532
Transfers to City	(14,344,504)
Advance (from) to City	322,410
Collection of note receivable	125,416
Net cash provided by (used in) noncapital financing activities	<u>8,698,854</u>
Cash flows from capital and related financing activities:	
Repayment of bonds	(25,815,000)
Bond interest paid	(22,761,049)
Sale of land	5,828,846
Acquisition and construction of capital assets, net	(16,324,589)
Net cash used in capital and related financing activities	<u>(59,071,792)</u>
Cash flows from investing activities:	
Purchases and sales of investments, net	2,248,979
Investment income	1,031,327
Net cash provided by investing activities	<u>3,280,306</u>
Net increase in cash and cash equivalents	19,206,018
Cash and cash equivalents, beginning of year	<u>143,133,778</u>
Cash and cash equivalents, end of year	<u>\$ 162,339,796</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 30,561,059</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,390,690
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(4,613,186)
Accrued unbilled revenue	479,625
Accrued interest receivable	(123,026)
Prepaid expenses	(125,363)
Prepaid natural gas	28,549,572
Deferred outflows of resources	2,115,417
Increase (decrease) in:	
Accounts payable	3,525,705
Accrued wages and benefits	523,007
Customer deposits	(139,924)
Compensated absences	141,378
Other postemployment benefit liability	523,340
Net pension liability	2,376,449
Deferred inflows of resources	(5,886,093)
Net cash provided by operating activities	<u>\$ 66,298,650</u>
Reconciliation of cash and cash equivalents to Statement of Net Position:	
Cash and investments	\$ 133,689,156
Noncurrent restricted cash and investments	<u>28,051,380</u>
Total	161,740,536
Add: LAIF	<u>599,260</u>
Total cash and cash equivalents	<u>\$ 162,339,796</u>
Noncash Capital, Investing and Financing Activities:	
Acquisition of capital assets in accounts payable	\$ 585,129
Increase in fair value of investments	19,980

*See accompanying notes to financial statements.*



**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**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. 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.

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

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, 2018, 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 and gas. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. *Operating* expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**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.

**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 fund net position.

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles were \$1,088,000 as of June 30, 2018. 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.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. Capital assets include 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

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.

**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 resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. At June 30, 2018, the City has deferred inflows of resources representing the deferred gain from the sale of generation assets, pension-related transactions, and postemployment benefit-related transactions, and deferred outflows of resources representing deferred amounts on bond refunding, pension-related transactions, and postemployment benefit-related transactions.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Long-term Obligations**

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

**Net Position**

The 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.

**Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and PARS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Postemployment Benefits Other than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the City's OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Implementation of New Accounting Pronouncements**

During the fiscal year ended June 30, 2018, the City adopted the following new Statement of the Governmental Accounting Standards Board (GASB):

GASB statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed in this Statement. Refer also to Note 9.

**NOTE 2 – CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2018 are classified in the accompanying statement of fund net position as follows:

Cash and investments	\$	133,689,156
Restricted cash and investments		<u>28,051,380</u>
Total cash and investments	<u>\$</u>	<u>161,740,536</u>

Cash and investments as of June 30, 2018 consist of the following:

Deposits with financial institutions	\$	61,375,984
Investments		<u>100,364,552</u>
Total cash and investments	<u>\$</u>	<u>161,740,536</u>

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**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 Treasurer is authorized to delegate this authority as deemed appropriate. No person may engage in investment transactions except as provided under the terms of the Investment Policy and the procedures established by the Treasurer.

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

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

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

**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.

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

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

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

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond 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 its Agencies	None	None	None	None
Certain Asset-Backed Securities	None	None	None	AA
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 year	None	None	None
Commercial Paper	None	None	None	P-1
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	\$50 million	None
Investment Contracts	None	None	None	None

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Disclosure Relating to Interest Rate Risk**

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

Investment Type	Fair Value as of June 30, 2018	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
Money Market Funds	\$ 99,765,292	\$ 99,765,292	\$ -	\$ -	99.4%
Local Agency Investment Fund	599,260	599,260	-	-	0.6%
<b>Total investments</b>	<b>\$ 100,364,552</b>	<b>\$ 100,364,552</b>	<b>\$ -</b>	<b>\$ -</b>	<b>100.0%</b>

**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, 2018	% of Total
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 61,375,984	37.9%
Local Agency Investment Fund	Not Rated	Not Rated	599,260	0.4%
<b>Total in custody of Treasurer</b>			<b>61,975,244</b>	<b>38.3%</b>
In custody of Trustee:				
Investments held by Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	99,765,292	61.7%
<b>Total in custody of Trustee</b>			<b>99,765,292</b>	<b>61.7%</b>
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 161,740,536</b>	<b>100.0%</b>



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

**Concentration of Credit Risk**

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2018, there were no investments held by the VPU that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

**Custodial Credit Risk**

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

At year-end, the carrying amount of the VPU's deposits was \$61,375,984 and the bank balance was \$61,389,296. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2018, none of the VPU's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$61,139,296 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

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

**Local Agency Investment Fund (LAIF)**

The VPU also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$599,260 at June 30, 2018. 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, 2018 was \$35.34 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$88.82 billion at June 30, 2018. Of this amount, 1.89% 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, 2018. LAIF does not maintain a credit rating.

**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	\$ 99,765,292	\$ 99,765,292
Total	99,765,292	<u>\$ 99,765,292</u>
Uncategorized:		
Local Agency Investment Fund	599,260	
Total investments measured at fair value	<u>\$ 100,364,552</u>	

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**NOTE 3 – ACCOUNTS RECEIVABLES**

The VPU’s accounts receivables at June 30, 2018 are as follows:

Accounts receivables	\$ 12,812,773
Less: Allowances for uncollectible accounts	<u>(1,088,000)</u>
Total receivables, net	<u><u>\$ 11,724,773</u></u>

**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, 2018:

**Advances to City**

Advances to City, July 1, 2017	\$ 12,934,831
Payments from City	<u>(322,410)</u>
Advances to City, June 30, 2018	<u><u>\$ 12,612,421</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, 2018 were \$3,018,677.

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**NOTE 4 – RELATED PARTY TRANSACTIONS (CONTINUED)**

**Transfers from (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 \$4,239,557 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, 2018, the VPU received a net transfer in of \$8,251,028 as shown below. The \$22,595,532 received from the City was RDA 2005 Series excess bond proceeds restricted to be used for governmental purpose capital assets, which the City chose to allocate towards VPU capital assets.

General fund transfer in	\$ 22,595,532
In lieu of franchise tax transfer out	(4,239,557)
Excess revenue operating transfer out	<u>(10,104,947)</u>
Total	<u><u>\$ 8,251,028</u></u>

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**NOTE 5 – CAPITAL ASSETS**

Capital asset activity of the VPU for the fiscal year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Reclassification	Balance June 30, 2018
<b><u>Business-type activities:</u></b>					
<i>Capital assets, not being depreciated:</i>					
Land - Electric	\$ 9,276,596	\$ -	\$ (5,036,467)	\$ -	\$ 4,240,129
Land - Water	467,640	-	-	-	467,640
Intangibles - Environmental credits - Electric	1,197,988	-	-	-	1,197,988
Construction in Progress - Electric	54,707,485	-	(155,446)	(88,666)	54,463,373
Construction in Progress - Water	765,010	163,701	(2,309)	-	926,402
Total capital assets, not being depreciated	<u>66,414,719</u>	<u>163,701</u>	<u>(5,194,222)</u>	<u>(88,666)</u>	<u>61,295,532</u>
<i>Capital assets, being depreciated</i>					
Production Plant - Electric	16,189,303	-	-	-	16,189,303
Transmission Plant - Electric	4,888,113	-	-	-	4,888,113
Distribution Plant - Electric	199,851,044	15,720,941	-	88,666	215,660,651
General Plant - Electric	8,736,892	415,200	-	-	9,152,092
Water Utility Plant	20,500,613	-	-	-	20,500,613
Gas Utility Plant	26,269,561	76,699	-	-	26,346,260
Fiber Optic Utility Plant	4,095,028	29,972	-	-	4,125,000
Total capital assets, being depreciated	<u>280,530,554</u>	<u>16,242,812</u>	<u>-</u>	<u>88,666</u>	<u>296,862,032</u>
Less accumulated depreciation for:					
Production Plant - Electric	(8,911,346)	(461,537)	-	-	(9,372,883)
Transmission Plant - Electric	(3,050,327)	(95,726)	-	-	(3,146,053)
Distribution Plant - Electric	(74,500,343)	(6,106,183)	-	-	(80,606,526)
General Plant - Electric	(4,398,972)	(395,673)	-	-	(4,794,645)
Water Utility Plant	(14,273,751)	(350,695)	-	-	(14,624,446)
Gas Utility Plant	(8,213,830)	(756,278)	-	-	(8,970,108)
Fiber Optic Utility Plant	(2,302,522)	(224,598)	-	-	(2,527,120)
Total accumulated depreciation	<u>(115,651,091)</u>	<u>(8,390,690)</u>	<u>-</u>	<u>-</u>	<u>(124,041,781)</u>
Total capital assets, being depreciated, net					
Production Plant - Electric	7,277,957	(461,537)	-	-	6,816,420
Transmission Plant - Electric	1,837,786	(95,726)	-	-	1,742,060
Distribution Plant - Electric	125,350,701	9,614,758	-	88,666	135,054,125
General Plant - Electric	4,337,920	19,527	-	-	4,357,447
Water Utility Plant	6,226,862	(350,695)	-	-	5,876,167
Gas Utility Plant	18,055,731	(679,579)	-	-	17,376,152
Fiber Optic Utility Plant	1,792,506	(194,626)	-	-	1,597,880
Total	<u>164,879,463</u>	<u>7,852,122</u>	<u>-</u>	<u>88,666</u>	<u>172,820,251</u>
Business-type activities capital assets, net	<u>\$231,294,182</u>	<u>\$ 8,015,823</u>	<u>\$ (5,194,222)</u>	<u>\$ -</u>	<u>\$234,115,783</u>

**Depreciation**

The VPU's total depreciation expense for the year was \$8,390,690, broken down as follows.

Electric Fund	\$ 7,059,119
Gas Fund	756,278
Water Fund	350,695
Fiber Optics Fund	224,598
Total depreciation expense - business-type functions	<u>\$ 8,390,690</u>

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

The City hired a professional firm to perform an inventory and a valuation of the City's utility infrastructure assets in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, to determine the amount of unreported utility infrastructure assets and to prepare a complete infrastructure asset listing to be maintained by the City. The valuation is on-going. While management expects the amount to be significant, management is unable to determine the estimated amount of unreported utility infrastructure assets as of June 30, 2018.

**NOTE 6 – LONG-TERM OBLIGATIONS**

There was no new bond issued during fiscal year 2018. As of June 30, 2018, outstanding debt obligations consisted of the following:

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

At June 30, 2018, \$40,980,000 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 \$88,746,569, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,975,935 and \$172,227,536, 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, 2018, \$116,575,000 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 \$128,410,803, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$31,994,575 and \$172,227,536, 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.

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

**\$37,640,000 Electric System Revenue Bonds (2012 Series A)**

At June 30, 2018, \$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 \$77,194,408, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$172,227,536, 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.

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

At June 30, 2018, \$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 \$49,874,414, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$172,227,536, 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, 2018, \$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 \$144,490,085, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$5,087,518 and \$172,227,536, 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.

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**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, 2018</u>
<b>City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A</b>	07/01/38	7.400% - 8.590%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 40,980,000
<b>City of Vernon Electric System Revenue Bonds, 2009 Series A</b>	08/01/21	5.125%	To begin 08/01/09: \$5,000,000 - \$44,895,000	419,400,000	116,575,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Series A</b>	08/01/41	5.000% - 5.500%	To begin 08/01/27: \$1,075,000 - \$7,120,000	37,640,000	37,640,000
<b>City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B</b>	08/01/26	6.250% - 6.500%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
<b>City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A</b>	08/01/26	4.050% - 4.850%	To begin 08/01/23: \$15,295,000 - \$22,540,000	\$ 111,720,000	\$ 111,720,000
<b>Premium</b>					155,524
<b>Discounts</b>					(4,523,616)
<b>Total Revenue Bonds</b>				<u>\$ 647,625,000</u>	<u>\$ 337,646,908</u>

As of June 30, 2018, 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*
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	1,025,000	3,211,157
2024-2028	6,700,000	14,495,629
2029-2033	10,290,000	10,899,424
2034-2038	15,815,000	5,374,976
2039	4,065,000	174,592
<b>Total requirements</b>	<u>\$ 40,980,000</u>	<u>\$ 47,766,569</u>



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

\*As of June 30, 2018, 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*
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>\$ 116,575,000</u>	<u>\$ 11,835,803</u>

\*As of June 30, 2018, 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*
2019	\$ -	\$ 2,031,394
2020	-	2,031,394
2021	-	2,031,394
2022	-	2,031,394
2023	-	2,031,394
2024-2028	1,075,000	10,130,095
2029-2033	6,270,000	9,132,888
2034-2038	8,140,000	7,258,094
2039-2042	22,155,000	2,876,362
	<u>\$ 37,640,000</u>	<u>\$ 39,554,408</u>

\*As of June 30, 2018, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 5.000% to 5.500%.

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Taxable Series B	
	Principal	Interest*
2019	\$ -	\$ 2,222,900
2020	-	2,222,900
2021	-	2,222,900
2022	-	2,222,900
2023	6,165,000	2,030,244
2024-2027	28,935,000	3,852,570
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 14,774,414</u>

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

\*As of June 30, 2018, 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*
2019	\$ -	\$ 5,087,518
2020	-	5,087,518
2021	-	5,087,518
2022	-	5,087,518
2023	22,540,000	4,580,368
2024-2027	89,180,000	7,839,647
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 32,770,085</u>

\*As of June 30, 2018, 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, 2018:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Bonds payable	\$ 367,830,000	\$ -	\$ (25,815,000)	\$ 342,015,000	\$ 29,305,000
Bond premium	162,237	-	(6,713)	155,524	6,713
Bond discount	(5,285,204)	-	761,588	(4,523,616)	(761,588)
Postemployment benefit liability	3,364,135	521,732	1,608	3,887,475	-
Compensated absences	802,878	409,004	(267,626)	944,256	314,752
Net pension liability	14,675,830	5,491,216	(3,114,767)	17,052,279	-
	<u>\$ 381,549,876</u>	<u>\$ 6,421,952</u>	<u>\$ (28,440,910)</u>	<u>\$ 359,530,918</u>	<u>\$ 28,864,877</u>

**Credit Ratings**

Moody's Baa3 ratings on all Electric System Revenue Bonds of the City has not changed from the prior year. On April 3, 2019, S&P revised its rating from A- to BBB+.

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**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 2018 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	\$ 50	\$1,000 SIR per occurrence
Property Insurance	\$241,000	\$ various up to \$500
Employee Dishonest – Crime	\$ 1,000	\$ 25
Pollution – Site Owned	\$ 5,000	\$ 25
Pollution – Haulers	\$ 5,000	\$ 25

The insurance limits for fiscal year 2018 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	\$ 50	\$1,000 SIR per occurrence
Property Insurance	\$241,000	\$ various up to \$500
Employee Dishonest – Crime	\$ 1,000	\$ 25
Pollution – Site Owned	\$ 5,000	\$ 25
Pollution – Haulers	\$ 5,000	\$ 25

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

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**NOTE 8 – PENSION PLAN**

*General Information about the Pension Plans*

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

*Benefits Provided* – Miscellaneous members hired prior to January 1, 2013 with five years of credited service may retire at age 55 based on a benefit factor derived from the 2.7% at 55 Miscellaneous formula or may retire between age 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 based on a benefit factor derived from the 2% at 62 Miscellaneous formula or may retire between age 52 and 61 with reduced retirement benefits. 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, 2018 for more information about the City’s pension plan required note disclosures in accordance with GASB Statement No. 68.

**NOTE 9 – 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).

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

**NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**  
**(CONTINUED)**

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, 2018, 344 employees (263 active employees and 81 retired employees), participated in the OPEB plan.

The City allocates about 11% 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 Annual Financial Report.

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS**

**Asset Sale**

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the "PPTA"). In addition, Bicent has acquired the benefits and burdens of the City's interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences ("CFD"), between Bicent (California) Hoover LLC, a Delaware limited liability company ("BCH") and the City, dated as of April 10, 2008 (the "Hoover Differences Contract"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company ("BCM"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 2018, a deferred gain of \$17,619,222 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).

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Project Commitments**

**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 2018 was \$9,730,666. The City expects no significant increases in costs related to its nuclear resources.

**Power Purchase Commitments**

As of June 30, 2018 under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

<u>Fiscal Year Ending June 30,</u>	<u>Amount*</u>
2019	\$ 34,904,231
2020	34,904,231
2021	34,904,231
2022	34,904,231
2023	27,146,619
	<u>\$ 166,763,543</u>

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

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

**Vernon Public Utilities**

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

**A Segment Information**

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

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Total	Eliminating Entry	Vernon Public Utilities
<b>ASSETS:</b>							
Current assets:							
Cash and investments	\$ 129,561,232	\$ 2,373,287	\$ 1,259,233	\$ 495,404	\$ 133,689,156	\$ -	\$ 133,689,156
Accounts receivable, net of allowances of \$1,088,000	10,144,789	975,057	577,553	27,374	11,724,773	-	11,724,773
Accrued unbilled revenue	9,503,092	689,157	326,745	-	10,518,994	-	10,518,994
Accrued interest receivable	123,026	-	-	-	123,026	-	123,026
Escrow deposits	940,000	-	-	-	940,000	-	940,000
Prepaid natural gas	28,549,572	-	-	-	28,549,572	-	28,549,572
Total current assets	178,821,711	4,037,501	2,163,531	522,778	185,545,521	-	185,545,521
Noncurrent assets:							
Restricted cash and investments	28,051,380	-	-	-	28,051,380	-	28,051,380
Advances to other funds	27,656,458	-	11,311,300	-	38,967,758	(26,355,337)	12,612,421
Prepaid expenses	1,762,641	-	-	-	1,762,641	-	1,762,641
Prepaid natural gas	54,311,074	-	-	-	54,311,074	-	54,311,074
Capital assets:							
Nondepreciable	59,901,490	-	1,394,042	-	61,295,532	-	61,295,532
Depreciable, net	147,970,053	17,376,152	5,876,166	1,597,880	172,820,251	-	172,820,251
Total noncurrent assets	319,653,096	17,376,152	18,581,508	1,597,880	357,208,636	(26,355,337)	330,853,299
Total assets	498,474,807	21,413,653	20,745,039	2,120,658	542,754,157	(26,355,337)	516,398,820
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>							
Current deferred outflows of resources:							
Deferred amount on refunding	2,508,853	-	-	-	2,508,853	-	2,508,853
Noncurrent deferred outflows of resources:							
Deferred outflows related to pensions	2,682,802	281,312	971,876	27,214	3,963,204	-	3,963,204
Deferred outflows related to other postemployment benefit liability	138,836	2,520	124,172	-	265,528	-	265,528
Deferred amount on refunding	5,909,783	-	-	-	5,909,783	-	5,909,783
Total deferred outflows of resources	11,240,274	283,832	1,096,048	27,214	12,647,368	-	12,647,368
<b>LIABILITIES:</b>							
Current liabilities:							
Accounts payable	9,653,697	1,592,495	650,107	13,881	11,910,180	-	11,910,180
Accrued wages and benefits	377,382	36,466	103,059	6,100	523,007	-	523,007
Customer deposits	482,577	13,558	292,490	-	788,625	-	788,625
Bond interest payable	8,051,741	-	-	-	8,051,741	-	8,051,741
Bonds payable, net	28,550,125	-	-	-	28,550,125	-	28,550,125
Compensated absences	242,396	12,692	51,441	8,224	314,752	-	314,752
Total current liabilities	47,357,918	1,655,211	1,097,097	28,205	50,138,430	-	50,138,430
Noncurrent liabilities:							
Advances from other funds	-	22,037,611	-	4,317,726	26,355,337	(26,355,337)	-
Bonds payable, net	309,096,783	-	-	-	309,096,783	-	309,096,783
Compensated absences	484,791	25,384	102,881	16,447	629,504	-	629,504
Other postemployment benefit liability	2,333,037	71,824	1,482,614	-	3,887,475	-	3,887,475
Net pension liability	11,622,798	1,201,528	4,100,788	127,165	17,052,279	-	17,052,279
Total noncurrent liabilities	323,537,409	23,336,347	5,686,283	4,461,338	357,021,378	(26,355,337)	330,666,041
Total liabilities	370,895,327	24,991,558	6,783,380	4,489,543	407,159,808	(26,355,337)	380,804,471
<b>DEFERRED INFLOWS OF RESOURCES:</b>							
Current deferred inflows of resources:							
Deferred gain from sale of generation assets	3,687,769	-	-	-	3,687,769	-	3,687,769
Noncurrent deferred inflows of resources:							
Deferred inflows related to pensions	106,567	16,401	71,917	(1,733)	193,152	-	193,152
Deferred inflows related to other postemployment benefit liability	42,949	1,334	23,527	-	67,810	-	67,810
Deferred gain from sale of generation assets	13,931,453	-	-	-	13,931,453	-	13,931,453
Total deferred inflows of resources	17,768,738	17,735	95,444	(1,733)	17,880,184	-	17,880,184
<b>NET POSITION:</b>							
Net investment in capital assets	129,098,635	17,376,102	7,270,207	1,597,880	155,342,824	-	155,342,824
Unrestricted (deficit)	(8,047,619)	(20,687,910)	7,692,056	(3,937,818)	(24,981,291)	-	(24,981,291)
Total net position	\$ 121,051,016	\$ (3,311,808)	\$ 14,962,263	\$ (2,339,938)	\$ 130,361,533	\$ -	\$ 130,361,533



**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
<b>OPERATING REVENUES:</b>					
Charges for services	\$ 172,227,536	\$ 39,834,679	\$ 9,392,814	\$ 638,873	\$ 222,093,902
Total operating revenues	<u>172,227,536</u>	<u>39,834,679</u>	<u>9,392,814</u>	<u>638,873</u>	<u>222,093,902</u>
<b>OPERATING EXPENSES:</b>					
Cost of sales	136,363,703	38,556,447	7,861,103	360,900	183,142,153
Depreciation	7,059,119	756,278	350,695	224,598	8,390,690
Total operating expenses	<u>143,422,822</u>	<u>39,312,725</u>	<u>8,211,798</u>	<u>585,498</u>	<u>191,532,843</u>
Operating income	<u>28,804,714</u>	<u>521,954</u>	<u>1,181,016</u>	<u>53,375</u>	<u>30,561,059</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>					
Investment income	1,151,127	1,430	1,796	-	1,154,353
Net increase in fair value of investments	19,980	-	-	-	19,980
Interest expense	(22,209,504)	-	-	-	(22,209,504)
Gain on sale of assets	792,378	-	-	-	792,378
Legal settlement	329,385	-	-	-	329,385
Total nonoperating revenue (expenses), net	<u>(19,916,634)</u>	<u>1,430</u>	<u>1,796</u>	<u>-</u>	<u>(19,913,408)</u>
Income before transfers	<u>8,888,080</u>	<u>523,384</u>	<u>1,182,812</u>	<u>53,375</u>	<u>10,647,651</u>
<b>TRANSFERS:</b>					
Transfers from the Successor Agency	22,595,532	-	-	-	22,595,532
Transfers out	(14,344,504)	-	-	-	(14,344,504)
Net transfers	<u>8,251,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,251,028</u>
Change in net position	17,139,108	523,384	1,182,812	53,375	18,898,679
Net position, beginning of the year, as restated	<u>103,911,908</u>	<u>(3,835,192)</u>	<u>13,779,451</u>	<u>(2,393,313)</u>	<u>111,462,854</u>
Net position, end of the year	<u>\$ 121,051,016</u>	<u>\$ (3,311,808)</u>	<u>\$ 14,962,263</u>	<u>\$ (2,339,938)</u>	<u>\$ 130,361,533</u>

**CITY OF VERNON, CALIFORNIA**  
**VERNON PUBLIC UTILITIES**  
**Notes to Basic Financial Statements**  
**June 30, 2018**

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

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
<b>Cash flows from operating activities:</b>					
Cash received from customers	\$ 198,527,002	\$ 40,054,403	\$ 9,164,968	\$ 630,568	\$ 248,376,941
Cash paid to suppliers for goods and services	(130,018,007)	(38,192,692)	(4,197,361)	(180,155)	(172,588,215)
Cash paid to employees for services	(6,199,885)	(791,680)	(2,346,940)	(151,571)	(9,490,076)
Net cash provided by operating activities	<u>62,309,110</u>	<u>1,070,031</u>	<u>2,620,667</u>	<u>298,842</u>	<u>66,298,650</u>
<b>Cash flows from noncapital financing activities:</b>					
Transfers from the Successor Agency	22,595,532	-	-	-	22,595,532
Transfers to the General Fund of the City	(14,344,504)	-	-	-	(14,344,504)
Advance (from) to City	(518,887)	1,198,328	(333,849)	(23,182)	322,410
Collection of note receivable	125,416	-	-	-	125,416
Net cash provided by (used in) noncapital financing activities	<u>7,857,557</u>	<u>1,198,328</u>	<u>(333,849)</u>	<u>(23,182)</u>	<u>8,698,854</u>
<b>Cash flows from capital and related financing activities:</b>					
Repayment of bonds	(25,815,000)	-	-	-	(25,815,000)
Bond interest paid	(22,761,049)	-	-	-	(22,761,049)
Sale of land	5,828,846	-	-	-	5,828,846
Acquisition and construction of capital assets, net	(15,768,872)	(72,765)	(449,470)	(33,482)	(16,324,589)
Net cash used in capital and related financing activities	<u>(58,516,075)</u>	<u>(72,765)</u>	<u>(449,470)</u>	<u>(33,482)</u>	<u>(59,071,792)</u>
<b>Cash flows from investing activities:</b>					
Purchases and sales of investments, net	2,629,958	176,430	(579,911)	22,502	2,248,979
Investment income	1,028,101	1,430	1,796	-	1,031,327
Net cash provided by (used in) investing activities	<u>3,658,059</u>	<u>177,860</u>	<u>(578,115)</u>	<u>22,502</u>	<u>3,280,306</u>
Net increase in cash and cash equivalents	15,308,651	2,373,454	1,259,233	264,680	19,206,018
Cash and cash equivalents, beginning of year	142,903,221	(167)	-	230,724	143,133,778
Cash and cash equivalents, end of year	<u>\$ 158,211,872</u>	<u>\$ 2,373,287</u>	<u>\$ 1,259,233</u>	<u>\$ 495,404</u>	<u>\$ 162,339,796</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 28,804,714	\$ 521,954	\$ 1,181,016	\$ 53,375	\$ 30,561,059
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	7,059,119	756,278	350,695	224,598	8,390,690
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	(5,501,162)	919,880	(25,161)	(6,743)	(4,613,186)
Accrued unbilled revenue	1,221,410	(689,157)	(52,628)	-	479,625
Accrued interest receivable	(123,026)	-	-	-	(123,026)
Prepaid expenses and deposits	(125,363)	-	-	-	(125,363)
Prepaid natural gas	28,549,572	-	-	-	28,549,572
Deferred outflows of resources	2,278,035	(10,999)	(150,057)	(1,562)	2,115,417
Increase (decrease) in:					
Accounts payable	3,645,496	(414,800)	282,454	12,555	3,525,705
Accrued wages and benefits	377,382	36,466	103,059	6,100	523,007
Customer deposits	10,420	-	(150,344)	-	(139,924)
Compensated absences	100,001	(4,619)	35,289	10,707	141,378
Other postemployment benefit liability	60,496	(167,492)	652,837	(22,501)	523,340
Net pension liability	1,708,979	157,528	480,937	29,005	2,376,449
Deferred inflows of resources	(5,756,963)	(35,008)	(87,430)	(6,692)	(5,886,093)
Net cash provided by operating activities	<u>\$ 62,309,110</u>	<u>\$ 1,070,031</u>	<u>\$ 2,620,667</u>	<u>\$ 298,842</u>	<u>\$ 66,298,650</u>
<b>Reconciliation of cash and cash equivalents to Statement of Net Position:</b>					
Cash and investments	\$ 129,561,232	\$ 2,373,287	\$ 1,259,233	\$ 495,404	\$ 133,689,156
Noncurrent restricted cash and investments	28,051,380	-	-	-	28,051,380
Total	157,612,612	2,373,287	1,259,233	495,404	161,740,536
Add: LAIF	599,260	-	-	-	599,260
Total cash and cash equivalents	<u>\$ 158,211,872</u>	<u>\$ 2,373,287</u>	<u>\$ 1,259,233</u>	<u>\$ 495,404</u>	<u>\$ 162,339,796</u>
<b>Noncash Capital, Investing and Financing Activities:</b>					
Acquisition of capital assets in accounts payable	\$ 473,014	\$ 90,259	\$ 16,684	\$ 5,172	\$ 585,129
Increase in fair value of investments	19,980	-	-	-	19,980

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

**NOTE 10 – VERNON PUBLIC UTILITIES OPERATIONS 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 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 ADJSUTMENTS**

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

Net position at June 30, 2017, as previously reported	\$ 111,741,957
Prior period adjustment:	
Adjustment to reflect VPU's share in the City's net OPEB obligation	<u>(279,103)</u>
Net position at June 30, 2017, as restated	<u>\$ 111,462,854</u>

**NOTE 13 – SUBSEQUENT EVENTS**

The VPU has evaluated events or transactions that occurred subsequent to the balance sheet date through April 24, 2019, 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 April 3, 2019, S&P lowered its long-term rating and underlying rating to “BBB+” from “A-“ on Vernon, California’s previously issued electric system revenue bonds, issued on behalf of Vernon Public Utilities (VPU; formerly Vernon Light and Power).