

City of Vernon, California
Annual Financial Report
As of and For the Fiscal Year Ended June 30, 2019

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City of Vernon, California
Finance Department

March 17, 2020
To the Honorable Mayor and City Council
Vernon, California

In accordance with the Charter of the City of Vernon (City), please accept submission of the Annual Financial Report for the fiscal year ended June 30, 2019. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the City. We believe the data included is accurate in all material aspects, and is presented in a manner designed to fairly set forth the financial position and operational achievements of the City, as measured by the financial activity of its various funds. In addition, all disclosures necessary to enable the reader to gain a maximum understanding of the City's financial activities have been included.

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

ECONOMIC CONDITION AND OUTLOOK

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

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

Vernon is a key contributor to the diverse Los Angeles County economy. After several years of slow and steady growth, the economy is finally shifting into a higher gear as it continues to recover from the Impact of the most recent recession. Job growth is contributing to the flourishing local economy, as well as at the state and national levels. Vernon is largely industrial and does not maintain an unemployment rate tally of its small population. However, the unemployment rate of adjacent communities is currently 4.1%, which is slightly lower than the State of California's average unemployment rate of 4.2%, and the national average unemployment rate of 3.7%. The occupancy rate of the City 's central business district ranges between 96% and 98%.

The City will continue to build on the successes and achievements realized in the current year and remains committed to serving its customers. The City's main revenue sources consisting of utilities fees, property and parcel taxes, business license taxes, and sales and use tax, have all sustained steady growth this year. As the City moves into fiscal year 2020, we are optimistic about continued growth but will remain attentive to the prevailing economic climate and mindful of managing enhanced services within the limits of our adopted budget.

Additionally, the City continues to make strides in developing its community relationships. With seasonal community outreach events, it is connecting with Vernon residents and those residents in neighboring communities in the southeast region. The City has begun circulating a Resident Newsletter and is also active on its social media platforms, focusing on dissemination of information that is relevant to the community, ensuring that its population is well-informed on City matters. By forging these connections with community members, the City is confident that the bi-directional conversations that result will allow it to better serve the needs of its constituents.

Vernon's Fashionable Business Resources

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

Powering Business Competitiveness

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

The electric utility provides businesses reliable and competitive electrical services. The electric utility has operated for more than 80 years. Its electrical power and distribution system helps guarantee uninterrupted electrical service for Vernon's businesses. Electricity costs for large businesses are comparable and less than power costs from competing utility providers in the Los Angeles region, depending on the customer type and service being provided.

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

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

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

Safeguarding the Environment

Vernon is one of four cities in the State of California with a health department. Vernon's Health and Environmental Control Department regulates industrial operations conducted in the City.

Since Vernon maintains a municipal health authority, local businesses are able to deal directly with the City health department officials to address important environmental issues, which help businesses streamline the monitoring and enforcement of health-related Federal laws, and State, LA County and Municipal ordinances, rules and regulations.

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

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

Public Safety

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

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

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

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

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

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

MAJOR INITIATIVES

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

1. Vernon is very committed to meeting its debt service coverages. In order to address the budget deficit historically present in the General Fund, the City placed on the ballot a measure to increase the Utility Users Tax from 1% to 6% which passed in April 2019. The passage of this measure will effectively eliminate operating transfers from its enterprise activities to the General Fund. To minimize the burden on the business community, an equivalent discount has been provided to Vernon's electric, gas, water, and fiber optics utility customers.
2. Vernon has the capacity to expand its services as new businesses emerge and as existing businesses flourish and expand. An attractive, business friendly approach is extended to customers in the form of discounts that are available for large electricity consumers. Revenue sharing mechanisms have also been implemented to help stimulate both growth and retention. The City's Good Governance and Reform initiatives provide a tangible demonstration of the overarching commitment to sound governance and best business practices.
3. Vernon is a party to a long-term pre-paid natural gas agreement with Citigroup Energy, Inc. ("CEI"), which obligates Vernon to take natural gas for 15 years (from 2006 to 2021). At the end of 2015, the credit rating of Citigroup, Inc., CEI's parent and guarantor under the pre-paid agreement ("Citigroup"), was downgraded. Vernon believed this downgrade triggered a credit support obligation under the agreement. CEI and Citigroup disagreed. In March 2016, the City brought an action for declaratory relief in federal district court against, among others, Citigroup and CEI, alleging that the defendants had breached the pre-paid agreement. In August 2016, the parties entered into a confidential settlement agreement and ended the litigation. Under the terms of the settlement agreement, Vernon does not believe it has any exposure under the pre-paid agreement should either CEI or Citigroup fail to perform.
4. Based upon the City's electric debt service schedule, there will be a significant reduction in debt service starting in 2027. With input from business and residential communities, the City continues to evaluate its position and initiatives to ensure that electric rates remain competitive and that infrastructure needs are being addressed.
5. The inherent governance challenges in the City, due to a very small residential population, continues to be addressed by its residents, businesses, Chamber of Commerce, and City Council. Over the past 5 years, the public has become much more engaged in the political process and continues to keep a watchful eye on all important issues facing the City. The disincorporation controversy raised by assembly bill 46 in 2011 has been addressed with the whole-hearted adoption of key reforms and comprehensive implementation of best practices in all City operations.
6. The State of California Joint Legislative Audit Committee (JLAC) is no longer pursuing the disincorporation of the City. Vernon has addressed all outstanding JLAC recommendations effective July 2018. Emphatically committed to good governance and transparency, the City is proud of its success in satisfying each reform that JLAC recommended. As a result, the City moves forward with clear, concise, and comprehensive policies and procedures that uphold best practices.
7. The shutdown of the Exide recycled battery plant operation has been and will continue to be under State of California oversight. The Department of Toxic Substances Control is completely responsible for monitoring the site and all related cleanup on a continual basis. The State of California has established funding for the Exide plant cleanup effort collected through a fee on each battery recycled along with any restitution from Exide which remains a global company. There is no direct impact on City operations and Exide does not pose a concern to existing Vernon businesses.

8. Vernon's electric rates remain competitive, and in many cases, lower than adjacent municipal and investor owned utilities. However, in many respects, Vernon's electric utility services continue to outperform its neighboring peers thanks to a higher reliability rating and greater customer satisfaction. In fact, VPU's electric reliability ranked in the top 10% nationwide in a recent benchmarking study.

FINANCIAL INFORMATION

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

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

BUDGETARY CONTROLS

The City maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of all governmental funds and proprietary funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level.

RELEVANT FINANCIAL POLICIES

Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2019, the City's overall total net position was \$195.0 million. This consisted of a positive governmental net position of \$57.6 million and business-type net position of \$137.4 million. By continuing to develop sound fiscal management plans, the City intends to maintain an overall positive net position.

ACKNOWLEDGMENTS

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

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

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Scott Williams". The signature is written in a cursive, flowing style.

Scott Williams
Director of Finance/City Treasurer

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 23 and budgetary comparison information and funded status of pension and other postemployment benefits plans on pages 78 through 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Glendale, California
March 17, 2020

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

Government-wide financial statements

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

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

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

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

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

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

Fund financial statements

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

Governmental funds

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (see page 78).

The basic governmental funds financial statements can be found on pages 26 and 28 of this report.

Proprietary funds

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Vernon Public Utilities. Segment information for each of the Electric, Gas, Water, and Fiber Optics utilities are presented in Note 10 on pages 71-73 of this report.

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

Fiduciary funds

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

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

Notes to the basic financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-77 of this report.

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City's Net Position

The table below summarizes the City's net position as of June 30, 2019 and June 30, 2018. The details of the current year's summary can be found on page 24 of this report.

City of Vernon						
Net Position						
June 30, 2019 and 2018						
	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 11,001,905	\$ 10,888,031	\$ 212,597,000	\$ 241,619,236	\$ 223,598,905	\$ 252,507,267
Restricted assets	3,695,552	3,925,089	31,106,314	28,051,380	34,801,866	31,976,469
Capital assets	175,880,286	179,158,883	242,783,498	234,115,783	418,663,784	413,274,666
Total assets	<u>190,577,743</u>	<u>193,972,003</u>	<u>486,486,812</u>	<u>503,786,399</u>	<u>677,064,555</u>	<u>697,758,402</u>
Deferred Outflows of Resources						
Deferred amount on bond refunding	-	-	5,909,784	8,418,636	5,909,784	8,418,636
Deferred outflows related to pensions	15,896,807	21,317,660	2,774,609	3,963,204	18,671,416	25,280,864
Deferred outflows related to other postemployment benefits	2,575,681	1,831,287	449,556	265,528	3,025,237	2,096,815
Total deferred outflows of resources	<u>18,472,488</u>	<u>23,148,947</u>	<u>9,133,949</u>	<u>12,647,368</u>	<u>27,606,437</u>	<u>35,796,315</u>
Liabilities:						
Current liabilities	6,820,416	7,916,237	51,531,994	50,138,430	58,352,410	58,054,667
Long-term liabilities	132,557,372	145,297,301	290,674,282	318,053,620	423,231,654	463,350,921
Total liabilities	<u>139,377,788</u>	<u>153,213,538</u>	<u>342,206,276</u>	<u>368,192,050</u>	<u>481,584,064</u>	<u>521,405,588</u>
Deferred Inflows of Resources						
Deferred inflows related to pensions	1,078,681	902,360	188,271	193,152	1,266,952	1,095,512
Deferred inflows related to other postemployment benefits	10,997,406	608,342	1,919,473	67,810	12,916,879	676,152
Deferred gain from sale of generation assets	-	-	13,931,454	17,619,222	13,931,454	17,619,222
Total deferred inflows of resources	<u>12,076,087</u>	<u>1,510,702</u>	<u>16,039,198</u>	<u>17,880,184</u>	<u>28,115,285</u>	<u>19,390,886</u>
Net Position:						
Net investment in capital assets	173,649,403	176,689,072	164,497,172	155,342,824	338,146,575	332,031,896
Restricted	3,695,552	3,925,089	-	-	3,695,552	3,925,089
Unrestricted (deficit)	<u>(119,748,599)</u>	<u>(118,217,451)</u>	<u>(27,121,885)</u>	<u>(24,981,291)</u>	<u>(146,870,484)</u>	<u>(143,198,742)</u>
Total net position	<u>\$ 57,596,356</u>	<u>\$ 62,396,710</u>	<u>\$ 137,375,287</u>	<u>\$ 130,361,533</u>	<u>\$ 194,971,643</u>	<u>\$ 192,758,243</u>

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$194,971,643 (*net position*).

The category of the City's net position with the largest balance totaling \$338,146,575 (173.4%) represents resources that are invested in capital assets, net of the related debt.

The second-largest category of net position, totaling \$3,695,552 (1.9%) represents the City's restricted assets, which are restricted for grants.

The last remaining category of net position, totaling (\$146,870,484) (-75.3%) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.

Governmental activities, net position:

- Current and other assets increased by \$113,874 from the prior year due to increase in accounts receivable and inventories by \$239,557 and \$180,242, respectively, offset by a decrease of \$305,924 in cash and cash equivalents.
- Restricted assets decreased by \$229,537 from the prior year mainly due to a decrease in restricted cash and investments balance.
- Capital assets decreased by \$3,278,597 from the prior year mainly due to depreciation of \$5,307,919.
- Deferred outflows of resources for pension costs decreased by \$5,420,853 from the prior year mainly due to a change in current year's contribution to the pension that will be applied as a reduction in net pension liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net pension liability.
- Deferred outflows of resources for other postemployment benefits (OPEB) increased by \$744,394 from the prior year due a change in current year contribution to the OPEB plan that will be applied as a reduction in net OPEB liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net OPEB liability.
- Current liabilities decreased by \$1,095,821 from the prior year mainly due to a decrease in accounts payable by \$1,584,367 and the current portion of long-term debt by \$257,905 offset by an increase in accrued wages and benefits of \$833,507.
- Long-term liability decreased by \$12,739,929 from the prior year mainly due to decrease in other postemployment benefits liability and advances from other funds by \$12,743,705 and \$3,337,832, respectively, offset by an increase in the net pension liability of \$4,010,785.
- Deferred inflows of resources for pension actuarial increased by \$176,321 from the prior year due to changes in total pension liability that are to be recognized as an increase in pension expenses in future fiscal years. These balances arise from changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the plan's net pension liability.

Governmental activities, net position (continued):

- Deferred inflows of resources for OPEB increased by \$10,389,064 from the prior year mainly due to changes in actuarial assumptions and the difference between actual and expected experience.
- Net investment in capital assets decreased by \$3,039,669 from the prior year which is equivalent to the decrease in capital assets, net of capital lease obligations during the current year.
- Restricted net position decreased by \$229,537 from the prior year mainly due to a decrease in the restricted designation placed on employee flexible spending account, street improvement account, and asset forfeiture account.
- The unrestricted net deficit increased by \$1,531,148 from the prior year mainly due to the current year's change in net position of (\$4,884,632) offset by an increase in net investment in capital assets of \$3,039,669.

Business-type activities, net position:

- Current and other assets decreased by \$29,022,236 from the prior year mainly due to a decrease in prepaid natural gas of \$28,549,572.
- Restricted assets increased by \$3,054,934 from the prior year mainly due to funding of debt service payments for the 2008 bond series that was due on July 1, 2019.
- Capital assets increased by \$8,667,715 from the prior year mainly due to acquisitions of new equipment in the Electric distribution plant of \$16.9 million, offset by depreciation of \$8,745,659. (See Note 5).
- Deferred outflows of resources related to bond refunding decreased by \$2,508,852 from the prior year due to amortization to interest expense during the current year (See Note 6).
- Deferred outflows of resources related to pensions decreased by \$1,188,595 from the prior year mainly due to a change in current year's contribution to the pension that will be applied as a reduction in net pension liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net pension liability.

Business-type activities, net position (continued):

- Deferred outflows of resources related to other postemployment benefits increased by \$184,028 due to a change in the current year contribution to the OPEB plan that will be applied as a reduction in net OPEB liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net OPEB liability.
- Current liabilities increased \$1,393,564 mainly due to an increase in accounts payable by \$1,160,662.
- Long-term liabilities decreased by \$27,379,338 from the prior year due to debt service and amortization of bond premium and discounts (see Note 6).
- Deferred inflows of resources related to pension decreased by \$4,881 from the prior year due to changes in total pension liability that are to be recognized as an increase in pension expenses in future fiscal years. These balances arise from changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the plan's net pension liability.
- Deferred inflows of resources related to OPEB increased by \$1,851,663 due to the changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the OPEB liability.
- Deferred inflows of resources for deferred gain from the sale of generation assets decreased by \$3,687,768 from the prior year due to amortization to capacity expense during the current year.
- Net investment in capital assets increased by \$9,154,348 from the prior year which is equivalent to the increase in capital assets, net of capital bonds payable.
- The unrestricted net deficit increased by \$2,140,594 from the prior year due primarily to an increase in the change in net position by \$7,013,754 offset by the increase in net investment in capital assets by \$9,154,348.

City of Vernon, California
Management's Discussion and Analysis (Unaudited)
June 30, 2019

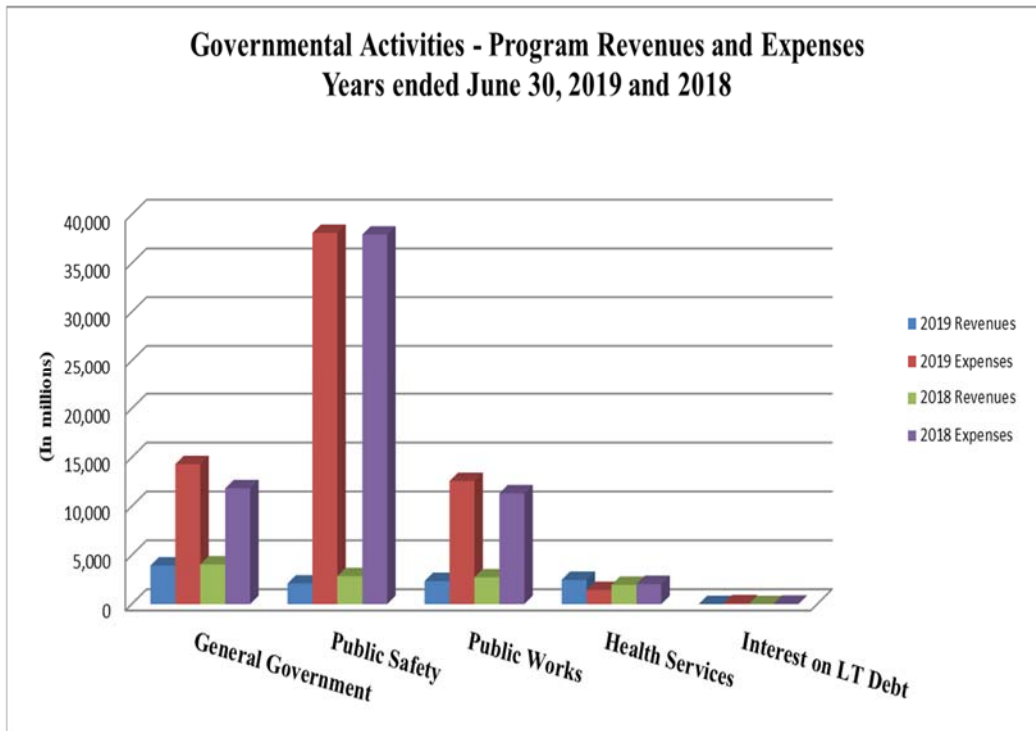
Changes in Net Position

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

City of Vernon						
Changes in Net Position						
Years ended June 30, 2019 and 2018						
	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 9,321,096	\$ 9,152,207	\$ -	\$ -	\$ 9,321,096	\$ 9,152,207
Vernon public utilities			205,478,963	222,093,902	205,478,963	222,093,902
Operating and capital grants and contributions	1,551,785	2,445,648	-	-	1,551,785	2,445,648
General revenues						
Taxes	36,043,727	26,099,844	-	-	36,043,727	26,099,844
State allocations	8,794,423	7,639,092	-	-	8,794,423	7,639,092
Investment income (loss)	101,082	22,456	1,555,944	1,174,333	1,657,026	1,196,789
Gain (loss) on the sale of land and assets	1,519	596,803	12,824	792,378	14,343	1,389,181
Other revenues	1,343,779	683,753	-	329,385	1,343,779	1,013,138
Total revenues	<u>57,157,411</u>	<u>46,639,803</u>	<u>207,047,731</u>	<u>224,389,998</u>	<u>264,205,142</u>	<u>271,029,801</u>
Expenses:						
Governmental activities						
General government	14,311,593	13,838,940	-	-	14,311,593	13,838,940
Public safety	38,115,862	37,948,209	-	-	38,115,862	37,948,209
Public works	12,582,806	11,329,781	-	-	12,582,806	11,329,781
Health services	1,435,301	2,053,574	-	-	1,435,301	2,053,574
Interest on long-term debt	84,278	40,971	-	-	84,278	40,971
Business-type activities						
Vernon public utilities	-	-	195,461,902	213,742,347	195,461,902	213,742,347
Total expenses	<u>66,529,840</u>	<u>65,211,475</u>	<u>195,461,902</u>	<u>213,742,347</u>	<u>261,991,742</u>	<u>278,953,822</u>
Change in net position before transfers	(9,372,429)	(18,571,672)	11,585,829	10,647,651	2,213,400	(7,924,021)
Transfers						
Transfers from the Successor Agency	-	-	-	22,595,532	-	22,595,532
Interfund transfers	4,572,075	14,344,504	(4,572,075)	(14,344,504)	-	-
Net transfers	<u>4,572,075</u>	<u>14,344,504</u>	<u>(4,572,075)</u>	<u>8,251,028</u>	<u>-</u>	<u>22,595,532</u>
Change in net position	(4,800,354)	(4,227,168)	7,013,754	18,898,679	2,213,400	14,671,511
Net position- beginning of year	62,396,710	66,623,878	130,361,533	111,462,854	192,758,243	178,086,732
Net position- end of year	<u>\$ 57,596,356</u>	<u>\$ 62,396,710</u>	<u>\$ 137,375,287</u>	<u>\$ 130,361,533</u>	<u>\$ 194,971,643</u>	<u>\$ 192,758,243</u>

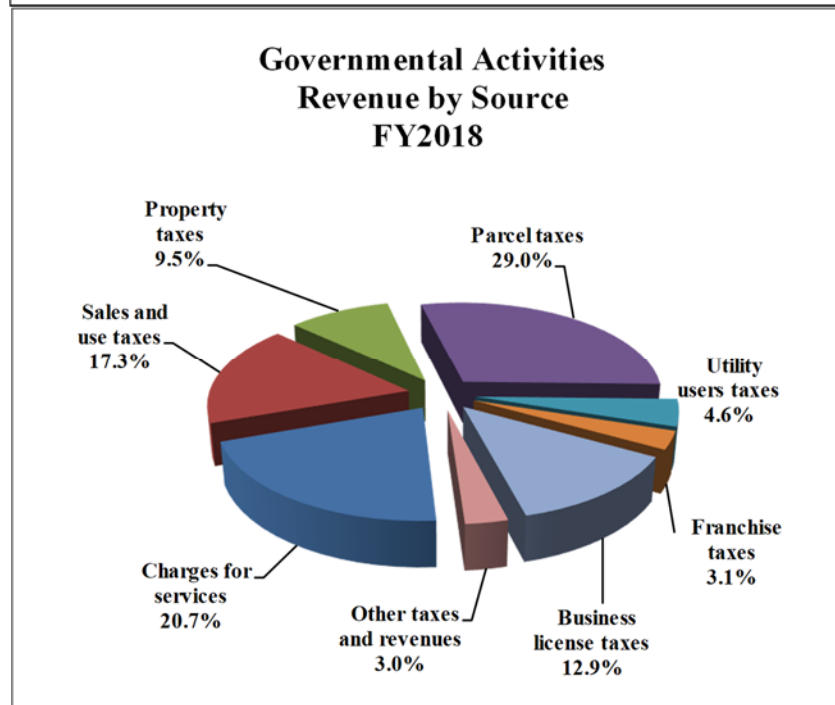
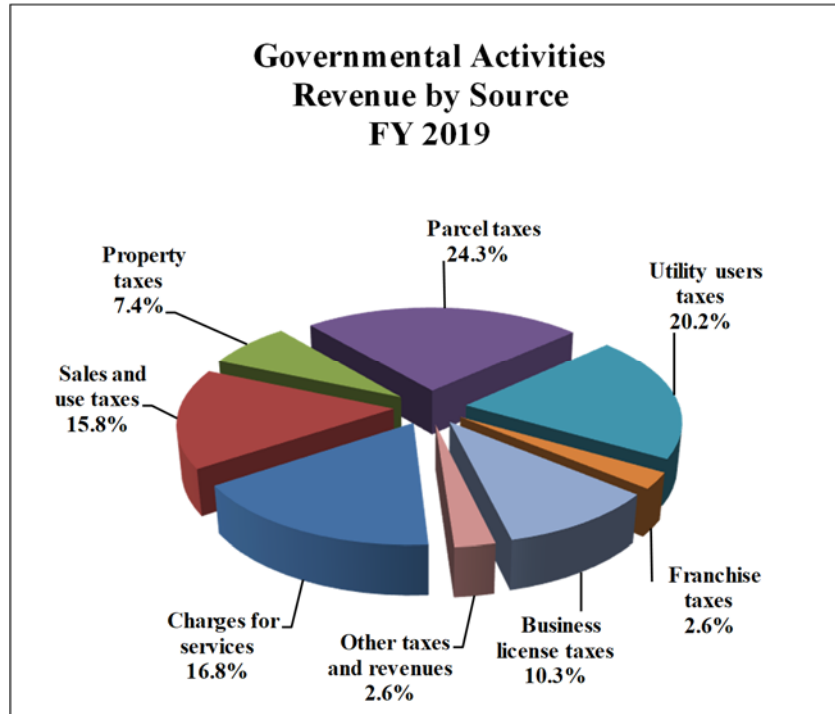
Governmental activities, changes in net position:

Governmental activities' net position decreased by \$4,800,354 and business-type activities' net position increased by \$7,013,754 for a net increase of \$2,213,400 for the City. The decrease in governmental activities is higher by \$573,186 as compared to the prior year's change in the City's net position of \$(4,227,168).



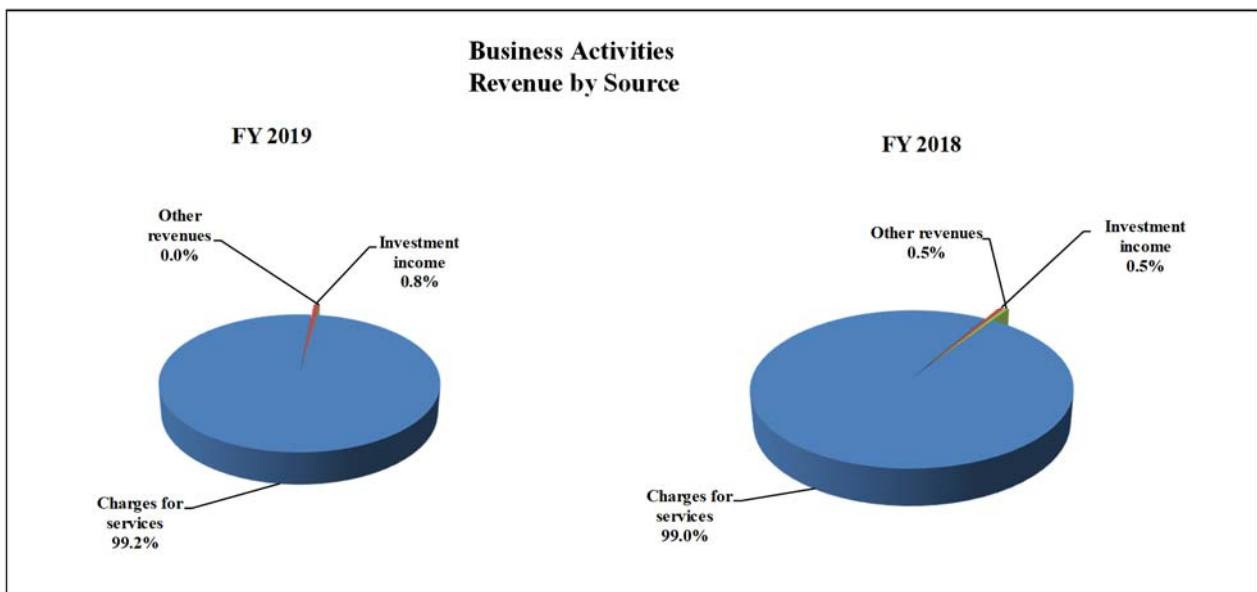
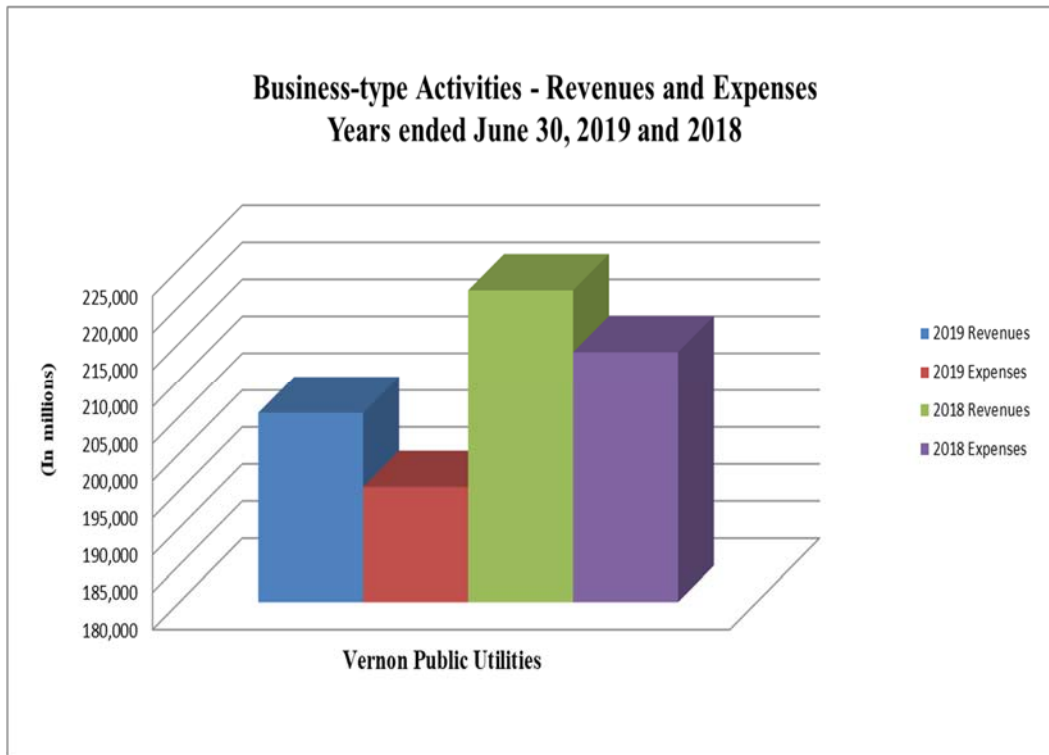
Governmental activities consist of the following departments:

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



Business-type activities, changes in net position:

Business-type activities increased the City's net position by \$11,585,829 before transfers which is a \$938,178 increase from the prior year. The key reason for this increase was due to a decrease in the cost of sales by \$18,280,445 and offset by a decrease in revenues from service charges by \$16,614,939.



FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

Governmental funds

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

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balances of \$1,184,089 (see page 28), an increase of \$3,950,085 from the prior year. Approximately 70.5% of the total fund balance amount, \$834,739, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 312.1% of the total fund balance amount, \$3,695,552, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, (\$3,346,202), is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$1,184,089 (see page 26). At the end of the current fiscal year, the total fund balance represents 2.0% of the total expenditures for the year.

Proprietary funds

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

Unrestricted net position for the Vernon Public Utilities at the end of the year amounted to a deficit balance of \$27,121,885 (see page 30). This deficit balance in unrestricted net position are primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

The total increase in net position for the Vernon Public Utilities was \$7,013,754 (see page 31). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND AND BUDGETARY HIGHLIGHTS

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$5,913,094. The key reasons for this variance were due to higher actual revenues than projected of \$5,320,135 and lower actual expenditures than appropriated by \$945,340.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$5,320,135. The key reasons for this variance were due to higher actual revenues over estimated revenues of \$3,152,158 in service charges and \$1,813,785 in licenses and permits.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$945,340. The key reasons for this variance were due to higher appropriations by \$1,734,816 in public works, \$1,526,116 in capital outlay, \$351,181 in general government and \$317,344 in health services, offset by higher actual expenditures than appropriation of \$2,984,117 in public safety.

For the current year, the General Fund's total negative variance between the final budgeted amounts and the actual amount for other financing sources was \$352,381. The key reason for this variance was the lower amount transferred by the Electric Fund to the General Fund than budgeted by \$353,900.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2019, amounts to \$418,663,784 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utility system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$19,792,991, less sale machinery and equipment of \$316,119, less sale of environmental credits of \$34,117, less depreciation of \$14,053,577, for a net increase of \$5,389,118 (See Note 5).

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

- In the current year, the Vernon Public Utilities added \$8,372,462 to its utility plants (net of accumulated depreciation).

There were no significant construction commitments outstanding as of June 30, 2019.

Additional information on the City's capital assets can be found in Note 5 on pages 50-51 of this report.

Outstanding debt

As of June 30, 2019, the following debt remains outstanding:

- \$40,500,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A
- \$87,750,000 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.

In February 2020, the City Council of the City of Vernon authorized and approved the issuance of Electric Revenue Bonds 2020 Series to refund the Electric System Revenue Bonds, 2009 Series A, Electric System Revenue Bonds, 2012 Taxable Series B and Electric System Revenue Bonds, 2015 Taxable Series A. Also, the City Council authorized and approved the issuance of Water System Revenue Bonds 2020 Series A for an aggregate principal amount not to exceed \$15 million to finance certain capital improvements to its Water System. See Note 14.

As of June 30, 2019, the ratings on all Electric System Revenue Bonds of the City have not changed from the prior year with a BBB+ rating by S&P and Baa3 rating by Moody's.

Additional information on the City's long-term debt can be found in Note 6 on pages 52-57 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the City's budget for the 2020 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 4.1%, which is slightly lower than the State of California's average unemployment rate of 4.2%, and higher than 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 City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

City of Vernon, California
Statement of Net Position
June 30, 2019

	Governmental Activities	Business-type Activities	TOTAL
ASSETS			
Cash and cash equivalents	\$ 7,827,465	\$ 137,810,337	\$ 145,637,802
Accounts receivable, net of allowance	2,339,701	5,782,883	8,122,584
Accrued unbilled revenue	-	11,705,521	11,705,521
Accrued interest receivable	-	161,772	161,772
Escrow deposits	-	940,000	940,000
Inventories	834,739	-	834,739
Prepaid expenses	-	1,885,414	1,885,414
Prepaid natural gas	-	54,311,073	54,311,073
Restricted cash and investments	3,695,552	31,106,314	34,801,866
Capital assets			
Nondepreciable	63,395,599	61,590,785	124,986,384
Depreciable, net	112,484,687	181,192,713	293,677,400
Total assets	190,577,743	486,486,812	677,064,555
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amount on bond refunding	-	5,909,784	5,909,784
Deferred outflows related to pensions	15,896,807	2,774,609	18,671,416
Deferred outflows related to other postemployment benefit liability	2,575,681	449,556	3,025,237
Total deferred outflows of resources	18,472,488	9,133,949	27,606,437
LIABILITIES			
Accounts payable	1,467,338	13,070,842	14,538,180
Accrued wages and benefits	2,461,452	524,916	2,986,368
Customer deposits	161,535	485,889	647,424
Bond interest payable	-	7,426,028	7,426,028
Advances from other funds	9,384,589	(9,384,589)	-
Due to Successor Agency	38,454	-	38,454
Long-term debt:			
Bonds payable- due within one year	-	29,795,127	29,795,127
Bonds payable- due in more than 1 year	-	279,301,654	279,301,654
Compensated absences- due within one year	1,372,971	229,192	1,602,163
Compensated absences- due in more than 1 year	2,745,942	458,385	3,204,327
Capital lease obligation- due within one year	247,074	-	247,074
Capital lease obligation- due in more than 1 year	1,983,809	-	1,983,809
Claims payable- due within one year	1,071,592	-	1,071,592
Claims payable- due in more than 1 year	2,143,183	-	2,143,183
Other postemployment benefit liability	19,667,404	3,432,725	23,100,129
Net pension liability	96,632,445	16,866,107	113,498,552
Total liabilities	139,377,788	342,206,276	481,584,064
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,078,681	188,271	1,266,952
Deferred inflows related to other postemployment benefit liability	10,997,406	1,919,473	12,916,879
Deferred gain from sale of generation assets	-	13,931,454	13,931,454
Total deferred inflows of resources	12,076,087	16,039,198	28,115,285
NET POSITION			
Net investment in capital assets	173,649,403	164,497,172	338,146,575
Restricted for:			
Employee Flexible Spending Account	25,391	-	25,391
Street improvements	2,733,169	-	2,733,169
Asset forfeiture funds	936,992	-	936,992
Unrestricted (deficit)	(119,748,599)	(27,121,885)	(146,870,484)
Total net position	\$ 57,596,356	\$ 137,375,287	\$ 194,971,643

See notes to the basic financial statements.

City of Vernon, California
Statement of Activities
Year Ended June 30, 2019

	Program Revenues				Net (Expenses) Revenues and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
FUNCTION/PROGRAM ACTIVITIES:							
Governmental activities:							
General government	\$ 14,311,593	\$ 3,925,454	\$ 11,900	\$ -	\$ (10,374,239)	\$ -	\$ (10,374,239)
Public safety	38,115,862	910,021	1,193,979	-	(36,011,862)	-	(36,011,862)
Public works	12,582,806	2,010,072	-	345,906	(10,226,828)	-	(10,226,828)
Health services	1,435,301	2,475,549	-	-	1,040,248	-	1,040,248
Interest in long-term debt	84,278	-	-	-	(84,278)	-	(84,278)
Total governmental activities	<u>66,529,840</u>	<u>9,321,096</u>	<u>1,205,879</u>	<u>345,906</u>	<u>(55,656,959)</u>	<u>-</u>	<u>(55,656,959)</u>
Business-type activities:							
Vernon Public Utilities	195,461,902	205,478,963	-	-	-	10,017,061	10,017,061
Total business-type activities	<u>195,461,902</u>	<u>205,478,963</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,017,061</u>	<u>10,017,061</u>
Total	<u>\$ 261,991,742</u>	<u>\$ 214,800,059</u>	<u>\$ 1,205,879</u>	<u>\$ 345,906</u>	<u>(55,656,959)</u>	<u>10,017,061</u>	<u>(45,639,898)</u>
General revenues:							
Property taxes					4,113,120		4,113,120
Parcel taxes					13,535,471		13,535,471
Utility users taxes					11,209,144		11,209,144
Franchise taxes					1,427,398		1,427,398
Business license taxes					5,745,716		5,745,716
Other license taxes					12,878		12,878
Investment income					101,082	1,553,785	1,654,867
Net increase in fair value of investments					-	2,159	2,159
State contribution - sales and use taxes					8,794,423	-	8,794,423
Gain on sale of assets					1,519	12,824	14,343
Other revenues					1,343,779		1,343,779
Transfers					4,572,075	(4,572,075)	-
Total general revenues and transfers					<u>50,856,605</u>	<u>(3,003,307)</u>	<u>47,853,298</u>
Change in net position					(4,800,354)	7,013,754	2,213,400
NET POSITION, BEGINNING OF YEAR					<u>62,396,710</u>	<u>130,361,533</u>	<u>192,758,243</u>
NET POSITION, END OF YEAR					<u>\$ 57,596,356</u>	<u>\$ 137,375,287</u>	<u>\$ 194,971,643</u>

See notes to the basic financial statements.

City of Vernon, California
Balance Sheet
Governmental Fund
June 30, 2019

		<u>General Fund</u>
ASSETS		
Cash and cash equivalents	\$	7,827,465
Accounts receivable		2,339,701
Inventories		834,739
Restricted cash and investments		3,695,552
Total assets	\$	<u><u>14,697,457</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$	1,467,338
Accrued wages and benefits		2,461,452
Customer deposits		161,535
Advances from other funds		9,384,589
Due to Successor Agency		38,454
Total liabilities		<u><u>13,513,368</u></u>
 Fund Balance		
Nospendable:		
Inventories		834,739
Restricted for:		
Employee Flexible Spending Account		25,391
Street improvements		2,733,169
Asset forfeiture funds		936,992
Unassigned		<u>(3,346,202)</u>
Total fund balance		<u>1,184,089</u>
Total liabilities and fund balance	\$	<u><u>14,697,457</u></u>

See notes to the basic financial statements.

City of Vernon, California
Reconciliation of the Governmental Fund Balance Sheet to the
Statement of Net Position – Governmental Activities
June 30, 2019

Fund balance - governmental fund	\$	1,184,089
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		175,880,286
Deferred pension cost are not financial resources and therefore are not reported in the governmental fund.		15,896,807
Deferred outflows related to other postemployment benefits are not current resources and therefore are not reported in the governmental fund.		2,575,681
Deferred inflows related to other postemployment benefits are not current obligations and therefore are not reported in the governmental fund.		(10,997,406)
Deferred inflows related to pensions are not current obligations and therefore are not reported in the governmental fund.		(1,078,681)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental fund.		(4,118,913)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Net pension liability		(96,632,445)
Other postemployment benefit liability		(19,667,404)
Capitalized lease obligation		(2,230,883)
Claims payable		(3,214,775)
Net position of governmental activities	\$	<u>57,596,356</u>

See notes to the basic financial statements.

City of Vernon, California
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2019

	General Fund
Revenues:	
Taxes	\$ 44,130,771
Special assessments	1,333,943
Licenses and permits	3,679,452
Fines, forfeitures and penalties	253,849
Investment income	101,082
Intergovernmental revenues	1,647,882
Charges for services	4,694,047
Other revenues	1,314,866
Total revenues	57,155,892
Expenditures:	
Current:	
General government	13,011,907
Public safety	32,767,869
Public works	7,229,130
Health services	1,370,284
Capital outlay	3,400,211
Total expenditures	57,779,401
Deficiency of revenues over expenditures	(623,509)
Other financing sources:	
Gain on sale of assets	1,519
Transfers in	4,572,075
Total other financing sources	4,573,594
Change in fund balance	3,950,085
Fund balance (deficit), beginning of year	(2,765,996)
Fund balance, end of year	\$ 1,184,089

See notes to the basic financial statements.

City of Vernon, California
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Fund to the
Statement of Activities – Governmental Activities
June 30, 2019

Net change in fund balance - total governmental fund	\$	3,950,085
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Expenditures for capital assets	\$ 2,029,322	
Less current year depreciation	<u>(5,307,919)</u>	(3,278,597)
<p>Principal payment of long term debt uses current financial resources but is not reported in the statement of activities.</p>		
Principal payment of capital lease obligation		238,928
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditure in the governmental fund:</p>		
Change in net pension liability		(4,010,785)
Change in deferred outflows related to pensions		(5,420,853)
Change in deferred outflows related to other postemployment benefits		744,394
Change in deferred inflows related to pensions		(176,321)
Change in deferred inflows related to other postemployment benefits		(10,389,064)
Change in long-term compensated absences		605,485
Change in net postemployment benefits other than pension obligation		12,743,705
Change in claims payable		<u>192,669</u>
Change in net position of governmental activities	\$	<u>(4,800,354)</u>

See notes to the basic financial statements.

City of Vernon, California
Statement of Fund Net Position
Proprietary Funds
June 30, 2019

	Vernon Public Utilities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 137,810,337
Accounts receivable, net of allowance	5,782,883
Accrued unbilled revenue	11,705,521
Accrued interest receivable	161,772
Escrow deposits	940,000
Prepaid natural gas	28,664,653
Total current assets	185,065,166
Noncurrent assets	
Restricted cash and investments	31,106,314
Advances to City	9,384,589
Prepaid expenses	1,885,414
Prepaid natural gas	25,646,420
Capital assets	
Nondepreciable	61,590,785
Depreciable, net	181,192,713
Total noncurrent assets	310,806,235
Total assets	495,871,401
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	2,774,609
Deferred outflows related to other postemployment benefit liability	449,556
Deferred amount on refunding	5,909,784
Total deferred outflows of resources	9,133,949
LIABILITIES	
Current liabilities	
Accounts payable	13,070,842
Accrued wages and benefits	524,916
Customer deposits	485,889
Bond interest payable	7,426,028
Bonds payable, net	29,795,127
Compensated absences	229,192
Total current liabilities	51,531,994
Noncurrent liabilities	
Bonds payable, net	279,301,654
Compensated absences	458,385
Other postemployment benefit liability	3,432,725
Net pension liability	16,866,107
Total noncurrent liabilities	300,058,871
Total liabilities	351,590,865
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	188,271
Deferred inflows related to other postemployment benefit liability	1,919,473
Deferred gain from sale of generation assets	13,931,454
Total deferred inflows of resources	16,039,198
NET POSITION	
Net investment in capital assets	164,497,172
Unrestricted (deficit)	(27,121,885)
Total net position \$	137,375,287

See notes to the basic financial statements.

City of Vernon, California
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2019

	Vernon Public Utilities
Operating revenues	
Charges for services	\$ 205,478,963
Total operating revenue	205,478,963
Operating expenses	
Cost of sales	166,003,881
Depreciation	8,745,658
Total operating expenses	174,749,539
Operating income	30,729,424
Nonoperating revenues (expenses)	
Investment income	1,553,785
Net increase in fair value of investments	2,159
Interest expense	(20,712,363)
Gain on sale of assets	12,824
Total nonoperating revenues (expenses)	(19,143,595)
Income before transfers	11,585,829
Transfers	
Transfers out	(4,572,075)
Total transfers	(4,572,075)
Change in net position	7,013,754
Net position - beginning of year	130,361,533
Net position - end of year	\$ 137,375,287

See notes to the basic financial statements.

City of Vernon, California
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

	Vernon Public Utilities
Cash flows from operating activities	
Cash received from customers	\$ 209,931,590
Cash paid to suppliers for goods and services	(124,632,518)
Cash paid to employees for services	(11,007,160)
Net cash provided by operating activities	74,291,912
Cash flows from capital and related financing activities	
Repayment of bonds	(29,305,000)
Bond interest paid	(20,583,203)
Net acquisition of capital assets	(17,400,549)
Cash used in capital and related financing activities	(67,288,752)
Cash flows from non-capital financing activities	
Transfers to the General Fund of the City	(4,572,075)
Advance (from) to City	3,227,832
Net cash used in non-capital financing activities	(1,344,243)
Cash flows from investing activities	
Investment income	1,517,198
Cash provided by investing activities	1,517,198
Change in cash and cash equivalents	7,176,115
Cash and cash equivalents, beginning of year	161,740,536
Cash and cash equivalents, end of year	\$ 168,916,651
Cash and cash equivalents at June 30, 2019 composed of:	
Cash and cash equivalents	\$ 137,810,337
Restricted cash and investments	31,106,314
	\$ 168,916,651
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 30,729,424
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,745,658
Change in operating assets and liabilities:	
Accounts receivable	5,941,890
Accrued unbilled revenue	(1,186,527)
Prepaid expenses and deposits	(122,773)
Prepaid natural gas	28,549,573
Deferred outflows of resources	3,513,419
Accounts payable	1,160,662
Accrued wages and benefits	1,909
Customer deposits	(302,736)
Compensated absences	(256,679)
Other postemployment benefit liability	(454,750)
Net pension liability	(186,172)
Deferred inflows of resources	(1,840,986)
Net cash provided by operating activities	\$ 74,291,912

See notes to the basic financial statements.

City of Vernon, California
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2019

		Vernon Redevelopment Successor Agency Fund
ASSETS		
Taxes receivable	\$	22,364
Due from City		38,454
Other receivable		10,454
Restricted cash and investments		22,673,962
	Total assets	22,745,234
LIABILITIES		
Accounts payable		2,669
Customer deposits		42,968
Bond interest		933,591
Long-term debt		
Due within one year		2,825,435
Due in more than one year		45,203,196
	Total liabilities	49,007,859
FIDUCIARY NET POSITION (DEFICIT)		
Total net position held in trust for dissolution of former Redevelopment Agency	\$	(26,262,625)

See notes to the basic financial statements.

City of Vernon, California
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2019

		Redevelopment Successor Agency Fund
ADDITIONS:		
Property tax increment	\$	4,448,326
Investment earnings		136,947
Net increase in fair value of investments		200
Total additions		<u>4,585,473</u>
DEDUCTIONS:		
Community development		512,126
Interest on long-term debt		2,864,598
Total deductions		<u>3,376,724</u>
Change in fiduciary net position		1,208,749
Fiduciary net position (deficit) at beginning of year		<u>(27,471,373)</u>
Fiduciary net position (deficit) at end of year	\$	<u><u>(26,262,624)</u></u>

See notes to the basic financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2019, the City had no blended component units or any discretely presented component units.

Basis of Presentation

Government-wide Financial Statements

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

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

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

Basis of Presentation (continued)

Fund Financial Statements

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

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

The City reports one major governmental fund:

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

The City reports one major enterprise fund:

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

The City reports one fiduciary fund:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Cash Deposits and Investments

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

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

Receivables/Payables

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible were \$1,088,000 as of June 30, 2019. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

Inventories

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

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

The estimated useful lives are as follows:

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

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position.

Compensated Absences

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

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the City recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as the 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term Obligations

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

Net Position

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

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

Fund Balance

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (continued)

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

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

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

Encumbrances

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

Use of Estimates

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

Property Taxes

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2019, the City adopted the following new Statement of the Governmental Accounting Standards Board (GASB):

GASB statement No. 83

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "*Certain Asset Retirement Obligations.*" This Statement is effective for financial statements for the fiscal year beginning after June 15, 2018, and did not impact the City.

GASB statement No. 88

In March 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.*" The Statement's objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Accordingly, the City has updated the debt disclosures to comply with the requirements of this new Statement.

NOTE 2 CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

	Primary Government	Fiduciary Fund
Cash and cash equivalents	\$ 145,637,802	\$ -
Restricted cash and cash equivalents	34,801,866	22,673,962
Total cash and cash equivalents	\$ 180,439,668	\$ 22,673,962

Cash and investments as of June 30, 2019 consist of the following:

Cash on hand	\$ 1,300	\$ -
Deposits with financial institutions	80,513,440	12,010,391
Short-term investments	99,924,928	10,663,571
Total cash and equivalents	\$ 180,439,668	\$ 22,673,962

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

The City's Investment Policy

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 the 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 the bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy.

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

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's Investment Policy. The table below identifies the investment types that are authorized for investments held by the 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

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of 6/30/2019	Investment Maturities (in Months)			% of Total
		Less Than 12 Months	13 to 24 Months	25 to 60 Months	
<u>Primary Government:</u>					
Money Market Funds	\$ 99,310,748	\$ 99,310,748	\$ -	\$ -	99.4%
Local Agency Investment Fund	614,180	614,180	-	-	0.6%
Total investments	<u>\$ 99,924,928</u>	<u>\$ 99,924,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>100.0%</u>
<u>Fiduciary Fund:</u>					
Money Market Funds	\$ 10,663,571	\$ 10,663,571	\$ -	\$ -	100.0%
Total investments	<u>\$ 10,663,571</u>	<u>\$ 10,663,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>100.0%</u>

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the City's Investment Policy, or debt agreements, and the actual rating as of the year-end for each investment type.

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2019	% of Total
<u>Primary Government:</u>				
In custody of Treasurer:				
Cash on hand	N/A	N/A	\$ 1,300	\$ 0.0%
Deposits with financial institutions	N/A	N/A	80,513,440	44.6%
Local Agency Investment Fund	Not Rated	Not Rated	614,180	0.3%
Total in custody of Treasurer			<u>81,128,920</u>	<u>45.0%</u>
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	-	0.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	99,310,748	55.0%
Total in custody of Trustee			<u>99,310,748</u>	<u>55.0%</u>
Total cash and investments held by Treasurer and Trustee			\$ 180,439,668	\$ 100.0%
<u>Fiduciary Fund:</u>				
In custody of Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 1,865	0.0%
Total in custody of Treasurer			<u>1,865</u>	<u>0.0%</u>
In custody of Trustee:				
Deposits with financial institutions	N/A	N/A	12,008,526	53.0%
Money Market Funds	Aaa / AAA	Aaa / AAA	10,663,571	47.0%
Total in custody of Trustee			<u>22,672,097</u>	<u>100.0%</u>
Total cash and investments held by Treasurer and Trustee			\$ 22,673,962	\$ 100.0%

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that is 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, 2019, there were no investments held by the City that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

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

At year-end, the carrying amounts of the City's and Fiduciary Fund's deposits were \$80,513,440 and \$12,010,391, respectively. The bank balances were \$80,393,831 and \$12,010,391, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2019, none of the City's or Fiduciary Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$80,143,831 and \$11,760,391 were collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

Local Agency Investment Fund (LAIF)

The City and Fiduciary Fund also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$614,180 as of June 30, 2019. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool.

The total amount invested by all public agencies in LAIF as of June 30, 2019, was \$30.36 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance, including interest, was \$106 billion as of June 30, 2019. PMIA is not SEC-registered but is required to invest according to California State Code. The weighted average maturity of PMIA investments was 0.47 years as of June 30, 2019. LAIF does not maintain a credit rating.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

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

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

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

Investments by fair value level	Fair value	Fair value measurement using significant other observable inputs (Level 2)
Primary Government:		
Money Market Funds	\$ 99,310,748	\$ 99,310,748
Total	99,310,748	<u>99,310,748</u>
Uncategorized:		
Local Agency Investment Fund	614,180	
Total investments measured at fair value	\$ <u>99,924,928</u>	
Fiduciary Fund:		
Money Market Funds	\$ 10,663,571	\$ 10,663,571
Total	10,663,571	<u>10,663,571</u>
Uncategorized:		
Local Agency Investment Fund	-	
Total investments measured at fair value	\$ <u>10,663,571</u>	

The City and third-party trustees that hold the City's assets utilize the market approach in valuing investments portfolio through the use of a pricing service that utilize matrix pricing. The market approach utilizes prices and other relevant data from market transactions for similar assets.

NOTE 3 ACCOUNTS RECEIVABLES

The City's receivables at June 30, 2019, are as follows:

Receivables - Governmental Activities:	General Fund	Total Governmental Activities
Accounts receivables	\$ 375,883	\$ 375,883
Taxes	1,953,917	1,953,917
Notes or loans	9,391	9,391
Other	510	510
Total receivables	<u>\$ 2,339,701</u>	<u>\$ 2,339,701</u>

Receivables - Business-type Activities:	Vernon Public Utilities	Total Business-type Activities
Accounts receivables	\$ 6,870,883	\$ 6,870,883
Less: Allowances for uncollectible accounts	(1,088,000)	(1,088,000)
Receivables, net	<u>\$ 5,782,883</u>	<u>\$ 5,782,883</u>

NOTE 4 INTERFUND TRANSACTIONS

The following tables summarize the City's interfund balances at June 30, 2019:

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Vernon Public Utilities	General Fund	\$ <u>9,384,589</u>

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

Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Vernon Public Utilities	\$ <u>4,572,075</u>

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

During the current year, the Vernon Public Utilities transferred a total of \$4,572,075 to the General Fund consisting of in-lieu franchise taxes.

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 5 CAPITAL ASSETS

Capital asset activity of governmental activities for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>Governmental activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 62,140,108	\$ -	\$ -	\$ 62,140,108
Construction in progress	<u>1,111,677</u>	<u>143,814</u>	<u>-</u>	<u>1,255,491</u>
Total capital assets, not being depreciated	<u>63,251,785</u>	<u>143,814</u>	<u>-</u>	<u>63,395,599</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	156,377,186	1,662,813	-	158,039,999
Building and Improvements	16,682,901	14,600	-	16,697,501
Improvements Other Than Buildings	11,185,649	147,707	-	11,333,356
Machinery and Equipment	<u>32,281,256</u>	<u>376,507</u>	<u>(316,119)</u>	<u>32,341,644</u>
Total capital assets, being depreciated	<u>216,526,992</u>	<u>2,201,627</u>	<u>(316,119)</u>	<u>218,412,500</u>
Less accumulated depreciation for:				
Infrastructure	(64,563,180)	(3,478,951)	-	(68,042,131)
Building and Improvements	(8,034,221)	(393,419)	-	(8,427,640)
Improvements Other Than Buildings	(5,288,279)	(304,761)	-	(5,593,040)
Machinery and Equipment	<u>(22,734,214)</u>	<u>(1,152,565)</u>	<u>21,777</u>	<u>(23,865,002)</u>
Total accumulated depreciation	<u>(100,619,894)</u>	<u>(5,329,696)</u>	<u>21,777</u>	<u>(105,927,813)</u>
Total capital assets, being depreciated, net				
Infrastructure	91,814,006	(1,816,138)	-	89,997,868
Building and Improvements	8,648,680	(378,819)	-	8,269,861
Improvements Other Than Buildings	5,897,370	(157,054)	-	5,740,316
Machinery and Equipment	<u>9,547,042</u>	<u>(776,058)</u>	<u>(294,342)</u>	<u>8,476,642</u>
Total	<u>115,907,098</u>	<u>(3,128,069)</u>	<u>(294,342)</u>	<u>112,484,687</u>
Governmental activities capital assets, net	<u>\$ 179,158,883</u>	<u>\$ (2,984,255)</u>	<u>\$ (294,342)</u>	<u>\$ 175,880,286</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

Depreciation:	
General government	\$ 741,197
Public safety	899,694
Public works	3,687,967
Health services	838
Total depreciation expense- governmental functions	<u>\$ 5,329,696</u>

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 5 CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
<u>Business-type activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Electric utility - Land	\$ 4,240,129	\$ -	\$ -	\$ 4,240,129
Water utility - Water	467,640	-	-	467,640
Electric utility - Intangibles - Environmental credits	1,197,988	-	(34,177)	1,163,811
Electric utility - Construction in progress	54,463,373	708	-	54,464,081
Water utility - Construction in progress	926,402	328,722	-	1,255,124
Total capital assets, not being depreciated	<u>61,295,532</u>	<u>329,430</u>	<u>(34,177)</u>	<u>61,590,785</u>
<i>Capital assets, being depreciated</i>				
Electric utility - Production plant	16,189,303	-	-	16,189,303
Electric utility - Transmission plant	4,888,113	-	-	4,888,113
Electric utility - Distribution plant	215,660,651	16,878,947	-	232,539,598
Electric utility - General plant	9,152,092	68,406	-	9,220,498
Water utility plant	20,500,613	111,542	-	20,612,155
Gas utility plant	26,346,260	30,205	-	26,376,465
Fiber Optic utility plant	4,125,000	29,020	-	4,154,020
Total capital assets, being depreciated	<u>296,862,032</u>	<u>17,118,120</u>	<u>-</u>	<u>313,980,152</u>
Less accumulated depreciation for:				
Electric utility - Production plant	(9,372,883)	(461,536)	-	(9,834,419)
Electric utility - Transmission plant	(3,146,053)	(94,049)	-	(3,240,102)
Electric utility - Distribution plant	(80,606,526)	(6,478,475)	-	(87,085,001)
Electric utility - General plant	(4,794,645)	(444,664)	-	(5,239,309)
Water utility plant	(14,624,446)	(331,922)	-	(14,956,368)
Gas utility plant	(8,970,108)	(733,109)	-	(9,703,217)
Fiber Optic utility plant	(2,527,120)	(201,903)	-	(2,729,023)
Total accumulated depreciation	<u>(124,041,781)</u>	<u>(8,745,658)</u>	<u>-</u>	<u>(132,787,439)</u>
Total capital assets, being depreciated, net				
Electric utility - Production plant	6,816,420	(461,536)	-	6,354,884
Electric utility - Transmission plant	1,742,060	(94,049)	-	1,648,011
Electric utility - Distribution plant	135,054,125	10,400,472	-	145,454,597
Electric utility - General plant	4,357,447	(376,258)	-	3,981,189
Water utility plant	5,876,167	(220,380)	-	5,655,787
Gas utility plant	17,376,152	(702,904)	-	16,673,248
Fiber Optic utility plant	1,597,880	(172,883)	-	1,424,997
Total	<u>172,820,251</u>	<u>8,372,462</u>	<u>-</u>	<u>181,192,713</u>
Business-type activities capital assets, net	<u>\$ 234,115,783</u>	<u>\$ 8,701,892</u>	<u>\$ (34,177)</u>	<u>\$ 242,783,498</u>

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

Electric fund	\$ 7,478,724
Gas fund	733,109
Water fund	331,922
Fiber optics fund	201,903
Total depreciation expense- business-type functions	<u>\$ 8,745,658</u>

NOTE 6 LONG-TERM OBLIGATIONS

There were no new bonds issued during the fiscal year 2019. As of June 30, 2019, outstanding debt obligations consisted of the following:

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

At June 30, 2019, \$40,500,000 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 \$84,769,854, payable through fiscal 2039. For the current year, debt service and total electric revenues were \$3,976,710 and \$178,149,122, 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, 2019, \$87,750,000 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 \$94,349,976, payable through fiscal 2022. For the current year, debt service and total electric revenues were \$34,060,828 and \$178,149,122, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2009 Series A were issued to provide funds to (i) refinance certain obligations payable from the City's Electric System Revenues, (ii) fund a deposit to the Debt Service Reserve Fund, and (iii) to pay costs of issuance of the 2009 Bonds.

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

At June 30, 2019, \$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 \$75,163,016, payable through fiscal 2042. For the current year, debt service and total electric revenues were \$2,031,394 and \$178,149,122, 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.

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

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

At June 30, 2019, \$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 \$47,651,513, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$2,222,900 and \$178,149,122, 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, 2019, \$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 \$139,402,571, payable through fiscal 2027. For the current year, debt service and total electric revenues were \$5,087,518 and \$178,149,122, respectively. Under the Indenture of Trust dated September 1, 2008, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Light and Power Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue Bonds, 2009 Series A; (ii) finance the Costs of certain Capital Improvements to the City's Electric System by reimbursing the Electric System for the prior payment of such Costs from the Light and Power Fund; (iii) fund a deposit to the Debt Service Reserve Fund; and (iv) pay costs of issuance of the 2015 Bonds.

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

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

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2019
City of Vernon Electric System Revenue Bonds, 2008 Taxable Series A	07/01/38	7.40% - 8.59%	To begin 07/01/10: \$265,000 - \$4,065,000	\$ 43,765,000	\$ 40,500,000
City of Vernon Electric System Revenue Bonds, 2009 Taxable Series A	08/01/21	5.125%	To begin 08/01/09: \$5,000,000- \$44,895,000	419,400,000	87,750,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series A	08/01/41	5.00%- 5.50%	To begin 08/01/27: \$1,075,000- \$7,120,000	37,640,000	37,640,000
City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B	08/01/26	6.25%- 6.50%	To begin 08/01/22: \$6,165,000 - \$7,940,000	35,100,000	35,100,000
City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A	08/01/26	4.05%- 4.85%	To begin 08/01/23: \$15,925,000- \$22,540,000	111,720,000	111,720,000
Premium					148,810
Discounts					(3,762,029)
Total revenue bonds					<u>\$ 309,096,781</u>

As of June 30, 2019, 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
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	1,120,000	3,119,029
2025-2029	7,300,000	13,894,325
2030-2034	11,215,000	9,975,782
2035 and thereafter	17,235,000	3,955,480
Total requirements	<u>\$ 40,500,000</u>	<u>\$ 44,269,854</u>

*As of June 30, 2019, debt service for 2008 Series A was calculated based upon fixed coupon rates of 7.400% and 8.590%.

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

		Electric System Revenue Bonds 2009 Taxable Series A	
<u>Fiscal year ending June 30:</u>		<u>Principal</u>	<u>Interest</u>
2020	\$	29,755,000	\$ 3,734,716
2021		31,085,000	2,175,691
2022		26,910,000	689,569
Total requirements	\$	<u>87,750,000</u>	<u>\$ 6,599,976</u>

*As of June 30, 2019, debt service for 2009 Series A was calculated based upon fixed coupon rate of 5.125%.

		Electric System Revenue Bonds 2012 Taxable Series A	
<u>Fiscal year ending June 30:</u>		<u>Principal</u>	<u>Interest</u>
2020	\$	-	\$ 2,031,394
2021		-	2,031,394
2022		-	2,031,394
2023		-	2,031,394
2024		-	2,031,394
2025-2029		2,205,000	10,048,094
2030-2034		6,595,000	8,806,978
2035-2039		8,600,000	6,800,475
2040 and thereafter		20,240,000	1,710,500
Total requirements	\$	<u>37,640,000</u>	<u>\$ 37,523,016</u>

*As of June 30, 2019, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 5.000% to 5.500%.

		Electric System Revenue Bonds 2012 Taxable Series B	
<u>Fiscal year ending June 30:</u>		<u>Principal</u>	<u>Interest</u>
2020	\$	-	\$ 2,222,900
2021		-	2,222,900
2022		6,165,000	2,222,900
2023		6,565,000	2,030,244
2024		6,990,000	1,632,431
2025 and thereafter		15,380,000	2,220,138
Total requirements	\$	<u>35,100,000</u>	<u>\$ 12,551,513</u>

*As of June 30, 2019, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 6.250% to 6.500%.

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

<u>Fiscal year ending June 30:</u>	Electric System Revenue Bonds 2015 Taxable Series A	
	<u>Principal</u>	<u>Interest</u>
2020	\$ -	\$ 5,087,518
2021	-	5,087,518
2022	-	5,087,518
2023	22,540,000	4,580,368
2024	23,520,000	3,596,938
2025 and thereafter	65,660,000	4,242,714
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 27,682,571</u>

*As of June 30, 2019, 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, 2019:

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2019</u>	<u>Amounts Due Within One Year</u>
<u>Governmental activities:</u>					
Other postemployment benefit liability	\$ 32,411,109	\$ -	\$ (12,743,705)	\$ 19,667,404	\$ -
Claims payable	3,407,444	-	(192,669)	3,214,775	1,071,592
Compensated absences	4,724,398	-	(605,485)	4,118,913	1,372,971
Capital lease obligation	2,469,811	-	(238,928)	2,230,883	247,074
Net pension liability	92,621,660	4,010,785	-	96,632,445	-
	<u>\$ 135,634,422</u>	<u>\$ 4,010,785</u>	<u>\$ (13,780,787)</u>	<u>\$ 125,864,420</u>	<u>\$ 2,691,637</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 342,015,000	\$ -	\$ (29,305,000)	\$ 312,710,000	\$ 30,550,000
Bond premium	155,524	-	(6,714)	148,810	6,714
Bond discount	(4,523,616)	-	761,587	(3,762,029)	(761,587)
Compensated absences	944,256	-	(256,679)	687,577	229,192
Other postemployment benefit liability	3,887,475	-	(454,750)	3,432,725	-
Net pension liability	17,052,279	-	(186,172)	16,866,107	-
	<u>\$ 359,530,918</u>	<u>\$ -</u>	<u>\$ (29,447,728)</u>	<u>\$ 330,083,190</u>	<u>\$ 30,024,319</u>

Refer to Note 14 for the subsequent approval by the City Council of the issuance of the Electric Revenue Bonds Series 2020 to refund, in whole or in part, the 2009 Electric System Revenue Bonds, Series A, the 2012 Electric System Revenue Bonds Series B and the 2015 Taxable Electric System Revenue Bonds, Series A.

Expense Stabilization Fund

The City maintains an Expense Stabilization Fund held by a Trustee in such amounts, at such times and from sources as shall be determined by the City in its sole discretion. In the event of default under the Indenture shall have occurred and is continuing, the Trustee shall transfer all moneys in the fund to the debt service funds as provided in the Indenture. Moneys on deposit in this fund may be withdrawn by the City at any time no event of default exists under the Indenture. As at June 30, 2019, the fund has a balance of \$14,582,694.

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

Right to Accelerate Upon Default

Notwithstanding anything contrary in the Indenture or in the Bonds, upon the occurrence of an Event of Default, the Trustee may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, and shall, at the direction of the Owners of a majority in principal amount of Outstanding Bonds (other than Bonds owned by or on behalf of the City) by written notice to the City, declare the principal of the Outstanding Bonds and the interest thereon to be immediately due and payable, whereupon such principal and interest shall, without further action, become and be immediately due and payable.

Credit Ratings

As of June 30, 2019, the ratings on all Electric System Revenue Bonds of the City have not changed from the prior year with an BBB+ rating by S&P and Baa3 rating by Moody's.

Line of Credit

As at June 30, 2019, the City does not have unused line of credit with a financial institution.

NOTE 7 RISK MANAGEMENT

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

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

The insurance limits for the fiscal year 2018-19 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; \$250 SIR safety
Excess Workers Compensation	\$ 50,000	\$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

NOTE 7 RISK MANAGEMENT (CONTINUED)

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

Changes in the balance of claims liabilities during the fiscal year ended June 30, 2019 for all self-insurance activities combined are as follows:

Claims payable, beginning of fiscal year	\$ 3,407,444
Incurred claims and change in estimates	693,572
Claim payments	<u>(886,241)</u>
Claims payable, end of fiscal year	<u>\$ 3,214,775</u>

NOTE 8 PENSION PLAN

A. General Information about the Pension Plans

Plan Descriptions

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

NOTE 8 PENSION PLAN (CONTINUED)

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

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.698%	5.750%
Required employer contribution rates	26.260%	26.260%

	Safety	
	Prior to	On or after
Hire date	January 1, 2013	January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9.049%	11.00%
Required employer contribution rates	49.310%	49.310%

NOTE 8 PENSION PLAN (CONTINUED)

Employees Covered

At June 30, 2017, the actuarial valuation date, the following employees were covered by the benefit terms for each Plan:

	<u>Miscellaneous</u>	<u>Safety</u>
Inactive employees or beneficiaries currently receiving benefits	169	262
Inactive employees entitled to but not yet receiving benefits	171	108
Active employees	163	105
Total	503	475

Contributions

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

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 8 PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2017	June 30, 2017
Measurement Date	June 30, 2018	June 30, 2018
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	Varied by entry age and service (1)	Varied by entry age and service (1)
Investment Rate of Return	7.50% (2) Derived using CalPERS'	7.50% (2) Derived using CalPERS'
Mortality Rate Table (3)	membership data for all funds (3)	membership data for all funds (3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The mortality table used was developed based on CalPERS' specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate

The discount rate used to measure the total pension liability was changed from 7.65% to 7.15% for each Plan.

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.15 percent used for the June 30, 2018 measurement date is without reduction of pension plan administrative expense.

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

NOTE 8 PENSION PLAN (CONTINUED)

Discount Rate (continued)

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

	Assumed Asset Allocation	Real Return Years 1-10 ²	Real Return Years 11 + ³
Global equity	50.0%	4.80%	5.98%
Fixed income	28	1	2.62
Inflation assets	-	0.77	1.81
Private equity	8	6.30	7.23
Real assets	13	3.75	4.93
Liquidity	1	-	(0.92)

- (1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (2) An expected inflation of 2.00% used for this period.
- (3) An expected inflation of 2.92% used for this period.

NOTE 8 PENSION PLAN (CONTINUED)

C. Changes in the Net Pension Liability

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<u>Miscellaneous Plan:</u>			
Balance at June 30, 2017	\$ 153,756,378	\$ 119,695,436	\$ 34,060,942
Changes in the year:			
Service cost	2,826,440	-	2,826,440
Interest on the total pension liability	11,053,679	-	11,053,679
Change of assumptions	(549,432)	-	(549,432)
Difference between expected and actual experience	3,059,775	-	3,059,775
Net plan to plan resource movement	-	(296)	296
Contribution - employer	-	3,380,432	(3,380,432)
Contribution - employees	-	1,214,616	(1,214,616)
Net investment income	-	9,803,260	(9,803,260)
Benefit payments, including refunds of employee contributions	(6,166,082)	(6,166,082)	-
Administrative expense	-	(186,518)	186,518
Other miscellaneous income	-	(354,202)	354,202
Net changes	<u>10,224,380</u>	<u>7,691,210</u>	<u>2,533,170</u>
Balance at June 30, 2018 (measurement date)	\$ <u>163,980,758</u>	\$ <u>127,386,646</u>	\$ <u>36,594,112</u>
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<u>Safety Plan:</u>			
Balance at June 30, 2017	\$ 250,244,356	\$ 174,631,359	\$ 75,612,997
Changes in the year:			
Service cost	4,414,740	-	4,414,740
Interest on the total pension liability	17,691,261	-	17,691,261
Change of assumptions	(1,533,898)	-	(1,533,898)
Difference between expected and actual experience	2,008,618	-	2,008,618
Net plan to plan resource movement	-	(431)	431
Contribution - employer	-	6,109,373	(6,109,373)
Contribution - employees	-	1,302,308	(1,302,308)
Net investment income	-	14,666,919	(14,666,919)
Benefit payments, including refunds of employee contributions	(10,992,416)	(10,992,416)	-
Administrative expense	-	(272,123)	272,123
Other miscellaneous income	-	(516,768)	516,768
Net changes	<u>11,588,305</u>	<u>10,296,862</u>	<u>1,291,443</u>
Balance at June 30, 2018 (measurement date)	\$ <u>261,832,661</u>	\$ <u>184,928,221</u>	\$ <u>76,904,440</u>

NOTE 8 PENSION PLAN (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is a 1-percentage point lower or a 1-percentage point higher than the current rate:

	Miscellaneous	Safety
1% decrease	6.15%	6.15%
Net pension liability	\$ 60,377,852	\$ 112,361,494
Current discount rate	7.15%	7.15%
Net pension liability	\$ 36,594,112	\$ 76,904,440
1% increase	8.15%	8.15%
Net pension liability	\$ 17,177,143	\$ 47,792,826

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

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

For the year ended June 30, 2019, the City recognized pension expense of \$4,560,830 and \$6,044,673 for Miscellaneous and Safety plans, respectively. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,907,267	\$ -	\$ 7,011,541	\$ -	\$ 10,918,808	\$ -
Changes of assumptions	3,307,726	(382,937)	-	(631,604)	3,307,726	(1,014,541)
Differences between expected and actual experiences	2,166,325	(252,411)	827,078	-	2,993,403	(252,411)
Net differences between projected and actual earnings on plan investments	779,140	-	672,339	-	1,451,479	-
Total	\$ 10,160,458	\$ (635,348)	\$ 8,510,958	\$ (631,604)	\$ 18,671,416	\$ (1,266,952)

The \$10,919,808 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended			
Ending June 30	Miscellaneous	Safety	Total
2020	\$ 5,238,601	\$ 2,528,371	\$ 7,766,972
2021	1,505,552	563,079	2,068,631
2022	(859,914)	(1,753,780)	(2,613,694)
2023	(266,396)	(469,857)	(736,253)

NOTE 8 PENSION PLAN (CONTINUED)

E. Payable to the Pension Plan

At June 30, 2019, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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.

Benefits Provided

Generally, the City will provide a postemployment benefit plan for the employee only to those who retire at age sixty (60) or later with twenty (20) years of continuous uninterrupted service up to the age of sixty-five (65). Alternatively, employees who retire before the age of sixty (60) with twenty (20) years of continuous uninterrupted service, will be permitted to pay their medical and dental premium cost and upon reaching the age of fifty (50), the City will pay the premium for the medical and dental plans until they reach the age of sixty-five (65).

Resolution 2011-129 provided lifetime medical benefits to Police Management employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that services have been with the City of Vernon. Resolution 2011-127 sets forth the Memorandum of Understanding of the Vernon Police Officers' Benefit Association, provided lifetime medical benefits to those employees and their spouses, who have been employed as sworn safety personnel for a minimum of twenty (20) years and a minimum of ten (10) years of that service has been with the City of Vernon. Resolution 2012-217 granted specific retiree medical benefits to employees who retire during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service, and that this offer be extended as an option to safety and safety management groups, at their discretion, in addition to the related options provided in the Vernon Firefighters Association Memorandum of Understanding and the Vernon Police Officers' Benefit Association Memorandum of Understanding. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be non-vested right for employees who continue to be employed by the City on or after July 1, 2013, but will become a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes cost in accordance with GASB Statement No 75. The City may terminate its unvested OPEB in the future.

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

Funding Policy and Contributions

The City has established an irrevocable OPEB trust with assets dedicated to paying future retiree medical benefits. The City intends to contribute 100% or more of the actuarially determined contribution for the explicit subsidy liability only. The portion of the liability due to the implicit subsidy is not prefunded but is paid as benefits come due.

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Employees Covered by Benefit Terms

At June 30, 2018 (the valuation date), the following employees were covered by the benefit terms:

Category	Count
Active employees	254
Inactive employees or beneficiaries currently receiving benefit payments	96

Actuarial Assumptions

The valuation has been prepared on a closed group basis. Assumptions such as age-related healthcare claims, healthcare trends, retiree participation rates, and spouse coverage, were selected based on demonstrated plan experience and the best estimate of expected future experience.

The total OPEB liability for June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

Actuarial Methods and Assumptions

Funding method	Entry age normal level percent of pay cost method
Inflation	2.50%
Salary increases	2.75% annual increases
Long-term return on assets	6.50% net of investment expenses
Discount rate	6.50%
Municipal bond index rates	3.62%
Healthcare cost trend rates	5.60% for medicare eligible and 6.90% for not medicare eligible

Discount Rate

The discount rate for the implicit subsidy liability was changed from 3.56% to 6.50% based on updated expectations of long-term returns on trust assets and updated valuation methods. The prior actuary used a discount rate of 6.50% for direct subsidy liabilities and 3.56% for implicit subsidy liabilities because the City only pre-funds the direct subsidy portion of the liability.

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

Change in the Net OPEB Liability

	Increase (Decrease)		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability/(Asset)</u>
<u>Miscellaneous Plan:</u>			
Balance at June 30, 2017	\$ 37,355,851	\$ 1,057,267	\$ 36,298,584
Changes in the year:			
Service cost	1,204,747		1,204,747
Interest on the total OPEB liability	2,063,052		2,063,052
Difference between expected and actual experience	(6,680,583)		(6,680,583)
Changes in assumptions	(7,657,196)		(7,657,196)
Investment income	-	65,276	(65,276)
Contribution - employer		2,065,407	(2,065,407)
Benefit payments	(1,006,087)	(1,006,087)	-
Administrative expense		(808)	808
Other deductions		(1,400)	1,400
Net changes	<u>(12,076,067)</u>	<u>1,122,388</u>	<u>(13,198,455)</u>
Balance at June 30, 2018 (measurement date)	\$ 25,279,784	\$ 2,179,655	\$ 23,100,129

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the City's Net OPEB Liability if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 26,234,945	\$ 23,100,129	\$ 20,472,569

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The following presents the City's Net OPEB Liability if it were calculated using a healthcare cost trend rates that are 1% point lower or 1% point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 21,013,621	\$ 23,100,129	\$ 25,571,976

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

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2019, the City recognized OPEB expense of \$1,073,477. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions between measurement date and reporting date	\$ 2,989,393	\$ -
Difference between expected and actual liability	-	5,747,541
Changes of assumptions	-	7,169,339
Net differences between projected and actual earnings on investments	35,844	-
Total	\$ 3,025,237	\$ 12,916,880

The \$2,989,393 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Deferred Outflows/ (Inflows) of Resources
2020	\$ (2,087,985)
2021	(2,087,985)
2022	(2,087,986)
2023	(2,088,396)
2024	(2,097,049)
Thereafter	(2,431,634)
	\$ (12,881,035)

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.

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Asset Sale (continued)

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the "PPTA"). In addition, Bicent has acquired the benefits and burdens of the City's interest in the Hoover 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, 2019, a deferred gain of \$13,931,454 remains to be amortized over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 12 for disclosure on uncertainties).

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.

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Project Commitments (continued)

Southern California Public Power Authority (continued)

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority's share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a "take or pay" basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during the fiscal year 2019 was \$3,859,449. The City expects no significant increases in costs related to its nuclear resources.

Power Purchase Commitments

As of June 30, 2019, under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

Fiscal Year		Amount*
Ending June 30	Amount*	
2020	\$	34,904,231
2021		34,904,231
2022		34,904,231
2023		34,904,231
		<u>139,616,924</u>

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

Vernon Public Utilities

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

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

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 utility administered by the Vernon Public Utilities are presented below:

Net Position

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Eliminating Entry	Vernon Public Utilities
ASSETS						
Current assets						
Cash and cash equivalents	\$ 118,464,813	\$ 11,311,695	\$ 7,292,358	\$ 741,471	\$ -	\$ 137,810,337
Accounts receivable, net of allowance	3,853,898	1,296,508	605,269	27,208	-	5,782,883
Accrued unbilled revenue	10,487,302	856,193	362,026	-	-	11,705,521
Accrued interest receivable	161,772	-	-	-	-	161,772
Escrow deposits	940,000	-	-	-	-	940,000
Prepaid natural gas	28,664,653	-	-	-	-	28,664,653
Total current assets	<u>162,572,438</u>	<u>13,464,396</u>	<u>8,259,653</u>	<u>768,679</u>	<u>-</u>	<u>185,065,166</u>
Noncurrent assets						
Restricted cash and investments	31,106,314	-	-	-	-	31,106,314
Advances to other funds	38,835,229	-	6,447,171	-	(35,897,811)	9,384,589
Prepaid expenses	1,885,414	-	-	-	-	1,885,414
Prepaid natural gas	25,646,420	-	-	-	-	25,646,420
Capital assets						
Nondepreciable	59,868,021	-	1,722,764	-	-	61,590,785
Depreciable, net	157,438,682	16,673,248	5,655,786	1,424,997	-	181,192,713
Total noncurrent assets	<u>314,780,080</u>	<u>16,673,248</u>	<u>13,825,721</u>	<u>1,424,997</u>	<u>(35,897,811)</u>	<u>310,806,235</u>
Total assets	<u>477,352,518</u>	<u>30,137,644</u>	<u>22,085,374</u>	<u>2,193,676</u>	<u>(35,897,811)</u>	<u>495,871,401</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows related to pensions	1,980,289	185,341	581,241	27,738	-	2,774,609
Deferred outflows related to other postemployment benefit liability	320,856	30,030	94,176	4,494	-	449,556
Deferred amount on bond refunding	5,909,784	-	-	-	-	5,909,784
Total deferred outflows of resources	<u>8,210,929</u>	<u>215,371</u>	<u>675,417</u>	<u>32,232</u>	<u>-</u>	<u>9,133,949</u>
LIABILITIES						
Current liabilities						
Accounts payable	11,370,523	305,092	1,372,685	22,542	-	13,070,842
Accrued wages and benefits	374,169	42,138	107,524	1,085	-	524,916
Customer deposits	415,947	13,558	56,384	-	-	485,889
Bond interest payable	7,426,028	-	-	-	-	7,426,028
Bonds payable, net	29,795,127	-	-	-	-	29,795,127
Compensated absences	186,335	8,513	34,079	265	-	229,192
Total current liabilities	<u>49,568,129</u>	<u>369,301</u>	<u>1,570,672</u>	<u>23,892</u>	<u>-</u>	<u>51,531,994</u>
Noncurrent liabilities						
Advances from other funds	-	31,580,113	-	4,317,698	(35,897,811)	-
Bonds payable, net	279,301,654	-	-	-	-	279,301,654
Compensated absences	372,670	17,025	68,159	531	-	458,385
Other postemployment benefit liability	2,449,998	229,302	719,107	34,318	-	3,432,725
Net pension liability	12,037,648	1,126,638	3,533,208	168,613	-	16,866,107
Total noncurrent liabilities	<u>294,161,970</u>	<u>32,953,078</u>	<u>4,320,474</u>	<u>4,521,160</u>	<u>(35,897,811)</u>	<u>300,058,871</u>
Total liabilities	<u>343,730,099</u>	<u>33,322,379</u>	<u>5,891,146</u>	<u>4,545,052</u>	<u>(35,897,811)</u>	<u>351,590,865</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows related to pensions	134,373	12,576	39,440	1,882	-	188,271
Deferred inflows related to other postemployment benefit liability	1,369,963	128,219	402,102	19,189	-	1,919,473
Deferred gain from sale of generation assets	13,931,454	-	-	-	-	13,931,454
Total deferred inflows of resources	<u>15,435,790</u>	<u>140,795</u>	<u>441,542</u>	<u>21,071</u>	<u>-</u>	<u>16,039,198</u>
NET POSITION						
Net investment in capital assets	139,020,377	16,673,248	7,378,550	1,424,997	-	164,497,172
Unrestricted (deficit)	(12,622,819)	(19,783,407)	9,049,553	(3,765,212)	-	(27,121,885)
Total net position (deficit)	<u>\$ 126,397,558</u>	<u>\$ (3,110,159)</u>	<u>\$ 16,428,103</u>	<u>\$ (2,340,215)</u>	<u>\$ -</u>	<u>\$ 137,375,287</u>

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

A. Segment Information (continued)

Change in Net Position

	<u>Electric Fund</u>	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Fiber Optics Fund</u>	<u>Vernon Public Utilities</u>
Operating revenues					
Charges for services	\$ 178,149,122	\$ 17,335,155	\$ 9,345,045	\$ 649,641	\$ 205,478,963
Total operating revenue	<u>178,149,122</u>	<u>17,335,155</u>	<u>9,345,045</u>	<u>649,641</u>	<u>205,478,963</u>
Operating expenses					
Cost of sales	141,586,663	16,407,139	7,560,751	449,328	166,003,881
Depreciation	7,478,724	733,109	331,922	201,903	8,745,658
Total operating expenses	<u>149,065,387</u>	<u>17,140,248</u>	<u>7,892,673</u>	<u>651,231</u>	<u>174,749,539</u>
Operating income (loss)	<u>29,083,735</u>	<u>194,907</u>	<u>1,452,372</u>	<u>(1,590)</u>	<u>30,729,424</u>
Nonoperating revenues (expenses)					
Investment income	1,532,262	6,742	13,468	1,313	1,553,785
Net increase in fair value of investments	2,159	-	-	-	2,159
Interest expense	(20,712,363)	-	-	-	(20,712,363)
Gain on sale of assets	12,824	-	-	-	12,824
Total nonoperating revenues (expenses)	<u>(19,165,118)</u>	<u>6,742</u>	<u>13,468</u>	<u>1,313</u>	<u>(19,143,595)</u>
Income (loss) before transfers	<u>9,918,617</u>	<u>201,649</u>	<u>1,465,840</u>	<u>(277)</u>	<u>11,585,829</u>
Transfers					
Transfers out	(4,572,075)	-	-	-	(4,572,075)
Total transfers	<u>(4,572,075)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,572,075)</u>
Change in net position	5,346,542	201,649	1,465,840	(277)	7,013,754
Net position (deficit) - beginning of 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>
Net position (deficit) - end of year	<u>\$ 126,397,558</u>	<u>\$ (3,110,159)</u>	<u>\$ 16,428,103</u>	<u>\$ (2,340,215)</u>	<u>\$ 137,375,287</u>

City of Vernon, California
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

A. Segment Information (continued)

Cash Flows

	<u>Electric Fund</u>	<u>Gas Fund</u>	<u>Water Fund</u>	<u>Fiber Optics Fund</u>	<u>Vernon Public Utilities</u>
Cash flows from operating activities					
Cash received from customers	\$ 183,389,173	\$ 16,846,668	\$ 9,045,942	\$ 649,807	\$ 209,931,590
Cash paid to suppliers for goods and services	(102,525,644)	(16,549,046)	(5,309,515)	(248,313)	(124,632,518)
Cash paid to employees for services	(7,860,580)	(878,253)	(2,140,635)	(127,692)	(11,007,160)
Net cash provided by (used in) operating activities	<u>73,002,949</u>	<u>(580,631)</u>	<u>1,595,792</u>	<u>273,802</u>	<u>74,291,912</u>
Cash flows from capital and related financing activities					
Repayment of bonds	(29,305,000)	-	-	-	(29,305,000)
Bond interest paid	(20,583,203)	-	-	-	(20,583,203)
Net acquisition of capital assets	(16,901,060)	(30,205)	(440,264)	(29,020)	(17,400,549)
Net cash used in capital and related financing activities	<u>(66,789,263)</u>	<u>(30,205)</u>	<u>(440,264)</u>	<u>(29,020)</u>	<u>(67,288,752)</u>
Cash flows from non-capital financing activities					
Transfers to the General Fund of the City	(4,572,075)	-	-	-	(4,572,075)
Advance (from) to City	(11,178,771)	9,542,502	4,864,129	(28)	3,227,832
Net cash provided by (used in) non-capital financing activities	<u>(15,750,846)</u>	<u>9,542,502</u>	<u>4,864,129</u>	<u>(28)</u>	<u>(1,344,243)</u>
Cash flows from investing activities					
Investment income	1,495,675	6,742	13,468	1,313	1,517,198
Cash provided by investing activities	<u>1,495,675</u>	<u>6,742</u>	<u>13,468</u>	<u>1,313</u>	<u>1,517,198</u>
Change in cash and cash equivalents	(8,041,485)	8,938,408	6,033,125	246,067	7,176,115
Cash and cash equivalents, beginning of year	<u>157,612,612</u>	<u>2,373,287</u>	<u>1,259,233</u>	<u>495,404</u>	<u>161,740,536</u>
Cash and cash equivalents, end of year	<u>\$ 149,571,127</u>	<u>\$ 11,311,695</u>	<u>\$ 7,292,358</u>	<u>\$ 741,471</u>	<u>\$ 168,916,651</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 29,083,735	\$ 194,907	\$ 1,452,372	\$ (1,590)	\$ 30,729,424
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	7,478,724	733,109	331,922	201,903	8,745,658
Change in operating assets and liabilities:					
Accounts receivable	6,290,891	(321,451)	(27,716)	166	5,941,890
Accrued unbilled revenue	(984,210)	(167,036)	(35,281)	-	(1,186,527)
Prepaid expenses and deposits	(122,773)	-	-	-	(122,773)
Prepaid natural gas	28,549,573	-	-	-	28,549,573
Deferred outflows of resources	3,029,345	68,461	420,631	(5,018)	3,513,419
Accounts payable	1,716,826	(1,287,403)	722,578	8,661	1,160,662
Accrued wages and benefits	(3,213)	5,672	4,465	(5,015)	1,909
Customer deposits	(66,630)	-	(236,106)	-	(302,736)
Compensated absences	(168,182)	(12,538)	(52,084)	(23,875)	(256,679)
Other postemployment benefit liability	116,961	157,478	(763,507)	34,318	(454,750)
Net pension liability	414,850	(74,890)	(567,580)	41,448	(186,172)
Deferred inflows of resources	(2,332,948)	123,060	346,098	22,804	(1,840,986)
Net cash provided by (used in) operating activities	<u>\$ 73,002,949</u>	<u>\$ (580,631)</u>	<u>\$ 1,595,792</u>	<u>\$ 273,802</u>	<u>\$ 74,291,912</u>

B. Pledged Revenues

The Vernon Public Utilities has pledged future electric revenues for the repayment of its revenue bonds (See Note 6 regarding long-term obligations).

NOTE 11 STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY

Expenditures in Excess of Appropriations

Expenditures for the year ended June 30, 2019 exceeded appropriations in the following funds:

<u>Fund Name</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Over Appropriations</u>
General Fund			
Public safety	\$ 29,783,752	\$ 32,767,869	\$ (2,984,117)

NOTE 12 CONTINGENCIES

As of June 30, 2019, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. In the opinion of management and legal counsel, the disposition on all litigation pending will not have a material effect on the City's financial statements.

Uncertainties

Sale of Generation and Transmission Assets

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

NOTE 13 GASB PRONOUNCEMENTS

Pronouncements Issued but Not yet Effective:

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

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 "Leases". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

NOTE 13 GASB PRONOUNCEMENTS (CONTINUED)

GASB No. 89

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90 "Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61". The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB No. 91

In May 2019, the Governmental Accounting Standards Board issued Statement No. 91, "Conduit Debt Obligations." The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

NOTE 14 SUBSEQUENT EVENTS

The City has evaluated events or transactions that occurred subsequent to the balance sheet date through March 17, 2020, 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.

In February 2020, the City Council of the City of Vernon, through Resolution Number 2020-04, authorized and approved the issuance of Electric Revenue Bonds 2020 Series for an aggregate principal amount not to exceed \$200 million for the purpose of providing moneys: (i) to refund one or more of the following series of bonds, in whole or in part, depending on market conditions at the time of issuance of the 2020 Series Bonds: (1) the City' s Electric System Revenue Bonds, 2009 Series A; (2) the City' s Electric System Revenue Bonds, 2012 Taxable Series B; and/or (3) the City' s Electric System Revenue Bonds, 2015 Taxable Series A (collectively, the " Refunded Bonds"); (ii) to finance Costs of Capital Improvements by reimbursing the Electric System for the prior payment of such Costs from the Light and Power Fund and by paying Costs of Capital Improvements to the Electric System (collectively, the " 2020 Project"); (iii) to fund a deposit to the Debt Service Reserve Fund; and (iv) to pay Costs of Issuance of the 2020 Series Bonds.

In February 2020, the City Council of the City of Vernon, through Resolution Number 2020-05, authorized and approved the issuance of Water System Revenue Bonds 2020 Series A for an aggregate principal amount not to exceed \$15 million payable from the Net Revenues of the Water System for the purposes of financing certain capital improvements to its Water System, paying costs of issuance of the Bonds and, if necessary, funding a deposit to (or procuring a letter of credit, insurance policy or other facility to provide for the funding of) a reserve fund for the Bonds.

NOTE 14 SUBSEQUENT EVENTS (CONTINUED)

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. To date, it is unknown how long these conditions will last and what the complete financial effect will be to businesses and other affected organizations, including local governmental entities.

NOTE 15 SUCCESSOR AGENCY DISCLOSURES

The accompanying financial statements also include the Private-purpose Trust Fund for the Successor Agency to the City's former Redevelopment Agency (Successor Agency). The City, as the Successor Agency, serves in a fiduciary capacity, as the custodian for the assets and to wind down the affairs of the former Redevelopment Agency. Its assets are held in trust for the benefit of the taxing entities within the former Redevelopment Agency's boundaries and as such, are not available for the use of the City.

Disclosures related to the certain assets and long-term liabilities of the Successor Agency are as follows:

Capital Assets

Effective February 1, 2012, due to AB 1X 26, Redevelopment Agencies throughout California has been dissolved. The activities of the dissolved Vernon Redevelopment Agency have been recorded in the Vernon Redevelopment Successor Agency fiduciary fund. In accordance with the Successor Agency's long-range plan to wind down the affairs of the Successor Agency, all capital assets of the Successor Agency were either written-off or transferred over to the City restricted for government purpose use.

Long-term Liabilities

The long-term liabilities of the Successor Agency at June 30, 2019, were as follows:

	<u>Balance</u>				<u>Balance</u>	<u>Amounts</u>
	<u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>		<u>June 30, 2019</u>	<u>Due Within</u>
						<u>One Year</u>
Bonds payable \$	50,810,000	\$ -	\$ (2,580,000)	\$	48,230,000	\$ 2,825,000
Bond premium	369,905	-	(44,345)		325,560	44,345
Bond discount	(570,839)	-	43,910		(526,929)	(43,910)
	<u>\$ 50,609,066</u>	<u>\$ -</u>	<u>\$ (2,580,435)</u>	<u>\$</u>	<u>48,028,631</u>	<u>\$ 2,825,435</u>

NOTE 15 SUCCESSOR AGENCY DISCLOSURES (CONTINUED)

Long-term Liabilities (continued)

\$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2005

At June 30, 2019, \$35,830,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$53,183,890, payable through fiscal 2036. For the current year, debt service amounted to \$3,230,734. The bonds were issued to (i) finance various redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay costs of issuance of the Series 2005 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.25% to 5.25%.

\$19,490,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2011

At June 30, 2019, \$12,400,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$18,951,537, payable through fiscal 2031. For the current year, debt service amounted to \$2,263,625. The bonds were issued to (i) finance the acquisition of one or more parcels of land, and certain redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund a deposit to the reserve account sufficient to meet the reserve requirement, and (iii) pay costs of issuance of the Series 2011 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.00% to 9.25%.

The following schedule shows the debt service requirements to maturity for the bonds as of June 30, 2019:

Fiscal Year				
Ending June 30	Principal	Interest	Total	
2020	\$ 2,825,000	\$ 2,748,006	\$ 5,573,006	
2021	3,105,000	2,556,113	5,661,113	
2022	3,385,000	2,344,225	5,729,225	
2023	1,845,000	2,174,497	4,019,497	
2024	2,015,000	2,053,091	4,068,091	
Thereafter	35,055,000	12,029,495	47,084,495	
Total	<u>\$ 48,230,000</u>	<u>\$ 23,905,427</u>	<u>\$ 72,135,427</u>	

REQUIRED SUPPLEMENTARY INFORMATION

City of Vernon, California
General Fund Budgetary Comparison Schedule
Year ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 43,588,183	\$ 43,588,183	\$ 44,130,771	\$ 542,588
Special assessments	1,025,000	1,025,000	1,333,943	308,943
Licenses and permits	1,865,667	1,865,667	3,679,452	1,813,785
Fines, forfeitures and penalties	170,300	170,300	253,849	83,549
Investment income	136,455	136,455	101,082	(35,373)
Intergovernmental revenues	2,839,808	2,839,808	1,647,882	(1,191,926)
Charges for services	1,541,889	1,541,889	4,694,047	3,152,158
Other revenues	668,455	668,455	1,314,866	646,411
Total revenues	<u>51,835,757</u>	<u>51,835,757</u>	<u>57,155,892</u>	<u>5,320,135</u>
Expenditures:				
Current:				
General government	13,363,088	13,363,088	13,011,907	351,181
Public safety	29,783,752	29,783,752	32,767,869	(2,984,117)
Public works	8,963,946	8,963,946	7,229,130	1,734,816
Health services	1,687,628	1,687,628	1,370,284	317,344
Capital outlay	4,926,327	4,926,327	3,400,211	1,526,116
Total expenditures	<u>58,724,741</u>	<u>58,724,741</u>	<u>57,779,401</u>	<u>945,340</u>
Deficiency of revenues over expenditures	<u>(6,888,984)</u>	<u>(6,888,984)</u>	<u>(623,509)</u>	<u>6,265,475</u>
Other financing sources				
Gain on sale of assets	-	-	1,519	1,519
Transfers in	4,925,975	4,925,975	4,572,075	(353,900)
Total other financing sources	<u>4,925,975</u>	<u>4,925,975</u>	<u>4,573,594</u>	<u>(352,381)</u>
Change in fund balance	(1,963,009)	(1,963,009)	3,950,085	5,913,094
Beginning fund balance (deficit)	<u>(2,765,996)</u>	<u>(2,765,996)</u>	<u>(2,765,996)</u>	<u>-</u>
Ending fund balance (deficit)	<u>\$ (4,729,005)</u>	<u>\$ (4,729,005)</u>	<u>\$ 1,184,089</u>	<u>\$ 5,913,094</u>

NOTE 1 BUDGET

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund;
- The budget is adopted on a modified accrual basis and formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as committed fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- Excess expenditures over appropriations are financed by beginning fund balance. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during the fiscal year 2019. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$5,913,094. The key reason for this variance was due to higher actual revenues than projected by \$5,320,135.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$5,320,135. The key reasons for this variance were due to higher actual revenues over estimated revenues in licenses and permits and charges for services..

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$945,340. The key reasons for this variance were due to higher appropriations than actual expenditures of \$1,526,116 in capital outlay, \$1,734,816 in public works, \$351,181 in general government and \$317,344 in health services, offset by the higher actual expenditures than appropriated in public safety by \$2,984,117.

For the current year, the General Fund's total negative variance between the final budgeted amounts and the actual amount for other financing sources was \$352,381. The key reason for this variance was due to a lower amount transferred by the Electric Fund by \$353,900.

City of Vernon, California
Schedule of Changes in the Net Pension Liability and Related Ratios
Miscellaneous Plan
Last 10 Years*

	Measurement Period				
	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Total Pension Liability					
Service cost	\$ 2,826,440	\$ 2,432,788	\$ 2,129,659	\$ 1,962,270	\$ 1,955,694
Interest on total pension liability	11,053,679	10,383,859	9,969,103	9,447,012	9,609,274
Changes of benefit terms	-	-	-	-	-
Changes of assumptions	(549,432)	9,321,776	-	(2,466,126)	-
Differences between expected and actual experience	3,059,775	(711,339)	1,046,363	(9,700,904)	-
Benefit payments, including refunds of employee contributions	(6,166,082)	(6,145,366)	(5,748,657)	(5,680,624)	(2,388,449)
Net change in total pension liability	10,224,380	15,281,718	7,396,468	(6,438,372)	9,176,519
Total pension liability - beginning	153,756,378	138,474,660	131,078,192	137,516,564	128,340,045
Total pension liability - ending (a)	163,980,758	153,756,378	138,474,660	131,078,192	137,516,564
Plan fiduciary net position					
Contributions - employer	3,380,432	3,629,603	3,140,644	2,340,002	1,825,732
Contributions - employee	1,214,616	1,245,990	1,095,824	1,054,426	1,015,741
Net investment income	9,803,260	11,857,647	583,692	2,337,855	16,045,243
Benefit payments, including refunds of employee contributions	(6,166,082)	(6,145,366)	(5,748,657)	(5,680,624)	(2,388,449)
Plan to plan resource movement	(296)	1,118	(780)	18	-
Administrative expense	(186,518)	(161,327)	(67,200)	(124,052)	-
Other miscellaneous income ¹	(354,202)				
Net change in plan fiduciary net position	7,691,210	10,427,665	(996,477)	(72,375)	16,498,267
Plan fiduciary net position - beginning	119,695,436	109,267,771	110,264,248	110,336,623	93,838,356
Plan fiduciary net position - ending (b)	127,386,646	119,695,436	109,267,771	110,264,248	110,336,623
Net pension liability - ending (a)-(b)	\$ 36,594,112	\$ 34,060,942	\$ 29,206,889	\$ 20,813,944	\$ 27,179,941
Plan fiduciary net position as a percentage of the total pension liability	77.68%	77.85%	78.91%	84.12%	80.24%
Covered - employee payroll	\$ 15,146,241	\$ 13,440,076	\$ 13,150,103	\$ 11,708,057	\$ 11,084,188
Net pension liability as percentage of covered - employee payroll	241.61%	253.43%	222.10%	177.77%	245.21%

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

¹ In FY18, CalPERS reported its one-time expense of proportionate share of activity as a result of the adoption of GASB 75. Additionally, CalPERS recorded a correction to properly reflect the proportionate share of activity related to GASB 68.

City of Vernon, California
Schedule of Changes in the Net Pension Liability and Related Ratios
Safety Plan
Last 10 Years*

	Measurement Period				
	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
Total Pension Liability					
Service cost	\$ 4,414,740	\$ 4,144,398	\$ 3,454,025	\$ 3,388,157	\$ 3,448,760
Interest on total pension liability	17,691,261	16,898,830	16,325,879	15,777,736	15,255,372
Changes of benefit terms	-	-	-	-	-
Changes of assumptions	(1,533,898)	14,134,794	-	(3,878,396)	-
Differences between expected and actual experience	2,008,618	(1,380,683)	(2,430,394)	(2,400,883)	-
Benefit payments, including refunds of employee contributions	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Net change in total pension liability	11,588,305	23,649,440	7,613,208	3,416,556	9,065,009
Total pension liability - beginning	250,244,356	226,594,916	218,981,708	215,565,152	206,500,143
Total pension liability - ending (a)	261,832,661	250,244,356	226,594,916	218,981,708	215,565,152
Plan fiduciary net position					
Contributions - employer	6,109,373	5,476,196	5,116,412	4,147,441	3,234,539
Contributions - employee	1,302,308	1,212,646	1,222,561	1,167,329	1,092,012
Net investment income	14,666,919	17,760,401	760,559	3,525,241	24,855,525
Benefit payments, including refunds of employee contributions	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Plan to plan resource movement	(431)	(1,118)	780	24	-
Administrative expense	(272,124)	(237,068)	(99,525)	(191,323)	-
Other miscellaneous income ¹	(516,768)	-	-	-	-
Net change in plan fiduciary net position	10,296,861	14,063,158	(2,735,515)	(821,346)	19,542,953
Plan fiduciary net position - beginning	174,631,359	160,568,201	163,303,716	164,125,062	144,582,109
Plan fiduciary net position - ending (b)	184,928,220	174,631,359	160,568,201	163,303,716	164,125,062
Net pension liability - ending (a)-(b)	\$ <u>76,904,441</u>	\$ <u>75,612,997</u>	\$ <u>66,026,715</u>	\$ <u>55,677,992</u>	\$ <u>51,440,090</u>
Plan fiduciary net position as a percentage of the total pension liability	70.63%	69.78%	70.86%	74.57%	76.14%
Covered - employee payroll	\$ 14,292,273	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785	\$ 12,510,920
Net pension liability as percentage of covered - employee payroll	538.08%	544.77%	509.00%	437.01%	411.16%

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

¹ In FY18, CalPERS reported its one-time expense of proportionate share of activity as a result of the adoption of GASB 75. Additionally, CalPERS recorded a correction to properly reflect the proportionate share of activity related to GASB 68.

City of Vernon, California
Schedule of Pension Contributions
Miscellaneous Plan
Last 10 Years*

	Reporting Period				
	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Actuarially determined contributions	\$ 3,380,432	\$ 3,629,603	\$ 3,140,644	\$ 2,340,002	\$ 1,825,732
Contributions in relation to the actuarially determined contributions	(3,380,432)	(3,629,603)	(3,140,644)	(2,340,002)	(1,825,732)
Contribution deficiency / (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 15,146,241	\$ 13,440,076	\$ 13,150,103	\$ 11,708,057	\$ 11,084,188
Contributions as a percentage of Covered-Employee Payroll	22.32%	27.01%	23.88%	19.99%	16.47%

Notes to Schedule:

Valuation date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
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The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-2018 were from the June 30, 2015 funding valuation report.

Actuarial Cost Method	Entry age normal
Amortization method / Period	For details, see June 30, 2015 Funding Valuation Report.
Asset valuation method	Market Value of Assets. For details, see June 30, 2015 Funding Valuation Report
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses; includes inflation
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society Actuaries.

* Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

City of Vernon, California
Schedule of Pension Contributions
Safety Plan
Last 10 Years*

	Reporting Period				
	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015
Actuarially determined contributions	\$ 6,109,373	\$ 5,476,196	\$ 5,116,412	\$ 4,147,441	\$ 3,234,539
Contributions in relation to the actuarially determined contributions	(6,109,373)	(5,476,196)	(5,116,412)	(4,147,441)	(3,234,539)
Contribution deficiency / (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-Employee Payroll	\$ 14,292,273	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785	\$ 12,510,920
Contributions as a percentage of Covered-Employee Payroll	42.75%	39.45%	39.44%	32.55%	25.85%

Notes to Schedule:

Valuation date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
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The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018-2019 were from the June 30, 2015 funding valuation report.

Actuarial Cost Method	Entry age normal
Amortization method / Period	For details, see June 30, 2015 Funding Valuation Report.
Asset valuation method	Market Value of Assets. For details, see June 30, 2015 Funding Valuation Report
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment rate of return	7.50%, net of pension plan investment expense and administrative expenses; includes inflation
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society Actuaries.

* Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

City of Vernon, California
Schedule of Changes in Net OPEB Liability and Related Ratios
Last 10 Years*

	Measurement Period	
	2017-2018	2016-2017
Total OPEB Liability		
Service cost	\$ 1,204,747	\$ 1,166,825
Interest on total OPEB liability	2,063,052	1,879,025
Differences between expected and actual experience	(6,680,583)	-
Changes of assumptions	(7,657,196)	(770,716)
Benefit payments	(1,006,087)	(838,818)
Net change in total OPEB liability	<u>(12,076,067)</u>	<u>1,436,316</u>
Total OPEB liability - beginning	<u>37,355,851</u>	<u>35,919,535</u>
Total OPEB liability - ending (a)	<u>25,279,784</u>	<u>37,355,851</u>
 Plan fiduciary net position		
Contributions - employer	2,065,407	1,898,138
Net investment income	65,276	(2,049)
Benefit payments	(1,006,087)	(838,818)
Administrative expense	(808)	(4)
Other deductions	(1,400)	-
Net change in plan fiduciary net position	<u>1,122,388</u>	<u>1,057,267</u>
Plan fiduciary net position - beginning	<u>1,057,267</u>	<u>-</u>
Plan fiduciary net position - ending (b)	<u>2,179,655</u>	<u>1,057,267</u>
 Net OPEB liability - ending (a)-(b)	<u>\$ 23,100,129</u>	<u>\$ 36,298,584</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	8.62%	2.83%

* Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

City of Vernon, California
Schedule of OPEB Contributions
Last 10 Years*

	Reporting Period	
	2018-2019	2017-2018
Actually determined contributions	\$ 2,692,868	\$ 1,830,943
Contributions in relation to the actuarially determined contributions	2,989,393	1,716,846
Contribution deficiency / (excess)	\$ (296,525)	\$ 114,097
OPEB-eligible payroll for reporting period (fiscal year)	\$ 35,182,647	\$ 33,496,565
Contributions as a percentage of Covered-Employee Payroll	7.65%	5.47%

Notes to Schedule:

Valuation date	June 30, 2018
Actuarial cost method	Entry age normal level percent of pay
Amortization method	Closed period
Amortization period	28 years
Asset valuation method	Market value
Inflation	2.50%
Healthcare trend rates	6.90% , trending down to 4.00%
Salary increases	2.75% annual increases
Rate of return on assets	6.50%
Mortality rate	CalPERS rates
Retirement rates	CalPERS rates
Other information	The ADC and contributions in relation to ADC for fiscal 2018 do not include implicit subsidy benefits.

* Fiscal year 2018 was the first year of implementation, therefore only two years are shown.