

**City of Vernon**  
**ELECTRIC FUND**  
**(An Enterprise Fund of the City of Vernon, California)**  
**Annual Financial Report**  
***As of and For the Year Ended June 30, 2019***

**City of Vernon**  
**ELECTRIC FUND**  
**(An Enterprise Fund of the City of Vernon, California)**  
**Annual Financial Report**  
*As of and For the Year Ended June 30, 2019*

	<u>PAGE</u>
<b>INTRODUCTION</b>	
A Message from the General Manager of Vernon Public Utilities	1
FY 2018-2019 Vernon Public Utilities – Electric Division at a Glance	2
Major Initiatives and Accomplishments	2
<b>FINANCIAL SECTION</b>	
Report of Independent Auditors	4
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited)	6
Basic Financial Statements:	
Statement of Fund Net Position	13
Statement of Revenues, Expenses, and Changes in Fund Net Position	15
Statement of Cash Flows	16
Notes to the Financial Statements	18

## Introduction

### A message from Abraham Alemu, General Manager of Vernon Public Utilities

As the newly appointed General Manager of Vernon Public Utilities, I'd like to say "Thank You" to the City Council and City Management for the incredible opportunity to serve as the General Manager of one of the most consequential departments in the City.

I am excited to join a very talented management team and contribute to advancing the City's goals and values of business friendliness, government transparency, high-quality-low-cost service, and community accountability. During my term as Interim General Manager and now as General Manager, the City Management and other department heads have supported me and given me advice, assuring me that I can lean on them whenever I need their assistance. Most importantly, I have the support and confidence of the VPU family. VPU employees have shown me the utmost respect and support both in person and through their performance. They have worked diligently and efficiently as we tackled major critical projects in the water, electric, and gas operations. As we continue to fill vacancies, VPU staff have worn multiple hats and covered responsibilities outside of their normal duties. For all of this, I am profoundly grateful. I will continue to depend on them for their expertise and professionalism.

Surrounded by the City management team and my VPU family, I envision a number of exciting "locally focused" projects and programs that will shape our resource procurement strategy, service delivery model, financial and service accountability, and customer engagement. Building on the City's most business-friendly model, the central theme will be local investment and customer engagement. I am very thankful to the City Council and City management for their trust in me to lead a very important city department. I will work with all of my capabilities to execute the duties entrusted with me.

Thank you,



Abraham Alemu  
General Manager, Vernon Public Utilities

FY 2018-2019 Vernon Public Utilities – Electric Division at a Glance

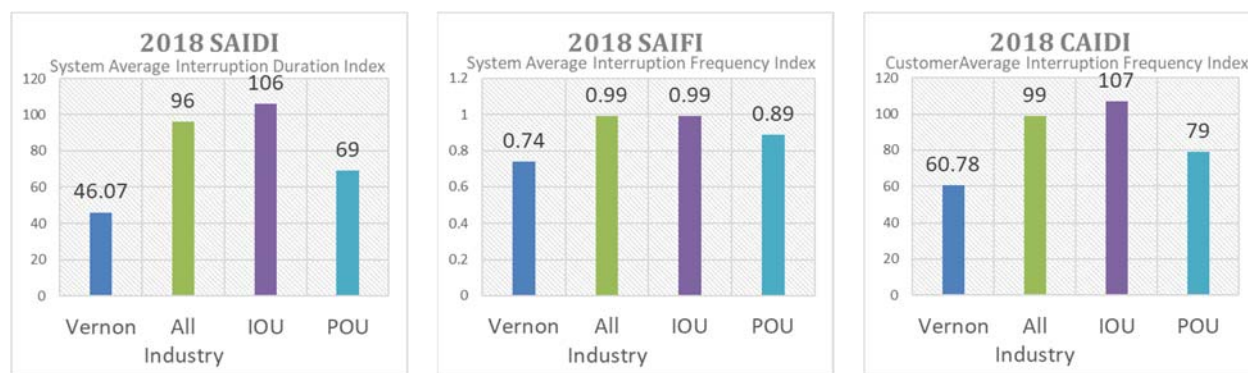
Electric	
Service area	5 square miles
Service meters	2018 meters
Number of poles	4750
Number of substations	8
Peak load	182.83 MW (July 2017)

Major Initiatives and Accomplishments

Department Wide

- Earned APPA RP3 Diamond Level Recognition of Operational Excellence in the key areas of Reliability, Safety, Workforce Development, System Improvement
- VPU was recognized for its outstanding safety record during the 2018 calendar year. VPU received First Place in the APPA 2018 Safety Award of Excellence for group category D, as well as winner of the 2019 Safety Award from the American Public Gas Association (low incidence rate/Exposure Hours)
- Served in California Utilities Emergency Association Board of Directors
- Positive credit article in Moody’s Credit Outlook April 2018 publication
- Benchmarking study ranks VPU electric reliability top 10% nationwide
- Served on SCPPA Executive Committee

Figure 1: Nation-wide Reliability Metrics Benchmarking for 2018

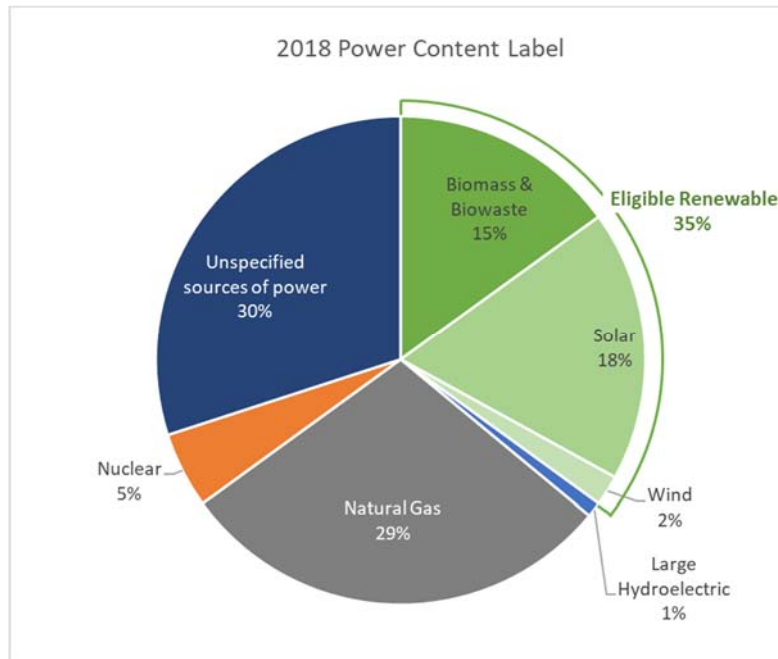


Electric Division

- Ongoing replacement and conversion of the 7kV Leonis Substation Number 3 Bank which has been in service from 1957 to 16kV Substation Distribution Transformer
- Completed replacement of the Leonis Substation Number 2 Bank 66 to 7KV Substation Distribution Transformer in service since 1951
- Replacement of Number 4 and 5 Bank 16KV Circuit Breaker in progress
- Installed first Automatic Line Recloser to minimize number of customers out of service during interruptions
- Implemented remote reading meter upgrade program to increase efficiency and increase safety

## Resource Division

- Increased revenues from Resource Adequacy transactions and raising Ancillary Service Capacity from 41 MW to 51 MW
- Renegotiated division contracts to lower on-going cost
- Completed long-term 20-year Integrated Resource Plan consistent with SB 350
- Developed four (4) year cost of service based electric rates and received City Council approval
- Met CEC compliance period 2 (22% of retail sales) Renewable Portfolio Standard (RPS) mandate
- Revised and updated the Economic Development Rate opportunity programs



## Compliance

- Performed Gas System Compliance Gap Analysis
- Participated in American Public Power Association (APPA) Legislative Rally in Washington, DC
- Elected to APPA's Reliable Public Power Provider grading panel
- Reliability Metrics benchmarked among the highest in the country in 2017
- Featured participant in national APPA Mutual Assistance Table Top Exercise.

## 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 Electric Fund of the City of Vernon, California (City), which comprise the statement of fund net position as of June 30, 2019, and the related statement of revenues, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to financial statements, which collectively comprise the Electric Fund's basic financial statements.

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

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

#### *Auditors' Responsibility*

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

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



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

### ***Opinion***

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Fund of the City of Vernon, California, as of June 30, 2019, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

As discussed in Note 1 to the financial statements, the financial statements present only the Electric Fund of the City of Vernon, California and do not purport to, and do not, present fairly the financial position of the City of Vernon, California as of June 30, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 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.

The Introduction Section on pages 1 through 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Glendale, California  
February 27, 2020**



The management of the Electric Fund of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the Electric Fund for the fiscal year ended June 30, 2019. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

## **OVERVIEW OF BASIC FINANCIAL STATEMENTS**

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

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

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

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

The *notes to the financial statements* provide additional information that is essential.

**City of Vernon, California**  
**Electric Fund**  
**Management's Discussion and Analysis (Unaudited)**  
**Year ended June 30, 2019**

**FINANCIAL HIGHLIGHTS**

***Fund Net Position***

The table below summarizes the Electric Fund's net position as of the current fiscal year ended June 30, 2019, and prior fiscal year ended June 30, 2018. The details of the current year's summary can be found on page 13 of this report.

	2019	2018	Change	
			Amount	%
<b>Assets:</b>				
Current and other assets	\$ 228,939,501	\$ 262,551,884	\$ (33,612,383)	-13%
Restricted assets	31,106,314	28,051,380	3,054,934	11%
Capital assets	<u>217,306,703</u>	<u>207,871,543</u>	<u>9,435,160</u>	5%
Total assets	<u>477,352,518</u>	<u>498,474,807</u>	<u>(21,122,289)</u>	-4%
<b>Deferred Outflows of Resources</b>	<u>8,210,929</u>	<u>11,240,274</u>	<u>(3,029,345)</u>	-27%
<b>Liabilities:</b>				
Current liabilities	49,568,129	47,357,918	2,210,211	5%
Long-term liabilities	<u>294,161,970</u>	<u>323,537,409</u>	<u>(29,375,439)</u>	-9%
Total liabilities	<u>343,730,099</u>	<u>370,895,327</u>	<u>(27,165,228)</u>	-7%
<b>Deferred Inflows of Resources</b>	<u>15,435,790</u>	<u>17,768,738</u>	<u>(2,332,948)</u>	-13%
<b>Net Position:</b>				
Net investment in capital assets	139,020,377	129,098,635	9,921,742	8%
Unrestricted (deficit)	<u>(12,622,819)</u>	<u>(8,047,619)</u>	<u>(4,575,200)</u>	57%
Total net position	<u>\$ 126,397,558</u>	<u>\$ 121,051,016</u>	<u>\$ 5,346,542</u>	4%

The assets and deferred outflows of resources of the Electric Fund exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$126.4 million (*net position*).

The category of the Electric Fund's net position with the largest balance totaling \$139.0 million represents resources that are invested in capital assets, net of the related debt.

The remaining category of net position, totaling \$(12.6) million represents a deficit in the unrestricted net position that is expected to be recovered from the Electric Fund's future revenues.

**Activities, net position:**

- Current and other assets decreased by \$33.6 million from the prior year mainly due to a decrease in prepaid natural gas by \$28.5 million, cash and cash equivalents by \$11.1 million and receivables by \$5.3 million, offset by the increase in advances to other funds by \$11.2 million.
- Restricted assets increased by \$3.1 million 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 \$9.4 million from the prior year mainly due to acquisition of transformers for the distribution facility totaling \$16.9 million, offset by depreciation of \$7.5 million.
- Deferred outflows of resources decreased by \$3.0 million from the prior year mainly due to amortization of deferred costs of \$2.5 million (See Notes 6 and 7) and decrease in deferred outflows of resources related to pension by \$703 thousand. This was offset by a \$182 thousand increase in the amount of deferred outflows of resources related to other postemployment benefits.
- Current liabilities increased by \$2.2 million from the prior year mainly due to a \$1.2 million increase in current portion of bonds payable and \$1.7 million increase in accounts payable. This was offset by the decrease in bond interest payable amount by \$626 thousand.
- Long-term liabilities decreased by \$29.4 million from the prior year mainly due to a \$29.3 million repayment of principal during the year.
- Deferred inflows of resources decreased by \$2.3 million largely due to the decrease in the deferred gain from the sale of generation assets of \$3.7 million from the prior year due to amortization to capacity expense during the current year. This was offset by an increase of \$1.3 million in deferred inflows of resources related to other postemployment benefit liability.
- The unrestricted net deficit increased by \$4.6 million from the prior year due primarily to current year's change in net position of \$5.3 million offset by an increase in net investment in capital assets of \$9.9 million.

**City of Vernon, California**  
**Electric Fund**  
**Management's Discussion and Analysis (Unaudited)**  
**Year ended June 30, 2019**

***Changes in Fund Net Position***

The table below summarizes the Electric Fund's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 15 of this report.

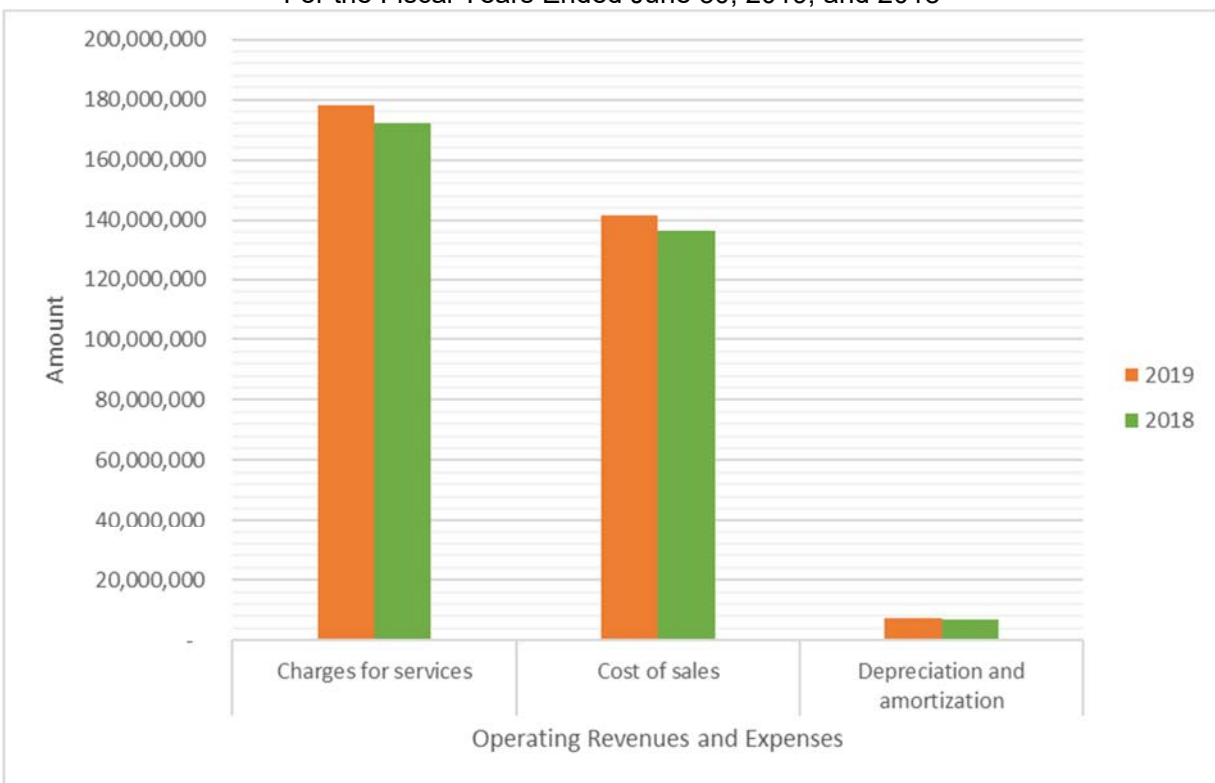
	2019	2018	Change	
			Amount	%
<b>Operating revenues:</b>				
Charges for services	\$ 178,149,122	\$ 172,227,536	\$ 5,921,586	3%
<b>Operating expenses:</b>				
Cost of sales	141,586,663	136,363,703	5,222,960	4%
Depreciation and amortization	7,478,724	7,059,119	419,605	6%
Total operating expenses	149,065,387	143,422,822	5,642,565	4%
Operating income	29,083,735	28,804,714	279,021	1%
<b>Nonoperating revenues (expenses):</b>				
Investment income	1,532,262	1,151,127	381,135	33%
Net increase in fair value of investments	2,159	19,980	(17,821)	-89%
Interest expense	(20,712,363)	(22,209,504)	1,497,141	-7%
Gain on sale of assets	12,824	792,378	(779,554)	-98%
Legal settlement	-	329,385	(329,385)	-100%
Net nonoperating revenues (expenses)	(19,165,118)	(19,916,634)	751,516	-4%
Income before transfers	9,918,617	8,888,080	1,030,537	12%
<b>Transfers</b>				
Transfers from the Successor Agency	-	22,595,532	(22,595,532)	-100%
Transfers to the General Fund of the City	(4,572,075)	(14,344,504)	9,772,429	-68%
Net transfers	(4,572,075)	8,251,028	(12,823,103)	-155%
<b>Change in net position</b>	<b>5,346,542</b>	<b>17,139,108</b>	<b>(11,792,566)</b>	<b>-69%</b>
<b>Net position - beginning of year</b>	<b>121,051,016</b>	<b>103,911,908</b>	<b>2,299,827</b>	<b>2%</b>
<b>Net position - end of year</b>	<b>\$ 126,397,558</b>	<b>\$ 121,051,016</b>	<b>\$ 5,346,542</b>	<b>4%</b>

**City of Vernon, California**  
**Electric Fund**  
**Management's Discussion and Analysis (Unaudited)**  
**Year ended June 30, 2019**

The Electric Fund's income before transfers of \$9.9 million, less transfers to the City of \$4.6 million resulted in an increase in net position by \$5.3 million during the current year. The Electric Fund expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, and revenues from renewable energy projects.

The Electric Fund's activities increased net position by \$5.3 million which is \$11.8 million lower than the prior year. The key reason for this change was due to the release of the unspent bond proceeds from the Successor Agency of \$22.6 million in 2018 and was offset by a decrease in transfers to the General Fund of the City by \$9.8 million.

**Operating Revenues and Expenses**  
**For the Fiscal Years Ended June 30, 2019, and 2018**



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital assets***

The Electric Fund's investment in capital assets as of June 30, 2019, amounted to \$217.3 million (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utility system improvements, and machinery and equipment. The total increase in the Electric Fund's investment in capital assets for the current fiscal year was \$16.9 million, offset by the depreciation of \$7.5 million. Additional information on the Electric Fund's capital assets can be found in Note 5 on page 29 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.

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.

Additional information on the Electric Fund's long-term debt can be found in Note 6 on pages 30-35 of this report.

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

These factors were considered in preparing the Electric Fund'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 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 Electric Fund's finances for all those with an interest in the Electric Fund'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**  
**Electric Fund**  
**Statement of Fund Net Position**  
**June 30, 2019**

---

**ASSETS**

Current assets

Cash and cash equivalents	\$ 118,464,813
Accounts receivable, net of allowance of \$1,000,000	3,853,898
Accrued unbilled revenue	10,487,302
Accrued interest receivable	161,772
Escrow deposits	940,000
Prepaid natural gas	28,664,653
Total current assets	162,572,438

Noncurrent assets

Restricted cash and cash equivalents	31,106,314
Advances to other funds	38,835,229
Prepaid expenses	1,885,414
Prepaid natural gas	25,646,420
Capital assets	
Nondepreciable	59,868,021
Depreciable, net	157,438,682
Total noncurrent assets	314,780,080

	<b>Total assets</b>
	477,352,518

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows related to pensions	1,980,289
Deferred outflows related to other postemployment benefit liability	320,856
Deferred amount on refunding	5,909,784
<b>Total deferred outflows of resources</b>	8,210,929

*See notes to the basic financial statements.*



City of Vernon, California  
**Electric Fund**  
**Statement of Fund Net Position (continued)**  
**June 30, 2019**

---

**LIABILITIES**

Current liabilities

Accounts payable	\$	11,370,523
Accrued wages and benefits		374,169
Customer deposits		415,947
Bond interest payable		7,426,028
Bonds payable, net		29,795,127
Compensated absences		186,335
Total current liabilities		49,568,129

Noncurrent liabilities

Bonds payable, net		279,301,654
Compensated absences		372,670
Other postemployment benefit liability		2,449,998
Net pension liability		12,037,648
Total noncurrent liabilities		294,161,970

**Total liabilities** 343,730,099

**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pensions		134,373
Deferred inflows related to other postemployment benefit liability		1,369,963
Deferred gain from sale of generation assets		13,931,454
<b>Total deferred inflows of resources</b>		<b>15,435,790</b>

**NET POSITION**

Net investment in capital assets		139,020,377
Unrestricted (deficit)		(12,622,819)
<b>Total net position</b>	<b>\$</b>	<b>126,397,558</b>

*See notes to the basic financial statements.*

City of Vernon, California  
Electric Fund

Statement of Revenues, Expenses, and Changes in Fund Net Position  
Year ended June 30, 2019

---

<b>Operating revenues</b>		
Charges for services		\$ 178,149,122
	<b>Total operating revenues</b>	<u>178,149,122</u>
<b>Operating expenses</b>		
Cost of sales		141,586,663
Depreciation		<u>7,478,724</u>
	<b>Total operating expenses</b>	<u>149,065,387</u>
<b>Operating income</b>		<u>29,083,735</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income		1,532,262
Net increase in fair value of investments		2,159
Interest expense		(20,712,363)
Gain on sale of assets		<u>12,824</u>
	<b>Net nonoperating revenues (expenses)</b>	<u>(19,165,118)</u>
<b>Income before transfers</b>		9,918,617
<b>Transfers</b>		
Transfers out		<u>(4,572,075)</u>
	<b>Total transfers</b>	<u>(4,572,075)</u>
<b>Change in net position</b>		5,346,542
<b>Net position - beginning of year</b>		<u>121,051,016</u>
<b>Net position - end of year</b>		<u>\$ 126,397,558</u>

*See notes to the basic financial statements.*

**City of Vernon, California**  
**Electric Fund**  
**Statement of Cash Flows**  
**Year ended June 30, 2019**

<b>Cash flows from operating activities</b>	
Cash received from customers	\$ 183,389,173
Cash paid to suppliers for goods and services	(102,525,644)
Cash paid to employees for services	(7,860,580)
<b>Net cash provided by operating activities</b>	<u>73,002,949</u>
<b>Cash flows from capital and related financing activities</b>	
Repayment of bonds	(29,305,000)
Bond interest paid	(20,583,203)
Net acquisition of capital assets	(16,901,060)
<b>Cash used in capital and related financing activities</b>	<u>(66,789,263)</u>
<b>Cash flows from non-capital financing activities</b>	
Transfers to the General Fund of the City	(4,572,075)
Advance (from) to other funds	(11,178,771)
<b>Cash used in non-capital financing activities</b>	<u>(15,750,846)</u>
<b>Cash flows from investing activities</b>	
Investment income	1,495,675
<b>Cash provided by investing activities</b>	<u>1,495,675</u>
<b>Change in cash and cash equivalents</b>	(8,041,485)
<b>Beginning cash and cash equivalents</b>	<u>157,612,612</u>
<b>Ending cash and cash equivalents</b>	<u>\$ 149,571,127</u>
Composition of Cash and Cash Equivalents:	
Cash and cash equivalents	\$ 118,464,813
Restricted cash and cash equivalents	31,106,314
	<u>\$ 149,571,127</u>

*See notes to the basic financial statements.*

**City of Vernon, California**  
**Electric Fund**  
**Statement of Cash Flows (continued)**  
**Year ended June 30, 2019**

---

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$	29,083,735
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		7,478,724
Changes in operating assets and liabilities:		
Accounts receivable		6,290,891
Accrued unbilled revenue		(984,210)
Prepaid expenses and deposits		(122,773)
Prepaid natural gas		28,549,573
Deferred outflows of resources		3,029,345
Accounts payable		1,716,826
Accrued wages and benefits		(3,213)
Customer deposits		(66,630)
Compensated absences		(168,182)
Other postemployment benefit liability		116,961
Net pension liability		414,850
Deferred inflows of resources		(2,332,948)
<b>Net cash provided by operating activities</b>	<b>\$</b>	<b><u>73,002,949</u></b>

*See notes to the basic financial statements.*

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements present only the Electric Fund of the City of Vernon, California (the City). The Electric Fund accounts for the independent operations and the maintenance of the City's electric utility. The Electric Fund is administered as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves, and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

The financial statements of the Electric Fund have been prepared in conformity with the 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 Electric Fund's significant accounting policies are described below.

As of June 30, 2019, the Electric Fund had no blended component units or any discretely presented component units.

**Basis of Presentation**

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

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

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

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

**Cash Deposits and Investments**

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

**Receivables**

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

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

**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 land, intangible assets, construction in progress, and plant assets including building, improvements, and machinery and equipment. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives. Intangible assets with an indefinite useful life are not amortized but are evaluated annually for any impairment.

The estimated useful lives are as follows:

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

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

**Capital Assets (continued)**

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

**Compensated Absences**

Accumulated vacation is accrued when incurred. Upon termination of employment, the Electric Fund 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 Electric Fund recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as consumption of net position by the Electric Fund that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the Electric Fund that is applicable to a future reporting period. On June 30, 2019, the Electric Fund has deferred outflows of resources representing deferred amounts on bond refunding, pension-related transactions, and other postemployment benefit-related transactions, and deferred inflows of resources representing the deferred gain from the sale of generation assets, pension-related transactions, and other postemployment benefit-related transactions.

**Long-term Obligations**

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

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

**Net Position**

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

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

The Electric Fund'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.

**Use of Estimates**

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

**Pensions**

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

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

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



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

**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 fiscal year beginning after June 15, 2018 and did not impact the Electric Fund.

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 CASH EQUIVALENTS**

**Cash and Cash Equivalents**

Cash and cash equivalents as of June 30, 2019, are classified in the accompanying statement of fund net position as follows:

Cash and cash equivalents	\$	118,464,813
Restricted cash and cash equivalents		31,106,314
Total cash and cash equivalents	\$	149,571,127

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

Deposits with financial institutions	\$	49,646,199
Short-term investments		99,924,928
Total cash and equivalents	\$	149,571,127

**NOTE 2      CASH AND CASH EQUIVALENTS**

**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.

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.

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

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

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

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

**Investments Authorized by Debt Agreements**

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

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Disclosure Relating to Interest Rate Risk**

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

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

**Disclosures Relating to Credit Risk**

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

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2019	% of Total
In custody of Treasurer:				
Investments held by Treasurer:				
Deposits with financial institutions	N/A	N/A	\$ 49,646,199	33.2%
Local Agency Investment Fund	Not Rated	Not Rated	614,180	0.4%
<b>Total in custody of Treasurer</b>			<b>50,260,379</b>	<b>33.6%</b>
In custody of Trustee:				
Investments held by Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	99,310,748	66.4%
<b>Total in custody of Trustee</b>			<b>99,310,748</b>	<b>66.4%</b>
<b>Total cash and investments held by Treasurer and Trustee</b>			<b>\$ 149,571,127</b>	<b>100.0%</b>

**NOTE 2      CASH AND CASH EQUIVALENTS (CONTINUED)**

**Concentration of Credit Risk**

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

**Custodial Credit Risk**

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

At year-end, the carrying amount of the Electric Fund's deposits was \$49,646,199 and the bank balance was \$49,653,593. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. As of June 30, 2019, none of the Electric Fund's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$49,403,593 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Local Agency Investment Fund (LAIF)**

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

The total amount invested by all public agencies in LAIF at June 30, 2019, was \$35.34 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance, including interest, was \$106 billion on June 30, 2019. PMIA is not SEC-registered but is required to invest according to the California State Code. LAIF does not maintain a credit rating.

**Fair Value Measurement**

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

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

**NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Fair Value Measurement (Continued)**

The City and the third-party trustees that hold the City's assets utilize the market approach in valuing investments portfolio through the use of the 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 Electric Fund's accounts receivables at June 30, 2019, are as follows:

Accounts receivables	\$ 4,853,898
Less: Allowance for uncollectible accounts	<u>(1,000,000)</u>
Total receivables, net	<u>\$ 3,853,898</u>

**NOTE 4 RELATED PARTY TRANSACTIONS**

Transactions between the Electric Fund and the other funds commonly occur in the normal course of business for services received or furnished (accounting, management, engineering, legal services, and capital projects) and interfund operating transactions.

The following table summarizes the Electric Fund's loan balance to the other funds and transactions with the other funds at June 30, 2019:

Advances to other funds, July 1, 2018	\$ 27,656,458
Advances made to other funds during the year	<u>11,178,771</u>
Advances to other funds, June 30, 2019	<u>\$ 38,835,229</u>

**Advances to other funds**

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

The City (general fund) allocates certain administrative and overhead costs to the Electric Fund which is included as part of the cost of sales. The allocated cost for the year ended June 30, 2019, was \$3,018,677.

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

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

**Transfers from (to) City**

The Electric Fund's retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City's General Fund. For the current year, the Electric Fund paid the City's General Fund \$4,572,075 in lieu of franchise tax.

Under the City Charter and the Electric Fund's electric revenue bond indentures, the Electric Fund is allowed to transfer up to 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. However, for the year ended June 30, 2019, the only transfers from the Electric Fund to the City were \$4,572,075 in lieu of franchise tax.

**NOTE 5 CAPITAL ASSETS**

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

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
<b><u>Business-type activities:</u></b>				
<i>Capital assets, not being depreciated:</i>				
Electric utility - Land	\$ 4,240,129	\$ -	\$ -	\$ 4,240,129
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
Total capital assets, not being depreciated	<u>59,901,490</u>	<u>708</u>	<u>(34,177)</u>	<u>59,868,021</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	16,878,948	-	232,539,599
Electric utility - General plant	9,152,092	68,406	-	9,220,498
Total capital assets, being depreciated	<u>245,890,159</u>	<u>16,947,354</u>	<u>-</u>	<u>262,837,513</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)
Total accumulated depreciation	<u>(97,920,107)</u>	<u>(7,478,724)</u>	<u>-</u>	<u>(105,398,831)</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	10,400,473	-	145,454,598
Electric utility - General plant	4,357,447	(376,258)	-	3,981,189
Total	<u>147,970,052</u>	<u>9,468,630</u>	<u>-</u>	<u>157,438,682</u>
Business-type activities capital assets, net	<u>\$ 207,871,542</u>	<u>\$ 9,469,338</u>	<u>\$ (34,177)</u>	<u>\$ 217,306,703</u>

**Depreciation**

The Electric Fund's total depreciation expense for the year was \$7,478,724.



**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**  
**Electric Fund**  
**Notes to the Financial Statements**  
**Year ended June 30, 2019**

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

A summary of bonds payable under the Electric Fund 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>

Refer to Note 12 for the subsequent approval of the issuance of the Electric Revenue Bonds 2020 Series to refund, in whole or in part, the 2009 Electric System Revenue Bonds, Series A, the 2012 Taxable Electric System Revenue Bonds Series B and the 2015 Taxable Electric System Revenue Bonds, Series A.

As of June 30, 2019, annual debt service requirements of the Electric Fund 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 and thereafter	35,750,000	27,825,587
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**  
**Electric Fund**  
**Notes to the Financial Statements**  
**Year ended June 30, 2019**

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

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

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

		Electric System Revenue Bonds 2012 Taxable Series A	
Fiscal year ending		Principal	Interest
June 30:			
2020	\$	-	\$ 2,031,394
2021		-	2,031,394
2022		-	2,031,394
2023		-	2,031,394
2024		-	2,031,393
2025 and thereafter		37,640,000	27,366,047
Total requirements	\$	37,640,000	\$ 37,523,016

\*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	
Fiscal year ending		Principal	Interest
June 30:			
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	\$	35,100,000	\$ 12,551,513

\*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**  
**Electric Fund**  
**Notes to the Financial Statements**  
**Year ended June 30, 2019**

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

Fiscal year ending June 30:	Electric System Revenue Bonds 2015 Taxable Series A	
	Principal	Interest
2020	\$ -	\$ 5,087,518
2021	-	5,087,517
2022	-	5,087,518
2023	22,540,000	4,580,367
2024	23,520,000	3,596,937
2025 and thereafter	65,660,000	4,242,714
Total requirements \$	111,720,000	\$ 27,682,571

\*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:

	Balance			Balance		Amounts Due Within One Year
	June 30, 2018	Additions	Reductions	June 30, 2019		
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	727,187	-	(168,182)	559,005	186,335	
Other postemployment benefit liability	2,333,037	116,961	-	2,449,998	-	
Net pension liability	11,622,798	414,850	-	12,037,648	-	
	\$ 352,329,930	\$ 531,811	\$ (28,718,309)	\$ 324,143,432	\$ 29,981,462	

**Expense Stabilization Fund**

The Electric Fund 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 this 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, this 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 Electric Fund does not have a line of credit with a financial institution.

**NOTE 7            RISK MANAGEMENT**

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

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

**NOTE 7            RISK MANAGEMENT (CONTINUED)**

The insurance limits for the fiscal year 2019 are as follows (amounts in thousands):

Insurance Type	Program Limits	Deductible/ SIR (Self-Insured Retention)
Excess Liability Insurance	\$ 20,000	\$2,000 SIR per occurrence
D & O Employment Practice	\$ 2,000	\$250 SIR non-safety; \$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

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 Electric Fund's financial position, results of operations or cash flows.

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

**NOTE 8            PENSION PLANS**

***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 PLANS (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 age 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 based on a benefit factor derived from the 2% at 62 Miscellaneous formula or may retire between age 52 and 61 with reduced retirement benefits. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and provided through a contract between the City and CalPERS.

The following amounts were allocated to the Electric Fund as of and for the year ended June 30, 2019:

Net Pension Liability	\$	12,037,648
Deferred Inflows of Resources		134,373
Deferred Outflows of Resources		1,980,289
Pension Expense		1,145,169

With the implementation of GASB Statement No. 68, the City of Vernon allocates about 11% of the City's net pension liability and pension-related transactions to the Electric Fund based on Electric Fund's share in the pension contribution. Please refer to the City's audited financial statements for the fiscal year ended June 30, 2019, for more information about the City's pension plan required note disclosures in accordance with GASB Statement No. 68.

**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

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



**NOTE 9      OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)**

Resolution 2012-217 granted specific retiree medical benefits to employees who retired during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a non-vested right for employees who continue to be employed by the City on or after July 1, 2013, but will be a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 75. The City may terminate its unvested OPEB in the future. As of June 30, 2019, 350 employees (254 active employees and 96 retired employees), participated in the OPEB plan.

The following amounts were allocated to the Electric Fund as of and for the year ended June 30, 2019:

Net OPEB Liability	\$ 2,449,998
Deferred Inflows of Resources	1,369,963
Deferred Outflows of Resources	320,856
OPEB Expense	1,261,955

The City allocates about 11% of the City's net OPEB obligation to the Electric Fund based on the Electric Fund's share in pension contribution. Further information regarding the City's participation in OPEB and required disclosure under GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, may be found in the City's Annual Financial Report.

**NOTE 10      ELECTRIC FUND OPERATIONS AND COMMITMENTS**

**Asset Sale**

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the "PPTA"). In addition, Bicent has acquired the benefits and burdens of the City's interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences ("CFD"), between Bicent (California) Hoover LLC, a Delaware limited liability company ("BCH") and the City, dated as of April 10, 2008 (the "Hoover Differences Contract"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company ("BCM"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30-year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15-year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10-year life of the CFD. As of June 30, 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 11 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 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      ELECTRIC FUND OPERATIONS AND COMMITMENTS (CONTINUED)**

Between 1983 and 2008, the Authority issued \$3.266 billion in debt in the form of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority’s share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a “take or pay” basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during 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 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.

**Pledged Revenues**

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

**NOTE 11      CONTINGENCIES**

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

**NOTE 11      CONTINGENCIES (CONTINUED)**

Uncertainties

Sale of Generation and Transmission Assets

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

**NOTE 12      SUBSEQUENT EVENTS**

The Electric Fund has evaluated events or transactions that occurred subsequent to the balance sheet date through February 27, 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 for the following, 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.