

Vernon Public Utilities
(The Electric, Gas, Water, And Fiber Optics Funds
of the City of Vernon, California)
Annual Financial Report
As of and For the Year Ended June 30, 2019

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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 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)

Water	
Service area	4.2 square miles
Service meters	978 meters
Number of miles of water mains	45
Number of wells	8
Number of reservoirs	8
Total reservoir capacity (gallons)	16.375 MG
Number of booster stations	3
Average day demand	18.5 acre feet
Maximum day peak factor	1.6

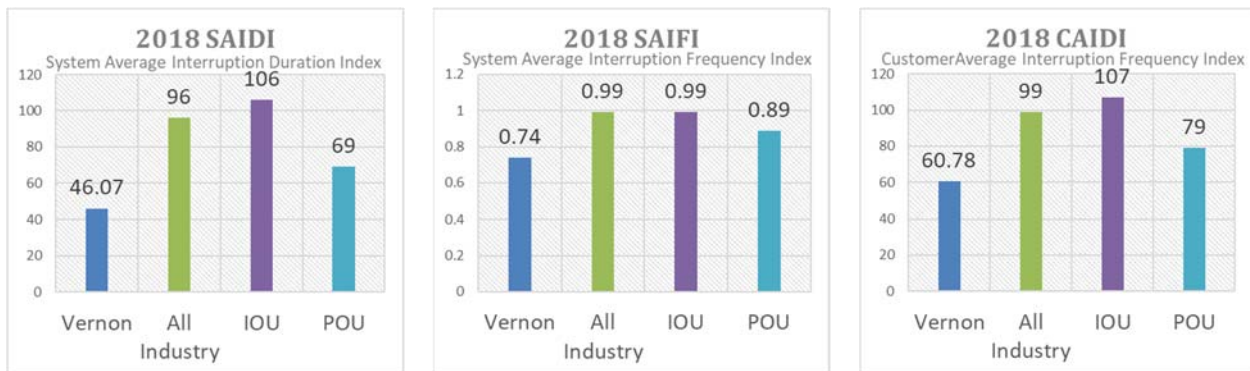
Gas	
Service area	5 square miles
Service meters	122
Number of miles of gas distribution	44
Number of miles of gas transmission	7.29
Number of regulating stations	2
Peak month in decatherms (Month Year)	769,714 (August 2018)
Average month in decatherms	693,785

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

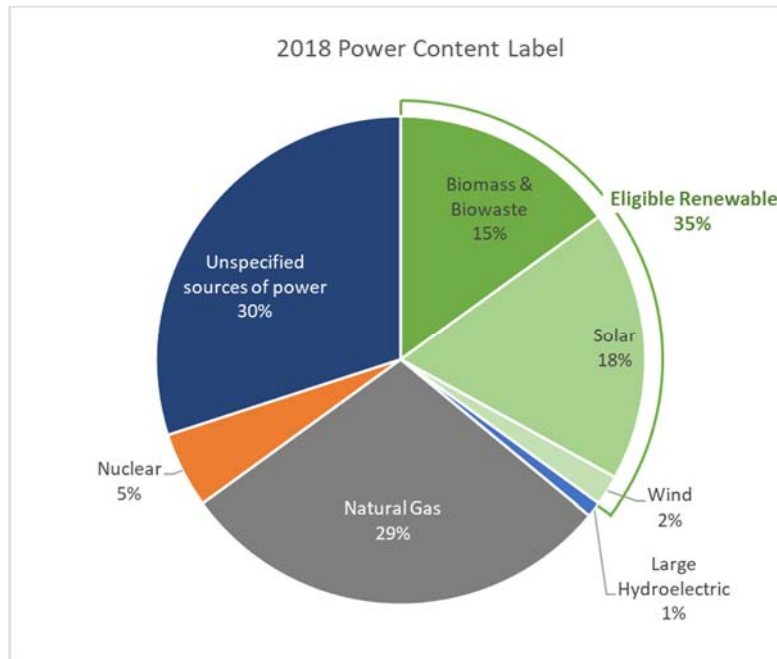


Electric Division

- 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



Water Division

- One of only two cities awarded Water Replenishment District New Well Construction and Rehabilitation loan of \$1.5 million
- Began implementation of program to automate efficient operation of water production, storage, and conveyance facilities
- Initiated a meter upgrade program.
- Revised the 5-year Capital Improvement Plan
- Performed first proactive maintenance-based bi-directional flushing program
- Repaired pump and motor of Well 11 and 16 which feeds the City's 10 million gallon reservoir

Gas Division

- Total gas customers in Vernon has surpassed 100 (with 10 additional Vernon businesses connected to the Gas System)
- Increased efficiency and cost savings through cooperative programs with Vernon Public Works and Water
- Extended gas transmission line and bolstered reliability through looping
- Conducted various public awareness meetings: Ryerson Steel, Hannibal Steel, Bon Appetit, Petrelli Electric, COV Departments
- New Gas Operator Training Program – huge cost savings

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 Vernon Public Utilities (“VPU”), of the City of Vernon, California (City), which comprise the statement of net position as of June 30, 2019, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to financial statements, which collectively comprise VPU’s basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

Our responsibility is to express 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 Vernon Public Utilities 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 Vernon Public Utilities of the City of Vernon, California and do not purport to, and do not, present fairly the financial position of the City of Vernon, California as of June 30, 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 8 through 14 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.

**Glendale, California
March 17, 2020**

The management of the Vernon Public Utilities (VPU), the electric, gas, water, and fiber optics utilities of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the VPU for the fiscal year ended June 30, 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 VPU's basic financial statements. Included as part of the financial statements are three separate statements.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the VPU'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 pages 15-16 of this report.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 221,981,589	\$ 254,231,657	\$ (32,250,068)
Restricted assets	31,106,314	28,051,380	3,054,934
Capital assets	<u>242,783,498</u>	<u>234,115,783</u>	<u>8,667,715</u>
Total assets	<u>495,871,401</u>	<u>516,398,820</u>	<u>(20,527,419)</u>
Deferred Outflows of Resources	<u>9,133,949</u>	<u>12,647,368</u>	<u>(3,513,419)</u>
Liabilities:			
Current liabilities	51,531,994	50,138,430	1,393,564
Long-term liabilities	<u>300,058,871</u>	<u>330,666,041</u>	<u>(30,607,170)</u>
Total liabilities	<u>351,590,865</u>	<u>380,804,471</u>	<u>(29,213,606)</u>
Deferred Inflows of Resources	<u>16,039,198</u>	<u>17,880,184</u>	<u>(1,840,986)</u>
Net Position:			
Net investment in capital assets	164,497,172	155,342,824	9,154,348
Unrestricted (deficit)	<u>(27,121,885)</u>	<u>(24,981,291)</u>	<u>(2,140,594)</u>
Total net position	<u>\$ 137,375,287</u>	<u>\$ 130,361,533</u>	<u>\$ 7,013,754</u>

The assets and deferred outflows of resources of the VPU exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$137,375,287 (*net position*).

The category of the VPU's net position with the largest balance totaling \$164,497,172 represents resources that are invested in capital assets, net of related debt.

The remaining category of net position, totaling \$(27,121,885) represents a deficit in unrestricted net position that is expected to be recovered from the VPU's future revenues.

Activities, net position:

- Current and other assets decreased \$32,250,068 from the prior year mainly due to a decrease in prepaid natural gas of \$28,549,573 and accounts and unbilled receivables of \$4,755,363.
- 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 \$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 \$8,745,658 (See Note 5).
- Deferred outflows of resources decreased by \$3,513,419 mainly due to amortization of deferred bond refunding costs by \$2,508,853 and decrease in deferred outflows of resources related to pensions by \$1,188,595 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.
- Current liabilities increased \$1,393,564 mainly due to an increase in accounts payable by \$1,160,662.
- Long-term liabilities decreased by \$30,607,170 from the prior year mainly due to debt service and amortization of bond premium and discounts (see Note 6).
- Deferred inflows of resources decreased by \$1,840,986 mainly due to the amortization of deferred gain from sale of generation assets by \$3,687,768, offset by the increase in deferred inflows of resources related to OPEB 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.
- 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 a decrease 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
Vernon Public Utilities
Management's Discussion and Analysis (Unaudited)
June 30, 2019

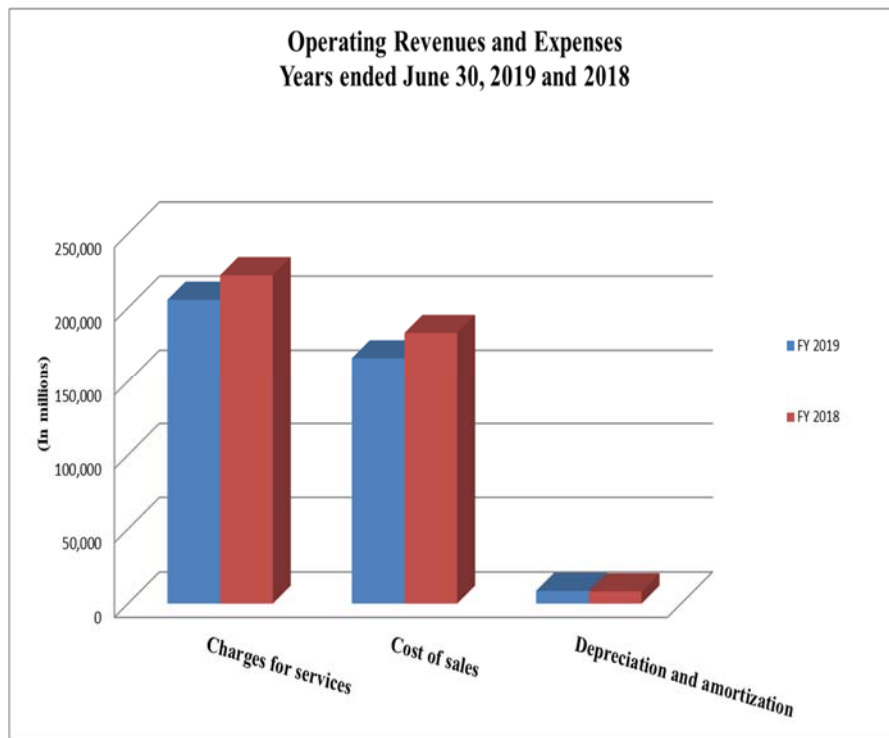
Changes in Net Position

The table below summarizes the VPU's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 17 of this report.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Operating revenues:			
Charges for services	\$ <u>205,478,963</u>	\$ <u>222,093,902</u>	\$ <u>(16,614,939)</u>
Operating expenses:			
Cost of sales	166,003,881	183,142,153	(17,138,272)
Depreciation	<u>8,745,658</u>	<u>8,390,690</u>	<u>354,968</u>
Total operating expenses	<u>174,749,539</u>	<u>191,532,843</u>	<u>(16,783,304)</u>
Operating income	<u>30,729,424</u>	<u>30,561,059</u>	<u>168,365</u>
Nonoperating revenues (expenses):			
Investment income	1,553,785	1,154,353	399,432
Net increase in fair value of investments	2,159	19,980	(17,821)
Interest expense	(20,712,363)	(22,209,504)	1,497,141
Gain on sale of assets	12,824	792,378	(779,554)
Legal settlement	<u>-</u>	<u>329,385</u>	<u>(329,385)</u>
Total nonoperating revenues (expenses), net	<u>(19,143,595)</u>	<u>(19,913,408)</u>	<u>769,813</u>
Income before transfers	11,585,829	10,647,651	938,178
Transfers:			
Transfers from the Successor Agency	-	22,595,532	(22,595,532)
Transfers to the General Fund of the City	<u>(4,572,075)</u>	<u>(14,344,504)</u>	<u>9,772,429</u>
Net transfers	<u>(4,572,075)</u>	<u>8,251,028</u>	<u>(12,823,103)</u>
Change in net position	7,013,754	18,898,679	(11,884,925)
Net position - beginning of year	<u>130,361,533</u>	<u>111,462,854</u>	<u>18,898,679</u>
Net position - end of year	\$ <u>137,375,287</u>	\$ <u>130,361,533</u>	\$ <u>7,013,754</u>

The VPU's income before transfers of \$11,585,829, less transfers to the City of \$4,572,075, resulted in an increase in net position of \$7,013,754 during the current year. The VPU expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, and revenues from renewable energy projects.

The VPU's activities increased net position by \$7,013,754 which is \$11,884,925 lower than the prior year. The key reason for this change was due to the transfer of the unspent bond proceeds from the Successor Agency of \$22,595,532 in fiscal year 2018 to VPU, reduced by the VPU transfer of \$14,344,504 to the City's General Fund.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The VPU's investment in capital assets as of June 30, 2019 amounted to \$242,783,498 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utilities system improvements, and machinery and equipment. The total increase in the VPU's investment in capital assets for the current fiscal year was \$17,447,550, offset by depreciation of \$8,745,658 and write-off of \$34,177, for a net increase of \$8,667,715.

Additional information on the VPU's capital assets can be found in Note 5 on pages 32-33 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 VPU's long-term debt can be found in Note 6 on pages 33-38 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

These factors were considered in preparing the VPU and the City's budget for the 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 VPU's finances for all those with an interest in the VPU's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

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

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

See notes to the basic financial statements.

City of Vernon, California
Vernon Public Utilities
Statement of Net Position (continued)
June 30, 2019

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
Vernon Public Utilities
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2019

Operating revenues		
Charges for services		\$ 205,478,963
	Total operating revenue	<u>205,478,963</u>
Operating expenses		
Cost of sales		166,003,881
Depreciation		8,745,658
	Total operating expenses	<u>174,749,539</u>
Operating income		<u>30,729,424</u>
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)	<u>(19,143,595)</u>
Income before transfers		<u>11,585,829</u>
Transfers		
Transfers out		(4,572,075)
	Total transfers	<u>(4,572,075)</u>
Change in net position		7,013,754
Net position - beginning of year		<u>130,361,533</u>
Net position - end of year		<u>\$ 137,375,287</u>

See notes to the basic financial statements.

City of Vernon, California
Vernon Public Utilities
Statement of Cash Flows
Year ended June 30, 2019

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	<u>74,291,912</u>
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	<u>(67,288,752)</u>
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	<u>(1,344,243)</u>
Cash flows from investing activities	
Investment income	1,517,198
Cash provided by investing activities	<u>1,517,198</u>
Change in cash and cash equivalents	7,176,115
Cash and cash equivalents, beginning of year	<u>161,740,536</u>
Cash and cash equivalents, end of year	<u>\$ 168,916,651</u>
Cash and cash equivalents at June 30, 2019 composed of:	
Cash and cash equivalents	\$ 137,810,337
Restricted cash and investments	31,106,314
	<u>\$ 168,916,651</u>

See notes to the basic financial statements.

City of Vernon, California
Vernon Public Utilities
Statement of Cash Flows (continued)
Year ended June 30, 2019

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	\$	<u>74,291,912</u>

See notes to the basic financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Basis of Presentation

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

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

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

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

Cash Deposits and Investments

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

Receivables

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

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectibles 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

All inventories are valued at cost, or estimated historical costs when historical information is unavailable, using the first-in/first-out (FIFO) method. Inventory costs are recorded as an expense or capitalized into capital assets when used.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if 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

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. Upon termination of employment, the VPU will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63 and 65, the VPU recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as a consumption of net position by the government that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period. At June 30, 2019, the City has deferred inflows of resources representing the deferred gain from the sale of generation assets, pension-related transactions, and postemployment benefit-related transactions, and deferred outflows of resources representing deferred amounts on bond refunding, pension-related transactions, and postemployment benefit-related transactions.

Long-term Obligations

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

Net Position

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

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

Use of Estimates

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

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 fiscal year beginning after June 15, 2018 and did not impact the VPU.

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 VPU 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 statement of fund net position as follows:

Cash and investments	\$	137,810,337
Restricted cash and investments		31,106,314
Total cash and investments	\$	168,916,651

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

Deposits with financial institutions	\$	68,991,723
Investments		99,924,928
Total cash and investments	\$	168,916,651

The City's Investment Policy

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

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

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

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

Investments Authorized by Debt Agreements

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

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

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

Investment Type	Fair Value as of June 30, 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%
Total investments	\$ 99,924,928	\$ 99,924,928	\$ -	\$ -	100.0%

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	\$ 68,991,723	40.8%
Local Agency Investment Fund	Not Rated	Not Rated	614,180	0.4%
Total in custody of Treasurer			69,605,903	41.2%
In custody of Trustee:				
Investments held by Trustee:				
Money Market Funds	Aaa / AAA	Aaa / AAA	99,310,748	58.8%
Total in custody of Trustee			99,310,748	58.8%
Total cash and investments held by Treasurer and Trustee			\$ 168,916,651	100.0%

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by bond trustee that the trustee may invest in one issuer that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2019, there were no investments held by the VPU that exceeded 5% in any one issuer, excluding mutual funds and U.S. Treasury securities.

Custodial Credit Risk

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

At year-end, except for VPU's operating cash of \$37,739,059 that is pooled with the City's operating funds, the carrying amount of the VPU's other bank deposits totaling \$31,252,664 had corresponding total bank balance of \$31,260,058. 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 VPU's deposits with financial institutions in excess of the federal depository insurance limit were held in uncollateralized accounts. \$68,749,117 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (LAIF)

The VPU also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$614,180 at 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 VPU's position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 2019 was \$30.36 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$106 billion at June 30, 2019. PMIA is not SEC-registered but is required to invest according to the 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.

Fair Value Measurement

GASB 72, *Fair Value Measurement and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The VPU categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement (continued)

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

Investments by fair value level	Fair value	Fair value measurement using significant other observable inputs (Level 2)
Money Market Funds	\$ 99,310,748	\$ 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>	

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 VPU's accounts receivables at June 30, 2019 are as follows:

Accounts receivables	\$ 6,870,883
Less: Allowances for uncollectible accounts	<u>(1,088,000)</u>
Receivables, net	<u>\$ 5,782,883</u>

NOTE 4 RELATED PARTY TRANSACTIONS

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

The following table summarizes the VPU's loan balances and transactions with the City as of and for the year ended June 30, 2019:

NOTE 4 RELATED PARTY TRANSACTIONS (CONTINUED)

Advances to City

Advances to City, July 1, 2018	\$	12,612,421
Payment of advances during the year		(3,227,832)
Advances to City, June 30, 2019	\$	<u>9,384,589</u>

Advances to the City (continued)

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

The City allocates certain administrative and overhead costs to the VPU which the VPU financial statements include as part of cost of sales. The allocated costs for the year ended June 30, 2019 were \$3,593,677.

Transfers from (to) City

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

Under the City Charter and the VPU's electric revenue bond indentures, the VPU's electric utility is allowed to transfer up to 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. No additional transfers were made for the year ended June 30, 2019.

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

NOTE 5 CAPITAL ASSETS

Capital asset activity of the VPU 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>

NOTE 5 CAPITAL ASSETS (CONTINUED)

Depreciation

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

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

NOTE 6 LONG-TERM OBLIGATIONS

There were no new bonds issued during 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.

NOTE 6 LONG-TERM OBLIGATIONS (CONTINUED)

\$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.

\$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 \$179,149,122, 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
Vernon Public Utilities
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
Vernon Public Utilities
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 June 30:		Principal	Interest
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	
Fiscal year ending June 30:		Principal	Interest
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	
Fiscal year ending June 30:		Principal	Interest
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
Vernon Public Utilities
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	
	Principal	Interest
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	\$ 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:

	<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	\$ 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	-
	\$ 359,530,918	\$ -	\$ (29,447,728)	\$ 330,083,190	\$ 30,024,319

Refer to Note 12 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 VPU 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 VPU 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 VPU does not have unused line of credit with a financial institution.

NOTE 7 RISK MANAGEMENT

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

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

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

NOTE 7 RISK MANAGEMENT (CONTINUED)

The insurance limits for fiscal year 2019 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

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

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

NOTE 8 PENSION PLAN

General Information about the Pension Plans

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

NOTE 8 PENSION PLAN (CONTRIBUTION)

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 by the City to the VPU as of and for the year ended June 30, 2019:

Net Pension Liability	\$	16,866,107
Deferred Inflows of Resources		188,271
Deferred Outflows of Resources		2,774,609
Pension Expense		997,543

With the implementation of GASB Statement No. 68, the City of Vernon allocates about 15% of the City's net pension liability and pension-related transactions to VPU based on VPU's share in the pension contribution. Please refer to the City's audited financial statements for the fiscal year ended June 30, 2019 for more information about the City's pension plan and required note disclosures in accordance with GASB Statement No. 68.

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

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

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

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

Resolution 2012-217 granted specific retiree medical benefits to employees who retired during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service. Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a non-vested right for employees who continue to be employed by the City on or after July 1, 2013 but will be a vested right for those who retire during the 2012-2013 fiscal year. The City’s plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 45. The City may terminate its unvested OPEB in the future. As of June 30, 2019, 350 employees (254 active employees and 96 retired employees), participated in the OPEB plan.

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

Net OPEB Liability	\$	3,432,725
Deferred Inflows of Resources		1,919,473
Deferred Outflows of Resources		449,556
OPEB Expense		1,212,885

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

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS

Asset Sale

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

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the "PPTA"). In addition, Bicent has acquired the benefits and burdens of the City's interest in the Hoover Uprating Project (described below) on the terms set forth in the Hoover Contract for Differences ("CFD"), between Bicent (California) Hoover LLC, a Delaware limited liability company ("BCH") and the City, dated as of April 10, 2008 (the "Hoover Differences Contract"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company ("BCM"). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Uprating Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30 year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15 year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10 year life of the CFD. As of June 30, 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 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 in the form of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority's share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a "take or pay" basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during fiscal year 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.

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Vernon Public Utilities

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

A Segment Information

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

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

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

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 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
Vernon Public Utilities
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)

Changes in Net Position

	Electric Fund	Gas Fund	Water Fund	Fiber Optics Fund	Vernon Public Utilities
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	<u>5,346,542</u>	<u>201,649</u>	<u>1,465,840</u>	<u>(277)</u>	<u>7,013,754</u>
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
Vernon Public Utilities
Notes to the Financial Statements
Year ended June 30, 2019

NOTE 10 VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (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 VPU's Electric Utility has pledged future electric revenues for the repayment of its electric revenue bonds (See Note 6 regarding long-term obligations).

NOTE 11 CONTINGENCIES

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

Uncertainties

Sale of Generation and Transmission Assets

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

NOTE 12 SUBSEQUENT EVENTS

The VPU 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 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.

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 12 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.