

**CITY OF VERNON, CALIFORNIA**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE YEAR ENDED  
JUNE 30, 2020**

**PREPARED BY:  
FINANCE DEPARTMENT**



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AUDIT, TAX, AND  
CONSULTING**

**CITY OF VERNON, CALIFORNIA**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2020**  
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## **INTRODUCTORY SECTION**



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City of Vernon, California  
Finance Department

March 11, 2021  
To the Honorable Mayor and City Council  
Vernon, California

In accordance with the Charter of the City of Vernon (City), please accept submission of the Annual Financial Report for the fiscal year ended June 30, 2020. Responsibility for the accuracy of the data, completeness, and fairness of the presentation, including all disclosures, rests with the City. We believe the data included is accurate in all material aspects, and is presented in a manner designed to fairly set forth the financial position and operational achievements of the City, as measured by the financial activity of its various funds. In addition, all disclosures necessary to enable the reader to gain a maximum understanding of the City's financial activities have been included.

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

### **ECONOMIC CONDITION AND OUTLOOK**

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

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

Vernon is a key contributor to the diverse Los Angeles County economy. After several years of slow and steady growth, the economy is finally shifting into a higher gear as it continues to recover from the Impact of the most recent recession. Job growth is contributing to the flourishing local economy, as well as at the state and national levels. Vernon is largely industrial and does not maintain an unemployment rate tally of its small population. However, the unemployment rate of adjacent communities is currently 19.6%, which is higher than the State of California's average unemployment rate of 15.1%, and the national average unemployment rate of 11.1%. The occupancy rate of the City 's central business district ranges between 96% and 98%.

The City will continue to build on the successes and achievements realized in the current year and remains committed to serving its customers. The City's main revenue sources consisting of utilities fees, property and parcel taxes, business license taxes, and sales and use tax, have all sustained steady growth this year. As the City moves into fiscal year 2021, we are optimistic about continued growth but will remain attentive to the prevailing economic climate and mindful of managing enhanced services within the limits of our adopted budget.

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

#### **Vernon's Fashionable Business Resources**

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

#### **Powering Business Competitiveness**

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

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

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

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

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

### **Safeguarding the Environment**

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

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

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

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

### **Public Safety**

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

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

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

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

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

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

## **MAJOR INITIATIVES**

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

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



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

## **FINANCIAL INFORMATION**

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

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

## **BUDGETARY CONTROLS**

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

## **RELEVANT FINANCIAL POLICIES**

Over the years, through sound fiscal management, the City has positioned itself well to weather economic downturns, create a positive atmosphere for economic development, and allow flexibility in addressing budgetary challenges. As of June 30, 2020, the City's overall total net position was \$199.3 million. This consisted of a positive governmental net position of \$55.9 million and business-type net position of \$143.4 million. By continuing to develop sound fiscal management plans, the City intends to maintain an overall positive net position.

## **ACKNOWLEDGMENTS**

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

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

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Scott Williams". The signature is written in a cursive style with a long, sweeping underline.

Scott Williams  
Director of Finance/City Treasurer

## **FINANCIAL SECTION**



## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (the City), as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the City's financial statements as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

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

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matter***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the General Fund budgetary comparison schedule, the schedules of changes in net pension liability and related ratios and schedules of pension contributions related to the City's miscellaneous and safety pension plans, and the schedule of changes in net OPEB liability and related ratios related to the City's other postemployment benefits plan, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Irvine, California  
March 11, 2021

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2020.

## OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

### ***Government-wide financial statements***

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

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

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

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

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

The government-wide financial statements can be found on pages 17-19 of this report.

### ***Fund financial statements***

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

**Governmental funds**

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund (see page 82).

The City's governmental funds financial statements can be found on 20-23 of this report.

**Proprietary funds**

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

The City's proprietary funds financial statements can be found on pages 24-33 of this report.

**Fiduciary funds**

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

The basic fiduciary fund financial statements can be found on pages 34-35 of this report.

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-81 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

***City's Net Position***

The table below summarizes the City's net position as of June 30, 2020 and June 30, 2019.

<b>City of Vernon Net Position June 30, 2020 and 2019</b>						
	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
<b>Assets:</b>						
Current and other assets	\$ 8,852,317	\$ 1,617,316	\$ 193,385,349	\$ 221,981,589	\$ 202,237,666	\$ 223,598,905
Restricted assets	3,289,382	3,695,552	66,575,492	31,106,314	69,864,874	34,801,866
Capital assets	172,018,391	175,880,286	249,059,098	242,783,498	421,077,489	418,663,784
Total assets	<u>184,160,090</u>	<u>181,193,154</u>	<u>509,019,939</u>	<u>495,871,401</u>	<u>693,180,029</u>	<u>677,064,555</u>
					13,428,929	
<b>Deferred Outflows of Resources</b>						
Deferred outflows related to pensions	13,918,552	15,896,807	2,547,788	2,774,609	16,466,340	18,671,416
Deferred outflows related to OPEB liability	3,309,587	2,575,681	605,820	449,556	3,915,407	3,025,237
Deferred amount on bond refunding	-	-	3,802,144	5,909,784	3,802,144	5,909,784
Total deferred outflows of resources	<u>17,228,139</u>	<u>18,472,488</u>	<u>6,955,752</u>	<u>9,133,949</u>	<u>24,183,891</u>	<u>27,606,437</u>
<b>Liabilities:</b>						
Current liabilities	3,619,282	4,128,779	19,689,942	21,507,675	23,309,224	25,636,454
Long term liabilities	131,325,331	125,864,420	340,724,893	330,083,190	472,050,224	455,947,610
Total liabilities	<u>134,944,613</u>	<u>129,993,199</u>	<u>360,414,835</u>	<u>351,590,865</u>	<u>495,359,448</u>	<u>481,584,064</u>
<b>Deferred Inflows of Resources</b>						
Deferred inflows related to pensions	1,283,734	1,078,681	234,987	188,271	1,518,721	1,266,952
Deferred inflows related to OPEB liability	9,260,506	10,997,406	1,695,132	1,919,473	10,955,638	12,916,879
Deferred gain from sale of generation assets	-	-	10,243,685	13,931,454	10,243,685	13,931,454
Total deferred inflows of resources	<u>10,544,240</u>	<u>12,076,087</u>	<u>12,173,804</u>	<u>16,039,198</u>	<u>22,718,044</u>	<u>28,115,285</u>
<b>Net Position:</b>						
Net investment in capital assets	170,034,582	173,649,403	159,733,492	164,497,172	329,768,074	338,146,575
Restricted	3,289,382	3,695,552	23,932,142	-	27,221,524	3,695,552
Unrestricted (deficit)	(117,424,588)	(119,748,599)	(40,278,582)	(27,121,885)	(157,703,170)	(146,870,484)
Total net position	<u>\$ 55,899,376</u>	<u>\$ 57,596,356</u>	<u>\$ 143,387,052</u>	<u>\$ 137,375,287</u>	<u>\$ 199,286,428</u>	<u>\$ 194,971,643</u>

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$199,286,428 (*net position*).

The category of the City's net position with the largest balance totaling \$329,768,074 represents resources that are invested in capital assets, net of the related liabilities.

The second-largest category of net position, totaling \$27,221,524 represents the City's restricted assets, which are restricted for employee flexible spending account, street improvements, grants and debt service.

The last remaining category of net position, totaling (\$157,703,170) represents a deficit in unrestricted net position that is expected to be recovered from the City's future revenues.



**Governmental activities, net position:**

- Current and other assets increased by \$7,235,001 from the prior year due to a decrease in the negative internal balances of \$4,998,072, an increase in receivables of \$643,789, an increase in cash and cash equivalents of \$1,672,979, and a decrease in inventory of \$79,839.
- Restricted assets decreased by \$406,170 from the prior year mainly due to a decrease in restricted cash and investments balance.
- Capital assets decreased by \$3,861,895 from the prior year mainly due to depreciation of \$5,249,196 and a loss on disposal of \$20,309, offset by the acquisition/construction of capital assets totaling \$1,407,610.
- Deferred outflows of resources for pensions decreased by \$1,978,255 from the prior year mainly due to a change in current year's contribution to the pension that will be applied as a reduction in net pension liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net pension liability.
- Deferred outflows of resources for other postemployment benefits (OPEB) increased by \$733,906 from the prior year due a change in current year contribution to the OPEB plan that will be applied as a reduction in net OPEB liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net OPEB liability.
- Current liabilities decreased by \$509,497 from the prior year mainly due to decreases in accounts payable of \$726,802 and accrued wages of \$526,125, offset by an increase in unearned revenue of \$790,430.
- Long-term liability increased by \$5,460,911 from the prior year mainly due to increase in net pension liability and liabilities due within 1 year \$5,483,924 and \$2,191,475, respectively, offset by a decrease in other postemployment benefit liability and in liabilities due in more than 1 year of \$1,140,160 and \$1,074,328, respectively.
- Deferred inflows of resources for pensions increased by \$205,053 from the prior year due to changes in total pension liability that are to be recognized as an increase in pension expenses in future fiscal years. These balances arise from changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the plan's net pension liability.

**Governmental activities, net position (continued):**

- Deferred inflows of resources for OPEB decreased by \$1,736,900 from the prior year mainly due to changes in actuarial assumptions and the difference between actual and expected experience.
- Net investment in capital assets decreased by \$3,614,821 from the prior year which is equivalent to the decrease in capital assets, net of capital lease obligations during the current year.
- Restricted net position decreased by \$406,170 from the prior year mainly due to a decrease in the restricted designation placed on street improvement account and asset forfeiture account.
- The unrestricted net deficit decreased by \$2,324,011 from the prior year mainly due to the current year's change in net position of (\$1,696,980) offset by an increase in net investment in capital assets of \$3,614,821.

**Business-type activities, net position:**

- Current and other assets decreased by \$28,596,240 from the prior year mainly due to decreases in prepaid natural gas of \$28,664,653 and internal balances of \$4,998,072 offset by an increase in accrued unbilled revenue of \$5,711,452.
- Restricted assets increased by \$35,469,178 from the prior year mainly due to due to the issuance of Electric System Revenue Bonds 2020 Series A.
- Capital assets increased by \$6,275,600 from the prior year mainly due to acquisitions of new equipment and improvements of \$15,455,333, offset by depreciation of \$9,179,733 (See Note 4).
- Deferred outflows of resources related to pensions decreased by \$226,821 from the prior year mainly due to a change in current year's contribution to the pension that will be applied as a reduction in net pension liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net pension liability.
- Deferred outflows of resources related to other postemployment benefits increased by \$156,264 due to a change in the current year contribution to the OPEB plan that will be applied as a reduction in net OPEB liability in the next fiscal year, or other items arising from changes in actuarial assumptions, difference between actual and projected experiences, difference between actual and projected investment gains/losses, or changes in a fund's proportionate share of the net OPEB liability.

**Business-type activities, net position (continued):**

- Deferred outflows of resources related to bond refunding decreased by \$2,107,640 from the prior year due to amortization to interest expense during the current year (See Note 5).
- Current liabilities decreased \$1,817,733 mainly due to a decreases in accounts payable of \$987,121 and bond interest payable by \$875,266.
- Long-term liabilities increased by \$10,641,703 from the prior year mainly due to bonds payable (see Note 5) and net pension liability (see Note 7).
- Deferred inflows of resources related to pension increased by \$46,716 from the prior year due to changes in total pension liability that are to be recognized as an increase in pension expenses in future fiscal years. These balances arise from changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the plan's net pension liability.
- Deferred inflows of resources related to OPEB decreased by \$224,341 due to the changes in actuarial assumptions, the difference between actual and projected experiences, the difference between actual and projected investment gains/losses, or changes in the fund's proportionate share of the OPEB liability.
- Deferred inflows of resources for deferred gain from the sale of generation assets decreased by \$3,687,769 from the prior year due to amortization to capacity expense during the current year.
- Net investment in capital assets decreased by \$4,763,680 from the prior year, which is equivalent to the increase in capital assets, net of capital bonds payable.
- The unrestricted net deficit decreased by \$13,156,697 from the prior year due primarily to an increase in the change in net position by \$6,011,765 and in restricted for debt services by \$23,932,142 offset by the decrease in net investment in capital assets by \$4,763,680.

**City of Vernon, California**  
**Management's Discussion and Analysis**  
**June 30, 2020**

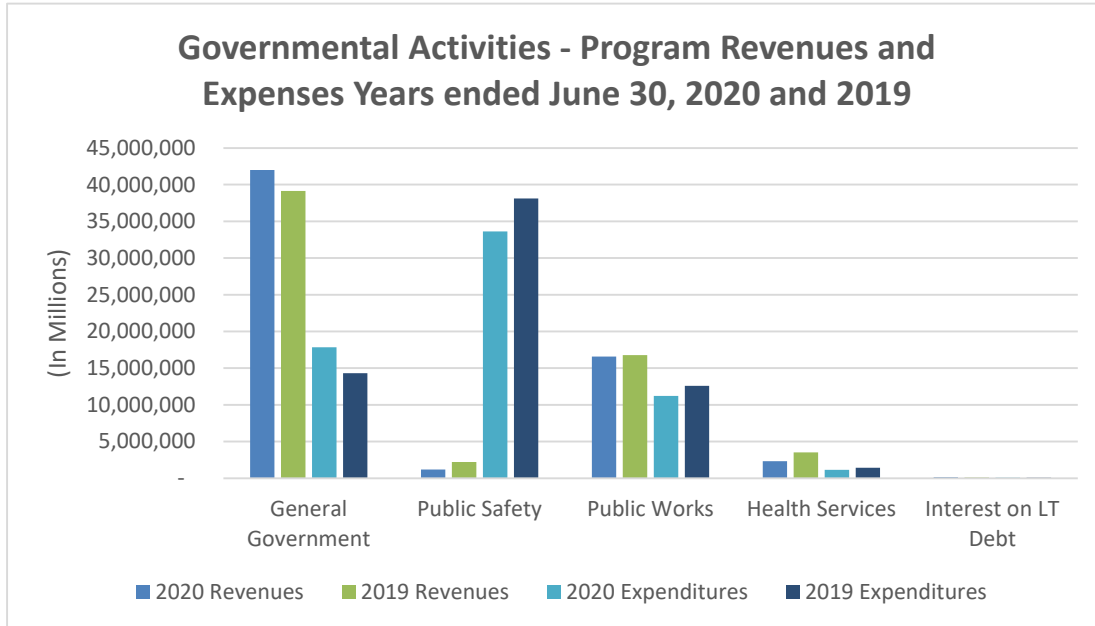
**Changes in Net Position**

The table below summarizes the City's changes in net position between the current and prior fiscal year.

<b>City of Vernon</b>						
<b>Changes in Net Position</b>						
<b>Years ended June 30, 2020 and 2019</b>						
	Governmental Activities		Business-type Activities		Totals	
	2020	2019	2020	2019	2020	2019
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 6,664,941	\$ 9,321,096	\$ 206,547,293	\$ 205,478,963	\$ 213,212,234	\$ 214,800,059
Operating and capital grants and contributions	946,011	1,551,785	-	-	946,011	1,551,785
General revenues						
Taxes	36,782,930	36,043,727	-	-	36,782,930	36,043,727
State allocations	9,557,747	8,794,423	-	-	9,557,747	8,794,423
Investment income (loss)	137,738	101,082	1,018,563	1,555,944	1,156,301	1,657,026
Gain on the sale of capital assets	-	1,519	-	12,824	-	14,343
Other revenues	3,535,847	1,343,779	-	-	3,535,847	1,343,779
Total revenues	<u>57,625,214</u>	<u>57,157,411</u>	<u>207,565,856</u>	<u>207,047,731</u>	<u>265,191,070</u>	<u>264,205,142</u>
<b>Expenses:</b>						
Governmental activities:						
General government	17,837,919	14,311,593	-	-	17,837,919	14,311,593
Public safety	33,619,674	38,115,862	-	-	33,619,674	38,115,862
Public works	11,222,632	12,582,806	-	-	11,222,632	12,582,806
Health services	1,148,622	1,435,301	-	-	1,148,622	1,435,301
Interest on long-term debt	76,131	84,278	-	-	76,131	84,278
Business-type activities (Vernon Public Utilities):						
Electric	-	-	175,614,851	169,777,750	175,614,851	169,777,750
Gas	-	-	11,611,921	17,140,248	11,611,921	17,140,248
Water	-	-	9,293,984	7,892,673	9,293,984	7,892,673
Fiber Optics	-	-	450,551	651,231	450,551	651,231
Total expenses	<u>63,904,978</u>	<u>66,529,840</u>	<u>196,971,307</u>	<u>195,461,902</u>	<u>260,876,285</u>	<u>261,991,742</u>
Change in net position before transfers	(6,279,764)	(9,372,429)	10,594,549	11,585,829	4,314,785	2,213,400
<b>Transfers</b>	<u>4,582,784</u>	<u>4,572,075</u>	<u>(4,582,784)</u>	<u>(4,572,075)</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>	(1,696,980)	(4,800,354)	6,011,765	7,013,754	4,314,785	2,213,400
<b>Net position - beginning of year</b>	<u>57,596,356</u>	<u>62,396,710</u>	<u>137,375,287</u>	<u>130,361,533</u>	<u>194,971,643</u>	<u>192,758,243</u>
<b>Net position - end of year</b>	<u>\$ 55,899,376</u>	<u>\$ 57,596,356</u>	<u>\$ 143,387,052</u>	<u>\$ 137,375,287</u>	<u>\$ 199,286,428</u>	<u>\$ 194,971,643</u>

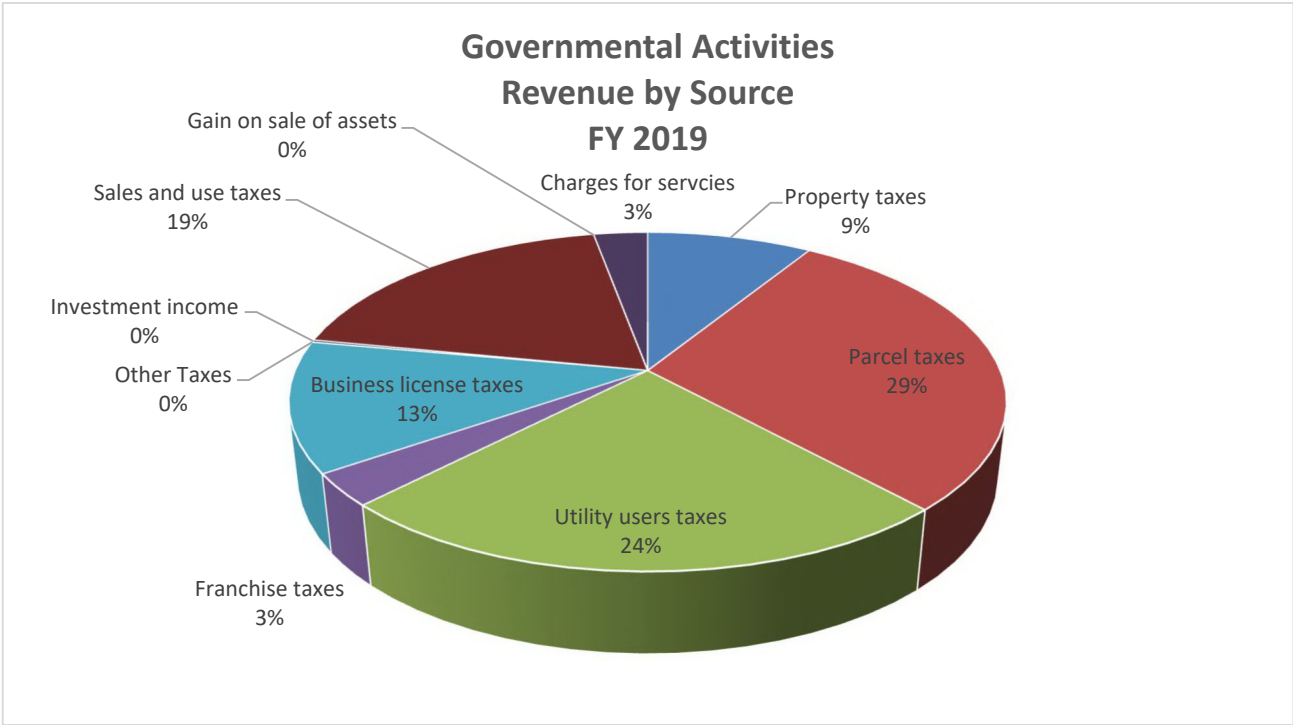
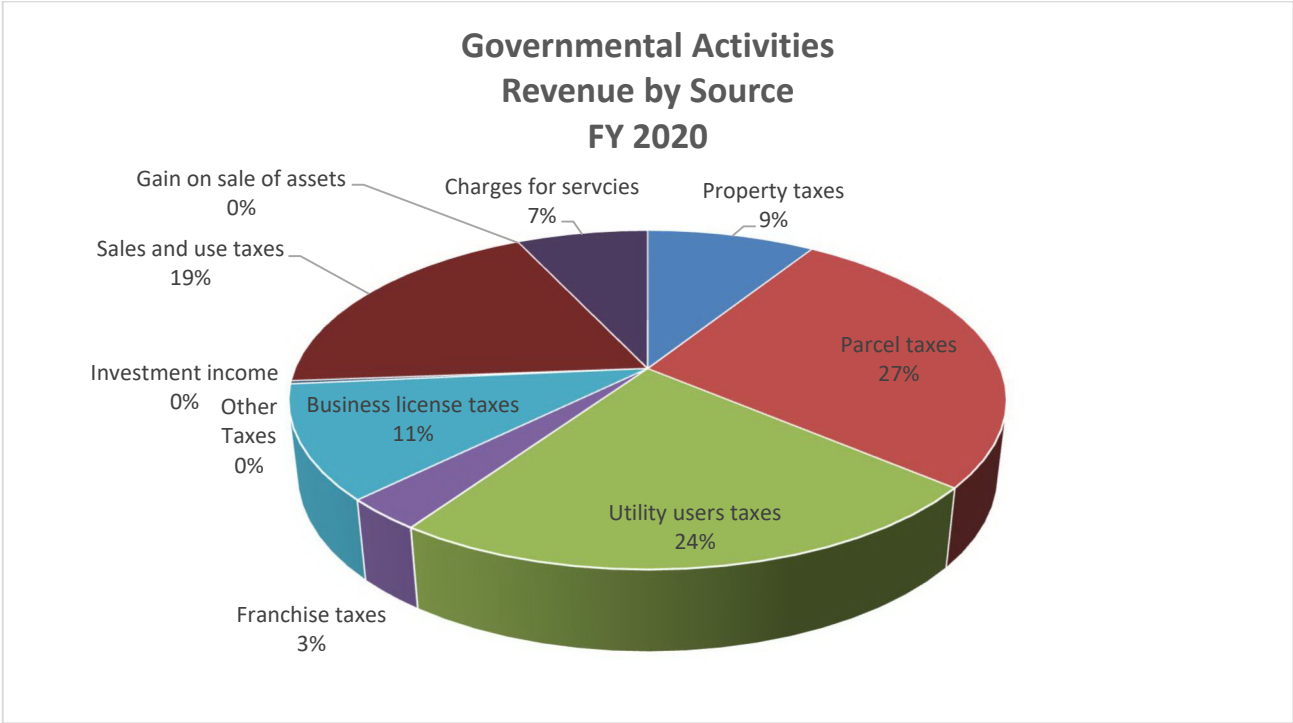
**Governmental activities, changes in net position:**

Governmental activities' net position decreased by \$1,696,980 and business-type activities' net position increased by \$6,011,765 for a net increase of \$4,314,785 for the City. The decrease in governmental activities is lower by \$3,103,374 as compared to the prior year's change in the City's net position of \$(4,800,354).



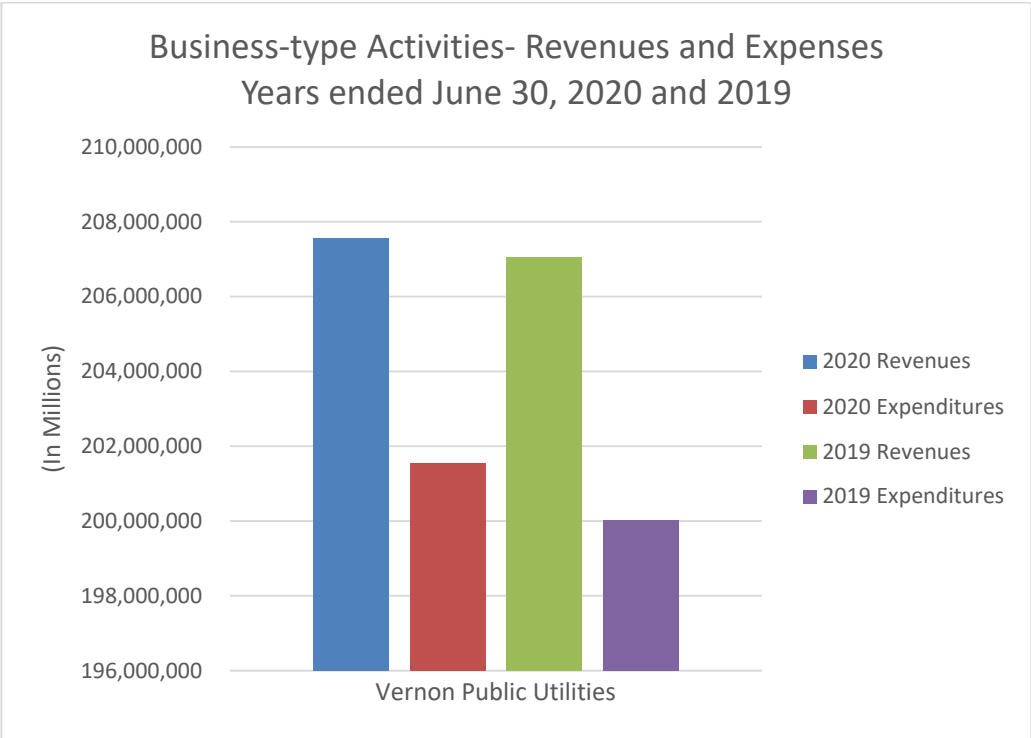
Governmental activities consist of the following departments:

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

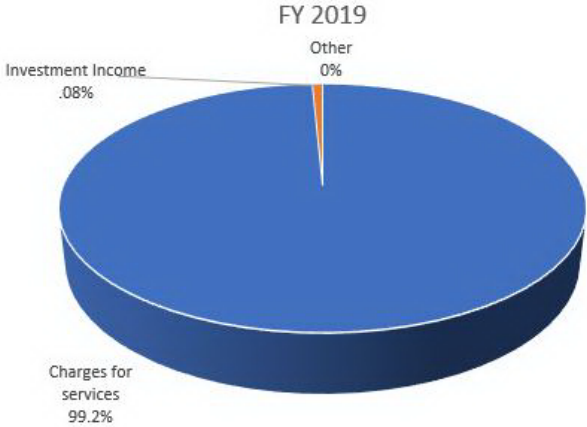
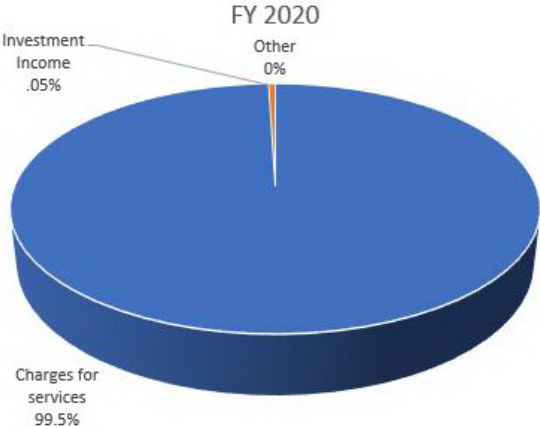


**Business-type activities, changes in net position:**

Business-type activities increased the City's net position by \$10,594,549 before transfers which is a \$991,280 decrease from the prior year. The key reason for this decrease was due to an increase in the cost of sale by \$1,509,405 and offset by an increase in revenues by \$518,125.



Business Activities  
Revenues by Source



## FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

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

### ***Governmental funds***

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

At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balances of \$8,522,417 (see page 20), an increase of \$7,338,328 from the prior year. Approximately 9% of the total fund balance amount, \$754,900, constitutes *nonspendable fund balance*, which are amounts that are not in a spendable form or are required to be maintained intact. Approximately 38.6% of the total fund balance amount, \$3,289,382, constitutes *restricted fund balance*, which are amounts that can be spent only for specific purposes stipulated by external resource providers, constitutionally, or through enabling legislation. The remainder of the fund balance amount, \$4,478,135 is an *unassigned* fund balance deficit to indicate that it is the residual classification that is not contained in the other classifications.

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$8,522,417 (see page 22). At the end of the current fiscal year, the total fund balance represents 15.5% of the total expenditures for the year.

### ***Proprietary funds***

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

Unrestricted net position for the Vernon Public Utilities at the end of the year amounted to a deficit balance of \$40,278,582 (see page 27). This deficit balance in unrestricted net position is primarily due to the proprietary funds being heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The proprietary funds expect to eliminate these deficit balances through increased future revenues.

The total increase in net position for the Vernon Public Utilities was \$6,011,765 (see page 29). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



## **GENERAL FUND AND BUDGETARY HIGHLIGHTS**

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$7,338,328. The key reasons for this variance were due to higher actual revenues than projected of \$124,036 and lower actual expenditures than appropriated by \$7,557,404.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$124,036. There were several reasons for the variance, overall revenues came in higher than expected in most categories especially taxes and other revenues by \$1,374,948 and \$1,889,565 respectively offset by a decrease in license and permits and intergovernmental revenues by \$1,175,081 and \$2,167,786, respectively.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$7,557,404. The key reasons for this variance were due to higher appropriations than actual expenditures of \$4,505,393 in capital outlay, \$1,711,115 in public works, \$933,799 in general government, \$316,877 in health services, and \$90,220 in public safety.

For the current year, the General Fund's total negative variance between the final budgeted amounts and the actual amount for other financing sources was \$343,112. The key reason for this variance was due to a lower amount transferred by the Electric Fund by \$343,191.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital assets***

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2020, amounts to \$421,077,489 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, building, utility system improvements, machinery and equipment, infrastructure such as roads, and intangible assets such as environmental emission credits. The total increase in the City's investment in capital assets for the current fiscal year was \$16,842,634, less depreciation of \$14,428,929 for a net increase of \$2,413,705 (See Note 4).

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

- In the current year, the Vernon Public Utilities added \$11,339,582 to its utility plants (net of accumulated depreciation).

There were no significant construction commitments outstanding as of June 30, 2020.

Additional information on the City's capital assets can be found in Note 4 on pages 53-54 of this report.

***Outstanding debt***

As of June 30, 2020, the following debt remains outstanding:

- \$39,705,000 City of Vernon Electric System Revenue Bonds, 2008 Taxable 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
- \$71,990,000 City of Vernon Electric System Revenue Bonds, 2020 Series A
- \$14,840,000 City of Vernon Water System Revenue Bonds, 2020 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, 2012 Series A were issued to provide funds to (i) pay a portion of the costs of certain capital improvements to the City's Electric System, (ii) to provide for capitalized interest on the 2012 Series A Bonds, and (iii) to pay costs of issuance of the 2012 Series A Bonds.

The City of Vernon Electric System Revenue Bonds, 2012 Taxable Series B were issued to provide funds to (i) refund the \$28,680,000 aggregate principal amount of 2009 Bonds maturing on August 1, 2012, (ii) to pay a portion of the Costs of the 2012 Project, and (iii) to pay costs of issuance of the 2012 Taxable Series B Bonds.

The City of Vernon Electric System Revenue Bonds, 2015 Taxable Series A were issued to provide funds to (i) refund a portion of the Outstanding Electric System Revenue Bonds, 2009 Series A; (ii) finance the costs of certain capital improvements to the City's Electric System by reimbursing the Electric System for the prior payment of such costs from the Light and Power Fund; (iii) fund a deposit to the Debt Service Reserve Fund; and (iv) pay costs of issuance of the 2015 Bonds.

The City of Vernon Electric System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Electric System of the City, (ii) to refund all of the City's outstanding Electric System Revenue Bonds, 2009 Series A, and (iii) to pay costs of issuance of the 2020 Bonds.

The City of Vernon Water System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Water System of the City, (ii) purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund in satisfaction of the Reserve Requirement, and (iii) to pay costs of issuance of the 2020 Bonds.

As of June 30, 2020, the ratings on all Electric System Revenue Bonds of the City changed from the prior year to BBB+ rating by S&P and Baa2 rating by Moody's and the ratings on all Water Revenue Bonds is AA by S&P and not rated by Moody's.

In addition to the aforementioned bonded debt, the City entered into a loan agreement to provide funding for Water Enterprise Fund capital improvements. The balance of the note at year end is \$738,720.

Additional information on the City's long-term debt can be found in Note 5 on pages 55-62 of this report.

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

These factors were considered in preparing the City's budget for the 2021 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 19.6%, which is higher than the State of California's average unemployment rate of 15.1%, and higher than the national average unemployment rate of 11.1%.
- Inflationary trends in the region compare favorably to national indices.
- The occupancy rate of the City's central business district ranges between 96% and 98%.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

**City of Vernon, California**  
**Statement of Net Position**  
**June 30, 2020**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 9,500,444	\$ 137,534,767	\$ 147,035,211
Accounts receivable, net of allowance	269,897	6,377,697	6,647,594
Taxes receivable	2,660,215	-	2,660,215
Notes and loans receivable	50,161	-	50,161
Other receivables	3,217	-	3,217
Accrued unbilled revenue	-	17,416,973	17,416,973
Accrued interest receivable	-	3,999	3,999
Internal balances	(4,386,517)	4,386,517	-
Inventories	754,900	-	754,900
Prepaid expenses	-	1,058,088	1,058,088
Prepaid natural gas	-	25,646,420	25,646,420
Deposits	-	960,888	960,888
Restricted cash and investments	3,289,382	66,575,492	69,864,874
Capital assets			-
Nondepreciable	63,366,512	63,670,534	127,037,046
Depreciable, net	108,651,879	185,388,564	294,040,443
<b>TOTAL ASSETS</b>	<b>184,160,090</b>	<b>509,019,939</b>	<b>693,180,029</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows related to pensions	13,918,552	2,547,788	16,466,340
Deferred outflows related to OPEB liability	3,309,587	605,820	3,915,407
Deferred amount on bond refunding	-	3,802,144	3,802,144
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>17,228,139</b>	<b>6,955,752</b>	<b>24,183,891</b>
<b>LIABILITIES:</b>			
Accounts payable	740,536	12,083,721	12,824,257
Accrued wages and benefits	1,899,327	567,270	2,466,597
Customer deposits	188,989	488,189	677,178
Bond interest payable	-	6,550,762	6,550,762
Unearned revenue	790,430	-	790,430
Noncurrent liabilities:			
Due within one year	4,883,112	29,944,977	34,828,089
Due in more than one year	5,798,606	288,696,134	294,494,740
Other postemployment benefit liability	18,527,244	3,391,408	21,918,652
Net pension liability	102,116,369	18,692,374	120,808,743
<b>TOTAL LIABILITIES</b>	<b>134,944,613</b>	<b>360,414,835</b>	<b>495,359,448</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows related to pensions	1,283,734	234,987	1,518,721
Deferred inflows related to OPEB liability	9,260,506	1,695,132	10,955,638
Deferred gain from sale of generation assets	-	10,243,685	10,243,685
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>10,544,240</b>	<b>12,173,804</b>	<b>22,718,044</b>
<b>NET POSITION:</b>			
Net investment in capital assets	170,034,582	159,733,492	329,768,074
Restricted for:			
Employee Flexible Spending Account	25,694	-	25,694
Street improvements	2,656,266	-	2,656,266
Asset forfeiture funds	607,422	-	607,422
Debt service	-	23,932,142	23,932,142
Unrestricted (deficit)	(117,424,588)	(40,278,582)	(157,703,170)
<b>TOTAL NET POSITION</b>	<b>\$ 55,899,376</b>	<b>\$ 143,387,052</b>	<b>\$ 199,286,428</b>

See accompanying notes to financial statements.

**City of Vernon, California**  
**Statement of Activities**  
**Year ended June 30, 2020**

Function/Program Activities	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 17,837,919	\$ 3,965,518	\$ 2,180	\$ -
Public safety	33,619,674	372,564	764,894	-
Public works	11,222,632	1,469,747	5,117	173,820
Health services	1,148,622	857,112	-	-
Interest on long term debt	76,131	-	-	-
Total governmental activities	<u>63,904,978</u>	<u>6,664,941</u>	<u>772,191</u>	<u>173,820</u>
<b>Business-type activities:</b>				
Electric	175,614,851	181,225,309	-	-
Gas	11,611,921	14,260,696	-	-
Water	9,293,984	10,460,467	-	-
Fiber optics	450,551	600,821	-	-
Total business-type activities	<u>196,971,307</u>	<u>206,547,293</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 260,876,285</u>	<u>\$ 213,212,234</u>	<u>\$ 772,191</u>	<u>\$ 173,820</u>

(Continued)

City of Vernon, California  
Statement of Activities (Continued)  
Year ended June 30, 2020

	Net (Expenses) Revenues and Change in Net Position		
	Governmental Activities	Business-type Activities	Total
Primary government:			
<b>Governmental activities:</b>			
General government	\$ (13,870,221)	\$ -	\$ (13,870,221)
Public safety	(32,482,216)	-	(32,482,216)
Public works	(9,573,948)	-	(9,573,948)
Health services	(291,510)	-	(291,510)
Interest on long term debt	(76,131)	-	(76,131)
Total governmental activities	<u>(56,294,026)</u>	<u>-</u>	<u>(56,294,026)</u>
<b>Business-type activities:</b>			
Electric	-	5,610,458	5,610,458
Gas	-	2,648,775	2,648,775
Water	-	1,166,483	1,166,483
Fiber optics	-	150,270	150,270
Total business-type activities	<u>-</u>	<u>9,575,986</u>	<u>9,575,986</u>
Total primary government	<u>(56,294,026)</u>	<u>9,575,986</u>	<u>(46,718,040)</u>
<b>General revenues:</b>			
Property taxes	4,523,551	-	4,523,551
Parcel taxes	13,538,116	-	13,538,116
Utility users taxes	11,758,238	-	11,758,238
Franchise taxes	1,535,062	-	1,535,062
Business license taxes	5,416,628	-	5,416,628
Other taxes	11,335	-	11,335
Investment income	137,738	1,018,563	1,156,301
State contribution - sales and use taxes	9,557,747	-	9,557,747
Gain on sale of assets	-	-	-
Other revenues	3,535,847	-	3,535,847
Transfers	4,582,784	(4,582,784)	-
<b>Total general revenues and transfers</b>	<u>54,597,046</u>	<u>(3,564,221)</u>	<u>51,032,825</u>
<b>Change in net position</b>	<u>(1,696,980)</u>	<u>6,011,765</u>	<u>4,314,785</u>
<b>Net Position - Beginning of Year</b>	<u>57,596,356</u>	<u>137,375,287</u>	<u>194,971,643</u>
<b>Net Position - End of Year</b>	<u>\$ 55,899,376</u>	<u>\$ 143,387,052</u>	<u>\$ 199,286,428</u>

See accompanying notes to financial statements.

**City of Vernon, California**  
**Balance Sheet**  
**Governmental Fund**  
**June 30, 2020**

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	General Fund
	<u>                    </u>
ASSETS	
Cash and cash equivalents	\$ 9,500,444
Accounts receivable, net of allowance	269,897
Taxes receivable	2,660,215
Notes and loans receivable	50,161
Other receivables	3,217
Due from other funds	2,471
Inventories	754,900
Restricted cash and investments	<u>3,289,382</u>
Total assets	<u>\$ 16,530,687</u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 740,536
Accrued wages and benefits	1,899,327
Unearned revenue	790,430
Customer deposits	188,989
Advances from other funds	<u>4,388,988</u>
Total liabilities	8,008,270
Fund balance:	
Nonspendable:	
Inventories	754,900
Restricted for:	
Employee Flexible Spending Account	25,694
Street improvements	2,656,266
Asset forfeiture funds	607,422
Unassigned	<u>4,478,135</u>
Total fund balance	<u>8,522,417</u>
Total liabilities and fund balance	<u>\$ 16,530,687</u>

See accompanying notes to financial statements.

**City of Vernon, California**  
**Reconciliation of the Governmental Fund Balance Sheet**  
**to the Statement of Net Position - Governmental Activities**  
**June 30, 2020**

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Fund balance - governmental fund	\$ 8,522,417
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund	172,018,391
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund	
Compensated absences	(4,857,829)
Capitalized lease obligation	(1,983,809)
Claims payable	(3,840,080)
Net pension and other post-employment benefit (OPEB) liabilities applicable to the City's governmental activities are not due and payable in the current period and therefore are not reported in the governmental fund. Deferred outflows and inflows of resources related to the pension and OPEB liabilities applicable to the City's governmental activities are only reported in the government-wide financial statements	
Deferred outflows of resources for pensions	13,918,552
Deferred outflows of resources for OPEB	3,309,587
Deferred inflows of resources for pensions	(1,283,734)
Deferred inflows of resources for OPEB	(9,260,506)
Net pension liability	(102,116,369)
Net OPEB liability	<u>(18,527,244)</u>
Net position of governmental activities	<u>\$ 55,899,376</u>

See accompanying notes to financial statements.



**City of Vernon, California**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Fund**  
**For the year ended June 30, 2020**

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	<u>General Fund</u>
REVENUES:	
Taxes	\$ 45,564,696
Special assessments	1,432,823
Licenses and permits	1,543,646
Fines, forfeitures and penalties	249,412
Investment income	137,738
Intergovernmental revenues	926,745
Charges for services	4,708,748
Other revenues	<u>3,061,406</u>
Total revenues	<u>57,625,214</u>
EXPENDITURES:	
Current:	
General government	16,602,618
Public safety	28,879,578
Public works	6,889,486
Health services	1,090,460
Capital outlay	<u>1,407,607</u>
Total expenditures	<u>54,869,749</u>
Excess of revenues over expenditures	<u>2,755,465</u>
OTHER FINANCING SOURCES (USES):	
Sale of general capital assets	79
Transfers in	<u>4,582,784</u>
Total other financing sources	<u>4,582,863</u>
Change in fund balance	7,338,328
Fund balance, beginning of year	<u>1,184,089</u>
Fund balance, end of year	<u><u>\$ 8,522,417</u></u>

See accompanying notes to financial statements.

**City of Vernon, California**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of**  
**Governmental Fund to the Statement of Activities - Governmental Activities**  
**For the year ended June 30, 2020**

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Net change in fund balance - total governmental fund		\$ 7,338,328
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as a depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year.		
Capital outlay	\$ 1,407,610	
Depreciation expense	(5,249,196)	
Loss on disposal of capital assets	<u>(20,309)</u>	
		(3,861,895)
Principal payment of long term debt uses current financial resources but is not reported in the statement of activities		
Principal payment of capital lease obligation		247,074
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental fund:		
Change in net pension liability	(5,483,924)	
Change in net OPEB liability	1,140,160	
Change in deferred outflows related to pensions	(1,978,255)	
Change in deferred outflows related to OPEB	733,906	
Change in deferred inflows related to pensions	(205,053)	
Change in deferred inflows related to OPEB	1,736,900	
Change in compensated absences	(738,916)	
Change in claims payable	<u>(625,305)</u>	
		<u>(5,420,487)</u>
Change in net position of governmental activities		<u>\$ (1,696,980)</u>

See accompanying notes to financial statements.

**City of Vernon, California**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2020**

	Business-type Activities		
	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 122,264,166	\$ 6,398,586	\$ 7,952,517
Accounts receivable, net of allowance	4,962,001	619,353	769,394
Accrued unbilled revenue	15,423,076	935,684	1,058,213
Accrued interest receivable	3,876	-	123
Due from other funds	5,386	-	-
Prepaid expenses	14,312	-	-
Prepaid natural gas	25,646,420	-	-
Total current assets	168,319,237	7,953,623	9,780,247
Noncurrent assets			
Restricted cash and investments	51,570,024	-	15,005,468
Advances to other funds	27,379,594	-	4,388,988
Prepaid expenses	1,043,776	-	-
Deposits	960,888	-	-
Capital assets			
Nondepreciable	59,534,194	-	4,136,340
Depreciable, net	160,908,830	16,536,732	6,712,436
Total noncurrent assets	301,397,306	16,536,732	30,243,232
Total assets	469,716,543	24,490,355	40,023,479
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	1,798,948	188,013	540,343
Deferred outflows related to OPEB liability	427,758	44,707	128,484
Deferred amount on refunding	3,802,144	-	-
Total deferred outflows of resources	6,028,850	232,720	668,827

See accompanying notes to financial statements.

	Business-type Activities	
	Enterprise Funds	
	Nonmajor Fiber Optics Fund	Totals
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 919,498	\$ 137,534,767
Accounts receivable, net of allowance	26,949	6,377,697
Accrued unbilled revenue	-	17,416,973
Accrued interest receivable	-	3,999
Due from other funds	-	5,386
Prepaid expenses	-	14,312
Prepaid natural gas	-	25,646,420
Total current assets	946,447	186,999,554
Noncurrent assets		
Restricted cash and investments	-	66,575,492
Advances to other funds	-	31,768,582
Prepaid expenses	-	1,043,776
Deposits	-	960,888
Capital assets		
Nondepreciable	-	63,670,534
Depreciable, net	1,230,566	185,388,564
Total noncurrent assets	1,230,566	349,407,836
Total assets	2,177,013	536,407,390
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pensions	20,484	2,547,788
Deferred outflows related to OPEB liability	4,871	605,820
Deferred amount on refunding	-	3,802,144
Total deferred outflows of resources	25,355	6,955,752

(Continued)

**City of Vernon, California**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2020**

	Business-type Activities		
	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 10,573,697	\$ 61,747	\$ 1,425,945
Accrued wages and benefits	394,690	47,665	120,770
Due to other funds	2,161	310	5,386
Customer deposits	413,447	13,558	61,184
Bond interest payable	6,459,298	-	91,464
Bonds payable, net	29,520,000	-	-
Note payable	-	-	68,718
Compensated absences	283,071	8,015	64,626
Total current liabilities	<u>47,646,364</u>	<u>131,295</u>	<u>1,838,093</u>
Noncurrent liabilities			
Advances from other funds	-	23,211,896	-
Bonds payable, net	271,899,622	-	15,413,993
Note payable	-	-	670,002
Compensated absences	566,143	16,031	129,253
Other postemployment benefit liability	2,394,613	250,267	719,261
Net pension liability	13,198,355	1,379,394	3,964,339
Total noncurrent liabilities	<u>288,058,733</u>	<u>24,857,588</u>	<u>20,896,848</u>
Total liabilities	<u>335,705,097</u>	<u>24,988,883</u>	<u>22,734,941</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	165,920	17,341	49,837
Deferred inflows related to OPEB liability	1,196,903	125,091	359,509
Deferred gain from sale of generation assets	10,243,685	-	-
Total deferred inflows of resources	<u>11,606,508</u>	<u>142,432</u>	<u>409,346</u>
<b>NET POSITION</b>			
Net investment in capital assets	132,692,564	16,536,732	9,273,640
Restricted for debt service	23,932,142	-	-
Unrestricted (deficit)	(28,190,918)	(16,944,972)	8,274,379
Total net position	<u>\$ 128,433,788</u>	<u>\$ (408,240)</u>	<u>\$ 17,548,019</u>

See accompanying notes to financial statements.

	Business-type Activities	
	Enterprise Funds	
	Nonmajor Fiber Optics Fund	Totals
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 22,332	\$ 12,083,721
Accrued wages and benefits	4,145	567,270
Due to other funds	-	7,857
Customer deposits	-	488,189
Bond interest payable	-	6,550,762
Bonds payable, net	-	29,520,000
Note payable	-	68,718
Compensated absences	546	356,259
Total current liabilities	<u>27,023</u>	<u>49,642,776</u>
Noncurrent liabilities		
Advances from other funds	4,167,698	27,379,594
Bonds payable, net	-	287,313,615
Note payable	-	670,002
Compensated absences	1,091	712,517
Other postemployment benefit liability	27,267	3,391,408
Net pension liability	150,286	18,692,374
Total noncurrent liabilities	<u>4,346,342</u>	<u>338,159,510</u>
Total liabilities	<u>4,373,365</u>	<u>387,802,286</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	1,889	234,987
Deferred inflows related to OPEB liability	13,629	1,695,132
Deferred gain from sale of generation assets	-	10,243,685
Total deferred inflows of resources	<u>15,518</u>	<u>12,173,804</u>
NET POSITION		
Net investment in capital assets	1,230,556	159,733,492
Restricted for debt service	-	23,932,142
Unrestricted (deficit)	(3,417,071)	(40,278,582)
Total net position	<u>\$ (2,186,515)</u>	<u>\$ 143,387,052</u>

**City of Vernon, California**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the year ended June 30, 2020**

	Business-type Activities		
	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
Operating revenues			
Charges for services	\$ 181,225,309	\$ 14,260,696	\$ 10,460,467
Total operating revenue	<u>181,225,309</u>	<u>14,260,696</u>	<u>10,460,467</u>
Operating expenses			
Cost of sales	147,971,714	10,897,670	8,937,475
Depreciation	7,907,184	714,251	356,509
Total operating expenses	<u>155,878,898</u>	<u>11,611,921</u>	<u>9,293,984</u>
Operating income (loss)	<u>25,346,411</u>	<u>2,648,775</u>	<u>1,166,483</u>
Nonoperating revenues (expenses)			
Investment income	918,236	53,144	41,717
Net increase in fair value of investments	2,036	-	-
Interest expense	(19,222,747)	-	(88,284)
Loss on disposal of assets	(424,922)	-	-
Total nonoperating revenues (expenses)	<u>(18,727,397)</u>	<u>53,144</u>	<u>(46,567)</u>
Net income (loss) before transfers	<u>6,619,014</u>	<u>2,701,919</u>	<u>1,119,916</u>
Transfers			
Transfers in	-	-	-
Transfers out	(4,582,784)	-	-
Total transfers	<u>(4,582,784)</u>	<u>-</u>	<u>-</u>
Change in net position	2,036,230	2,701,919	1,119,916
Net position (deficit) - beginning of year	<u>126,397,558</u>	<u>(3,110,159)</u>	<u>16,428,103</u>
Net position (deficit) - end of year	<u>\$ 128,433,788</u>	<u>\$ (408,240)</u>	<u>\$ 17,548,019</u>

See accompanying notes to financial statements.

	Business-type Activities	
	Enterprise Funds	
	Nonmajor Fiber Optics Fund	Totals
Operating revenues		
Charges for services	\$ 600,821	\$ 206,547,293
Total operating revenue	<u>600,821</u>	<u>206,547,293</u>
Operating expenses		
Cost of sales	248,762	168,055,621
Depreciation	201,789	9,179,733
Total operating expenses	<u>450,551</u>	<u>177,235,354</u>
Operating income (loss)	<u>150,270</u>	<u>29,311,939</u>
Nonoperating revenues (expenses)		
Investment income	3,430	1,016,527
Net increase in fair value of investments	-	2,036
Interest expense	-	(19,311,031)
Loss on disposal of assets	-	(424,922)
Total nonoperating revenues (expenses)	<u>3,430</u>	<u>(18,717,390)</u>
Net income (loss) before transfers	<u>153,700</u>	<u>10,594,549</u>
Transfers		
Transfers in	-	-
Transfers out	-	(4,582,784)
Total transfers	<u>-</u>	<u>(4,582,784)</u>
Change in net position	153,700	6,011,765
Net position (deficit) - beginning of year	<u>(2,340,215)</u>	<u>137,375,287</u>
Net position (deficit) - end of year	<u>\$ (2,186,515)</u>	<u>\$ 143,387,052</u>



**City of Vernon, California**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2020**

	Business-type Activities		
	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
Cash flows from operating activities			
Cash received from customers	\$ 175,178,932	\$ 14,858,360	\$ 9,604,955
Cash paid to suppliers for goods and services	(117,560,324)	(10,562,222)	(7,271,435)
Cash paid to employees for services	(4,079,141)	(316,439)	(1,096,828)
Net cash provided by (used in) operating activities	<u>53,539,467</u>	<u>3,979,699</u>	<u>1,236,692</u>
Cash flows from capital and related financing activities			
Repayment of bonds	(30,550,000)	-	-
Issuance of bonds	79,629,328	-	15,417,173
Payment to refunding bond escrow agent	(58,316,993)	-	738,720
Bond interest paid	(16,521,331)	-	-
Net acquisition of capital assets	(11,468,427)	(577,735)	(3,826,735)
Net cash used in capital and related financing activities	<u>(37,227,423)</u>	<u>(577,735)</u>	<u>12,329,158</u>
Cash flows from noncapital financing activities			
Transfers to the General Fund of the City	(4,582,784)	-	-
Advance (from) to other funds	11,455,635	(8,368,217)	2,058,183
Net cash provided by (used in) noncapital financing activities	<u>6,872,851</u>	<u>(8,368,217)</u>	<u>2,058,183</u>
Cash flows from investing activities			
Investment income	1,078,168	53,144	41,594
Cash provided by investing activities	<u>1,078,168</u>	<u>53,144</u>	<u>41,594</u>
Change in cash and cash equivalents	24,263,063	(4,913,109)	15,665,627
Cash and cash equivalents, beginning of year	149,571,127	11,311,695	7,292,358
Cash and cash equivalents, end of year	<u>\$ 173,834,190</u>	<u>\$ 6,398,586</u>	<u>\$ 22,957,985</u>
Composition of Cash and Cash Equivalents			
Cash and cash equivalents	\$ 122,264,166	\$ 6,398,586	\$ 7,952,517
Restricted cash and investments	51,570,024	-	15,005,468
	<u>\$ 173,834,190</u>	<u>\$ 6,398,586</u>	<u>\$ 22,957,985</u>

See accompanying notes to financial statements.

	Business-type Activities	
	Enterprise Funds	
	Nonmajor Fiber Optics Fund	Totals
Cash flows from operating activities		
Cash received from customers	\$ 601,080	\$ 200,243,327
Cash paid to suppliers for goods and services	(221,626)	(135,615,607)
Cash paid to employees for services	(47,499)	(5,539,907)
Net cash provided by (used in) operating activities	<u>331,955</u>	<u>59,087,813</u>
Cash flows from capital and related financing activities		
Repayment of bonds	-	(30,550,000)
Issuance of bonds	-	95,046,501
Payment to refunding bond escrow agent	-	(57,578,273)
Bond interest paid	-	(16,521,331)
Net acquisition of capital assets	(7,358)	(15,880,255)
Net cash used in capital and related financing activities	<u>(7,358)</u>	<u>(25,483,358)</u>
Cash flows from noncapital financing activities		
Transfers to the General Fund of the City	-	(4,582,784)
Advance (from) to other funds	(150,000)	4,995,601
Net cash provided by (used in) noncapital financing activities	<u>(150,000)</u>	<u>412,817</u>
Cash flows from investing activities		
Investment income	<u>3,430</u>	<u>1,176,336</u>
Cash provided by investing activities	<u>3,430</u>	<u>1,176,336</u>
Change in cash and cash equivalents	178,027	35,193,608
Cash and cash equivalents, beginning of year	<u>741,471</u>	<u>168,916,651</u>
Cash and cash equivalents, end of year	<u>\$ 919,498</u>	<u>\$ 204,110,259</u>
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 919,498	\$ 137,534,767
Restricted cash and investments	-	66,575,492
	<u>\$ 919,498</u>	<u>\$ 204,110,259</u>

(Continued)

**City of Vernon, California**  
**Statement of Cash Flows (Continued)**  
**Proprietary Funds**  
**For the year ended June 30, 2020**

	Business-type Activities		
	Enterprise Funds		
	Electric Fund	Gas Fund	Water Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 25,346,411	\$ 2,648,775	\$ 1,166,483
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	7,907,184	714,251	356,509
Allowance for note receivable	940,000	-	-
Change in operating assets and liabilities:			
Accounts receivable	(1,108,103)	677,155	(164,125)
Accrued unbilled revenue	(4,935,774)	(79,491)	(696,187)
Due from other funds	(5,386)	-	-
Prepaid expenses and deposits	(133,562)	-	-
Prepaid natural gas	28,664,653	-	-
Deferred outflows of resources	74,439	(17,349)	6,590
Accounts payable	(796,826)	(243,345)	53,260
Accrued wages and benefits	20,521	5,527	13,246
Due to other funds	2,161	310	5,386
Customer deposits	(2,500)	-	4,800
Compensated absences	290,209	(1,492)	91,641
Other postemployment benefit liability	(55,385)	20,965	154
Net pension liability	1,160,707	252,756	431,131
Deferred inflows of resources	(3,829,282)	1,637	(32,196)
Net cash provided by (used in) operating activities	<u>\$ 53,539,467</u>	<u>\$ 3,979,699</u>	<u>\$ 1,236,692</u>
Non-Cash Investing, Capital, and Financing Activities			
Gain (Loss) on disposal of assets	<u>\$ (424,922)</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

	Business-type Activities	
	Enterprise Funds	
	Nonmajor Fiber Optics Fund	Totals
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 150,270	\$ 29,311,939
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	201,789	9,179,733
Allowance for note receivable	-	940,000
Change in operating assets and liabilities:		
Accounts receivable	259	(594,814)
Accrued unbilled revenue	-	(5,711,452)
Due from other funds	-	(5,386)
Prepaid expenses and deposits	-	(133,562)
Prepaid natural gas	-	28,664,653
Deferred outflows of resources	6,877	70,557
Accounts payable	(210)	(987,121)
Accrued wages and benefits	3,060	42,354
Due to other funds	-	7,857
Customer deposits	-	2,300
Compensated absences	841	381,199
Other postemployment benefit liability	(7,051)	(41,317)
Net pension liability	(18,327)	1,826,267
Deferred inflows of resources	(5,553)	(3,865,394)
Net cash provided by (used in) operating activities	<u>\$ 331,955</u>	<u>\$ 59,087,813</u>
Non-Cash Investing, Capital, and Financing Activities		
Gain (Loss) on disposal of assets	<u>\$ -</u>	<u>\$ (424,922)</u>

**City of Vernon, California**  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
**June 30, 2020**

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	Redevelopment Successor Agency Fund
<b>ASSETS</b>	
Other receivable	\$ 40
Restricted cash and investments	20,849,640
Total assets	<u>20,849,680</u>
<b>LIABILITIES</b>	
Customer deposits	42,968
Bond interest payable	873,522
Long-term debt	
Due within one year	3,105,000
Due in more than one year	42,098,196
Total liabilities	<u>46,119,686</u>
<b>FIDUCIARY NET POSITION (DEFICIT)</b>	
Total net position held in trust for dissolution of former Redevelopment Agency	<u><u>\$ (25,270,006)</u></u>

**City of Vernon, California**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Fund**  
**For the year ended June 30, 2020**

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	Redevelopment Successor Agency Fund
ADDITIONS	
Property tax increment	\$ 4,165,146
Investment earnings	83,833
Total additions	<u>4,248,979</u>
DEDUCTIONS:	
Community development	568,858
Interest on long-term debt	<u>2,687,503</u>
Total deductions	<u>3,256,361</u>
Change in fiduciary net position	992,618
Fiduciary net position (deficit) - beginning of year	<u>(26,262,624)</u>
Fiduciary net position (deficit) - end of year	<u><u>\$ (25,270,006)</u></u>

# CITY OF VERNON, CALIFORNIA

## Notes to Financial Statements

June 30, 2020

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Reporting Entity**

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with the data of the primary government. As of June 30, 2020, the City had no blended component units or any discretely presented component units.

#### **Basis of Presentation**

##### *Government-Wide Financial Statements*

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

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

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

**Basis of Presentation (Continued)**

*Fund Financial Statements*

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

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

The City reports one major governmental fund:

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

The City reports three major enterprise funds:

The *Electric Fund* accounts for the maintenance and operations of the City's electric utility plant. Revenues for this fund are primarily from charges for services.

The *Gas Fund* accounts for the maintenance and operations of the City's gas utility plant. Revenues for this fund are primarily from charges for services.

The *Water Fund* accounts for the maintenance and operations of the City's water utility plant. Revenues for this fund are primarily from charges for services.

The City also reports a fiber optics nonmajor enterprise fund for the maintenance and operation of the City's fiber optics utility plant.

The City reports one fiduciary fund:

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



**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Basis of Presentation (Continued)**

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

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

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

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

**Cash and Investments**

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

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Cash and Investments (Continued)**

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

**Receivables/Payables**

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

Proprietary fund trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible were \$1,292,705 as of June 30, 2020. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end, has been included in the accompanying financial statements.

**Inventories**

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

**Prepaid Items**

The City made a prepayment to Southern California Public Power Authority (SCPPA) for the City Electric Enterprise Fund's share of SCPPA's payoff of the Hoover Center and Air Slots debt. This prepaid expense amount is being amortized over the life of the debt based on the annual debt service obligations. See Note 9 for further information regarding SCPPA.

The City entered into an agreement for the purchase and sale of natural gas in 2006 with Citigroup Energy Inc. for a specified quantity of gas to be delivered to the City's Electric Enterprise Fund in accordance with the terms of the agreement. As full compensation for the total contract quantity to be delivered, City made a prepayment which is being amortized over the life of the agreement based on the monthly contract quantities to be delivered. The agreement is in effect until May 31, 2021. The outstanding amount of prepaid natural gas at June 30, 2020 is \$25,646,420.

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Capital Assets**

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

The estimated useful lives are as follows:

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

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

**Compensated Absences**

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

**Deferred Outflows and Inflows of Resources**

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time.

The City has the following items that qualify for reporting as deferred outflows of resources:

- Deferred outflows related to pension and OPEB plans equal to employer contributions made after the measurement date of the pension and OPEB liabilities.

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Deferred Outflows and Inflows of Resources (Continued)**

The City has the following items that qualify for reporting as deferred outflows of resources (continued):

- Deferred outflows related to pension plans for differences between expected and actual experiences, and changes of assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions benefits through the plans.

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Deferred inflows related to pension and OPEB plans for differences between expected and actual experiences, and changes of assumptions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions and OPEB benefits through the plans.
- Deferred inflows related to pension and OPEB plans resulting from the difference between projected and actual earnings on the plan investments. These amounts are amortized over five years.
- Deferred inflows related to the deferred gain from the sale of generation assets. These amounts are amortized over the lives of the related sale agreements.

**Long-Term Obligations**

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

**Net Position**

The government-wide financial statements and proprietary fund financial statements utilize a net position presentation. Net position is categorized as follows:

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Net Position (Continued)**

- Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents the net position of the City not restricted for any project or other purposes.

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

**Fund Balance**

In the fund financial statements, the governmental fund balance is classified in the following categories:

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

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

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

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

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

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**Encumbrances**

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

**Use of Estimates**

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

**Property Taxes**

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

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

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

**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.

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

**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.

**New Accounting Pronouncements**

**Current Year Standards**

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*, which was effective immediately. This statement provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. Paragraph 4 of this statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform. Paragraph 5 of this statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

The requirements of these statements did not impact the City.

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

**New Accounting Pronouncements (Continued)**

**Pending Accounting Standards**

GASB has issued the following statements, which may impact the City's financial reporting requirements in the future:

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, GASB issued Statement No. 87, *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset for leases with a term of more than 12 months. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For leases with a term of 12 months or less, lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2021, and early application is encouraged.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, and early application is encouraged. The requirements of this statement should be applied prospectively.



**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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

**New Accounting Pronouncements (Continued)**

**Pending Accounting Standards (Continued)**

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to leases, fiduciary activities, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments. The requirements of this statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. This statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances. The requirements of this statement are effective for fiscal years beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 2 - CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

	<b>Primary Government</b>	<b>Fiduciary Fund</b>	<b>Total</b>
Cash and cash equivalents	\$ 147,035,211	\$ -	\$ 147,035,211
Restricted cash and cash equivalents	69,864,874	20,849,640	90,714,514
Total cash and cash equivalents	<u>\$ 216,900,085</u>	<u>\$ 20,849,640</u>	<u>\$ 237,749,725</u>

Cash and investments as of June 30, 2020, consist of the following:

Cash on hand	\$ 21,300
Deposits with financial institutions	98,421,336
Investments	<u>139,307,089</u>
Total cash and investments	<u>\$ 237,749,725</u>

**The City's Investment Policy**

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

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

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

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Rating</u>
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Local Agency Bonds	5 years	None	None	AA
CA State and Local Agency Bonds	5 years	30%	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	(1)
Negotiable Certificates of Deposit	5 years	30%	None	None
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	None	None

(1) Highest letter and numerical rating by a nationally recognized statistical ratings organization.

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

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

**Investments Authorized by Debt Agreements (Continued)**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Rating</u>
U.S. Treasury Obligations	None	None	None	None
U.S. Agency Securities	None	None	None	None
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 year	None	None	None
Commercial Paper	None	None	None	(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

(1) Highest letter and numerical rating by a nationally recognized statistical ratings organization.

**Disclosure Relating to Interest Rate Risk**

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

<u>Investment Type</u>	<u>Fair Value as of 6/30/2020</u>	<u>Investment Maturities</u>		
		<u>(in Months)</u>		
		<u>Less than 12 Months</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
<b><u>Investments</u></b>				
Local Agency Investment Fund	\$ 631,219	\$ 631,219	\$ -	\$ -
<b><u>Investments with Fiscal Agent</u></b>				
Money Market Mutual Funds	138,675,870	138,675,870	-	-
Total Investments	<u>\$139,307,089</u>	<u>\$138,675,870</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Disclosures Relating to Credit Risk**

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

**Concentration of Credit Risk**

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that is governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2020, there were no investments held by the City that exceeded 5% in any one issuer, excluding the investments in the Local Agency Investment Fund and money market mutual funds.

**Custodial Credit Risk**

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

At year-end, the carrying amounts of the City's deposits were \$98,421,336. The bank balances were \$98,795,633, respectively. The difference between the bank balances and the carrying amounts represents outstanding checks and deposits in transit. As of June 30, 2020, the City's deposits with financial institutions were either FDIC-insured or collateralized by the pledging financial institution as required by Section 53652 of the California Government Code.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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

**Local Agency Investment Fund (LAIF)**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF. LAIF is not rated.

**Fair Value Measurement**

The City categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices of similar assets in active markets, and Level 3 inputs are significant unobservable inputs.

The fair value of the City’s investments in the Local Agency Investment Fund and the money market mutual funds are not subject to the fair value hierarchy requirement.

<u>Investment Type</u>	<u>Minimum Required Rating</u>	<u>Credit Rating Moody's / S&amp;P</u>	<u>Fair Value as of June 30, 2020</u>
<b><u>Investments</u></b>			
Local Agency Investment Fund	Not Rated	Not Rated	\$ 631,219
<b><u>Investments with Fiscal Agent</u></b>			
Money Market Mutual Funds	Aaa / AAA	Aaa / AAA	<u>138,675,870</u>
Total Investments			<u><u>\$ 139,307,089</u></u>

**NOTE 3 - INTERFUND TRANSACTIONS**

Interfund receivables and payables were as follows at June 30, 2020:

**Due to/from Other Funds**

<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
General fund	Electric Enterprise Fund	\$ 2,161
	Gas Enterprise Fund	310
Electric Enterprise Fund	Water Enterprise Fund	<u>5,386</u>
		<u><u>\$ 7,857</u></u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 3 - INTERFUND TRANSACTIONS (CONTINUED)**

**Due to/from Other Funds (Continued)**

The interfund balances resulted from borrowing of cash for temporary purposes. All balances are expected to be reimbursed within the subsequent year.

**Advances to/from Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric Enterprise Fund	Gas Enterprise Fund	\$ 23,211,896
	Fiber Optics Enterprise Fund	4,167,698
Water Enterprise Fund	General Fund	4,388,988
		<u>\$ 31,768,582</u>

The advance between the Electric Enterprise Fund and the Gas and Fiber Optics Enterprise Funds do not accrue interest due to the nature of the City’s operational relationship and capital projects funded by the Electric Enterprise Fund that benefit all City operations. On November 6, 2012, the City adopted Resolution No. 2012-215 extending the repayment term of the advance from 15 months to a period of over 10 years. \$11,455,635 of the advance was repaid in the current year.

The advance between the Water Enterprise Fund and the General Fund does not accrue interest due to the nature of the City’s operational relationship and capital projects funded by the Water Fund that benefit both. On November 6, 2012, the City adopted Resolution No. 2012-215 extending the repayment term of the advance from 15 months to a period of over 10 years. \$2,058,183 of the advance was repaid in the current year.

**Transfers**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Electric Enterprise Fund	<u>\$ 4,582,784</u>

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

During the current year, the Electric Enterprise Fund transferred a total of \$4,582,784 to the General Fund consisting of in-lieu franchise taxes.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity of governmental activities for the fiscal year ended June 30, 2020, was as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>
<b><u>Governmental Activities:</u></b>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 62,140,108	\$ -	\$ -	\$ 62,140,108
Construction in progress	1,255,491	101,932	(131,019)	1,226,404
Total capital assets, not being depreciated	<u>63,395,599</u>	<u>101,932</u>	<u>(131,019)</u>	<u>63,366,512</u>
<i>Capital assets, being depreciated</i>				
Infrastructure	158,039,999	909,661	-	158,949,660
Building and improvements	16,697,501	14,171	-	16,711,672
Improvements Other Than Buildings	11,333,356	99,881	-	11,433,237
Machinery and Equipment	32,341,644	412,984	(112,718)	32,641,910
Total capital assets, being depreciated	<u>218,412,500</u>	<u>1,436,697</u>	<u>(112,718)</u>	<u>219,736,479</u>
Less: accumulated depreciation for:				
Infrastructure	(68,042,131)	(3,525,556)	-	(71,567,687)
Building and Improvements	(8,427,640)	(393,957)	-	(8,821,597)
Improvements Other Than Buildings	(5,593,040)	(353,939)	-	(5,946,979)
Machinery and Equipment	(23,865,002)	(975,744)	92,409	(24,748,337)
Total accumulated depreciation	<u>(105,927,813)</u>	<u>(5,249,196)</u>	<u>92,409</u>	<u>(111,084,600)</u>
Total capital assets, being depreciated, net				
Infrastructure	89,997,868	(2,615,895)	-	87,381,973
Building and Improvements	8,269,861	(379,786)	-	7,890,075
Improvements Other Than Buildings	5,740,316	(254,058)	-	5,486,258
Machinery and Equipment	8,476,642	(562,760)	(20,309)	7,893,573
Total	<u>112,484,687</u>	<u>(3,812,499)</u>	<u>(20,309)</u>	<u>108,651,879</u>
Governmental activities capital assets, net	<u>\$ 175,880,286</u>	<u>\$ (3,710,567)</u>	<u>\$ (151,328)</u>	<u>\$ 172,018,391</u>

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 563,427
Public safety	777,146
Public works	3,908,623
Total depreciation expense - governmental functions	<u>\$ 5,249,196</u>



**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Capital asset activity of business-type activities for the fiscal year ended June 30, 2020, was as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2020</u>
<b>Business-Type Activities:</b>				
<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	1,163,811	-	-	1,163,811
Electric utility - Construction in progress	54,464,081	91,094	(424,922)	54,130,253
Water utility - Construction in progress	1,255,124	3,339,979	(926,402)	3,668,701
Total capital assets, not being depreciated	<u>61,590,785</u>	<u>3,431,073</u>	<u>(1,351,324)</u>	<u>63,670,534</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	232,539,598	11,339,582	-	243,879,180
Electric utility - General plant	9,220,498	37,750	-	9,258,248
Water utility plant	20,612,155	1,413,158	-	22,025,313
Gas utility plant	26,376,465	577,735	-	26,954,200
Fiber Optic utility plant	4,154,020	7,358	-	4,161,378
Total capital assets, being depreciated	<u>313,980,152</u>	<u>13,375,583</u>	<u>-</u>	<u>327,355,735</u>
Less: accumulated depreciation for:				
Electric utility - Production plant	(9,834,419)	(461,537)	-	(10,295,956)
Electric utility - Transmission plant	(3,240,102)	(92,334)	-	(3,332,436)
Electric utility - Distribution plant	(87,085,001)	(6,922,028)	-	(94,007,029)
Electric utility - General plant	(5,239,309)	(431,285)	-	(5,670,594)
Water utility plant	(14,956,368)	(356,509)	-	(15,312,877)
Gas utility plant	(9,703,217)	(714,251)	-	(10,417,468)
Fiber Optic utility plant	(2,729,023)	(201,789)	-	(2,930,812)
Total accumulated depreciation	<u>(132,787,439)</u>	<u>(9,179,733)</u>	<u>-</u>	<u>(141,967,172)</u>
Total capital assets, being depreciated, net				
Electric utility - Production plant	6,354,884	(461,537)	-	5,893,347
Electric utility - Transmission plant	1,648,011	(92,334)	-	1,555,677
Electric utility - Distribution plant	145,454,597	4,417,554	-	149,872,151
Electric utility - General plant	3,981,189	(393,535)	-	3,587,654
Water utility plant	5,655,787	1,056,649	-	6,712,436
Gas utility plant	16,673,248	(136,516)	-	16,536,732
Fiber Optic utility plant	1,424,997	(194,431)	-	1,230,566
Total	<u>181,192,713</u>	<u>4,195,850</u>	<u>-</u>	<u>185,388,563</u>
Business-type activities capital assets, net	<u>\$ 242,783,498</u>	<u>\$ 7,626,923</u>	<u>\$ (1,351,324)</u>	<u>\$ 249,059,097</u>

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

Electric fund	\$ 7,907,184
Gas fund	714,251
Water fund	356,509
Fiber optics fund	201,789
Total depreciation expense - business-type functions	<u>\$ 9,179,733</u>

**NOTE 5 - LONG-TERM OBLIGATIONS**

As of June 30, 2020, outstanding debt obligations consisted of the following:

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

At June 30, 2020, \$39,705,000 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 \$80,530,050, payable through fiscal year 2039. For the current year, debt service and net electric revenues were \$4,239,805 and \$33,253,595, 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)**

The remaining outstanding 2009 Series A bonds were currently refunded during the current fiscal year with proceeds from the issuance of the \$71,990,000 Electric System Revenue Bonds (2020 Series A) and are considered defeased. As a result, the liability for the 2009 Series A has been removed.

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

At June 30, 2020, \$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 \$73,131,624, payable through fiscal year 2042. For the current year, debt service and net electric revenues were \$2,031,394 and \$33,253,595, 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, 2020, \$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 \$45,428,613, payable through fiscal year 2027. For the current year, debt service and net electric revenues were \$2,222,900 and \$33,253,595, 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.

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**\$111,720,000 Electric System Revenue Bonds (2015 Taxable Series A)**

At June 30, 2020, \$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 \$134,315,054, payable through fiscal year 2027. For the current year, debt service and net electric revenues were \$5,087,518 and \$33,253,595, 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.

**\$71,990,000 Electric System Revenue Bonds (2020 Series A)**

At June 30, 2020, \$71,990,000 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 \$87,064,054, payable through fiscal year 2038. For the current year, debt service and net electric revenues were \$0 and \$33,253,595, 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, 2020 Series A were issued to provide funds to (i) to finance the acquisition and construction of certain capital improvements to the Electric System of the City, (ii) to refund all of the City's outstanding Electric System Revenue Bonds, 2009 Series A, and (iii) to pay costs of issuance of the 2020 Bonds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,473,384. The City decreased its debt service payment by \$5,942,011 resulting in an economic gain of \$1,644,240.

**\$14,840,000 Water System Revenue Bonds (2020 Series A)**

At June 30, 2020, \$14,840,000 remained outstanding. The bonds are special obligation bonds which are secured by an irrevocable pledge of water revenues payable to bondholders. The debt service remaining on the bonds is \$26,305,245, payable through fiscal 2051. For the current year, debt service and net water revenues were \$0 and \$1,522,992, respectively. Under the Indenture of Trust dated May 6, 2020, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Water Enterprise (as those terms are defined in the Indenture of Trust). The City of Vernon Water System Revenue Bonds, 2020 Series A were issued to provide funds to (i) finance the acquisition and construction of certain capital improvements to the Water System of the City, (ii) purchase a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund in satisfaction of the Reserve Requirement, and (iii) to pay costs of issuance of the 2020 Bonds.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

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

<u>Bonds</u>	<u>Maturity</u>	<u>Fixed Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding June 30, 2020</u>
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	\$ 39,705,000
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
City of Vernon Electric System Revenue Bonds, 2020 Taxable Series A	08/01/50	5.00%	To begin 08/03/20: \$1,525,000 - \$28,655,000	71,990,000	71,990,000
Premiums					7,635,218
Discounts					<u>(2,370,596)</u>
Total Electric System Revenue Bonds					<u>301,419,622</u>
Water System: City of Vernon Water System Revenue Bonds, 2020 Taxable Series A	08/01/50	5.00%	To begin 08/01/21: \$240,000 - \$3,785,000	14,840,000	14,840,000
Premium					<u>573,933</u>
Total Water System Revenue Bonds					<u>15,413,933</u>
Total Revenue Bonds					<u>\$ 316,833,555</u>

**Note Payable**

In May 2019, the City entered into an agreement with Water Replenishment District of Southern California (WRD) for assistance with the construction of a new groundwater well or rehabilitation of an existing groundwater well. The promissory note is unsecured and has no interest basis for an amount not to exceed \$1,500,000. As of June 30, 2020, WRD has disbursed \$738,720 under the agreement to the City. The note is payable in quarterly principal payments commencing the first day of the second full calendar month following the Completion Date, as defined by the agreement, in an amount which, together with all quarterly payments, will be sufficient to fully amortize the principal balance of the note by the maturity date of April 1, 2031.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
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**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements**

As of June 30, 2020, 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
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	1,220,000	3,018,526
2026-2030	7,955,000	13,239,123
2031-2035	12,220,000	8,969,249
2036-2040	14,355,000	2,598,690
Total requirements	<u>\$ 39,705,000</u>	<u>\$ 40,825,050</u>

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Taxable Series A	
	Principal	Interest
2021	\$ -	\$ 2,031,394
2022	-	2,031,394
2023	-	2,031,394
2024	-	2,031,394
2025	-	2,031,394
2026-2030	3,395,000	9,908,094
2031-2035	6,940,000	8,459,572
2036-2040	13,445,000	6,194,238
2041-2045	13,860,000	772,750
Total requirements	<u>\$ 37,640,000</u>	<u>\$ 35,491,624</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements (Continued)**

As of June 30, 2020, annual debt service requirements of business-type activities to maturity are as follows (continued):

Fiscal year ending June 30:	Electric System Revenue Bonds 2012 Taxable Series B	
	Principal	Interest
2021	\$ -	\$ 2,222,900
2022	-	2,222,900
2023	6,165,000	2,030,244
2024	6,565,000	1,632,431
2025	6,990,000	1,208,838
2026-2030	15,380,000	1,011,300
Total requirements	<u>\$ 35,100,000</u>	<u>\$ 10,328,613</u>

Fiscal year ending June 30:	Electric System Revenue Bonds 2015 Taxable Series A	
	Principal	Interest
2021	\$ -	\$ 5,087,518
2022	-	5,087,518
2023	22,540,000	4,580,368
2024	23,520,000	3,596,938
2025	24,585,000	2,530,618
2026-2027	41,075,000	1,712,094
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 22,595,054</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
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**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements (Continued)**

As of June 30, 2020, annual debt service requirements of business-type activities to maturity are as follows (continued):

Fiscal year ending June 30:	Electric System Revenue Bonds 2020 Taxable Series A	
	Principal	Interest
2021	\$ 28,655,000	\$ 2,493,179
2022	24,030,000	1,566,000
2023	-	965,250
2024	-	965,250
2025	-	965,250
2026-2030	3,130,000	4,671,750
2031-2035	9,340,000	2,923,250
2036-2040	6,835,000	524,125
Total requirements	<u>\$ 71,990,000</u>	<u>\$ 15,074,054</u>

Fiscal year ending June 30:	Water System Revenue Bonds 2020 Taxable Series A	
	Principal	Interest
2021	\$ -	\$ 437,232
2022	240,000	587,975
2023	250,000	575,725
2024	265,000	562,850
2025	275,000	549,350
2026-2030	-	2,712,375
2031-2035	1,985,000	2,265,750
2036-2040	2,180,000	1,725,625
2041-2045	2,680,000	1,264,100
2046-2050	3,180,000	718,025
2051	3,785,000	66,238
Total requirements	<u>\$ 14,840,000</u>	<u>\$ 11,465,245</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)**

**Business-Type Activities Debt Service Requirements (Continued)**

As of June 30, 2020, annual debt service requirements of business-type activities to maturity are as follows (continued):

Fiscal year ending June 30:	Note Payable	
	Principal	Interest
2021	\$ 68,718	\$ -
2022	68,718	-
2023	68,718	-
2024	68,718	-
2025	68,718	-
2026-2030	343,591	-
2031-2035	51,539	-
<b>Total requirements</b>	<b>\$ 738,720</b>	<b>\$ -</b>

**Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2020:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
<b><u>Governmental activities:</u></b>					
Claims payable (Note 6)	\$ 3,214,775	\$ 1,309,962	\$ (684,657)	\$ 3,840,080	\$ 1,280,027
Compensated absences (Note 1)	4,118,913	3,105,250	(2,366,334)	4,857,829	1,619,276
Capital lease obligation (Note 12)	2,230,883	-	(247,074)	1,983,809	1,983,809
	<u>\$ 9,564,571</u>	<u>\$ 4,415,212</u>	<u>\$ (3,298,065)</u>	<u>\$ 10,681,718</u>	<u>\$ 4,883,112</u>
<b><u>Business-type activities:</u></b>					
Other Debt:					
Bonds payable	\$ 312,710,000	\$ 86,830,000	\$ (88,545,000)	\$ 310,995,000	\$ 29,520,000
Bond premium	148,810	8,216,501	(156,100)	8,209,211	-
Bond discount	(3,762,029)	-	1,391,433	(2,370,596)	-
Notes payable	-	738,720	-	738,720	68,718
Compensated absences (Note 1)	687,577	878,876	(497,677)	1,068,776	356,259
	<u>\$ 309,784,358</u>	<u>\$ 96,664,097</u>	<u>\$ (87,807,344)</u>	<u>\$ 318,641,111</u>	<u>\$ 29,944,977</u>

**Expense Stabilization Fund**

The City maintains an Expense Stabilization Fund held by a Trustee in such amounts, at such times and from sources as shall be determined by the City in its sole discretion. In the event of default under the Indenture shall have occurred and is continuing, the Trustee shall transfer all moneys in the fund to the debt service funds as provided in the Indenture. Moneys on deposit in this fund may be withdrawn by the City at any time no event of default exists under the Indenture. As at June 30, 2020, this fund has a balance of \$20,663,980.



**CITY OF VERNON, CALIFORNIA**  
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**NOTE 6 - RISK MANAGEMENT (CONTINUED)**

The insurance limits for the fiscal year 2019-20 are as follows (amounts in thousands):

Insurance Type	Program Limits	Deductible/SIR (Self-Insured Retention)
Excess Liability Insurance	\$20,000,000	\$2,000,000 SIR per occurrence
D & O Employment Practice	\$2,000,000	\$150,000 SIR non-safety; \$150,000 SIR safety
Excess Workers Compensation	\$50,000,000	\$1,500,000 SIR per occurrence for presumptive loss
Employer's Liability	\$1,000,000	\$1,000,000 SIR per occurrence for all employees
Commercial Property Insurance	\$100,000,000 \$25,000,000 Flood Sublimit	\$25,000 except: \$250,000 power stations \$1.5/kVA transfers, subject to a \$250,000 minimum \$500,000 named transformers
Employee Dishonest - Crime	\$1,000,000	\$25,000
Pollution - Site Owned	\$5,000,000	\$25,000 for non-utility locations, divested locations and scheduled storage tanks \$50,000 for utility locations \$100,000 for natural gas pipeline
Cyber Liability	\$3,000,000	\$100,000
Contractors Equipment/Auto Physical Damage	\$10,000,000 Maximum Loss Per Occurrence \$1,000,000 Equipment Limit-loss or damage to any one piece	\$5,000
Residential Property Insurance	\$8,023,126 Blanket Building Limit \$89,013 Blanket Business Personal Property Limit	\$2,500
Terrorism & Sabotage	\$100,000,000 Policy Aggregate \$5,000,000 Active Shooter & Malicious Attack Per Occurrence/Aggregate \$5,000,000 Terrorism & Sabotage Liability Per Occurrence/Aggregate	N/A

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

Changes in the balance of claims liabilities for the past two fiscal years for all self-insurance activities combined are as follows:

	2020	2019
Claims payable, beginning of fiscal year	\$ 3,214,775	\$ 3,407,444
Incurred claims and change in estimates	1,309,962	693,572
Claims payments	(684,657)	(886,241)
Claims payable, end of fiscal year	<u>\$ 3,840,080</u>	<u>\$ 3,214,775</u>

**NOTE 7 - PENSION PLAN**

**A. General Information about the Pension Plans**

***Plan Descriptions***

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

***Benefits Provided***

Miscellaneous members hired prior to January 1, 2013, with five years of credited service may retire at age 55 based on a benefit factor derived from the 2.7% at 55 Miscellaneous formula or may retire between ages 50 and 54 with reduced retirement benefits. New Miscellaneous members (PEPRA) with five years of credited service may retire at age 62 based on a benefit factor derived from the 2% at 62 Miscellaneous formula or may retire between age 52 and 61 with reduced retirement benefits. The benefit factor increases to a maximum of 2.5% at age 67. Safety members with five years of credited service may retire at age 50 based on a benefit factor derived from the 3% at 50 Safety formula for sworn Police and Fire Department employees. New Safety members (PEPRA) with five years of credited service may retire at age 57 based on a benefit factor derived from the 2.7% at 57 Safety (PEPRA) formula or may retire between age 50 and 56 with reduced retirement benefits for new Safety (PEPRA) members of both Police and Fire Departments. CalPERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute provided through a contract between the City and CalPERS.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

**A. General Information about the Pension Plans (Continued)**

***Benefits Provided (Continued)***

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

	<b>Miscellaneous</b>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	2.7%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.698%	5.750%
Required employer contribution rates:		
Normal cost rate	9.443%	5.542%
Payment of unfunded liability	\$ 2,398,173	\$ -

	<b>Safety</b>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	3.0%@50	2.7%@57
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50
Monthly benefits, as a % of eligible compensation	3.0%	2.0% to 2.7%
Required employee contribution rates	9.049%	11.00%
Required employer contribution rates:		
Normal cost rate	19.197%	10.933%
Payment of unfunded liability	\$ 4,434,734	\$ -

***Employees Covered***

At the measurement date June 30, 2019, the following employees were covered by the benefit terms for each Plan:

	<u>Miscellaneous</u>	<u>Safety</u>
Inactive employees or beneficiaries currently receiving benefits	180	281
Inactive employees entitled to but not yet receiving benefits	181	112
Active employees	153	93
Total	<u>514</u>	<u>486</u>

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

**A. General Information about the Pension Plans (Continued)**

*Contributions*

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

**B. Net Pension Liability**

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

*Actuarial Assumptions*

The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2018	June 30, 2018
Measurement Date	June 30, 2019	June 30, 2019
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.50%	2.50%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	(1)	(1)
Mortality Rate Table	(2)	(2)
Post-Retirement Benefit Increase	(3)	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

(3) The lessor of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

**NOTE 7 - PENSION PLAN (CONTINUED)**

**B. Net Pension Liability (Continued)**

***Long-Term Expected Rate of Return***

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

**B. Net Pension Liability (Continued)**

*Subsequent Events*

There were no subsequent events that would materially affect the results in this disclosure.

**C. Changes in the Net Pension Liability**

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

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability (Asset)</b>
<b>Miscellaneous Plan:</b>			
<b>Balance at June 30, 2018</b> <b>(Measurement Date)</b>	<u>\$163,980,758</u>	<u>\$127,386,646</u>	<u>\$ 36,594,112</u>
<b>Changes in the Year:</b>			
Service cost	2,991,388	-	2,991,388
Interest on the total pension liability	11,863,069	-	11,863,069
Changes in assumptions	-	-	-
Differences between expected and actual experience	3,767,030	-	3,767,030
Contribution - employer	-	3,908,165	(3,908,165)
Contribution - employee	-	1,357,537	(1,357,537)
Net investment income	-	8,077,977	(8,077,977)
Benefit payments, including refunds of employee contributions	(6,652,881)	(6,652,881)	-
Administrative expenses	-	(90,906)	90,906
Other miscellaneous income	-	296	(296)
<b>Net Changes</b>	<u>11,968,606</u>	<u>6,600,188</u>	<u>5,368,418</u>
<b>Balance at June 30, 2019</b> <b>(Measurement Date)</b>	<u><u>\$175,949,364</u></u>	<u><u>\$133,986,834</u></u>	<u><u>\$ 41,962,530</u></u>

**CITY OF VERNON, CALIFORNIA**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

**C. Changes in the Net Pension Liability (Continued)**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability (Asset)</b>
<b><u>Safety Plan:</u></b>			
<b>Balance at June 30, 2018</b>			
<b>(Measurement Date)</b>	<u>\$261,832,661</u>	<u>\$184,928,220</u>	<u>\$ 76,904,441</u>
<b>Changes in the Year:</b>			
Service cost	4,287,003	-	4,287,003
Interest on the total pension liability	18,414,262	-	18,414,262
Changes in assumptions	-	-	-
Differences between expected and actual experience	(364,199)	-	(364,199)
Net plan to plan resource movement	-	-	-
Contribution - employer	-	7,011,540	(7,011,540)
Contribution - employee	-	1,239,891	(1,239,891)
Net investment income	-	12,275,401	(12,275,401)
Benefit payments, including refunds of employee contributions	(12,139,668)	(12,139,668)	-
Administrative expenses	-	(131,969)	131,969
Other miscellaneous income	-	431	(431)
<b>Net Changes</b>	<u>10,197,398</u>	<u>8,255,626</u>	<u>1,941,772</u>
<b>Balance at June 30, 2019</b>			
<b>(Measurement Date)</b>	<u>\$272,030,059</u>	<u>\$193,183,846</u>	<u>\$ 78,846,213</u>

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

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

	<b>Miscellaneous</b>	<b>Safety</b>
1% Decrease	6.15%	6.15%
Net Pension Liability	\$ 67,382,046	\$ 115,303,591
Current Discount Rate	7.15%	7.15%
Net Pension Liability	\$ 41,962,530	\$ 78,846,213
1% Increase	8.15%	8.15%
Net Pension Liability	\$ 21,168,361	\$ 48,888,610

**CITY OF VERNON, CALIFORNIA**  
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**NOTE 7 - PENSION PLAN (CONTINUED)**

**C. Changes in the Net Pension Liability (Continued)**

***Pension Plan Fiduciary Net Position***

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

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

For the measurement period ended June 30, 2019, the City recognized pension expense of \$11,118,252 related to the miscellaneous plan and \$10,984,448 related to the safety plan. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,500,718	\$ -	\$ 7,834,050	\$ -	\$ 12,334,768	\$ -
Differences between expected and actual experience	3,830,871	(22,947)	-	(136,575)	3,830,871	(159,522)
Change in assumptions	300,701	(216,442)	-	-	300,701	(216,442)
Net differences between projected and actual earnings on plan investments	-	(116,009)	-	(1,026,748)	-	(1,142,757)
<b>Total</b>	<b>\$ 8,632,290</b>	<b>\$ (355,398)</b>	<b>\$ 7,834,050</b>	<b>\$ (1,163,323)</b>	<b>\$ 16,466,340</b>	<b>\$ (1,518,721)</b>

The \$12,334,768 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ended June 30	Miscellaneous	Safety	Total
2021	\$ 2,839,933	\$ 584,957	\$ 3,424,890
2022	474,467	(1,595,327)	(1,120,860)
2023	268,919	(311,405)	(42,486)
2024	192,855	158,452	351,307

**E. Payable to the Pension Plan**

At June 30, 2020, the City had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2020.



**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**A. General Information about the OPEB Plan**

***Plan Description***

Retiree medical and dental benefits are established through the City's Fringe Benefits and Salary Resolution as well as individual memoranda of understanding between the City and the City's various employee bargaining groups.

***Benefits Provided***

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

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

***Funding Policy and Contributions***

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

**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**A. General Information about the OPEB Plan (Continued)**

***Funding Policy and Contributions (Continued)***

For the measurement date period June 30, 2019, the City contributed \$1,830,943 to the trust, paid \$700,488 for retiree premiums, and the estimated implied subsidy was \$457,962, resulting in a total contribution of \$2,989,393.

***Employees Covered by Benefit Terms***

At the measurement date June 30, 2019, the following employees were covered by the benefit terms:

<b>Category</b>	<b>Count</b>
Active employees	254
Inactive employees or beneficiaries currently receiving benefit payments	96

**B. Net OPEB Liability**

The City’s net OPEB liability is measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

***Actuarial Assumptions***

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

The total OPEB liability in the June 30, 2018, actuarial valuation was rolled forward to the June 30, 2019, measurement date using standard actuarial techniques. Explicit subsidy benefit payments by employee group were allocated based on expected benefit payments. The following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified:

Funding method	Entry age normal level percent of pay cost method
Inflation	2.50%
Salary increases	2.75% annual increases
Long-term return on assets	6.50% net of investment expenses
Discount rate	6.50%
Healthcare cost trend rates	6.9% for FY2019, gradually decreasing over several decades to ultimate rate of 4.0% in FY76 and later years
Mortality	2017 CalPERS Experience Study. Tables include 15 years of static mortality improvement using 90% of scale MP-2016

**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

*Long-Term Expected Rate of Return*

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target asset allocation as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
CERBT Strategy 1		
Equity	59.00%	4.76%
Fixed Income	25.00%	2.01%
TIPS	5.00%	1.20%
Commodities	3.00%	2.39%
REITs	8.00%	4.53%
Total	100.00%	

*Discount Rate*

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that City’s contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

*Change in the Net OPEB Liability*

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net OPEB Liability (Asset)</b>
Balance at June 30, 2018 (Measurement Date)	\$ 25,279,784	\$ 2,179,655	\$ 23,100,129
Changes in the Year:			
Service cost	549,137	-	549,137
Interest on the total OPEB liability	1,641,230	-	1,641,230
Changes in assumptions	(124,861)	-	(124,861)
Investment income	-	258,220	(258,220)
Contribution - employer	-	2,989,393	(2,989,393)
Benefit payments	(1,158,450)	(1,158,450)	-
Administrative expenses	-	(629)	629
Net Changes	<u>907,056</u>	<u>2,088,534</u>	<u>(1,181,478)</u>
Balance at June 30, 2019 (Measurement Date)	<u>\$ 26,186,840</u>	<u>\$ 4,268,189</u>	<u>\$ 21,918,651</u>

*Change of Assumptions*

Medical trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

*Change of Benefit Terms*

There were no changes of benefit terms.

*Subsequent Events*

There were no subsequent events that would materially affect the results presented in this disclosure.

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

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

	<b>Discount Rate</b>		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (6.50%)
Net OPEB liability	\$ 25,109,525	\$ 21,918,651	\$ 19,240,812

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

*Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the City's net OPEB liability if it were calculated using a healthcare cost trend rates that are 1% point lower (5.9% decreasing to an ultimate rate of 3.0%) or 1% point higher (7.9% decreasing to an ultimate rate of 5.0%) than the current rate:

	<b>Healthcare Trend Rate</b>		
	1% Decrease	Current Rate	1% Increase
Net OPEB liability	\$ 20,658,781	\$ 21,918,651	\$ 23,262,482

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

For the year ended June 30, 2020, the City recognized OPEB expense(revenue) of \$(117,482). At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Outflows of Resources</b>
Contributions between measurement date and reporting date	\$ 3,915,407	\$ -
Difference between expected and actual liability	-	(4,814,499)
Changes of assumptions	-	(6,112,754)
Net differences between projected and actual earnings on investments	-	(28,385)
Total	<u>\$ 3,915,407</u>	<u>\$ (10,955,638)</u>

The \$3,915,407 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<b>Fiscal Year Ending June 30</b>	<b>Deferred Outflows (Inflows) of Resources</b>
2021	\$ (2,119,216)
2022	(2,119,216)
2023	(2,119,627)
2024	(2,128,278)
2025	(2,114,488)
Thereafter	(354,813)

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

**B. Net OPEB Liability (Continued)**

***Payable to the OPEB Plan***

At June 30, 2020, the City had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

**NOTE 9 - VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS**

**Bicent Agreements**

**Asset Sale**

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

Bicent has agreed to sell the capacity and the energy of the MGS to the City on the terms set forth in a Power Purchase Tolling Agreement, by and between the City and Bicent, dated as of April 10, 2008 (the PPTA). In addition, Bicent has acquired the benefits and burdens of the City’s interest in the Hoover Upgrading Project (described below) on the terms set forth in the Hoover Contract for Differences (CFD), between Bicent (California) Hoover LLC, a Delaware limited liability company (BCH) and the City, dated as of April 10, 2008 (the Hoover Differences Contract). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the MGS to its affiliate, Bicent (California) Malburg LLC, a Delaware limited liability company (BCM). Pursuant to the Bicent Agreement, Bicent has assigned its rights and obligations with respect to the economic benefits and burdens of the Hoover Upgrading Project to its affiliate, BCH. The City treated the PPTA as an asset lease-back transaction due to a 30-year ground lease between the City and BCM by deferring most of the gain from the sale of MGS to be amortized over the 15-year life of the PPTA. The City also deferred the gain from the CFD to be amortized over the 10-year life of the CFD. As of June 30, 2020, a deferred gain of \$10,243,685 remains to be amortized, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 10 for disclosure on uncertainties).

**Power Purchase Commitments**

As of June 30, 2020, under the Bicent Agreements, the City had the following long-term commitments to purchase power subject to certain conditions:

<b>Fiscal year ending</b>	
<b>June 30:</b>	<b>Amount*</b>
2021	\$ 34,904,231
2022	34,904,231
2023	27,146,619
	<u>\$ 96,955,081</u>

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

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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**NOTE 9 - VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

**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 for sale to its participants. The joint powers agreement has a term expiring in 2030 or such later date as all bonds and notes of SCPPA and interest thereon have been paid in full or adequate provisions for payments have been made. A copy of SCPPA's audited financial statements can be reviewed on their website at [www.scppa.org](http://www.scppa.org) or can be obtained by written request at 225 South Lake Avenue, Suite 1250, Pasadena, CA 91101.

**Take or Pay Contract**

The Authority's interests or entitlements in natural gas, generation, and transmission projects are jointly owned with other utilities. Under these arrangements, a participating member has an undivided interest in a utility plant and is responsible for its proportionate share of the costs of construction and operation and is entitled to its proportionate share of the energy, available transmission capacity, or natural gas produced. Each joint plant participant, including the Authority, is responsible for financing its share of construction and operating costs. The City has the following "take or pay" contract with the Authority:

**Palo Verde Project**

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

Between 1983 and 2008, the Authority issued \$3.266 billion in debt of Power Project Revenue Bonds for the Station to finance the bonds and the purchase of the Authority's share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a "take or pay" basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City took its proportionate share of the power generated and its proportionate share of costs during the fiscal year 2020 was \$3,176,091. The City expects no significant increases in costs related to its nuclear resources.

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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**NOTE 9 - VERNON PUBLIC UTILITIES OPERATIONS AND COMMITMENTS (CONTINUED)**

**Southern California Public Power Authority (Continued)**

**Power Purchase Commitments**

The Authority has entered into power purchase agreements with project participants. These agreements are substantially “take-and-pay” contracts where there may be other obligations not associated with the delivery of energy. The City has entered into power purchase agreements with the Authority related to the following projects:

**Astoria 2 Solar Project**

On July 23, 2014, the Authority entered into a power purchase agreement with Recurrent Energy for solar energy from the Astoria 2 Solar Project. SCPPA is entitled to 35 MW of photovoltaic generating capacity from commercial operation to December 31, 2021 and 45 MW of generating capacity from January 1, 2022 until the expected expiration date of December 31, 2036. The commercial operation date was December 2016. Power and Water Resources Pooling Authority, Lodi, Corona, Moreno Valley, and Rancho Cucamonga, are each buying the output of a separate portion of the facility, which is located in Kern County, California. SCPPA has purchase options in the 10th, 15th, and 20th Contract Years. The project is forecasted to start at a capacity factor of 31% with a 0.5% annual degradation. ACES Power Marketing is the third-party scheduling coordinator for the project. The City contracted to purchase 57.1429% until December 31, 2021, and 66.6667% thereafter, of the output. The City’s proportionate share of costs during the current fiscal year was \$2,687,708.

**Puente Hills Landfill Gas-to-Energy Project**

On June 25, 2014, the Authority entered into a power purchase agreement with County Sanitation District No. 2 of Los Angeles County for 46 MW of the electric generation from a landfill gas to energy facility, located at Whittier, California. The project began deliveries to the Authority on January 1, 2017 for a term of 10 years. The City contracted to purchase 23.2558% of the output. The City’s proportionate share of costs during the current fiscal year was \$1,847,878.

**Antelope DSR 1 Solar Project**

On July 16, 2015, the Authority, entered into a power purchase agreement with Antelope DSR 1, LLC for 50 MW solar photovoltaic generating capacity from the Antelope DSR 1 Solar Facility. The facility is located near Lancaster, California, and commercial operation occurred on December 16, 2016 for a term of 20 years. The City contracted to purchase 50.00% of the output. The City’s proportionate share of costs during the current fiscal year was \$2,212,270.

**NOTE 10 - CONTINGENCIES**

**Sale of Generation and Transmission Assets**

The financial and operational effects of the 2008 sale of generation and transmission assets described in Note 9, Bicent Agreements, while reducing the electric system’s debt burden and providing liquidity, puts the utility at some risks in terms of increased fixed-charge obligations and long-term power resource uncertainty.



**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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**NOTE 11 - SUCCESSOR AGENCY DISCLOSURES**

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

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

**Capital Assets**

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

**Long-Term Liabilities**

The long-term liabilities of the Successor Agency at June 30, 2020, were as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>June 30, 2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2020</b>	<b>Due Within</b>
					<b>One Year</b>
Bonds payable	\$ 48,230,000	\$ -	\$ (2,825,000)	\$ 45,405,000	\$ 3,105,000
Bond premium	325,556	-	(44,345)	281,211	-
Bond discount	(526,925)	-	43,910	(483,015)	-
	<u>\$ 48,028,631</u>	<u>\$ -</u>	<u>\$ (2,825,435)</u>	<u>45,203,196</u>	<u>\$ 3,105,000</u>

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

At June 30, 2020, \$34,255,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$49,904,507, payable through fiscal 2036. For the current year, debt service amounted to \$3,279,381. The bonds were issued to (i) finance various redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay costs of issuance of the Series 2005 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.25% to 5.25%.

**CITY OF VERNON, CALIFORNIA**  
**Notes to Financial Statements**  
**June 30, 2020**

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**NOTE 11 - SUCCESSOR AGENCY DISCLOSURES (CONTINUED)**

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

At June 30, 2020, \$11,150,000 remained outstanding. The bonds are special obligation bonds and are payable from the pledged tax revenues and amounts on deposit in the reserve account. The debt service remaining on the bonds is \$16,657,913, payable through fiscal 2031. For the current year, debt service amounted to \$2,293,625. The bonds were issued to (i) finance the acquisition of one or more parcels of land, and certain redevelopment projects, in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund a deposit to the reserve account sufficient to meet the reserve requirement, and (iii) pay costs of issuance of the Series 2011 Bonds. Debt service was calculated at the actual fixed rates of the coupons ranging from 3.00% to 9.25%.

The following schedule shows the debt service requirements to maturity for the bonds as of June 30, 2020:

Fiscal year ending June 30:	Principal	Interest	Total
2021	\$ 3,105,000	\$ 2,556,113	\$ 5,661,113
2022	3,385,000	2,344,225	5,729,225
2023	1,845,000	2,174,497	4,019,497
2024	2,015,000	2,053,091	4,068,091
2025	2,195,000	1,922,319	4,117,319
2026 - 2030	14,095,000	7,224,400	21,319,400
2031 - 2035	15,305,000	2,796,275	18,101,275
2036	3,460,000	86,500	3,546,500
Total	<u>\$ 45,405,000</u>	<u>\$ 21,157,420</u>	<u>\$ 66,562,420</u>

**NOTE 12 – CAPITAL LEASE OBLIGATIONS**

On July 24, 2015, the City entered into a 10-year lease agreement to finance two Pierce PUC Triple Combo Pumpers for the fire department. Lease payments of \$158,059 are due annually. In addition, on August 9, 2017, the City entered into a 10-year lease agreement to finance a Pierce Aerial Mounted Apparatus for the fire department. Lease payments of \$165,146 are due annually.

The assets acquired through these capital leases are included in the capital assets of the governmental activities at a net book value of \$2,378,390 (\$2,700,148 cost less accumulated depreciation of \$321,758) as of June 30, 2020. On August 4, 2020, the City paid the termination value of the leases totaling \$1,780,160 in order to transfer the equipment to Los Angeles County Fire Department free and clear of any encumbrances (see Note 13). As a result, the remaining balance of capital lease obligations due as of June 30, 2020, have been reported as current obligations.

**CITY OF VERNON, CALIFORNIA**

**Notes to Financial Statements**

**June 30, 2020**

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**NOTE 13 – SUBSEQUENT EVENT**

On October 1, 2020, the City transferred its fire department operations to Los Angeles County, California. The agreement is for a ten-year term with annual service fees of \$14,068,242 in fiscal year 2020-21 and a 4% cap on increases for the first four years. Including conversion costs, the first-year costs will be approximately \$16.1 million.

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Vernon, California**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the year ended June 30, 2020**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 44,189,748	\$ 44,189,748	\$ 45,564,696	\$ 1,374,948
Special assessments	1,212,000	1,212,000	1,432,823	220,823
Licenses and permits	2,718,727	2,718,727	1,543,646	(1,175,081)
Fines, forfeitures and penalties	189,538	189,538	249,412	59,874
Investment income	85,000	85,000	137,738	52,738
Intergovernmental revenues	3,094,531	3,094,531	926,745	(2,167,786)
Charges for services	4,839,793	4,839,793	4,708,748	(131,045)
Other revenues	1,171,841	1,171,841	3,061,406	1,889,565
Total revenues	<u>57,501,178</u>	<u>57,501,178</u>	<u>57,625,214</u>	<u>124,036</u>
Expenditures:				
Current:				
General government	17,536,417	17,536,417	16,602,618	933,799
Public safety	28,969,798	28,969,798	28,879,578	90,220
Public works	8,600,601	8,600,601	6,889,486	1,711,115
Health services	1,407,337	1,407,337	1,090,460	316,877
Capital outlay	5,913,000	5,913,000	1,407,607	4,505,393
Total expenditures	<u>62,427,153</u>	<u>62,427,153</u>	<u>54,869,749</u>	<u>7,557,404</u>
Excess (deficiency) of revenues over expenditures	<u>(4,925,975)</u>	<u>(4,925,975)</u>	<u>2,755,465</u>	<u>7,681,440</u>
Other financing sources:				
Gain on sale of assets	-	-	79	79
Transfers in	4,925,975	4,925,975	4,582,784	(343,191)
Total other financing sources	<u>4,925,975</u>	<u>4,925,975</u>	<u>4,582,863</u>	<u>(343,112)</u>
Change in fund balance	-	-	7,338,328	7,338,328
Fund balance (deficit), beginning of year	<u>1,184,089</u>	<u>1,184,089</u>	<u>1,184,089</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,184,089</u>	<u>\$ 1,184,089</u>	<u>\$ 8,522,417</u>	<u>\$ 7,338,328</u>

See accompanying note to required supplementary information.

**CITY OF VERNON, CALIFORNIA**  
**Note to Required Supplementary Information**  
**June 30, 2020**

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**NOTE 1 - BUDGET**

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

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

For the current year, the General Fund's total positive variance between the final budgeted amounts and the actual amount of change in fund balance was \$7,338,328. The key reason for this variance was due to lower actual expenditures than projected by \$7,338,328.

For the current year, the General Fund's total positive variance between the final budgeted estimated revenues and actual revenues was \$124,036. There were several reasons for the variance, overall revenues came in higher than expected in most categories especially taxes and other revenues offset by a decrease in license and permits and intergovernmental revenues.

For the current year, the General Fund's total positive variance between the final budgeted amount and the actual amount for expenditures was \$7,557,404. The key reasons for this variance were due to higher appropriations than actual expenditures of \$4,505,393 in capital outlay, \$1,711,115 in public works, \$933,799 in general government, \$316,877 in health services, and \$90,220 in public safety.

For the current year, the General Fund's total negative variance between the final budgeted amounts and the actual amount for other financing sources was \$343,112. The key reason for this variance was due to a lower amount transferred by the Electric Fund by \$343,191.

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

Fiscal year ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability:</b>						
Service cost	\$ 2,991,388	\$ 2,826,440	\$ 2,432,788	\$ 2,129,659	\$ 1,962,270	\$ 1,955,694
Interest on total pension liability	11,863,069	11,053,679	10,383,859	9,969,103	9,447,012	9,609,274
Changes of benefit terms	-	-	-	-	-	-
Changes of assumptions	-	(549,432)	9,321,776	-	(2,466,126)	-
Differences between expected and actual experience	3,767,030	3,059,775	(711,339)	1,046,363	(9,700,904)	-
Benefit payments, including refunds of employee contributions	(6,652,881)	(6,166,082)	(6,145,366)	(5,748,657)	(5,680,624)	(2,388,449)
Net Change in Total Pension Liability	11,968,606	10,224,380	15,281,718	7,396,468	(6,438,372)	9,176,519
<b>Total Pension Liability - Beginning of Year</b>	<b>163,980,758</b>	<b>153,756,378</b>	<b>138,474,660</b>	<b>131,078,192</b>	<b>137,516,564</b>	<b>128,340,045</b>
<b>Total Pension Liability - End of Year (a)</b>	<b>\$ 175,949,364</b>	<b>\$ 163,980,758</b>	<b>\$ 153,756,378</b>	<b>\$ 138,474,660</b>	<b>\$ 131,078,192</b>	<b>\$ 137,516,564</b>
<b>Plan Fiduciary Net Position:</b>						
Contributions - employer	\$ 3,908,165	\$ 3,380,432	\$ 3,629,603	\$ 3,140,644	\$ 2,340,002	\$ 1,825,732
Contributions - employee	1,357,537	1,214,616	1,245,990	1,095,824	1,054,426	1,015,741
Net investment income	8,077,977	9,803,260	11,857,647	583,692	2,337,855	16,045,243
Benefit payments, including refunds of employee contributions	(6,652,881)	(6,166,082)	(6,145,366)	(5,748,657)	(5,680,624)	(2,388,449)
Plan to plan resource movement	-	(296)	1,118	(780)	18	-
Administrative expenses	(90,906)	(186,518)	(161,327)	(67,200)	(124,052)	-
Other miscellaneous income (1)	296	(354,202)	-	-	-	-
Net Change in Plan Fiduciary Net Position	6,600,188	7,691,210	10,427,665	(996,477)	(72,375)	16,498,267
<b>Plan Fiduciary Net Position - Beginning of Year</b>	<b>127,386,646</b>	<b>119,695,436</b>	<b>109,267,771</b>	<b>110,264,248</b>	<b>110,336,623</b>	<b>93,838,356</b>
<b>Plan Fiduciary Net Position - End of Year (b)</b>	<b>\$ 133,986,834</b>	<b>\$ 127,386,646</b>	<b>\$ 119,695,436</b>	<b>\$ 109,267,771</b>	<b>\$ 110,264,248</b>	<b>\$ 110,336,623</b>
<b>Net Pension Liability - Ending (a)-(b)</b>	<b>\$ 41,962,530</b>	<b>\$ 36,594,112</b>	<b>\$ 34,060,942</b>	<b>\$ 29,206,889</b>	<b>\$ 20,813,944</b>	<b>\$ 27,179,941</b>
Plan fiduciary net position as a percentage of the total pension liability	76.15%	77.68%	77.85%	78.91%	84.12%	80.24%
Covered employee payroll	\$ 15,996,725	\$ 15,146,241	\$ 13,440,076	\$ 13,150,103	\$ 11,708,057	\$ 11,084,188
Net pension liability as percentage of covered - employee payroll	262.32%	241.61%	253.43%	222.10%	177.77%	245.21%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

\* Fiscal year 2015 was the 1st year of implementation and therefore only six years are shown.

**City of Vernon, California**  
**Schedule of Pension Contributions**  
**Miscellaneous Plan**  
**Last Ten Fiscal Years\***

Fiscal year ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 4,500,718	\$ 3,908,165	\$ 3,380,432	\$ 3,629,603	\$ 3,140,644	\$ 2,340,002
Contributions in relation to the actuarially determined contributions	<u>(4,500,718)</u>	<u>(3,908,165)</u>	<u>(3,380,432)</u>	<u>(3,629,603)</u>	<u>(3,140,644)</u>	<u>(2,340,002)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 15,399,491	\$ 15,996,725	\$ 15,146,241	\$ 13,440,076	\$ 13,150,103	\$ 11,708,057
Contributions as a percentage of covered payroll	29.23%	24.43%	22.32%	27.01%	23.88%	19.99%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:						
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	15 Year Smoothed Market Method
Inflation	2.625%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 2.0% at 55, 2.7% at 55, 2% at 60, and 2.0% at 62
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the 1st year of implementation and therefore only six years are shown.



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

Fiscal year ended	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability:</b>						
Service cost	\$ 4,287,003	\$ 4,414,740	\$ 4,144,398	\$ 3,454,025	\$ 3,388,157	\$ 3,448,760
Interest on total pension liability	18,414,262	17,691,261	16,898,830	16,325,879	15,777,736	15,255,372
Changes of benefit terms	-	-	-	-	-	-
Changes of assumptions	-	(1,533,898)	14,134,794	-	(3,878,396)	-
Differences between expected and actual experience	(364,199)	2,008,618	(1,380,683)	(2,430,394)	(2,400,883)	-
Benefit payments, including refunds of employee contributions	(12,139,668)	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Net Change in Total Pension Liability	10,197,398	11,588,305	23,649,440	7,613,208	3,416,556	9,065,009
<b>Total Pension Liability - Beginning of Year</b>	<b>261,832,661</b>	<b>250,244,356</b>	<b>226,594,916</b>	<b>218,981,708</b>	<b>215,565,152</b>	<b>206,500,143</b>
<b>Total Pension Liability - End of Year (a)</b>	<b>\$ 272,030,059</b>	<b>\$ 261,832,661</b>	<b>\$ 250,244,356</b>	<b>\$ 226,594,916</b>	<b>\$ 218,981,708</b>	<b>\$ 215,565,152</b>
<b>Plan Fiduciary Net Position:</b>						
Contributions - employer	\$ 7,011,540	\$ 6,109,373	\$ 5,476,196	\$ 5,116,412	\$ 4,147,441	\$ 3,234,539
Contributions - employee	1,239,891	1,302,308	1,212,646	1,222,561	1,167,329	1,092,012
Net investment income	12,275,401	14,666,919	17,760,401	760,559	3,525,241	24,855,525
Benefit payments, including refunds of employee contributions	(12,139,668)	(10,992,416)	(10,147,899)	(9,736,302)	(9,470,058)	(9,639,123)
Plan to plan resource movement	-	(431)	(1,118)	780	24	-
Administrative expenses	(131,969)	(272,124)	(237,068)	(99,525)	(191,323)	-
Other miscellaneous income (1)	431	(516,768)	-	-	-	-
Net Change in Plan Fiduciary Net Position	8,255,626	10,296,861	14,063,158	(2,735,515)	(821,346)	19,542,953
<b>Plan Fiduciary Net Position - Beginning of Year</b>	<b>184,928,220</b>	<b>174,631,359</b>	<b>160,568,201</b>	<b>163,303,716</b>	<b>164,125,062</b>	<b>144,582,109</b>
<b>Plan Fiduciary Net Position - End of Year (b)</b>	<b>\$ 193,183,846</b>	<b>\$ 184,928,220</b>	<b>\$ 174,631,359</b>	<b>\$ 160,568,201</b>	<b>\$ 163,303,716</b>	<b>\$ 164,125,062</b>
<b>Net Pension Liability - Ending (a)-(b)</b>	<b>\$ 78,846,213</b>	<b>\$ 76,904,441</b>	<b>\$ 75,612,997</b>	<b>\$ 66,026,715</b>	<b>\$ 55,677,992</b>	<b>\$ 51,440,090</b>
Plan fiduciary net position as a percentage of the total pension liability	71.02%	70.63%	69.78%	70.86%	74.57%	76.14%
Covered - employee payroll	\$ 13,737,311	\$ 14,292,273	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785	\$ 12,510,920
Net pension liability as percentage of covered - employee payroll	573.96%	538.08%	544.77%	509.00%	437.01%	411.16%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

From fiscal year June 30, 2018 to June 30, 2019:

Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Assumptions December 2017

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

\* Fiscal year 2015 was the 1st year of implementation and therefore only six years are shown.

**City of Vernon, California**  
**Schedule of Pension Contributions**  
**Safety Plan**  
**Last Ten Fiscal Years\***

Fiscal year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 7,834,050	\$ 7,011,540	\$ 6,109,373	\$ 5,476,196	\$ 5,116,412	\$ 4,147,441
Contributions in relation to the actuarially determined contributions	<u>(7,834,050)</u>	<u>(7,011,540)</u>	<u>(6,109,373)</u>	<u>(5,476,196)</u>	<u>(5,116,412)</u>	<u>(4,147,441)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 11,770,766	\$ 13,737,311	\$ 14,292,273	\$ 13,879,896	\$ 12,971,888	\$ 12,740,785
Contributions as a percentage of covered payroll	66.56%	51.04%	42.75%	39.45%	39.44%	32.55%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Methods and Assumptions Used to Determine Contribution Rates:						
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	15 Year Smoothed Market Method
Inflation	2.625%	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 3.0% at 50, 3.0% at 55, and 2.7% at 57
- (5) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

\* Fiscal year 2015 was the 1st year of implementation and therefore only six years are shown.

**City of Vernon, California**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**  
**Last Ten Fiscal Years\***

Fiscal year end	June 30, 2020	June 30, 2019	June 30, 2018
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017
<b>Total OPEB Liability:</b>			
Service cost	\$ 549,137	\$ 1,204,747	\$ 1,166,825
Interest on total OPEB liability	1,641,230	2,063,052	1,879,025
Differences between expected and actual experience	-	(6,680,583)	-
Assumption changes	(124,861)	(7,657,196)	(770,716)
Benefit payments	(1,158,450)	(1,006,087)	(838,818)
Net Change in Total OPEB Liability	907,056	(12,076,067)	1,436,316
Total OPEB Liability - Beginning of Year	25,279,784	37,355,851	35,919,535
Total OPEB Liability - End of Year (a)	\$ 26,186,840	\$ 25,279,784	\$ 37,355,851
<b>Plan Fiduciary Net Position:</b>			
Contributions - employer	\$ 2,989,393	\$ 2,065,407	\$ 1,898,138
Net investment income	258,220	65,276	(2,049)
Benefit payments			
and the implied subsidy benefit payments	(1,158,450)	(1,006,087)	(838,818)
Administrative expenses	(629)	(808)	(4)
Other deductions	-	(1,400)	-
Net Change in Plan Fiduciary Net Position	2,088,534	1,122,388	1,057,267
Plan Fiduciary Net Position - Beginning of Year	2,179,655	1,057,267	-
Plan Fiduciary Net Position - End of Year (b)	\$ 4,268,189	\$ 2,179,655	\$ 1,057,267
Net OPEB Liability - Ending (a)-(b)	\$ 21,918,651	\$ 23,100,129	\$ 36,298,584
Plan fiduciary net position as a percentage of the total OPEB liability	16.30%	8.62%	2.83%
Covered - employee payroll	\$ 35,182,647	\$ 33,496,565	\$ 33,511,114
Net OPEB liability as percentage of covered - employee payroll	74.43%	75.47%	111.47%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

**Fiscal year end June 30, 2018** is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for **Fiscal year end June 30, 2019**: Discount rate for the implicit subsidy liability was changed from 3.56% to 6.5% based on updated expectations of long-term returns on trust assets and updated valuation methods.

**Fiscal year end June 30, 2020**: Medical trend rates were updated to exclude Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.

\* Fiscal year 2018 was the first year of implementation and therefore only three years are shown.

**City of Vernon, California**  
**Schedule of OPEB Contributions**  
**Last Ten Fiscal Years\***

Fiscal year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 1,931,700	\$ 2,692,868	\$ 2,692,868
Contributions in relation to the actuarially determined contributions	<u>(3,915,406)</u>	<u>(2,989,393)</u>	<u>(2,065,407)</u>
Contribution deficiency (excess)	<u>\$ (1,983,706)</u>	<u>\$ (296,525)</u>	<u>\$ 627,461</u>
Covered - employee payroll	\$ 31,958,957	\$ 35,182,647	\$ 33,496,565
Contributions as a percentage of covered - employee payroll	12.25%	8.50%	6.17%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:			
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)
Amortization period	27 years	27 years	29 years
Asset valuation method	Market Value	Market Value	Market Value
Inflation	2.50%	2.50%	2.75%
Healthcare trend rates	(3)	(3)	(2)
Investment rate of return	6.50%	7.00%	7.00%
Mortality	(5)	(5)	(4)

- (1) Level percentage of payroll, closed.
- (2) 8.50% trending down to 5.00%.
- (3) 6.90% trending down to 4.00%.
- (4) CalPERS December 2014 experience study
- (5) CalPERS December 2017 experience study

\* Fiscal year 2018 was the first year of implementation and therefore three years are shown.

