

**CITY OF VERNON
ELECTRIC FUND
(AN ENTERPRISE FUND OF THE
CITY OF VERNON, CALIFORNIA)**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2020**



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City of Vernon, California
Electric Fund
Table of Contents
For the Year Ended June 30, 2020

	<u>Page</u>
INTRODUCTION	
A Message from the General Manager of Vernon Public Utilities	i
FY 2019-20 Vernon Public Utilities – Electric Division at a Glance.....	ii
Major Initiatives and Accomplishments.....	ii
FINANCIAL SECTION	
Independent Auditors’ Report	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited).....	3
Basic Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position.....	13
Statement of Cash Flows	14
Notes to the Financial Statements.....	16
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Proportionate Share of the City’s Net Pension Liability.....	47
Schedule of Plan Contributions	48
Schedule of Proportionate Share of the City’s Net OPEB Liability	49
Schedule of OPEB Contributions	50

Introduction

A Message from Abraham Alemu, General Manager of Vernon Public Utilities

Vernon Public Utilities (VPU) offers electricity, natural gas, water, and fiber optic services to its customers. VPU has a long history of providing highly reliable service at competitive rates. In the past year, VPU completed major infrastructure upgrade projects and financing initiatives. For example, an aging electric substation was successfully replaced and rehabilitation of aging water wells was initiated. In the financing area, VPU successfully secured electric and water bonds at very attractive rates to fund capital improvement projects. It also achieved a boost to its credit rating. Moody's upgraded the Electric Enterprise Credit Rating from Baa3 to Baa2 while S&P assigned the Water Enterprise insured AA/A- insured/underlying rating and the Electric Enterprise a BBB+ credit rating.

The emergence of the COVID-19 pandemic presented a challenge to the utility. At the onset of the pandemic, VPU responded swiftly and adeptly to the rapidly changing conditions. VPU was able to develop a comprehensive plan that ensured it was able to navigate the pandemic without disruption to providing service in four different enterprises while reducing exposure to staff.

VPU continues to remain on track in completing major capital improvements in the current and upcoming years, notwithstanding COVID-19 challenges. Our organization will continue to adhere to the core values of safety, reliability and providing superior customer service.

FY 2019-2020 Vernon Public Utilities at a Glance

ELECTRIC	
Service area	5 square miles
Service meters	2,018 meters
Number of poles	4,750
Number of substations	8
Peak load	180.35 MW (August 29, 2019 at 12 PM)

Major Initiatives and Accomplishments

Electric Division

- Earned the American Public Power Association (APPA) RP3 Diamond Level Recognition of Operational Excellence in the key areas of Reliability, Safety, Workforce Development, System Improvement
- Served as an elected Board Member on the California Utilities Emergency Association Board of Directors
- Moody's upgraded the Electric Enterprise Credit Rating from Baa3 to Baa2
- Benchmarking study ranks VPU electric reliability top 10% nationwide
- Secured Electric System Revenue Bonds at low rates to fund Capital Improvement Projects and to refund existing outstanding bonds
- Completed replacement of the Leonis Substation Number 2 Bank 66 to 7KV Substation Distribution Transformer in service since 1951
- Work in progress to replace and convert the 7KV Leonis Substation Number 3 Bank, which has been in service from 1957, to 16KV Substation Distribution Transformer
- Created design for 16KV re-configuration with balanced load and 4 additional circuits
- Identified project areas and created design plans for 7KV to 16KV Conversion
- Multiple VPU staff members were nominated and received VEEP (Vernon Exceptional Employee Program) awards in both individual and team categories in acknowledgment of their exceptional work throughout the year

Fiber Optic Division

- Increased source carrier bandwidth (capacity) from 400 Mbps to 2,000 Mbps

Resource Division

- Maximized revenues from Resource Adequacy transactions and Ancillary Service Capacity
- Negotiated gas contracts to stabilize gas customer rates
- Met the state Renewable Portfolio Standard (RPS) mandate (33% of retail sales) for compliance period 3
- Maximized revenues from the sale of excess Import Transfer Capacity (ITC)
- Created saving opportunities by purchasing Carbon Credit Allowances (CCA) through the secondary market

Major Initiatives and Accomplishments (Continued)

Customer Service

- Installed and tested remote meter reading software to begin an Advanced Metering Infrastructure (AMI) initiative

Compliance

- Development, implementation, and regulatory submittal of Wildfire Mitigation Plan in compliance with Senate Bill 901
- Developed Energy Portfolio Risk Management Program
- Served in APPA's Reliable Public Power Provider grading panel
- Reliability Metrics benchmarked among the highest in the country in 2019
 - System Average Interruption Duration Index (SAIDI) in the top quartile across the US (42 min v. 96 min)
 - System Average Interruption Frequency Index (SAIFI) in the second quartile in the US (0.74 vs 0.99)
 - Consumer Average Interruption Frequency Index (CAIDI) in the top decile across the US (61 min vs 99 min)



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 Electric Fund of the City of Vernon (Electric Fund), an enterprise fund of the City of Vernon, California (City), which comprise the statement of net position as of June 30, 2020, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Electric Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Electric Fund of the City of Vernon, California, as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements present only the Electric Fund and do not purport to, and do not, present fairly the financial position of the City of Vernon, California, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the City's net pension liability, schedule of plan contributions, schedule of proportionate share of the City's net OPEB liability, and schedule of OPEB contributions, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

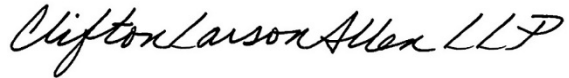
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Electric Fund's basic financial statements. The introduction section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introduction section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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 the 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

The management of the Electric Fund of the City of Vernon ("the City"), offers the following overview and analysis of the basic financial statements of the Electric Fund for the fiscal year ended June 30, 2020. Management encourages readers to utilize information in the Management's Discussion and Analysis (MD&A) in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

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

FINANCIAL HIGHLIGHTS

Fund Net Position

The table below summarizes the Electric Fund's net position as of the current fiscal year ended June 30, 2020, and prior fiscal year ended June 30, 2019. The details of the current year's summary can be found on page 11 of this report.

City of Vernon Electric Fund Fund Net Position June 30, 2020 and 2019				
	2020	2019	Change	
			Amount	%
Assets:				
Current and other assets	\$ 197,703,495	\$ 228,939,501	\$ (31,236,006)	-14%
Restricted assets	51,570,024	31,106,314	20,463,710	66%
Capital assets	220,443,024	217,306,703	3,136,321	1%
Total assets	469,716,543	477,352,518	(7,635,975)	-2%
Deferred Outflows of Resources	6,028,850	8,210,929	(2,182,079)	-27%
Liabilities:				
Current liabilities	47,646,364	49,568,129	(1,921,765)	-4%
Long term liabilities	288,058,733	294,161,970	(6,103,237)	-2%
Total liabilities	335,705,097	343,730,099	(8,025,002)	-2%
Deferred Inflows of Resources	11,606,508	15,435,790	(3,829,282)	-25%
Net Position:				
Net investment in capital assets	132,692,564	139,020,377	(6,327,813)	-5%
Restricted for debt service	23,932,142	-	23,932,142	100%
Unrestricted (deficit)	(28,190,918)	(12,622,819)	(15,568,099)	123%
Total net position	\$ 128,433,788	\$ 126,397,558	\$ 2,036,230	2%

The assets and deferred outflows of resources of the Electric Fund exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$128.4 million (*net position*).

The category of the Electric Fund's net position with the largest balance totaling \$132.7 million represents resources that are invested in capital assets, net of the related liabilities.

The second category restricted for debt services totaling \$23.9 million represents resources that are subject to external restrictions on how they can be used, in this case the repayment of bond debt.

The remaining category of net position, totaling \$(28.2) million represents a deficit in the unrestricted net position that is expected to be recovered from the Electric Fund's future revenues.

Activities, net position:

- Current and other assets decreased by \$31.2 million from the prior year mainly due to a decrease in prepaid natural gas by \$28.6 million, advances to other City funds by \$11 million, and noncurrent prepaid items by \$0.8 million, offset by the increase in accrued unbilled revenue by \$4 million and cash and cash equivalents by \$3.8 million.
- Restricted assets increased by \$20.5 million from the prior year mainly due to the issuance of Electric System Revenue Bonds 2020 Series A.
- Capital assets increased by \$3.1 million from the prior year mainly due to acquisition of transformers and infrastructure upgrades for the distribution facility totaling \$11.3 million, offset by depreciation of \$7.9 million.
- Deferred outflows of resources decreased by \$2.2 million from the prior year due to amortization of deferred costs of \$2.1 million and a decrease in deferred outflows of resources related to pension by \$0.2 million. This was offset by a \$0.1 million increase in the amount of deferred outflows of resources related to other postemployment benefits.
- Current liabilities decreased by \$1.9 million from the prior year mainly due to a \$0.9 million decrease in current portion of bond interest payable, a \$0.3 million decrease in current portion of bonds payable, and \$0.8 million decrease in accounts payable. This was offset by the increase in compensated absences amount by \$0.1 million.
- Long-term liabilities decreased by \$6.1 million from the prior year mainly due to a decrease of \$7.4 million repayment of principal loan and savings from refunding the 2009 Bonds offset by a \$1.2 million increase in net pension liability updated from the actuarial estimate.
- Deferred inflows of resources decreased by \$3.8 million largely due to the decrease in the deferred gain from the sale of generation assets of \$3.6 million from the prior year due to amortization to capacity expense during the current year and the decrease of \$0.2 million in deferred inflows of resources related to other postemployment benefit liability.
- The unrestricted net deficit increased by \$15.6 million from the prior year due primarily to current year's change in net position of \$2 million offset by a decrease in net investment in capital assets of \$6.3 million and restricted for debt services of \$24 million.

City of Vernon, California
Electric Fund
Management's Discussion and Analysis
Year ended June 30, 2020

Changes in Fund Net Position

The table below summarizes the Electric Fund's changes in net position over the current and prior fiscal years. The details of the current year's changes in net position can be found on page 13 of this report.

City of Vernon
Electric Fund
Changes in Fund Net Position
June 30, 2020 and 2019

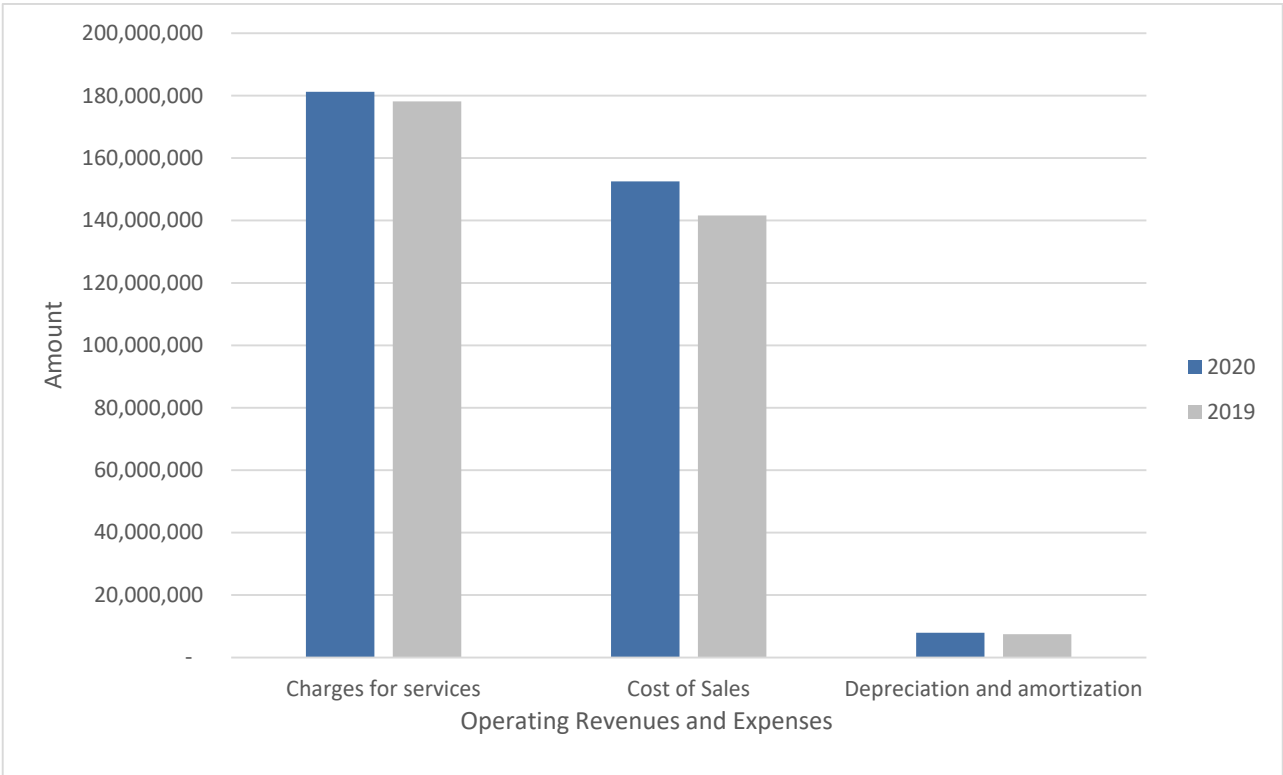
	2020	2019	Change	
			Amount	%
Operating Revenues:				
Current and other assets	\$ 181,225,309	\$ 178,149,122	\$ 3,076,187	2%
Operating Expenses:				
Cost of sales	152,554,498	146,158,738	6,395,760	4%
Depreciation and amortization	7,907,184	7,478,724	428,460	6%
Total operating expenses	<u>160,461,682</u>	<u>153,637,462</u>	<u>6,824,220</u>	4%
Operating income	<u>20,763,627</u>	<u>24,511,660</u>	<u>(3,748,033)</u>	-15%
Nonoperating revenues (expenses):				
Investment income	918,236	1,532,262	(614,026)	-40%
Net increase in fair value of investments	2,036	2,159	(123)	-6%
Interest expense	(19,222,747)	(20,712,363)	1,489,616	-7%
Gain (loss) on sale of assets	(424,922)	12,824	(437,746)	-3413%
Net nonoperating revenues (expenses)	<u>(18,727,397)</u>	<u>(19,165,118)</u>	<u>437,721</u>	-2%
Change in net position	2,036,230	5,346,542	(3,310,312)	-62%
Net position - beginning of year	<u>126,397,558</u>	<u>121,051,016</u>	<u>5,346,542</u>	4%
Net position - end of year	<u>\$ 128,433,788</u>	<u>\$ 126,397,558</u>	<u>\$ 2,036,230</u>	2%

City of Vernon, California
Electric Fund
Management's Discussion and Analysis
Year ended June 30, 2020

The Electric Fund experienced an increase in net position by \$2.0 million during the current year. The Electric Fund expects to eliminate the deficit balance in unrestricted net position through future rate increases, cost reductions, and revenues from renewable energy projects.

The Electric Fund's activities increased net position by \$2.0 million which is \$3.3 million lower than the prior year. The key reason for this change was due to an increase in the cost of sales in the operating expense by \$6.4 million and was offset by an increase in operating revenue by \$3.1 million.

Operating Revenues and Expenses
For the Fiscal Years Ended June 30, 2020, and 2019



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

The Electric Fund's investment in capital assets as of June 30, 2020, amounted to \$220.4 million (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, building, utility system improvements, and machinery and equipment. The total increase in the Electric Fund's investment in capital assets for the current fiscal year was \$11.0 million, offset by the depreciation of \$7.9 million for a net increase of \$3.1 million. Additional information on the Electric Fund's capital assets can be found in Note 5 on page 27 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

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.

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.

Additional information on the Electric Fund's long-term debt can be found in Note 6 on pages 28-32 of this report.

ECONOMIC FACTORS AND NEW YEAR'S BUDGET AND RATES

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

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

ASSETS

Current assets

Cash and cash equivalents	\$ 122,264,166
Accounts receivable, net of allowance of \$1,192,457	4,962,001
Accrued unbilled revenue	15,423,076
Accrued interest receivable	3,876
Due from other City funds	5,386
Prepaid items	14,312
Prepaid natural gas	25,646,420
	<hr/>
Total current assets	168,319,237
	<hr/>

Noncurrent assets

Restricted cash and cash equivalents	51,570,024
Advances to other City funds	27,379,594
Prepaid items	1,043,776
Deposits	960,888
Capital assets	
Nondepreciable	59,534,194
Depreciable, net	160,908,830
	<hr/>
Total noncurrent assets	301,397,306
	<hr/>
Total assets	469,716,543
	<hr/>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	1,798,948
Deferred outflows related to OPEB liability	427,758
Deferred amount on refunding	3,802,144
	<hr/>
Total deferred outflows of resources	6,028,850
	<hr/>

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

(Continued)

LIABILITIES

Current liabilities

Accounts payable	\$ 10,573,697
Accrued wages and benefits	394,690
Due to other City funds	2,161
Customer deposits	413,447
Bond interest payable	6,459,298
Bonds payable, net	29,520,000
Compensated absences	283,071
	<hr/>
Total current liabilities	47,646,364
	<hr/>

Noncurrent liabilities

Bonds payable, net	271,899,622
Compensated absences	566,143
Other postemployment benefit liability	2,394,613
Net pension liability	13,198,355
	<hr/>
Total noncurrent liabilities	288,058,733
	<hr/>
Total liabilities	335,705,097
	<hr/>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	165,920
Deferred inflows related to OPEB liability	1,196,903
Deferred gain from sale of generation assets	10,243,685
	<hr/>
Total deferred inflows of resources	11,606,508
	<hr/>

NET POSITION

Net investment in capital assets	132,692,564
Restricted for debt service	23,932,142
Unrestricted (deficit)	(28,190,918)
	<hr/>
Total net position	\$ 128,433,788
	<hr/>

City of Vernon, California
Electric Fund
Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2020

Operating revenues	
Charges for services	\$ 181,225,309
Total operating revenue	<u>181,225,309</u>
Operating expenses	
Cost of sales	152,554,498
Depreciation	7,907,184
Total operating expenses	<u>160,461,682</u>
Operating income	<u>20,763,627</u>
Nonoperating revenues (expenses)	
Investment income	918,236
Net increase in fair value of investments	2,036
Interest expense	(19,222,747)
Gain (loss) on disposition of assets	(424,922)
Total nonoperating revenues (expenses)	<u>(18,727,397)</u>
Change in net position	2,036,230
Net position - beginning of year	<u>126,397,558</u>
Net position - end of year	<u><u>\$ 128,433,788</u></u>

City of Vernon, California
Electric Fund
Statement of Cash Flows
For the year ended June 30, 2020

Cash flows from operating activities	
Cash received from customers	\$ 175,178,932
Cash paid to suppliers for goods and services	(117,560,324)
Cash paid to employees for services	(4,079,141)
Cash paid to City for services	(4,582,784)
Net cash provided by operating activities	<u>48,956,683</u>
Cash flows from capital and related financing activities	
Repayment of bonds	(30,550,000)
Issuance of bonds	79,629,328
Payment to refunding bond escrow agent	(58,316,993)
Bond interest paid	(16,521,331)
Net acquisition of capital assets	(11,468,427)
Net cash used in capital and related financing activities	<u>(37,227,423)</u>
Cash flows from noncapital financing activities	
Payment from (provided to) other City funds	<u>11,455,635</u>
Net cash provided by noncapital financing activities	<u>11,455,635</u>
Cash flows from investing activities	
Investment income	<u>1,078,168</u>
Cash provided by investing activities	<u>1,078,168</u>
Change in cash and cash equivalents	24,263,063
Cash and cash equivalents, beginning of year	<u>149,571,127</u>
Cash and cash equivalents, end of year	<u>\$ 173,834,190</u>
Composition of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 122,264,166
Restricted cash and investments	51,570,024
	<u>\$ 173,834,190</u>

City of Vernon, California
Electric Fund
Statement of Cash Flows
For the year ended June 30, 2020

(Continued)

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income	20,763,627
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation	7,907,184
Allowance for note receivable	940,000
Change in operating assets and liabilities:	
Accounts receivable	(1,108,103)
Accrued unbilled revenue	(4,935,774)
Due from other City funds	(5,386)
Prepaid expenses and deposits	(133,562)
Prepaid natural gas	28,664,653
Deferred outflows of resources	74,439
Accounts payable	(796,826)
Accrued wages and benefits	20,521
Due to other funds	2,161
Customer deposits	(2,500)
Compensated absences	290,209
Other postemployment benefit liability	(55,385)
Net pension liability	1,160,707
Deferred inflows of resources	(3,829,282)
Net cash provided by operating activities	<u>\$ 48,956,683</u>
Non-Cash Investing, Capital, and Financing Activities	
Gain (Loss) on disposal of assets	<u>\$ (424,922)</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present only the Electric Enterprise Fund (the Electric Fund) of the City of Vernon, California (the City), and do not present fairly the financial position and results of the operations of the City. The Electric Fund accounts for the independent operations and the maintenance of the City's electric utility. The Electric Fund is administered as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources, related liabilities, obligations, reserves, and equities, segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

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

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

Basis of Presentation

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

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

Pooled Cash

Part of the Electric Fund's operating cash balance is pooled with various other City funds for deposit purposes. The share of each fund in the pooled cash account is recorded in each of the fund's books of accounts, and interest income is apportioned to the participating funds based on the relationship of their average monthly balances to the total of the pooled cash.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

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

Receivables/Payables

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

Trade receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible were \$1,192,457 as of June 30, 2020. The Electric Fund’s customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying statement of net position.

Prepaid Items

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 Electric Fund in accordance with the terms of the agreement. As full compensation for the total contract quantity to be delivered, the City made a prepayment which is 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.

The City also made a prepayment to Southern California Public Power Authority (SCPPA) for the City’s share of SCPPA’s payoff of the Hoover Center and Air Slots debt. This prepaid amount is amortized over the life of the debt based on the annual debt service obligations. See Note 10 for further information regarding SCPPA.

Deposits

The City has deposits in SCPPA’s Project Stabilization Fund for use within SCPPA’s project purposes at the City’s discretion. At June 30, 2020, the amount of deposits totaled \$960,888.

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

The estimated useful lives are as follows:

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

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

Compensated Absences

Accumulated vacation is accrued when incurred. 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 Electric Fund recognizes deferred outflows and inflows of resources. A deferred outflow of resource is defined as consumption of net position by the Electric Fund that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position by the Electric Fund that is applicable to a future reporting period. On June 30, 2020, the Electric Fund has deferred outflows of resources representing deferred amounts on bond refunding, pension-related transactions, and postemployment benefit-related transactions, and deferred inflows of resources representing the deferred gain from the sale of generation assets, pension-related transactions, and postemployment benefit-related transactions.

Long-Term Obligations

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

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

The 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.

Use of Estimates

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

Pensions

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

Postemployment Benefits Other than Pensions (OPEB)

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

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2020, the City adopted the following new Statement of the Governmental Accounting Standards Board (GASB):

GASB Statement No. 95

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. The City implemented Statement No. 95 and postponed the implementation of the provisions in Statements and Implementation Guides that were previously required to be implemented for fiscal year 2019-2020.

Pending Accounting Standards

The City is evaluating the impact of the following GASB statements on financial reporting in the future:

- GASB 87 - *Leases*, effective for periods beginning after June 15, 2021.
- GASB 96 – *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2020 are classified in the accompanying statement of net position as follows:

Cash and cash equivalents	\$ 122,264,166
Restricted cash and cash equivalents	51,570,024
Total cash and cash equivalents	<u>\$ 173,834,190</u>

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

Equity in the City's pooled cash	\$ 29,698,202
Deposits with financial institutions	25,580,889
Short-term investments	118,555,099
Total cash and equivalents	<u>\$ 173,834,190</u>

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Equity in the Cash Pool of the City of Vernon

The Electric Fund has equity in the cash pool managed by the City. The Electric Fund is a voluntary participant in that pool and the pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Electric Fund has not adopted an investment policy separate from that of the City. The amount of the Electric Fund cash in this pool is reported in the accompanying financial statements based upon the Electric Fund's pro rata share of the amount calculated by the City. The balance available for withdrawal is based on the accounting records maintained by the City.

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
Electric Fund
Notes to the Financial Statements
June 30, 2020

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer	Minimum Rating
U.S. Treasury Bonds	5 years	None	None	None
State and Local Agency Bonds	5 years	None	None	None
Securities of the U.S. Government, or its Agencies	5 years	None	None	None
Certain Asset-Backed Securities	5 years	20%	None	AA
Negotiable Certificates of Deposit	5 years	30%	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	P-1
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium-Term Notes	5 years	30%	None	A
Mutual Funds Investing in Eligible Securities	N/A	20%	10%	AAA
Money Market Mutual Funds	N/A	20%	10%	AAA
Mortgage Pass-Through Securities	5 years	20%	None	AA
State Administered Pool Investment	N/A	None	\$75 million	None

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

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Minimum Rating
Securities of the U.S. Government, or its Agencies	None	None	None	None
Certain Asset-Backed Securities	None	None	None	AA
Certificates of Deposit	None	None	None	None
Bankers' Acceptances	1 year	None	None	None
Commercial Paper	None	None	None	P-1
Money Market Mutual Funds	N/A	None	None	AAA
State Administered Pool Investment	N/A	None	\$75 million	None
Investment Contracts	None	None	None	None

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City has no specific limitations with respect to this metric. Information about the sensitivity of the fair values of the Electric Fund's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in the following table that shows the distribution of the Electric Fund's investments by maturity:

Investment Type	Fair Value as of 6/30/2020	Investment Maturities		
		(in Months)		
		Less than 12 Months	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund Held by Trustee:	\$ 631,219	\$ 631,219	\$ -	\$ -
Money Market Mutual Funds	117,923,880	117,923,880	-	-
Total investments	<u>\$ 118,555,099</u>	<u>\$ 118,555,099</u>	<u>\$ -</u>	<u>\$ -</u>

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.

Investment Type	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2020
Local Agency Investment Fund Held by Trustee:	Not Rated	Not Rated	\$ 631,219
Money Market Funds	Aaa / AAA	Aaa / AAA	<u>117,923,880</u>
Total in custody of Trustee			<u>\$ 118,555,099</u>

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's Investment Policy also places no limit on the amount of debt proceeds held by the bond trustee that the trustee may invest in one issuer that is governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's Investment Policy. As of June 30, 2020, there were no investments held by the Electric Fund that exceeded 5% in any one issuer, excluding 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 June 30, 2020, all of the Electric Fund's deposits were insured or collateralized as required by Section 53652 of the California Government Code.

Local Agency Investment Fund (LAIF)

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

The total amount invested by all public agencies in LAIF as of June 30, 2020, was \$32.1 billion. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance, including interest, was \$101 billion as of June 30, 2020. PMIA is not SEC-registered but is required to invest according to the California State Code. LAIF does not maintain a credit rating.

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

The Electric Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

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

The Electric Fund's investments in money market mutual funds and LAIF are not subject to categorization in the fair value hierarchy.

NOTE 3 - ACCOUNTS RECEIVABLES

The Electric Fund's receivables at June 30, 2020, are as follows:

Accounts receivables	\$ 6,154,458
Less: Allowance for uncollectible accounts	<u>(1,192,457)</u>
Total receivables, net	<u>\$ 4,962,001</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

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

Due to and Due From Other City Funds

The Electric Fund has a due from the City's Water Enterprise Fund of \$5,386 for capital outlay and a due to the City's General Fund of \$2,161 for consumption of inventory supplies.

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)

Advances to Other City Funds

The following table summarizes the Electric Fund's advances to the other City funds at June 30, 2020:

Advances to other City funds, July 1, 2019	\$ 38,835,229
Advance repaid by City funds during the year	<u>(11,455,635)</u>
Advances to other City funds, June 30, 2020	<u>\$ 27,379,594</u>

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

The City's General Fund allocates certain administrative and overhead costs to the Electric Fund which is included as part of the cost of sales. The allocated cost for the year ended June 30, 2020, was \$3,079,051.

Transfers from (to) City

The Electric Fund's retail rates are established by the City Council and are not subject to regulation by the California Public Utility Commission or any other state agency. The retail rates include a 3% surcharge for payments in lieu of franchise tax to the City's General Fund. For the current year, the Electric Fund paid the City's General Fund \$4,582,784 in lieu of franchise tax. This amount is reported in the accompanying financial statements as part of operating expenses.

Under the City Charter and the Electric Fund's electric revenue bond indentures, the Electric Fund is allowed to transfer up to 11.5% of its retail sales after meeting debt service obligations and certain debt coverage ratios. However, no additional transfers were made for the year ended June 30, 2020.

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets, not being depreciated:				
Electric utility - Land	\$ 4,240,129	\$ -	\$ -	\$ 4,240,129
Electric utility - Intangibles - Environmental credits	1,163,811	-	-	1,163,811
Electric utility - Construction in progress	54,464,081	91,094	(424,921)	54,130,254
Total capital assets, not being depreciated	<u>59,868,021</u>	<u>91,094</u>	<u>(424,921)</u>	<u>59,534,194</u>
Capital assets, being depreciated:				
Electric utility - Production plant	16,189,303	-	-	16,189,303
Electric utility - Transmission plant	4,888,113	-	-	4,888,113
Electric utility - Distribution plant	232,539,599	11,339,582	-	243,879,181
Electric utility - General plant	9,220,498	37,750	-	9,258,248
Total capital assets, being depreciated	<u>262,837,513</u>	<u>11,377,332</u>	<u>-</u>	<u>274,214,845</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)
Total accumulated depreciation	<u>(105,398,831)</u>	<u>(7,907,184)</u>	<u>-</u>	<u>(113,306,015)</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	145,454,598	4,417,554	-	149,872,152
Electric utility - General plant	3,981,189	(393,535)	-	3,587,654
Net depreciable assets	<u>157,438,682</u>	<u>3,470,148</u>	<u>-</u>	<u>160,908,830</u>
Total capital assets, net	<u>\$ 217,306,703</u>	<u>\$ 3,561,242</u>	<u>\$ (424,921)</u>	<u>\$ 220,443,024</u>

The Electric Fund's total depreciation expense for the year was \$7,907,184.

NOTE 6 - 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.

\$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 6 - 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.

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 6 - LONG-TERM OBLIGATIONS (CONTINUED)

A summary of bonds payable under the Electric Fund is as follows:

Bonds	Maturity	Fixed Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding June 30, 2020
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
Premium					7,635,218
Discounts					(2,370,596)
Total revenue bonds					<u>\$ 301,419,622</u>

As of June 30, 2020, annual debt service requirements of the Electric Fund to maturity are as follows:

Fiscal year ending June 30:	Electric System Revenue Bonds 2008 Taxable Series A	
	Principal	Interest
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>

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 6 - LONG-TERM OBLIGATIONS (CONTINUED)

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>

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	-	5,087,518
2024	22,540,000	4,580,368
2025	23,520,000	3,596,938
2026-2030	65,660,000	4,242,714
Total requirements	<u>\$ 111,720,000</u>	<u>\$ 27,682,574</u>

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 6 - LONG-TERM OBLIGATIONS (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>

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
Other Debt - Bonds payable	\$ 312,710,000	\$ 71,990,000	\$ (88,545,000)	\$ 296,155,000	\$ 29,520,000
Bond premium	148,810	7,639,328	(152,920)	7,635,218	-
Bond discount	(3,762,029)	-	1,391,433	(2,370,596)	-
Compensated absences (Note 1)	559,005	662,934	(372,725)	849,214	283,071
	<u>\$ 309,655,786</u>	<u>\$ 80,292,262</u>	<u>\$ (87,679,212)</u>	<u>\$ 302,268,836</u>	<u>\$ 29,803,071</u>

Expense Stabilization Fund

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

Right to Accelerate Upon Default

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

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 6 - LONG-TERM OBLIGATIONS (CONTINUED)

Credit Ratings

As of June 30, 2020, the ratings on all Electric System Revenue Bonds of the City have not changed from the prior year with an BBB+ rating by S&P and Baa3 rating by Moody's.

NOTE 7 - RISK MANAGEMENT

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

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

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

The insurance limits for the fiscal year 2020 are as follows:

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

NOTE 7 - RISK MANAGEMENT (CONTINUED)

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

NOTE 8 - PENSION 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. The City allocates the costs of these Plans across all City departments. The Electric Fund's proportionate share of the net pension liability of these Plans is reported as a cost-sharing plan in the financial statements. 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
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 8 - PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

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

	<u>Miscellaneous</u>	
	Prior to	On or After
	January 1, 2013	January 1, 2013
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	\$ -

	<u>Safety</u>	
	Prior to	On or After
	January 1, 2013	January 1, 2013
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	\$ -

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.

NOTE 8 - PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

Actuarial Assumptions

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.

	<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 lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

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.

NOTE 8 - PENSION PLAN (CONTINUED)

Long-term Expected Rate of Return (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund 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
Electric Fund
Notes to the Financial Statements
June 30, 2020

NOTE 8 - PENSION PLAN (CONTINUED)

Proportionate Share of Net Pension Liability - Allocation of the City's Pension Plans to the Electric Fund

The Electric Funds' net pension liability for the Plans is measured as the proportionate share of the combined net pension liability of the City's miscellaneous and safety agent multiple-employer plans. The Electric Fund's proportionate share of the combined net pension liability was based on the Electric Fund's current year share of contributions to the pension plans relative to the City's total current year contributions to the pension plans.

The Electric Funds' proportionate share of the combined net pension liability for the pension plans as of the measurement date ended June 30, 2018 and 2019 were as follows:

	Increase (Decrease)			
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)	Proportionate Share
Balance at June 30, 2018 (MD)	\$ 45,161,741	\$ 33,124,093	\$ 12,037,648	10.61%
Balance at June 30, 2019 (MD)	48,941,752	35,743,397	13,198,355	10.93%
Net Changes during 2018-19	<u>\$ 3,780,011</u>	<u>\$ 2,619,304</u>	<u>\$ 1,160,707</u>	<u>0.32%</u>

Pension Expense and Deferred Outflows and Inflows of Resources

For the measurement period ended June 30, 2019, the Electric Fund recognized its proportionate share of the combined pension expense of the Plans, totaling \$2,414,720. At June 30, 2020, the Electric Fund reported its proportionate share of the Plans' combined deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,347,573	\$ -
Differences between actual and expected experience	418,523	(17,428)
Change in assumptions	32,852	(23,646)
Net differences between projected and actual earnings on plan investments	-	(124,846)
Total	<u>\$ 1,798,948</u>	<u>\$ (165,920)</u>

NOTE 8 - PENSION PLAN (CONTINUED)

Pension Expense and Deferred Outflows and Inflows of Resources (Continued)

\$1,347,573 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 ending June 30, 2021. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. 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	Total
2021	\$ 374,170
2022	(122,453)
2023	(4,642)
2024	38,380
2025	-
Thereafter	-

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

The following presents the Electric Fund’s proportionate share of the Plans’ combined net pension liability, calculated using a discount rate of 7.15% , as well as what the Electric Fund’s proportionate share of the Plans’ combined net pension liability would be if it were calculated using a discount rate that is a 1-percentage point lower or a 1-percentage point higher than the current rate:

1% Decrease	<u>6.15%</u>
Net Pension Liability	\$ 19,958,406
Current Discount Rate	7.15%
Net Pension Liability	\$ 13,198,355
1% Increase	8.15%
Net Pension Liability	\$ 7,653,724

Pension Plan Fiduciary Net Position

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

Subsequent Events

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

Payable to the Pension Plan

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

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The other postemployment benefits (OPEB) described in the following paragraphs relate to the City's OPEB plan. The Electric Fund's share of the net pension liability of the City's OPEB Plan is reported as a cost-sharing plan in these financial statements since the Electric Fund's operations are handled by City employees who are eligible to participate in the City's OPEB Plan.

Benefits Provided

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

Resolution 2012-217 granted specific retiree medical benefits to employees who retired during the 2012-2013 fiscal year in order to provide an incentive for early retirement whereby the City authorized the payment of medical and dental insurance premiums for eligible retiring employees and their eligible dependents with at least ten (10) years of service plus 5% for each additional full year of service above the ten (10) years of service.

Resolution 2013-06 declared that the retiree medical benefits which had not been a vested right for employees will continue to be a non-vested right for employees who continue to be employed by the City on or after July 1, 2013, but will be a vested right for those who retire during the 2012-2013 fiscal year. The City's plan is considered a substantive OPEB plan and the City recognizes costs in accordance with GASB Statement No 75. The City may terminate its unvested OPEB in the future.

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. For the fiscal year ended June 30, 2020, the Electric Fund's proportionate share of contributions made was \$427,758 (\$294,196 contributed to the OPEB trust, \$106,780 paid for retiree premiums, and the estimated implied subsidy of \$26,782).

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 on the next page.

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

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

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
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%	

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

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

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.

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.

Allocation of the Net OPEB Liability

The Electric Fund’s proportionate share of the net OPEB liability as of the measurement dates ended June 30, 2018 and 2019 was as follows:

	Increase (Decrease)			
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)	Proportionate Share
Balance at June 30, 2018 (MD)	\$ 2,681,172	\$ 231,174	\$ 2,449,998	10.61%
Balance at June 30, 2019 (MD)	2,860,913	466,300	2,394,613	10.93%
Net Changes during FY 2018-19	\$ 179,741	\$ 235,126	\$ (55,385)	0.32%

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

The following presents the Electric Fund’s proportionate share of net OPEB liability if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate		
	1% Decrease (5.50%)	Current Rate (6.50%)	1% Increase (6.50%)
Net OPEB liability	\$ 2,743,216	\$ 2,394,613	\$ 2,102,059

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

The following presents the Electric Fund’s proportionate share of the 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:

	Healthcare Trend Rate		
	1% Decrease	Current Rate	1% Increase
Net OPEB liability	\$ 2,256,972	\$ 2,394,613	\$ 2,541,426

City of Vernon, California
Electric Fund
Notes to the Financial Statements
June 30, 2020

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

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

For the year ended June 30, 2020, the Electric Fund recognized its proportionate share of the OPEB expense(revenue) of \$(18,178). At June 30, 2020, the Electric Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Contributions between measurement date and reporting date	\$ 427,758	\$ -
Difference between expected and actual liability	-	(525,984)
Changes of assumptions	-	(667,818)
Net differences between projected and actual earnings on investments	-	(3,101)
Total	<u>\$ 427,758</u>	<u>\$ (1,196,903)</u>

The \$427,758 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. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Deferred Outflows (Inflows) of Resources</u>
2021	\$ (231,525)
2022	(231,524)
2023	(231,569)
2024	(232,514)
2025	(231,008)
Thereafter	(38,763)

Subsequent Events

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

Payable to the OPEB Plan

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

NOTE 10 - ELECTRIC FUND 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 over the life of the PPTA and CFD, which will be amortized in proportion to the capacity payments the City will be making under the PPTA and CFD (See Note 11 for disclosure on uncertainties).

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:

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

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

NOTE 10 - ELECTRIC 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 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.

NOTE 10 – ELECTRIC 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. SCPA 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. SCPA 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 11 - CONTINGENCIES

Sale of Generation and Transmission Assets

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

Required Supplementary Information

City of Vernon, California
Electric Fund
Schedule of the Proportionate Share of the Net Pension Liability
City's Miscellaneous and Safety Cost Sharing Plan
Last Ten Fiscal Years*

Fiscal Year Ended	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Measurement Date	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Plan's Proportion of the Net Pension Liability	10.93%	10.61%	10.60%	10.41%
Plan's Proportionate Share of the Net Pension Liability	\$ 13,198,355	\$ 12,037,649	\$ 11,622,798	\$ 9,913,819
Plan's Covered Payroll	3,153,590	3,119,774	2,844,009	1,368,926
Plan's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	418.52%	385.85%	408.68%	724.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.15%	77.68%	77.85%	78.91%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

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:

There were no significant changes in assumptions.

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

There were no significant changes in assumptions.

*Fiscal year 2017 was the 1st year the City allocated a portion of the net pension liability to the Electric Fund, therefore only four years are shown.

City of Vernon, California
Electric Fund
Schedule of Plan Contributions -
City's Miscellaneous and Safety Cost Sharing Plan
Last Ten Fiscal Years*

Fiscal Year Ended	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Actuarially Determined Contributions	\$ 1,347,573	\$ 1,158,143	\$ 1,005,691	\$ 947,914
Contributions in relation to the Actuarially Determined Contributions	(1,347,573)	(1,158,143)	(1,005,691)	(947,914)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,971,068	\$ 3,153,590	\$ 3,119,774	\$ 2,844,009
Contributions as a Percentage of Covered Payroll	45.36%	36.72%	32.24%	33.33%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)
Asset valuation method	Fair Value	Fair Value	Fair Value	Fair Value
Inflation	2.625%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)
Investment rate of return	7.25% (3)	7.375% (3)	7.50% (3)	7.50% (3)
Mortality	(4)	(4)	(4)	(4)

- (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) Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.

*Fiscal year 2017 was the 1st year the City allocated a portion of the net pension liability to the Electric Fund, therefore only four years are shown.

City of Vernon, California
Electric Fund
Schedule of the Proportionate Share of the
City's Net OPEB Liability
Last Ten Fiscal Years*

Fiscal Year Ended	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Measurement Date	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Plan's Proportion of the Net OPEB Liability	10.93%	10.61%	6.43%
Plan's Proportionate Share of the Net OPEB Liability	\$ 2,394,613	\$ 2,449,998	\$ 2,333,037
Plan's Covered-employee Payroll	3,731,469	2,152,941	2,153,877
Plan's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-employee Payroll	64.17%	113.80%	108.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	16.30%	8.62%	2.83%

Notes to Schedule:

Changes in assumptions:

The discount rate was changed from 2.85% to 3.58% for the measurement period ended June 30, 2017. The discount rate for the measurement periods ended June 30, 2018 and 2019 were 3.87% and 3.50%, respectively.

The mortality, retirement, disability, and termination rates for the measurement periods ended June 30, 2017 and 2018 were based on the CalPERS 1997-2011 Experience Study and CalPERS 1997-2015 Experience Study, respectively.

The mortality improvement rates for the measurement periods ended June 30, 2017 and 2018 were based on the Scale MP-2016 and Scale-2018, respectively.

In the June 30, 2018 measurement period, the pre-65 waived retiree re-election was updated to be 10% after age 65.

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

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

	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Actuarially Determined Contribution	\$ 211,038	\$ 285,605	\$ 173,080
Contributions in relation to the Actuarially Determined Contribution	<u>(427,758)</u>	<u>(317,055)</u>	<u>(132,751)</u>
Contribution Deficiency (Excess)	<u>\$ (216,720)</u>	<u>\$ (31,449)</u>	<u>\$ 40,329</u>
Covered Payroll	\$ 3,491,517	\$ 3,731,469	\$ 2,152,941
Contributions as a Percentage of Covered Payroll	6.04%	7.65%	8.04%

Notes to Schedule:

Valuation Date	6/30/2017	6/30/2016	6/30/2015
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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, therefore three years year are shown.

