

CITY OF VERNON, CALIFORNIA

Annual Financial Report

Fiscal Year Ended June 30, 2007

CITY OF VERNON
For the Fiscal Year Ended June 30, 2007

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MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

505 14th Street, 5th Floor
Oakland, CA 94612
510.273.8974

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

INDEPENDENT AUDITOR'S REPORT

City Council
City of Vernon, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Vernon, California (City) as of and for the fiscal year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and the schedule of funding progress on pages 3 through 14, pages 61 and 62, and page 63, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
October 31, 2007

CITY OF VERNON, CALIFORNIA
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(Unaudited)

As management of the City of Vernon ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$313,566,791 (*net assets*). Of this amount, \$68,874,547 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$4,757,936. This increase is attributable to the governmental activities generating an increase in net assets before transfers of \$7,720,577 and the business-type activities generating a decrease in net assets before transfers of \$2,962,641.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$83,981,893, an increase of \$15,640,657 in comparison with the prior year. In addition, there was an \$8,600,000 prior period adjustment as disclosed in Note 17. Approximately 71.9% of the governmental funds balances, \$60,332,018, are *available for spending* at the City's discretion (*unreserved fund balances*).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, and health services. The business-type activities of the City include the Light and Power Department, Gas Department, Water Department and Fiber Optic Department.

The government-wide financial statements can be found on pages 15-16 of this report.

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

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

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

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental funds financial statements can be found on pages 17-20 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Light and Power Department, Gas Department, Water Department and Fiber Optic Department. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, insurance, and retirement. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Light and Power Fund and the Gas Fund, which are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary funds financial statements can be found on pages 21-23 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$313,566,791 at the close of the most recent fiscal year.

City's Net Assets

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The category of the City's net assets with the largest balance totaling \$205,018,203 (65%) represents resources that are invested in capital assets, net of related debt.

The second largest category of net assets, \$68,874,547 (22%) represents unrestricted net assets that can be used to meet the City's ongoing obligations to its citizens and creditors.

The last remaining category of net assets, totaling \$39,674,041 (13%) represents the City's restricted assets, which is restricted for special purposes and payment of long-term debt.

Changes in Net Assets

Governmental activities' net assets increased by \$5,886,404 and business-type activities' net assets decreased by \$1,128,468 for a net increase of \$4,757,936 for the City. The increase in the governmental activities was caused by the governmental activities reporting a \$7,720,577 increase in net asset before transfers and a \$1,834,173 transfer out to the business-type activities.

City of Vernon
Net Assets
June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 88,198,432	\$ 51,354,912	\$ 535,129,809	\$ 561,097,165	\$ 623,328,241	\$ 612,452,077
Restricted assets	16,672,971	40,015,669	36,790,554	47,550,737	53,463,525	87,566,406
Capital assets	77,264,367	89,343,037	341,161,303	316,293,591	418,425,670	405,636,628
Total assets	182,135,770	180,713,618	913,081,666	924,941,493	1,095,217,436	1,105,655,111
Liabilities						
Current liabilities	10,829,223	13,378,105	47,653,510	29,528,656	58,482,733	42,906,761
Long-term liabilities	53,268,046	55,183,416	669,899,866	698,756,079	723,167,912	753,939,495
Total liabilities	64,097,269	68,561,521	717,553,376	728,284,735	781,650,645	796,846,256
Net Assets:						
Invested in capital assets, net of related debt	45,990,540	81,488,078	159,027,663	124,086,207	205,018,203	205,574,285
Restricted	3,701,902	3,296,917	35,972,139	30,275,695	39,674,041	33,572,612
Unrestricted	68,346,059	27,367,102	528,488	42,294,856	68,874,547	69,661,958
Total net assets	\$ 118,038,501	\$ 112,152,097	\$ 195,528,290	\$ 196,656,758	\$ 313,566,791	\$ 308,808,855

Governmental activities:

- Current and other assets increased \$36,843,520 from the prior year due primarily to an increase in internal balances of \$64,914,788, an increase in escrow deposits of \$26,200,000, and a decrease in cash and investments of \$53,131,096.
- Restricted assets decreased \$23,342,698 from the prior year due primarily to transfer of restricted assets to escrow deposits of \$26,200,000.
- Investment in capital assets, net of related debt, decreased \$35,497,538 from the prior year due primarily to a sale of land with a cost of \$12,469,823 and a decrease in restricted cash and investment of \$23,342,698.
- Unrestricted net assets increased \$40,978,957 from the prior year due primarily to a decrease in investment in capital assets, net of related debt, of \$35,497,538 and an increase in net assets from the activities for the year of \$5,886,404.

Business-type activities:

- Current liabilities increased \$18,124,854 from the prior year due primarily to an increase in accounts payable of \$1,683,347, an increase in bond interest payable of \$1,034,131, an increase in bonds payable (net) of \$21,570,000, and a decrease in current legal settlement payable of \$6,214,667.

- Long-term liabilities decreased \$28,856,213 from the prior year due primarily to a decrease in legal settlement payable of \$3,718,666 and a decrease in bonds payable (net) of \$25,137,547.
- Investment in capital assets, net of related debt, increased \$34,941,456 from the prior due primarily to current year's additions to capital assets of \$24,867,712 (net of depreciation, transfers and adjustments).
- Unrestricted net assets decreased \$41,766,368 from the prior year due primarily to an increase in investment in capital assets, net of related debt, of \$34,941,456, an increase in net assets restricted for debt services of \$22,229,300, and a decrease in net assets restricted for alternative energy of \$16,532,856.

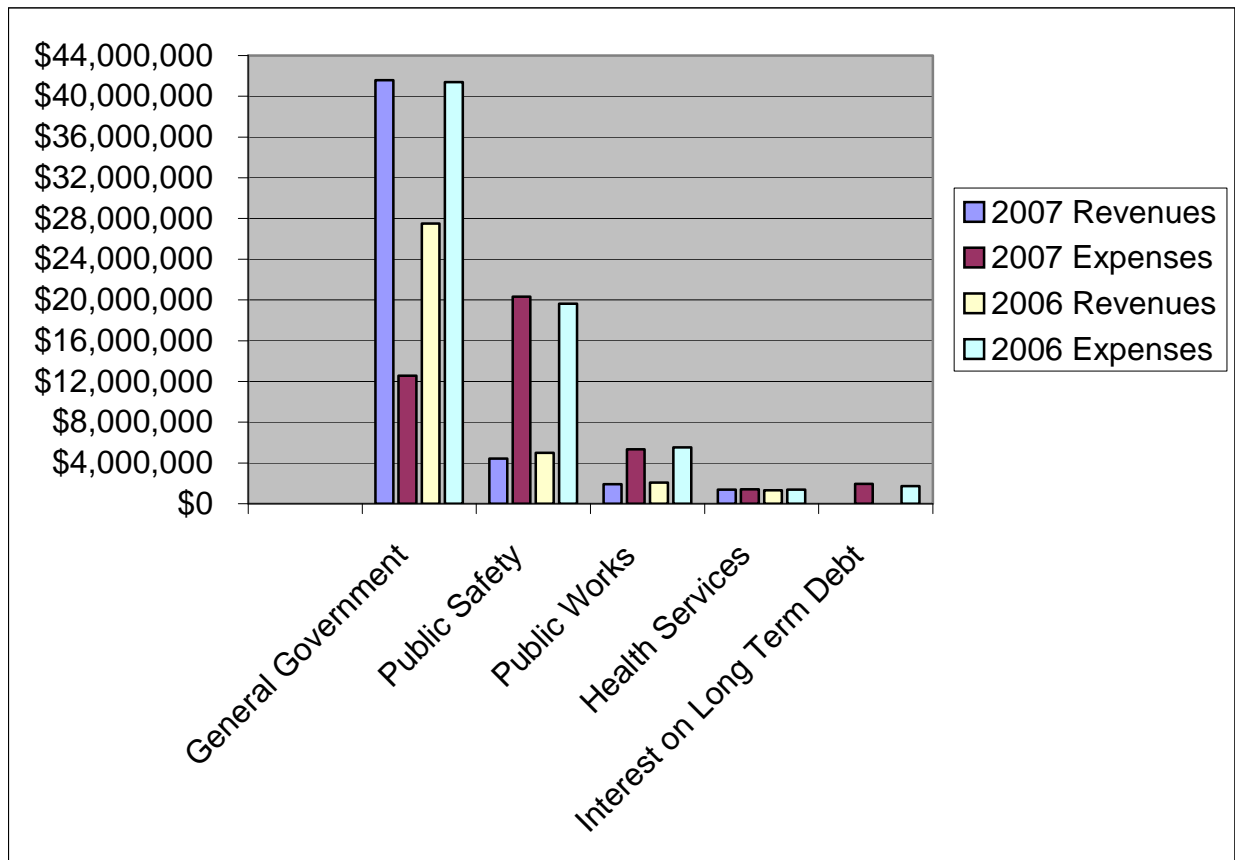
City of Vernon
Changes in Net Assets
For the Fiscal Years Ended June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 10,868,533	\$ 10,850,093	\$ 156,741,482	\$ 175,611,547	\$ 167,610,015	\$ 186,461,640
Operating grants and contributions	272,107	290,414	-	-	272,107	290,414
General Revenues:						
Taxes	17,908,039	17,021,021	-	-	17,908,039	17,021,021
State allocations	5,078,317	4,685,752	-	-	5,078,317	4,685,752
Investment income	2,079,705	2,624,478	8,146,667	2,254,436	10,226,372	4,878,914
Gain on sale of property	11,515,195	43,985	-	-	11,515,195	43,985
Other revenues	1,585,653	406,334	1,036,427	-	2,622,080	406,334
Total revenues	49,307,549	35,922,077	165,924,576	177,865,983	215,232,125	213,788,060
Program Expenses						
Governmental activities						
General government	12,554,529	19,944,193	-	-	12,554,529	19,944,193
Public safety	20,333,160	19,613,951	-	-	20,333,160	19,613,951
Public works	5,338,251	5,542,660	-	-	5,338,251	5,542,660
Health services	1,398,458	1,397,083	-	-	1,398,458	1,397,083
Interest on long-term debt	1,962,574	1,724,513	-	-	1,962,574	1,724,513
Business-type activities						
Light and Power	-	-	151,788,112	149,424,972	151,788,112	149,424,972
Gas	-	-	11,791,046	36,953,697	11,791,046	36,953,697
Other	-	-	5,308,059	6,010,948	5,308,059	6,010,948
Total expenses	41,586,972	48,222,400	168,887,217	192,389,617	210,474,189	240,612,017
Increase (decrease) in net assets before transfers	7,720,577	(12,300,323)	(2,962,641)	(14,523,634)	4,757,936	(26,823,957)
Transfers	(1,834,173)	(21,445,604)	1,834,173	21,445,604	-	-
Increase (decrease) in net assets	5,886,404	(33,745,927)	(1,128,468)	6,921,970	4,757,936	(26,823,957)
Net assets- beginning of year	112,152,097	145,898,024	196,656,758	189,734,788	308,808,855	335,632,812
Net assets- end of year	\$ 118,038,501	\$ 112,152,097	\$ 195,528,290	\$ 196,656,758	\$ 313,566,791	\$ 308,808,855

Governmental activities. Governmental activities increased the City's net assets by \$5,886,404. This is an increase of \$39,632,331 from the prior year. The key reasons for this increase and change in net assets are as follows:

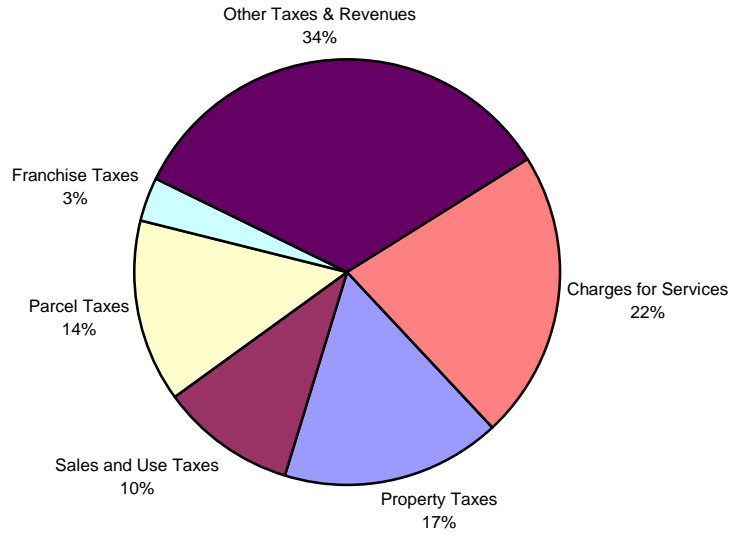
- In the prior year, the governmental funds transferred a net of \$21,445,604 to the enterprise funds. The main reason for this transfer was to upgrade the City’s electric transmission and distribution systems.
- In the current year, governmental funds had proceeds of \$32,386,692 and a resulting gain on sale of property of \$11,515,195, which is \$11,471,210 higher than the prior year.
- In the current year, program expenses of the primary government decreased \$6,635,428 from the prior year. The key components of the decreases were as follows:
 - In the current year, \$3,415,075 of claims liability (Workers’ Compensation) was reported as a reduction in expenses due to a change in actuarial estimate and an adjustment related to case reserves.
 - Administration costs were \$1,320,085 higher in the prior year due to an administrative reorganization, legal and consultant fees and the installation of 9-11 security measures, including personnel, at the City’s new power plant facility.
 - Finance costs were \$1,554,293 higher in the prior year due to the additional consulting cost related with the implementation of a new finance system.
 - Legal costs were \$531,219 higher in the prior year due to various legal matters of the City.
 - In the current year program expenses for public safety were \$719,209 higher than in the prior year due to higher payroll costs.

Expenses and Revenues — Governmental Activities
For the Fiscal Years Ended June 30, 2007 and 2006

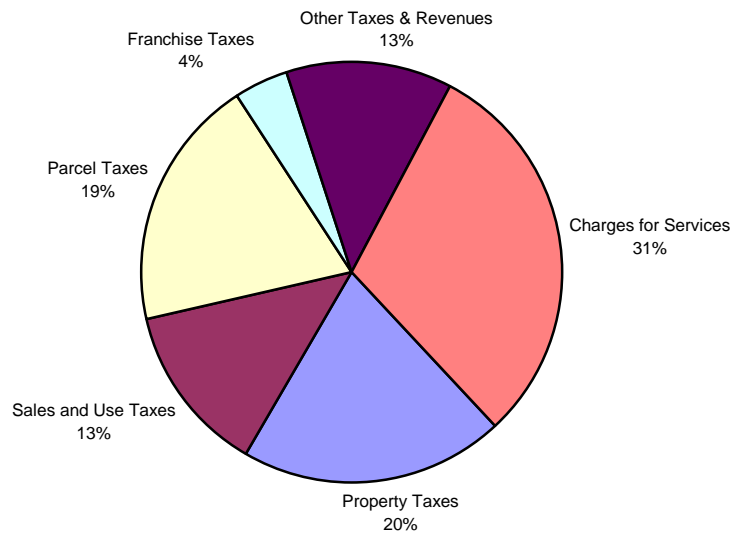


Revenues by Source — Governmental Activities
For the Fiscal Years Ended June 30, 2007 and 2006

2007 Governmental Activities Revenues



2006 Governmental Activities Revenues

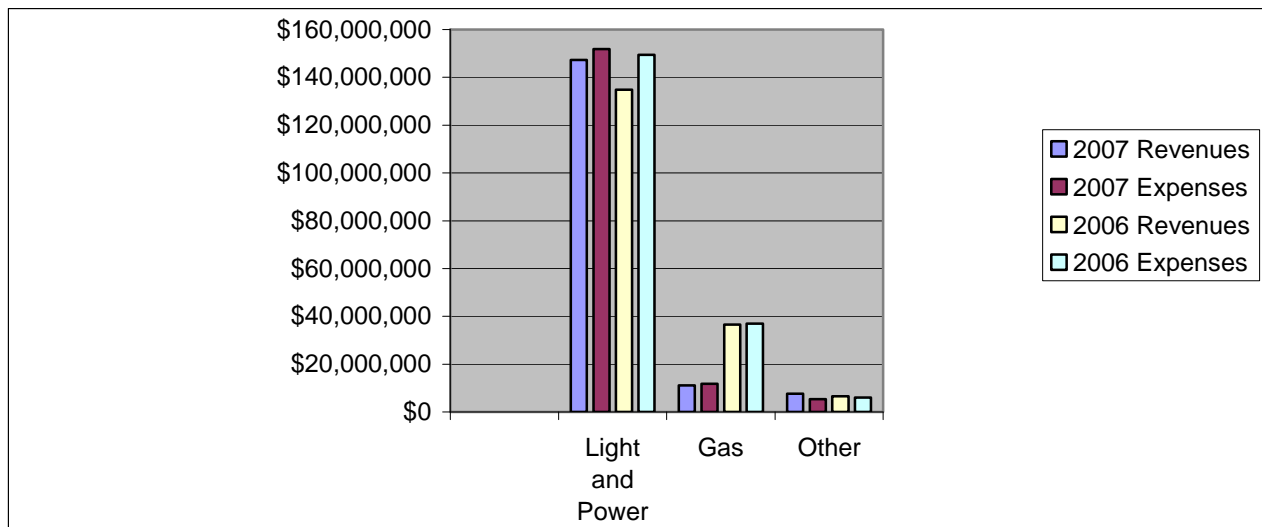


Business-type activities.

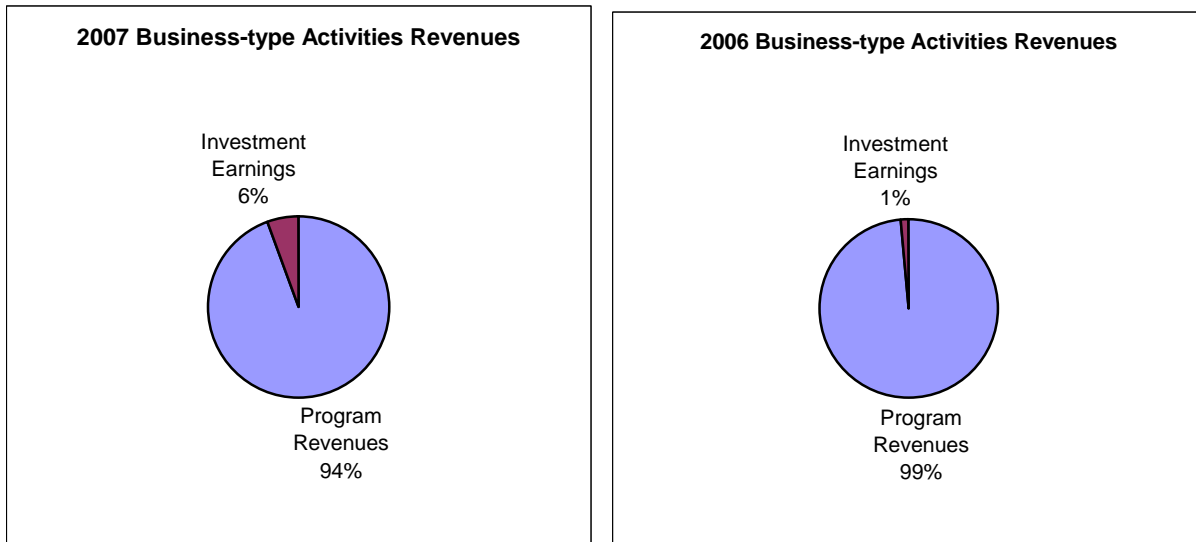
Business-type activities decreased the City's net assets by \$2,962,641 before transfers. The key reasons for this decrease in change in net assets are as follows:

- Light and Power's operating revenue was \$138,057,770 for the current year which is \$5,492,752 higher than the previous year. This increase in revenue was mainly due to an increase in electric sales rates and an increase in wholesale power sales.
- Gas Fund's total operating revenues and expenses were \$11,054,332 and \$11,791,046, respectively, in the current year. The total operating revenues and expenses were \$25,455,365 and \$25,162,651, respectively, lower as compared to the prior year. In the prior year, the Gas Fund procured all the natural gas for the Light and Power Fund. In late 2006, the Vernon Natural Gas Financing Authority issued the Gas Project Revenue Bonds for the acquisition of prepaid natural gas, which has been blended with the City's Light and Power Fund. As a result, the Light and Power Fund no longer requires the procurement of natural gas by the Gas Fund.
- Light and Power's depreciation and amortization expense was \$11,614,663 for the current year, which is \$4,178,366 higher than the previous year. This increase was due to \$28,041,121 of additions to capital assets during the year and a full year's depreciation related to the Malburg Generating Station as compared with a partial year of depreciation in the prior year.

Expenses and Program Revenues — Business-type Activities
For the Fiscal Years Ended June 30, 2007 and 2006



Revenues by Source — Business-type Activities
For the Fiscal Years Ended June 30, 2007 and 2006



Financial Analysis of the Governmental Funds

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$83,981,893, an increase of \$15,640,657 in comparison with the prior year. In addition, there was an \$8,600,000 prior period adjustment as disclosed in Note 17. Approximately 72% of total fund balance amount, \$60,332,018, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance, \$23,649,875, is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the current period (\$3,913,685), 2) advances and loans receivable in the event of a default by other funds (\$2,975,646), 3) to be used for debt service (\$3,389,700), 4) to be used for various redevelopment projects in or benefiting the Redevelopment Agency Fund's Industrial Redevelopment Project area, (\$12,286,790), and 5) for a variety of other purposes (\$1,084,054).

The General Fund is the operating fund of the City. At the end of the current fiscal year, the total fund balance was \$28,043,474 of which \$21,247,763 (76%) is unreserved. At the end of the current fiscal year, the total fund balance was 65% and unreserved fund balance 49% as compared to the total expenditures for the year.

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

Unrestricted net assets for the Light and Power Fund at the end of the year amounted to \$29,410,655. Unrestricted net assets of the Gas Fund at the end of the year amounted to a deficit of \$30,041,076. Unrestricted net assets of the non-major enterprise funds (Water and Fiber Optic Funds) amounted to \$1,158,909. This deficit balance in unrestricted net assets for the Gas Fund is primarily due to the Gas Fund heavily invested in capital assets for which it has not yet recovered the cost of capital invested. The natural gas lines are currently operational and the Gas Fund expects to eliminate this deficit balance through increased revenues from customers on future gas sells.

Total increase (decrease) in net assets for the Light and Power Fund, Gas Fund, and the non-major enterprise funds was (\$2,489,706), (\$736,714), and \$2,097,952, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

Governmental Funds Budgetary Highlights

For the current year, the City's original and final budget for general fund expenditures was \$42,783,066. The General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$2,998,183. The key reason for this variance was excess expenditures over appropriation for general government's supply and services and public safety's payroll expenditures of \$2,147,279 and \$1,017,662 respectively, due to increased costs in both areas. However, the General Fund did not exceed its appropriations at the fund total level, which is the legal level of control.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounts to \$418,425,670 (net of accumulated depreciation). This investment in capital assets includes land, buildings, utilities system improvements, machinery and equipment, and infrastructure such as roads. The total increase in the City's investment in capital assets for the current fiscal year was \$12,789,042 (net of depreciation of \$13,739,187).

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

- The General Fund sold two parcels of land which originally cost \$12,469,823 for a total gain of \$6,082,572.
- Light and Power Fund made \$28,041,121 of additions to capital assets and a \$5,245,532 addition to construction in progress for electric generating assets, transmission systems, and electrical substations.

There were no significant construction commitments outstanding as of June 30, 2007.

Additional information on the City's capital assets can be found in Note 5 on pages 38-41 of this report.

Outstanding Debt

As of June 30, 2007, the following debt remains outstanding:

- \$90,150,000 Electric System Revenue Bonds, 2004 Series A
- \$83,575,000 Electric System Revenue Bonds, 2004 Series B
- \$39,875,000 Electric System Revenue Bonds, 2004 Series C
- \$57,850,000 Electric System Revenue Bonds, 2004 Series D
- \$49,420,000 RDA Industrial Redevelopment Project Tax Allocation Bonds, 2005 Series
- \$200,000,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series A
- \$115,440,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series B, and
- \$115,405,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series C

The 2004 Electric System Revenue Bonds were issued to provide funds (i) to refund \$162,610,000 of outstanding Electric System Revenue Bonds of the City; (ii) to finance the costs of improvements to the City's substation and distribution facilities and certain costs of completion of the City's Malburg Generating Station; (iii) to finance the reimbursement to the City of certain costs incurred in connection with the City's electric system facilities; (iv) to fund a deposit to the Debt Service Reserve Fund; and (v) to pay the costs of issuance of the 2004 Bonds.

The 2005 RDA Industrial Redevelopment Project Tax Allocation Bonds were issued to provide funds to (i) finance various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay the costs of issuance related to the Series 2005 Bonds.

The 2006 Vernon Gas Project Variable Rate Revenue Bonds were issued for the express purpose of undertaking projects and programs that promote economic development within the City. Such projects and programs include assisting the City in procuring natural gas for use as fuel for electric generating units that are part of the City's Electric System, which is accounted for in the City's Light and Power Fund.

As of June 30, 2007, all bonds issued by the City, Vernon Redevelopment Agency, and Authority had a rating of "Aaa" by Moody's and has not changed from the prior year.

Additional information on the City's long-term debt can be found in Notes 6 and 7 on pages 41-52 of this report.

Economic Factors and Next Year's Budgets and Rates

These factors were considered in preparing the City's budget for the 2008 fiscal year.

- On October 9, 2007, the City entered into an agreement with an affiliate of Bient Holdings and Natural Gas Partners to sell a portfolio of its generating and transmission assets for \$342 million. In a separate transaction, the City entered into a sale agreement in late September 2007 with the Transmission Agency of Northern California for the purchase of the City's interest in the California Oregon Transmission Project for \$55 million. The City intends to use the proceeds from both these transactions totaling \$397 million to retire approximately \$214 million in related project debt, provide funds for industrial development in the City, and increase the Light & Power fund's cash reserves.
- The unemployment rate for the City and adjacent communities is currently 2.2%. This compares favorably to the state's average unemployment rate of 4.9% and the national average rate of 4.6%.
- The occupancy rate of the City's central business district has remained at 98% for the current year.
- Inflationary trends in the region compare favorably to national indices.

Requests for Information

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

CITY OF VERNON, CALIFORNIA

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and investments	\$ 2,591,763	\$ 122,493,600	\$ 125,085,363
Receivables, net of allowances of \$1,050,000			
for business-type activities	2,275,922	9,790,429	12,066,351
Accrued unbilled revenue	-	8,100,693	8,100,693
Accrued interest receivable	99,074	1,130,213	1,229,287
Inventories	725,189	625,435	1,350,624
Internal balances	43,702,482	(43,702,482)	-
Prepaid natural gas	-	397,361,470	397,361,470
Deposits and prepaid expenses	648,363	4,546,208	5,194,571
Restricted cash and investments	16,672,971	36,790,554	53,463,525
Note receivable	-	3,848,120	3,848,120
Bond issuance costs	2,330,904	13,089,132	15,420,036
Other assets	9,624,735	17,846,991	27,471,726
Escrow deposits	26,200,000	-	26,200,000
Capital assets:			
Nondepreciable	45,298,602	22,016,203	67,314,805
Depreciable, net	31,965,765	319,145,100	351,110,865
Total assets	<u>182,135,770</u>	<u>913,081,666</u>	<u>1,095,217,436</u>
LIABILITIES:			
Accounts payable	4,171,418	15,731,848	19,903,266
Accrued wages and benefits	1,477,577	315,159	1,792,736
Customer deposits and funds held for others	267,301	602,644	869,945
Unearned revenue	578,084	-	578,084
Bond interest	663,800	2,019,576	2,683,376
Long-term liabilities:			
Due within one year:			
Legal settlement payable	-	3,452,000	3,452,000
Bonds payable, net	44,345	25,137,547	25,181,892
Claims payable	1,517,345	-	1,517,345
Compensated absences	2,109,353	394,736	2,504,089
Due in more than one year:			
Legal settlement payable	-	1,614,667	1,614,667
Bonds payable, net	50,233,356	668,285,199	718,518,555
Claims payable	3,034,690	-	3,034,690
Total liabilities	<u>64,097,269</u>	<u>717,553,376</u>	<u>781,650,645</u>
NET ASSETS:			
Invested in capital assets, net of related debt	45,990,540	159,027,663	205,018,203
Restricted for:			
Grants	312,202	-	312,202
Debt service	3,389,700	35,972,139	39,361,839
Unrestricted	68,346,059	528,488	68,874,547
Total net assets	<u>\$ 118,038,501</u>	<u>\$ 195,528,290</u>	<u>\$ 313,566,791</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Program Revenues			Net (Expenses) Revenues and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	Total
FUNCTION/PROGRAM ACTIVITIES:						
Governmental activities:						
General government	\$ 12,554,529	\$ 3,131,122	\$ 272,107	\$ (9,151,300)	\$ -	\$ (9,151,300)
Public safety	20,333,160	4,430,699	-	(15,902,461)	-	(15,902,461)
Public works	5,338,251	1,929,272	-	(3,408,979)	-	(3,408,979)
Health services	1,398,458	1,377,440	-	(21,018)	-	(21,018)
Interest on long-term debt	1,962,574	-	-	(1,962,574)	-	(1,962,574)
Total governmental activities	<u>41,586,972</u>	<u>10,868,533</u>	<u>272,107</u>	<u>(30,446,332)</u>	<u>-</u>	<u>(30,446,332)</u>
Business-type activities:						
Light and power	151,788,112	138,057,770	-	-	(13,730,342)	(13,730,342)
Gas	11,791,046	11,054,332	-	-	(736,714)	(736,714)
Other	5,308,059	7,629,380	-	-	2,321,321	2,321,321
Total business-type activities	<u>168,887,217</u>	<u>156,741,482</u>	<u>-</u>	<u>-</u>	<u>(12,145,735)</u>	<u>(12,145,735)</u>
Total	<u>\$ 210,474,189</u>	<u>\$ 167,610,015</u>	<u>\$ 272,107</u>	<u>(30,446,332)</u>	<u>(12,145,735)</u>	<u>(42,592,067)</u>
General Revenues:						
Property taxes				8,175,103	-	8,175,103
Parcel taxes				6,913,355	-	6,913,355
Franchise taxes				1,605,002	-	1,605,002
Business license taxes				1,059,807	-	1,059,807
Other license taxes				154,772	-	154,772
Investment income				1,899,956	6,967,225	8,867,181
Net increase in fair value of investments				179,749	1,179,442	1,359,191
State contribution - sales and use taxes				5,078,317	-	5,078,317
Gain on sale of property				11,515,195	-	11,515,195
Swap termination gain				571,180	1,036,427	1,607,607
Other revenues				1,014,473	-	1,014,473
Transfers				<u>(1,834,173)</u>	<u>1,834,173</u>	<u>-</u>
Total general revenues and transfers				<u>36,332,736</u>	<u>11,017,267</u>	<u>47,350,003</u>
Change in net assets				5,886,404	(1,128,468)	4,757,936
NET ASSETS, BEGINNING OF YEAR				<u>112,152,097</u>	<u>196,656,758</u>	<u>308,808,855</u>
NET ASSETS, END OF YEAR				<u>\$ 118,038,501</u>	<u>\$ 195,528,290</u>	<u>\$ 313,566,791</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA

Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments	\$ 650,301	\$ 1,401,540	\$ 452,686	\$ 2,504,527
Receivables	739,562	712,707	823,653	2,275,922
Accrued interest receivable	5,459	93,615	-	99,074
Due from other funds	19,524,958	3,881,467	24,479,435	47,885,860
Advances to other funds	2,975,646	1,983,141	-	4,958,787
Inventories	725,189	-	-	725,189
Restricted cash and investments	332,681	16,340,290	-	16,672,971
Other assets	90,840	10,181,735	523	10,273,098
Escrow deposits	8,600,000	17,600,000	-	26,200,000
Total assets	<u>\$ 33,644,636</u>	<u>\$ 52,194,495</u>	<u>\$ 25,756,297</u>	<u>\$ 111,595,428</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 2,918,803	\$ 1,163,423	\$ 14,291	\$ 4,096,517
Accrued wages and benefits	1,471,915	-	5,662	1,477,577
Advances from other funds	-	-	19,739,432	19,739,432
Due to other funds	-	265,148	377,956	643,104
Customer deposits and funds held for others	267,301	-	-	267,301
Deferred revenue	943,143	-	446,461	1,389,604
Total liabilities	<u>5,601,162</u>	<u>1,428,571</u>	<u>20,583,802</u>	<u>27,613,535</u>
Fund balances:				
Reserved for:				
Federal forfeiture funds	312,202	-	-	312,202
Advances to other funds	2,975,646	-	-	2,975,646
Inventories	725,189	-	-	725,189
Encumbrances	2,736,011	1,163,423	14,251	3,913,685
Employee loans receivable	46,663	-	-	46,663
Debt service	-	3,389,700	-	3,389,700
Redevelopment projects	-	12,286,790	-	12,286,790
Unreserved	21,247,763	33,926,011	-	55,173,774
Unreserved, reported in nonmajor:				
Special revenue funds	-	-	22,731,888	22,731,888
Capital projects funds	-	-	(17,573,644)	(17,573,644)
Total fund balances	<u>28,043,474</u>	<u>50,765,924</u>	<u>5,172,495</u>	<u>83,981,893</u>
Total liabilities and fund balances	<u>\$ 33,644,636</u>	<u>\$ 52,194,495</u>	<u>\$ 25,756,297</u>	<u>\$ 111,595,428</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
 Reconciliation of the Governmental Funds Balance Sheet to the
 Statement of Net Assets - Governmental Activities
 June 30, 2007

Fund balances - total governmental funds (page 17)	\$	83,981,893
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		77,264,367
Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.		
Unamortized bond issuance costs		2,330,904
Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(2,109,353)
Internal service funds are used by management to charge the costs of employee benefits for health insurance, workers compensation, etc., to individual funds. The assets and liabilities of these funds are included in governmental activities in the statement of net assets		6,700,671
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund.		
Bonds payable		(49,420,000)
Bond interest payable		(663,800)
Unamortized bond premium		(857,701)
The City recognized uncollected property taxes that were earned but unavailable as of June 30, 2007.		<u>811,520</u>
Net assets of governmental activities (page 15)	\$	<u><u>118,038,501</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General Fund	Redevelopment Agency Funds	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 9,551,720	\$ 7,668,705	\$ 6,420,858	\$ 23,641,283
Special assessments	840,404	-	-	840,404
Licenses and permits	1,364,292	-	500,324	1,864,616
Fines, forfeitures and penalties	178,517	-	-	178,517
Investment income	232,452	1,847,253	-	2,079,705
Intergovernmental revenues	272,107	-	-	272,107
Charges for services to enterprise funds	8,710,449	-	-	8,710,449
Other revenues	1,324,890	-	57,965	1,382,855
Total revenues	<u>22,474,831</u>	<u>9,515,958</u>	<u>6,979,147</u>	<u>38,969,936</u>
EXPENDITURES:				
General government	14,454,372	210,963	272,260	14,937,595
Public safety	19,194,101	-	51,508	19,245,609
Public works	5,052,726	-	-	5,052,726
Health services	1,229,530	-	94,129	1,323,659
Capital outlay	3,114,509	4,287,018	3,882,043	11,283,570
Interest on bonds	-	2,006,919	-	2,006,919
Total expenditures	<u>43,045,238</u>	<u>6,504,900</u>	<u>4,299,940</u>	<u>53,850,078</u>
Excess (deficiency) of revenues over (under) expenditures	(20,570,407)	3,011,058	2,679,207	(14,880,142)
Other financing sources (uses):				
Proceeds from land	-	13,834,297	-	13,834,297
Sale of property	18,552,395	-	-	18,552,395
Swap termination proceeds	-	818,280	-	818,280
Transfers in	3,371,073	-	4,457,347	7,828,420
Transfers out	(2,870,349)	(7,642,244)	-	(10,512,593)
Total other financing sources (uses)	<u>19,053,119</u>	<u>7,010,333</u>	<u>4,457,347</u>	<u>30,520,799</u>
NET CHANGE IN FUND BALANCES	(1,517,288)	10,021,391	7,136,554	15,640,657
FUND BALANCES, BEGINNING OF YEAR, RESTATED	<u>29,560,762</u>	<u>40,744,533</u>	<u>(1,964,059)</u>	<u>68,341,236</u>
FUND BALANCES, END OF YEAR	<u>\$ 28,043,474</u>	<u>\$ 50,765,924</u>	<u>\$ 5,172,495</u>	<u>\$ 83,981,893</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2007

Net change in fund balances - total governmental funds (page 19)	\$	15,640,657
Amounts reported for governmental activities in the statement of activities are different because:		
Expenditures for capital assets	\$ 11,283,570	
Less current year depreciation	<u>(2,292,417)</u>	8,991,153
Change in long-term compensated absences		(1,180,828)
The effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.		
Sale of and gain on capital assets		(20,871,497)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		
		3,747,824
Other assets used in governmental activities do not consume current financial resources and therefore are not reported in the governmental fund.		
Change in unamortized bond issuance costs		(120,514)
Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Change in unamortized bond premium		44,345
Revenue timing differences result in less revenue in government-wide statement of activities.		
		<u>(364,736)</u>
Change in net assets of governmental activities (page 16)	\$	<u><u>5,886,404</u></u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Fund Net Assets (Deficit)
Proprietary Funds
June 30, 2007

	Business-type Activities Enterprise Funds				Governmental Activities - Internal Service Funds
	Light and Power	Other		Totals	
	Fund	Gas Fund	Enterprise Funds		
ASSETS:					
Current assets:					
Cash and investments	\$ 121,965,690	\$ -	\$ 527,910	\$ 122,493,600	\$ 87,236
Accounts receivable, net of allowances of \$1,050,000	9,765,689	20,045	4,695	9,790,429	-
Accrued unbilled revenue	7,602,014	-	498,679	8,100,693	-
Accrued interest receivable	1,130,213	-	-	1,130,213	-
Bond issuance costs	794,700	-	-	794,700	-
Due from other funds	-	-	9,777,953	9,777,953	14,237,856
Inventories	577,141	48,294	-	625,435	-
Prepaid natural gas	28,635,883	-	-	28,635,883	-
Deposits and prepaid expenses	4,546,208	-	-	4,546,208	-
Restricted cash and investments	20,032,600	-	-	20,032,600	-
Other assets	17,846,991	-	-	17,846,991	-
Total current assets	<u>212,897,129</u>	<u>68,339</u>	<u>10,809,237</u>	<u>223,774,705</u>	<u>14,325,092</u>
Noncurrent assets:					
Restricted cash and investments	16,757,954	-	-	16,757,954	-
Advances to other funds	45,321,078	-	-	45,321,078	-
Prepaid natural gas	368,725,587	-	-	368,725,587	-
Note receivable	3,848,120	-	-	3,848,120	-
Bond issuance costs	12,294,432	-	-	12,294,432	-
Capital assets:					
Nondepreciable	18,826,527	27,193	3,162,483	22,016,203	-
Depreciable, net	290,923,889	22,751,958	5,469,253	319,145,100	-
Total noncurrent assets	<u>756,697,587</u>	<u>22,779,151</u>	<u>8,631,736</u>	<u>788,108,474</u>	<u>-</u>
Total assets	<u>969,594,716</u>	<u>22,847,490</u>	<u>19,440,973</u>	<u>1,011,883,179</u>	<u>14,325,092</u>
LIABILITIES:					
Accounts payable	14,283,280	624,693	823,875	15,731,848	74,901
Accrued wages and benefits	246,241	6,068	62,850	315,159	-
Customer deposits	420,267	-	182,377	602,644	-
Due to other funds	60,862,536	4,236,690	3,161,854	68,261,080	2,997,485
Bond interest	2,019,576	-	-	2,019,576	-
Long-term liabilities:					
Due within one year:					
Claims payable	-	-	-	-	1,517,345
Legal settlement payable	3,452,000	-	-	3,452,000	-
Bonds payable, net	25,137,547	-	-	25,137,547	-
Compensated absences	273,833	3,389	117,514	394,736	-
Total current liabilities	<u>106,695,280</u>	<u>4,870,840</u>	<u>4,348,470</u>	<u>115,914,590</u>	<u>4,589,731</u>
Due in more than one year:					
Claims payable	-	-	-	-	3,034,690
Advances from other funds	-	25,238,575	5,301,858	30,540,433	-
Legal settlement payable	1,614,667	-	-	1,614,667	-
Bonds payable, net	668,285,199	-	-	668,285,199	-
Total noncurrent liabilities	<u>669,899,866</u>	<u>25,238,575</u>	<u>5,301,858</u>	<u>700,440,299</u>	<u>3,034,690</u>
Total liabilities	<u>776,595,146</u>	<u>30,109,415</u>	<u>9,650,328</u>	<u>816,354,889</u>	<u>7,624,421</u>
NET ASSETS:					
Invested in capital assets, net of related debt	127,616,776	22,779,151	8,631,736	159,027,663	-
Restricted for debt service	35,972,139	-	-	35,972,139	-
Unrestricted (deficit)	29,410,655	(30,041,076)	1,158,909	528,488	6,700,671
Total net assets (deficit)	<u>\$ 192,999,570</u>	<u>\$ (7,261,925)</u>	<u>\$ 9,790,645</u>	<u>\$ 195,528,290</u>	<u>\$ 6,700,671</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficit)
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	Business-type Activities Enterprise Funds			Totals	Governmental Activities - Internal Service Funds
	Light and Power Fund	Gas Fund	Other Enterprise Funds		
OPERATING REVENUES:					
Charges for services	\$ 138,057,770	\$ 11,054,332	\$ 7,629,380	\$ 156,741,482	\$ 11,602,140
Total operating revenues	<u>138,057,770</u>	<u>11,054,332</u>	<u>7,629,380</u>	<u>156,741,482</u>	<u>11,602,140</u>
OPERATING EXPENSES:					
Cost of sales	111,946,823	11,191,459	4,920,243	128,058,525	-
Depreciation and amortization	11,614,663	599,587	387,816	12,602,066	-
Claims expense	-	-	-	-	1,739,022
Employee benefits	-	-	-	-	6,965,294
Total operating expenses	<u>123,561,486</u>	<u>11,791,046</u>	<u>5,308,059</u>	<u>140,660,591</u>	<u>8,704,316</u>
Operating income (loss)	14,496,284	(736,714)	2,321,321	16,080,891	2,897,824
NONOPERATING REVENUE (EXPENSES):					
Investment income	6,967,225	-	-	6,967,225	-
Net increase in fair value of investments	1,179,442	-	-	1,179,442	-
Interest expense	(28,226,626)	-	-	(28,226,626)	-
Swap termination gain	1,036,427	-	-	1,036,427	-
Total nonoperating expenses	<u>(19,043,532)</u>	<u>-</u>	<u>-</u>	<u>(19,043,532)</u>	<u>-</u>
Income (loss) before transfers	(4,547,248)	(736,714)	2,321,321	(2,962,641)	2,897,824
Transfers in	5,205,246	-	-	5,205,246	850,000
Transfers out	(3,147,704)	-	(223,369)	(3,371,073)	-
Change in net assets	<u>(2,489,706)</u>	<u>(736,714)</u>	<u>2,097,952</u>	<u>(1,128,468)</u>	<u>3,747,824</u>
Net assets (deficit), beginning of the year	<u>195,489,276</u>	<u>(6,525,211)</u>	<u>7,692,693</u>	<u>196,656,758</u>	<u>2,952,847</u>
Net assets (deficit), end of the year	<u>\$ 192,999,570</u>	<u>\$ (7,261,925)</u>	<u>\$ 9,790,645</u>	<u>\$ 195,528,290</u>	<u>\$ 6,700,671</u>

See accompanying notes to the basic financial statements.

CITY OF VERNON
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Light & Power Fund	Other			
	Gas Fund	Enterprise Funds	Total		
Cash flows from operating activities:					
Cash received from customers/other funds	\$ 211,185,066	\$ 15,222,683	\$ 677,242	\$ 227,084,991	\$ 287,654
Cash paid to suppliers for goods and services	(98,496,177)	(13,887,012)	(5,229,516)	(117,612,705)	-
Cash paid to City general fund for services	(8,301,118)	-	(409,311)	(8,710,429)	-
Cash paid for claims expense and employee benefits	(9,933,333)	-	-	(9,933,333)	(11,509,727)
Net cash provided by (used in) operating activities	<u>94,454,438</u>	<u>1,335,671</u>	<u>(4,961,585)</u>	<u>90,828,524</u>	<u>(11,222,073)</u>
Cash flows from noncapital financing activities:					
Transfers received (paid)	2,057,544	-	(223,369)	1,834,175	850,000
Advances from (to) other funds	(13,661)	13,661	-	-	-
Collection of note receivable	265,831	-	-	265,831	-
Net cash provided by (used in) noncapital financing activities	<u>2,309,714</u>	<u>13,661</u>	<u>(223,369)</u>	<u>2,100,006</u>	<u>850,000</u>
Cash flows from capital and related financing activities:					
Repayment of 2004 bonds	(3,975,000)	-	-	(3,975,000)	-
Bond interest paid	(26,815,804)	-	-	(26,815,804)	-
Acquisition and construction of capital assets	(25,408,997)	(2,178,727)	(849,099)	(28,436,823)	-
Net cash used in capital and related financing activities	<u>(56,199,801)</u>	<u>(2,178,727)</u>	<u>(849,099)</u>	<u>(59,227,627)</u>	<u>-</u>
Cash flows from investing activities:					
Purchases and sales of investments, net	(11,788,028)	-	-	(11,788,028)	-
Investment income	6,982,358	-	-	6,982,358	-
Net cash used in investing activities	<u>(4,805,670)</u>	<u>-</u>	<u>-</u>	<u>(4,805,670)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	35,758,681	(829,395)	(6,034,053)	28,895,233	(10,372,073)
Cash and cash equivalents, beginning of year	20,199,569	829,395	6,561,963	27,590,927	10,459,309
Cash and cash equivalents, end of year	<u>\$ 55,958,250</u>	<u>\$ -</u>	<u>\$ 527,910</u>	<u>\$ 56,486,160</u>	<u>\$ 87,236</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ 14,496,284	\$ (736,714)	\$ 2,321,321	16,080,891	\$ 2,897,824
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation and amortization	11,614,663	599,587	387,816	12,602,066	-
Provision for doubtful accounts	(350,000)	-	-	(350,000)	-
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Accounts receivable	4,359,955	(20,045)	(7,550)	4,332,360	-
Other receivables	7,133,835	-	-	7,133,835	-
Inventories	(495,661)	(48,294)	-	(543,955)	-
Prepaid expenses and deposits	(4,074,510)	-	-	(4,074,510)	-
Other assets	(1,069,009)	-	-	(1,069,009)	-
Increase (decrease) in:					
Accounts payable	4,938,681	(2,697,471)	(557,863)	1,683,347	1,127
Claims/Legal Settlement payable	(9,933,333)	-	-	(9,933,333)	(2,806,538)
Accrued wages and benefits	31,945	98	(458)	31,585	-
Due (to) from other funds	67,622,686	4,236,690	(6,944,588)	64,914,788	(11,314,486)
Customer deposits	47,991	-	(222,100)	(174,109)	-
Compensated absences	130,911	1,820	61,837	194,568	-
Net cash provided by (used in) operating activities	<u>\$ 94,454,438</u>	<u>\$ 1,335,671</u>	<u>\$ (4,961,585)</u>	<u>\$ 90,828,524</u>	<u>\$ (11,222,073)</u>
Reconciliation of cash and cash equivalents to Statement of Net Assets					
Cash and investments	\$ 121,965,690	\$ -	\$ 527,910	\$ 122,493,600	\$ 87,236
Current restricted cash and investments	20,032,600	-	-	20,032,600	-
Noncurrent restricted cash and investments	16,757,954	-	-	16,757,954	-
Total	<u>158,756,244</u>	<u>-</u>	<u>527,910</u>	<u>159,284,154</u>	<u>87,236</u>
Less: Investments with maturities of more than 90 days	<u>(102,797,994)</u>	<u>-</u>	<u>-</u>	<u>(102,797,994)</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 55,958,250</u>	<u>\$ -</u>	<u>\$ 527,910</u>	<u>\$ 56,486,160</u>	<u>\$ 87,236</u>
Noncash Capital, Investing and Financing Activities					
Acquisition of capital assets in accounts payable	\$ 7,877,656	\$ -	\$ -	\$ 7,877,656	\$ -
Increase in fair value of investments	1,034,361	-	-	1,034,361	-

See accompanying notes to the basic financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government. As required by generally accepted accounting principles, the accompanying basic financial statements present the City of Vernon (primary government) and its component units, entities for which the primary government is considered to be financially accountable. In accordance with GASB Statement No. 14, the City's component units are considered blended component units. Although legally separate entities, they are, in substance, part of the City's operations, and therefore, data from these units are combined with data of the primary government.

Blended Component Units

Vernon Redevelopment Agency (RDA). The governing body of the RDA is comprised of members of the City Council and the Mayor. Among its duties, it approves the RDA's budget and appoints the management.

Separately issued financial statements for the RDA may be obtained through the City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

Vernon Natural Gas Financing Authority

On April 1, 2006, the City and the RDA created the Vernon Natural Gas Financing Authority (Authority) pursuant to the Joint Powers Agreement, for the express purpose of undertaking projects and programs that promote economic development within the City. Such projects and programs include assisting the City in procuring natural gas for use as fuel for electric generating units that are part of the City's Electric System, which is accounted for in the City's Light and Power fund. During the year ended June 30, 2006, the Authority issued \$430,845,000 in variable rate bonds and subsequently purchased natural gas in accordance with the Natural Gas Agreement between the Authority and the City. As a result of this financing arrangement, the debt and related asset (prepaid natural gas) associated with the Authority have been blended with the City's Light and Power fund for financial reporting purposes.

Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government. It is the City's policy to make eliminations to minimize the double counting of internal activities, except for services rendered by governmental activities to business-type activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function; and therefore, are clearly identifiable to a particular function. Expenses by function have been adjusted for any internal service profit/loss existing at fiscal year-end. Program revenues include (1) charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

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

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

The City reports the following major governmental funds:

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

The *Vernon Redevelopment Agency* was activated September 16, 1986, by action of the Vernon City Council pursuant to the Community Redevelopment Law of California. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. Additionally, the Agency has the right of eminent domain to facilitate acquisition of property. The principal objectives of the Agency are to improve the commercial environment, provide new public improvements, strengthen the City's economic base, generate added employment opportunities, and expand the City's industrial base.

The City reports the following major enterprise funds:

- The *Light and Power Fund* accounts for the maintenance and operations of the City's electric utility plant. Revenue for this fund is primarily from charges for services.
- The *Gas Fund* accounts for maintenance and operations of the City's gas utility system. Revenue for this fund is primarily from charges for services.

Additionally, the City reports the following fund types:

- The City's *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- The City's *Capital Projects Funds* are used to account for financial resources designated for the acquisition or construction of major capital facilities other than those financed by proprietary fund types.

- The City's *Internal Service Funds* are specifically designed to account for goods and services that are provided on a cost-reimbursement basis to other City funds. That is, the goal of an internal service fund should be to measure the full cost of providing goods and services for the purpose of fully recovering that cost through fees or charges. Some examples of the City's services accounted for in the internal service funds are self-insurance activities for worker's compensation, general liability, group medical and dental, and vehicle replacement. The Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. In the government-wide financial statements, the changes in net assets for the fiscal year, as presented in the statements of activities, were allocated to the user functions of the governmental activities, to reflect the entire activity for the year. Since the predominant users of the internal services are the City's governmental activities, the asset and liability balances of the Internal Service Funds are consolidated into the governmental activities column at the government-wide level.

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

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

For the government-wide financial statements and proprietary fund financial statements, the City has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to adopt FASB pronouncements issued after November 30, 1989 for its government-wide and enterprise fund financial statements.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources, as they are needed.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Deposits and Investments

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

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

Interfund Receivables/Payables

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

Inventories

Inventories consist of consumable supplies and fuel stock, which are stated at cost on a first-in, first-out basis. The cost of inventories is recorded as an expenditures/expense when the items are used.

Capital Assets

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

The estimated useful lives are as follows:

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

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the changes in financial position. For tax-exempt securities, interest income and expense associated with construction of capital assets is capitalized during the construction phase up until the capital asset is substantially complete and ready for its intended use.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

Deferred/Unearned Revenue

Deferred revenue arises when a potential revenue transaction does not meet the "available" criteria for recognition in the current period. Unearned revenue arises when resources are received before the City has a legal claim to them, as when grant monies are received in advance of incurring qualified expenditures.

Long-term Obligations

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

Net Assets

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

- ❑ Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- ❑ Restricted Net Assets – 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 Assets – This category represents net assets of the City not restricted for any project or other purpose.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not appropriable or legally restricted for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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

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

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

GASB Pronouncements

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ended June 30, 2007. The City has not established an OPEB Trust Fund, as defined under the standard, to administer its postemployment benefits.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 125,085,363
Restricted cash and investments	<u>53,463,525</u>
Total cash and investments	<u><u>\$ 178,548,888</u></u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	12,530,033
Investments	<u>166,017,555</u>
Total cash and investments	<u><u>\$ 178,548,888</u></u>

The City's Investment Policy

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

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

The Investment Policy also requires that when following the investing actions cited above, that 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 risk of loss on the City's investments from:

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

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of *Portfolio	Maximum Investment in One Issuer
Securities of the U.S. Government, or it agencies	None	None	None
Certain Asset-Backed Securities	None	None	None
Certificates of Deposit	None	30%	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	None	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
State Administered Pool Investment	N/A	None	None

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

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Securities of the U.S. Government, or it agencies	None	None	None
Certain Asset-Backed Securities	None	None	None
Certificates of Deposit	None	None	None
Bankers' Acceptances	1 year	None	None
Commercial Paper	None	None	None
Money Market Mutual Funds	N/A	None	None
State Administered Pool Investment	N/A	None	None
Investment Contracts	None	None	None

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

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 monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

Investment Type	Amount	Weighted Average Maturity (in years)	% of Total
Commercial Paper	\$ 2,399,648	0.01	1.45%
Local Agency Investment Fund	529,759	0.48	0.32%
United States Treasury Notes	19,707,406	2.67	11.87%
Federal Farm Credit Bank	8,440,000	2.27	5.08%
Federal Home Loan Bank	23,591,563	1.29	14.21%
Federal National Mortgage Association	4,912,500	1.21	2.96%
Federal Home Loan Mortgage Corporation	18,034,688	1.00	10.86%
Money Market Mutual Fund	55,838,662	-	33.63%
Investment Contracts	32,563,329	18.98	19.62%
	<u>\$ 166,017,555</u>	2.94	<u>100.00%</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk

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

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2007	% of Total
In custody of Treasurer:				
Cash on hand	Not Rated	Not Rated	\$ 1,300	0.00%
Deposits with financial institutions	Not Rated	Not Rated	12,530,033	7.02%
Investments held by Treasurer:				
Commercial Paper	P-1 / A-1	P-1 / A-1	2,399,648	1.34%
Local Agency Investment Fund	Not Rated	Not Rated	529,759	0.30%
Total in custody of Treasurer			15,460,740	8.66%
In custody of Trustee:				
Investments held by Trustee:				
United States Treasury Notes	Not Rated	Not Rated	19,707,406	11.04%
Federal Farm Credit Bank	Aaa / AAA	Aaa / AAA	8,440,000	4.73%
Federal Home Loan Bank	Aaa / AAA	Aaa / AAA	23,591,563	13.21%
Federal National Mortgage Association	Aaa / AAA	Aaa / AAA	4,912,500	2.75%
Federal Home Loan Mortgage Corporation	Aaa / AAA	Aaa / AAA	18,034,688	10.10%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	55,838,662	31.27%
Investment Contracts	Not Rated	Not Rated	32,563,329	18.24%
Total in custody of Trustee			163,088,148	91.34%
Total cash and investments held by Treasurer and Trustee			\$ 178,548,888	100.00%

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The City's Investment Policy places no limit on the amount the City may invest in any one issuer excluding a 10% limitation on commercial paper, mutual funds, and money market mutual funds. As of June 30, 2007, there was no investment in any one issuer that represented 10% or more of the City's total investments. As of June 30, 2007, the City's investments in any one issuer exceeding 5% were as follows:

	Minimum Required Rating	Actual Credit Rating Moody's / S&P	Fair Value as of June 30, 2007	% of Total
United States Treasury Notes	Not Rated	Not Rated	\$ 19,707,406	11.04%
Federal Home Loan Bank	Aaa / AAA	Aaa / AAA	23,591,563	13.21%
Federal Home Loan Mortgage Corporation	Aaa / AAA	Aaa / AAA	18,034,688	10.10%
Money Market Mutual Fund	Aaa / AAA	Aaa / AAA	55,838,662	31.27%
Investment Contracts	Not Rated	Not Rated	32,563,329	18.24%

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.

At year-end, the carrying amount of the City's deposits was \$12,530,033 and the bank balance was \$13,050,894. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, \$200,000 was covered by federal depository insurance and \$12,850,894 was collateralized by the pledging financial institution as required by Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 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.

Local Agency Investment Fund (LAIF)

The Agency maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$529,759 at June 30, 2007. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the Agency's position in the pool.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The total amount invested by all public agencies in LAIF at June 30, 2007 was \$19,736,253,304. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$66,051,251,287 at June 30, 2007. Of this amount, 3.466% was invested in structured notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 0.48 years as of June 30, 2007. LAIF does not maintain a credit rating.

NOTE 3 - RECEIVABLES

The City's receivables at June 30, 2007 are as follows:

Receivables - Governmental Activities:	General Fund	Redevelopment Agency Fund	Other Governmental Funds	Total Governmental Activities
Accounts	\$ 77,977	\$ -	\$ -	\$ 77,977
Taxes	604,807	712,707	823,653	2,141,167
Notes or loans	56,778	-	-	56,778
Total receivables	<u>\$ 739,562</u>	<u>\$ 712,707</u>	<u>\$ 823,653</u>	<u>\$ 2,275,922</u>

Receivables - Business-type Activities:	Light and Power Fund	Gas Fund	Other Enterprise Funds	Total Business-type Activities
Accounts	\$ 10,815,689	\$ 20,045	\$ 4,695	\$ 10,840,429
Allowances	(1,050,000)	-	-	(1,050,000)
Total receivables	<u>\$ 9,765,689</u>	<u>\$ 20,045</u>	<u>\$ 4,695</u>	<u>\$ 9,790,429</u>

The business-type activities allowances for doubtful accounts consists of \$1,000,000 reserved for the California Power Exchange (See Note 13) and \$50,000 reserved for all other doubtful accounts of Light and Power Fund's retail utility customers.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 4 – INTERFUND TRANSACTIONS

The following tables summarize the City’s interfund balances and transactions at June 30, 2007:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Redevelopment Agency Fund	\$ 265,148
	Other Governmental Funds	377,956
	Internal Service Funds	2,997,485
	Light and Power Fund	8,485,825
	Gas Fund	4,236,690
	Other Enterprise Funds	3,161,854
		<u>\$ 19,524,958</u>
Redevelopment Agency Fund	Light and Power Fund	\$ 3,881,467
		<u>\$ 3,881,467</u>
Other Governmental Funds	Light and Power Fund	\$ 24,479,435
		<u>\$ 24,479,435</u>
Internal Service Funds	Light and Power Fund	\$ 14,237,856
		<u>\$ 14,237,856</u>
Other Enterprise Funds	Light and Power Fund	\$ 9,777,953
		<u>\$ 9,777,953</u>

The above balances represent interfund borrowings payable due within one year.

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Enterprise Funds	\$ 2,975,646
		<u>\$ 2,975,646</u>
Redevelopment Agency Fund	Other Enterprise Funds	\$ 1,983,141
		<u>\$ 1,983,141</u>
Light and Power Fund	Gas Fund	\$ 25,238,575
	Other Governmental Funds	19,739,432
	Other Enterprise Funds	343,071
		<u>\$ 45,321,078</u>

The above balances represent interfund borrowings payable beyond one year.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 4 – INTERFUND TRANSACTIONS (CONTINUED)

Transfers

<u>Transfers In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Light and Power Fund	\$ 3,147,704
	Other Enterprise Funds	223,369
		<u>\$ 3,371,073</u>
Internal Service Funds	General Fund	\$ 850,000
		<u>\$ 850,000</u>
Other Governmental Funds	Redevelopment Agency Fund	\$ 4,457,347
		<u>\$ 4,457,347</u>
Light and Power Fund	General Fund	\$ 2,020,349
	Redevelopment Agency Fund	3,184,897
		<u>\$ 5,205,246</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or move revenues collected in certain enterprise funds to the General Fund to cover overhead costs provided by the General Fund and for the payment of in-lieu franchise taxes.

For the current year, the Light and Power Fund and the Other Enterprise Funds transferred a total of \$3,371,073 for in-lieu franchise taxes.

For the current year, the General Fund transferred \$850,000 to the Internal Service Funds for the payment of claims.

For the current year, the City elected to have the Redevelopment Agency Fund transfer \$4,457,347 to the Other Governmental Funds and \$3,184,897 to the Light and Power Fund for the purpose of financing various redevelopment projects in or benefiting the Agency's Industrial Redevelopment Project area.

For the current year, the General Fund transferred \$2,020,349 to the Light and Power Fund for expenses incurred in connection with the construction of the Vernon Power Plant.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset activity of governmental activities for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2007
<u>Governmental activities:</u>					
<i>Capital assets, not being depreciated:</i>					
				*	
Land - General Fund	\$ 48,683,293	\$ 938,668	\$ (12,469,823)	\$ (8,600,000)	\$ 28,552,138
Land - Redevelopment Agency Fund (RDA)	12,352,402	6,999	-	-	12,359,401
Total land	61,035,695	945,667	(12,469,823)	(8,600,000)	40,911,539
Construction in progress - General Fund	3,424,180	-	-	-	3,424,180
Construction in progress - RDA	962,883	-	-	-	962,883
Total construction in progress	4,387,063	-	-	-	4,387,063
Total capital assets, not being depreciated	65,422,758	945,667	(12,469,823)	(8,600,000)	45,298,602
<i>Capital assets, being depreciated</i>					
Infrastructure - General Fund	24,284,738	100,321	-	-	24,385,059
Infrastructure - RDA	-	4,280,019	-	1,755,498	6,035,517
Building and Improvements - General Fund	15,836,515	4,296,320	-	(9,432,589)	10,700,246
Building and Improvements - RDA	1,768,021	-	-	(1,768,021)	-
Improvements O/T Buildings - General Fund	-	-	-	9,432,589	9,432,589
Improvements O/T Buildings - RDA	-	-	-	12,523	12,523
Machinery and Equipment - General Fund	13,343,808	1,632,295	-	(926,665)	14,049,438
Machinery and Equipment - Other Gov't Fund	-	28,948	-	926,665	955,613
Total capital assets, being depreciated	55,233,082	10,337,903	-	-	65,570,985
Less accumulated depreciation for:					
Infrastructure - General Fund	(18,280,908)	(605,365)	-	-	(18,886,273)
Infrastructure - RDA	-	(76,698)	-	(21,944)	(98,642)
Building and Improvements - General Fund	(5,910,298)	(187,267)	-	2,034,891	(4,062,674)
Building and Improvements - RDA	(22,100)	-	-	22,100	-
Improvements O/T Building - General Fund	-	(221,428)	-	(2,034,891)	(2,256,319)
Improvements O/T Building - RDA	-	(313)	-	(156)	(469)
Machinery and Equipment - General Fund	(7,099,497)	(1,133,728)	-	216,854	(8,016,371)
Machinery and Equipment - Other Gov't Fund	-	(67,618)	-	(216,854)	(284,472)
Total accumulated depreciation	(31,312,803)	(2,292,417)	-	-	(33,605,220)
Total capital assets, being depreciated, net					
Infrastructure - General Fund	6,003,830	(505,044)	-	-	5,498,786
Infrastructure - RDA	-	4,203,321	-	1,733,554	5,936,875
Building and Improvements - General Fund	9,926,217	4,109,053	-	(7,397,698)	6,637,572
Building and Improvements - RDA	1,745,921	-	-	(1,745,921)	-
Improvements O/T Building - General Fund	-	(221,428)	-	7,397,698	7,176,270
Improvements O/T Building - RDA	-	(313)	-	12,367	12,054
Machinery and Equipment - General Fund	6,244,311	498,567	-	(709,811)	6,033,067
Machinery and Equipment - Other Gov't Fund	-	(38,670)	-	709,811	671,141
Total	23,920,279	8,045,486	-	-	31,965,765
Governmental activities capital assets, net	\$ 89,343,037	\$ 8,991,153	\$ (12,469,823)	\$ (8,600,000)	\$ 77,264,367

* See Note 17.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

In the current year, the General Fund sold two parcels of land which originally cost \$12,469,823 for \$18,552,395.

The construction in progress accounts concerning the General Fund and the Redevelopment Agency Fund were put on hold indefinitely pending licensing of the Vernon Power Plant's oil refinery, solid waste disposal transfer station, and the renewal energy diesel facility.

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 844,542
Public safety	1,087,551
Public works	285,525
Health services	74,799
	<hr/>
Total depreciation expense - governmental functions	<u>\$ 2,292,417</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Capital asset activity of business-type activities for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Transfers & Adjustments	Balance June 30, 2007
<u>Business-type activities:</u>					
<i>Capital assets, not being depreciated:</i>					
Land - Water	\$ 45,000	\$ -	\$ -	\$ -	\$ 45,000
Construction in progress -					
Light and Power	13,580,996	5,245,532	-	(1)	18,826,527
Construction in progress - Water	837,262	-	-	-	837,262
Construction in progress - Gas	-	27,193	-	-	27,193
Construction in progress - Fiber Optic	2,280,220	-	-	1	2,280,221
Total capital assets, not being depreciated	<u>16,743,478</u>	<u>5,272,725</u>	<u>-</u>	<u>-</u>	<u>22,016,203</u>
<i>Capital assets, being depreciated</i>					
Production plant - Light and Power	10,700,114	152,689	-	-	10,852,803
Transmission plant - Light and Power	65,660,903	154,869	-	-	65,815,772
Distribution plant - Light and Power	50,667,678	27,541,479	-	32,208,890	110,418,047
General plant - Light and Power	4,874,070	192,084	-	-	5,066,154
Malburg Generating Station plant -					
Light and Power	208,352,126	-	-	(32,208,890)	176,143,236
Buildings - Light and Power	481,800	-	-	-	481,800
Water utility plant	14,831,662	849,099	-	-	15,680,761
Gas utility plant	21,485,369	2,151,534	-	-	23,636,903
Fiber Optic utility plant	753,280	-	-	-	753,280
Total capital assets, being depreciated	<u>377,807,002</u>	<u>31,041,754</u>	<u>-</u>	<u>-</u>	<u>408,848,756</u>
Less accumulated depreciation for:					
Production plant - Light and Power	(5,867,732)	(417,037)	-	(1,506,667)	(7,791,436)
Transmission plant - Light and Power	(36,729,315)	(2,283,861)	-	6,806,582	(32,206,594)
Distribution plant - Light and Power	(19,652,941)	(3,164,536)	-	(4,437,911)	(27,255,388)
General plant - Light and Power	(2,260,882)	(173,888)	-	(1,264,612)	(3,699,382)
Malburg Generating Station plant -					
Light and Power	(2,604,402)	(4,403,581)	-	402,612	(6,605,371)
Buildings - Light and Power	(279,288)	(16,464)	-	-	(295,752)
Water utility plant	(10,558,139)	(350,152)	-	(1)	(10,908,292)
Gas utility plant	(285,358)	(599,587)	-	-	(884,945)
Fiber Optic utility plant	(18,832)	(37,664)	-	-	(56,496)
Total accumulated depreciation	<u>(78,256,889)</u>	<u>(11,446,770)</u>	<u>-</u>	<u>3</u>	<u>(89,703,656)</u>
Total capital assets, being depreciated, net					
Production plant - Light and Power	4,832,382	(264,348)	-	(1,506,667)	3,061,367
Transmission plant - Light and Power	28,931,588	(2,128,992)	-	6,806,582	33,609,178
Distribution plant - Light and Power	31,014,737	24,376,943	-	27,770,979	83,162,659
General plant - Light and Power	2,613,188	18,196	-	(1,264,612)	1,366,772
Malburg Generating Station plant -					
Light and Power	205,747,724	(4,403,581)	-	(31,806,278)	169,537,865
Buildings - Light and Power	202,512	(16,464)	-	-	186,048
Water utility plant	4,273,523	498,947	-	(1)	4,772,469
Gas utility plant	21,200,011	1,551,947	-	-	22,751,958
Fiber Optic utility plant	734,448	(37,664)	-	-	696,784
Total	<u>299,550,113</u>	<u>19,594,984</u>	<u>-</u>	<u>3</u>	<u>319,145,100</u>
Business-type activities capital assets, net	<u>\$ 316,293,591</u>	<u>\$ 24,867,709</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 341,161,303</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

The construction in progress account concerning the Water Fund was put on hold indefinitely pending licensing of the Vernon Power Plant’s oil refinery, solid waste disposal transfer station, and the renewal energy diesel facility.

The construction in progress account concerning the Fiber Optic Fund was placed on hold while services are being provided to few customers on a test basis. The City expects the Fiber Optic Fund’s construction in progress to be completed during fiscal year 2008.

In constructing the Malburg Generating Station plant, various antiquated substations and distribution systems were upgraded to handle larger electrical capacity and capitalized to Malburg Generating Station plant. During the current year, such upgrades were reclassified to distribution plant to segregate the cost associated with the upgraded substations and distribution systems from the Malburg Generating Station plant.

Depreciation

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

Light and Power depreciation	\$ 10,459,367
Gas Fund depreciation	599,587
Other Enterprise Fund depreciation	387,816
Total depreciation expense - business-type functions	<u>\$ 11,446,770</u>

NOTE 6 – LONG-TERM OBLIGATIONS

During the fiscal year 2006, a total of \$480,265,000 in long-term obligations were issued consisting of the following:

- \$49,420,000 Redevelopment Agency of the City of Vernon Industrial Redevelopment Project Tax Allocation Bonds, Series 2005
- \$200,000,000 Vernon Natural Gas Financing Authority Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series A
- \$115,440,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series B, and
- \$115,405,000 Vernon Gas Project Variable Rate Revenue Bonds, 2006 Series C

The Industrial Redevelopment Project Tax Allocation Bonds, Series 2005 were issued to provide funds to (i) finance various redevelopment projects in or benefiting the Agency’s Industrial Redevelopment Project area, (ii) fund the reserve requirement for the Series 2005 Bonds, and (iii) pay the costs of issuance related to the Series 2005 Bonds.

The Vernon Gas Project 2006 Variable Rate Revenue Bonds were issued to provide funds to (i) finance a portion of the purchase by the City of a fifteen-year, prepaid supply of natural gas from Citigroup Energy Inc. pursuant to an Agreement for Purchase and Sale of Natural Gas, between the City and Citigroup Energy Inc.; and (ii) pay the costs of issuing the 2006 Bonds.

During the fiscal year 2005, the City issued \$90,150,000, 2004 Series A, \$83,575,000, 2004 Series B, \$39,875,000, 2004 Series C, and \$69,100,000, 2004 Series D, Electric System Revenue Bonds. The 2004 Bonds were issued to provide funds (i) to refund \$162,610,000 of outstanding Electric System Revenue Bonds of the City; (ii) to finance the costs of improvements to the City’s substation and distribution facilities and certain costs of completion of the City’s Malburg Generating Station; (iii) to finance the reimbursement to the City of certain costs incurred in connection with the City’s electric system facilities; (iv) to fund a deposit to the Debt Service Reserve Fund; and (v) to pay the costs of issuance of the 2004 Bonds.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

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

Bonds	Maturity	Interest Rates*	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2007
<i>Electric System Revenue Bonds, 2004 Series A</i>	04/01/37	Variable	To begin 04/01/29: \$2,000,000 - \$12,925,000	\$ 90,150,000	\$ 90,150,000
<i>Electric System Revenue Bonds, 2004 Series B</i>	04/01/29	Variable	To begin 04/01/18: \$50,000 - \$9,525,000	83,575,000	83,575,000
<i>Electric System Revenue Bonds, 2004 Series C</i>	04/01/39	Variable	To begin 04/01/37: \$11,500,000 - \$14,400,000	39,875,000	39,875,000
<i>Electric System Revenue Bonds, 2004 Series D</i>	04/01/18	Variable	\$4,175,000 - \$6,525,000	69,100,000	57,850,000
<i>RDA Industrial Redevelopment Project Tax Allocation Bonds, 2005 Series</i>	09/01/35	Fixed	To begin 09/01/09: \$1,160,000 - \$3,460,000	49,420,000	49,420,000
<i>Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series A</i>	08/01/21	Variable	To begin 08/01/07: \$9,950,000 - \$17,300,000	200,000,000	200,000,000
<i>Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series B</i>	08/01/21	Variable	To begin 08/01/07: \$5,710,000 - \$10,070,000	115,440,000	115,440,000
<i>Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series C</i>	08/01/21	Variable	To begin 08/01/07: \$5,710,000 - \$10,070,000	115,405,000	115,405,000
<i>Premium</i>					857,701
<i>Discount</i>					(1,485,254)
<i>Deferred amount on refunding</i>					(7,387,000)
<i>Total Revenue Bonds</i>				<u>\$ 762,965,000</u>	<u>\$ 743,700,447</u>

*The Series 2004 Bonds variable rate is set periodically through an auction process. Rates on the 2004A and 2004B bonds are reset through an auction process every 7 days. Rates on the 2004C and 2004D bonds are reset through an auction process every 28 days. Rates on the Series 2005 Bonds are fixed rates ranging from 3.25% to 5.25%. Rates on the 2006A Bonds are based on 7-day Auction Periods. Rates on the 2006B and 2006C Bonds are based on a Weekly Interest Rate determined by Citigroup Global Markets, Inc. utilizing best efforts to remarket the 2006B and 2006C Bonds, which are subject to optional and mandatory tender.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

As of June 30, 2007, annual debt service requirements of business-type activities to maturity are as follows:

Fiscal year ending June 30:	Electric System Revenue Bonds Payable	
	Principal	Interest*
2008	\$ 4,175,000	\$ 11,172,242
2009	4,350,000	10,950,808
2010	4,550,000	10,719,938
2011	4,775,000	10,478,315
2012	4,775,000	10,226,815
2013-2017	28,700,000	46,949,226
2018-2022	35,350,000	39,312,650
2023-2027	42,650,000	31,923,589
2028-2032	51,475,000	23,062,938
2033-2037	62,275,000	12,240,248
2038-2039	28,375,000	1,419,110
Total requirements	<u>\$ 271,450,000</u>	<u>\$ 208,455,879</u>

* As of June 30, 2007, interest on the 2004 Series A, B, and C was calculated at the June 30, 2007 BMA rate of 3.730%. Interest on the 2004 Series D was calculated at the June 30, 2007 one month LIBOR rate of 5.3200%. For additional disclosure on interest rate swaps see Note 7.

Fiscal year ending June 30:	Industrial Redevelopment Project Tax Allocation Bonds Payable	
	Principal	Interest*
2008	\$ -	\$ 2,229,266
2009	-	2,229,266
2010	1,160,000	2,210,956
2011	1,285,000	2,172,364
2012	1,380,000	2,128,574
2013-2017	6,970,000	9,894,360
2018-2022	7,840,000	8,294,679
2023-2027	7,200,000	6,503,418
2028-2032	10,960,000	4,470,563
2033-2036	12,625,000	1,292,339
	<u>\$ 49,420,000</u>	<u>\$ 41,425,785</u>

* As of June 30, 2007, debt service was calculated based upon the fixed coupon rates of the bonds ranging from 3.25% to 5.25%. For additional disclosure on basis swap see Note 7.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

Fiscal year ending June 30:	Variable Rate Revenue Bonds Payable	
	Principal	Interest*
2008	\$ 21,370,000	\$ 16,758,853
2009	22,330,000	15,859,294
2010	23,135,000	14,926,024
2011	24,055,000	13,956,204
2012	24,925,000	12,950,727
2013-2017	141,730,000	48,070,489
2018-2022	173,300,000	15,798,208
Total requirements	<u>\$ 430,845,000</u>	<u>\$ 138,319,799</u>

* As of June 30, 2007, debt service for 2006 Series A, B, and C was calculated at the June 30, 2007 BMA rate of 3.730%. For additional disclosure on interest rate swaps see Note 7.

Changes in long-term liabilities

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
<u>Governmental activities:</u>					
Bonds payable	\$ 49,420,000	\$ -	\$ -	\$ 49,420,000	\$ -
Bond premium	902,046	-	(44,345)	857,701	44,345
Claims payable	7,358,573	992,028	(3,798,566)	4,552,035	1,517,345
Compensated absences	928,525	2,109,353	(928,525)	2,109,353	2,109,353
	<u>\$ 58,609,144</u>	<u>\$ 3,101,381</u>	<u>\$ (4,771,436)</u>	<u>\$ 56,939,089</u>	<u>\$ 3,671,043</u>
<u>Business-type activities:</u>					
Bonds payable	\$ 706,270,000	\$ -	\$ (3,975,000)	\$ 702,295,000	\$ 25,545,000
Bond discount	(1,559,893)	-	74,639	(1,485,254)	(74,639)
Deferred amount on refunding	(7,719,814)	-	332,814	(7,387,000)	(332,814)
Compensated absences	200,168	394,736	(200,168)	394,736	394,736
	<u>\$ 697,190,461</u>	<u>\$ 394,736</u>	<u>\$ (3,767,715)</u>	<u>\$ 693,817,482</u>	<u>\$ 25,532,283</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS

Variable to Fixed Swap – 2004 Series A Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$90,150,000 2004 Series A Electric System revenue bonds (the "2004 Series A Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed debt.

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of the 2004 Series A Bonds. The notional amount of the swap is \$90,150,000. Under the original terms of the swap, the City pays the counterparty a fixed rate of 3.637% and receives from the counterparty variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus 0.119%. On March 16, 2006, the City amended its fixed payment to 3.607% to the counterparty. The City expects that the variable-rate payments from the swap will approximate the interest payments on the 2004 Series A Bonds, thereby creating synthetic fixed rate debt. The notional amount of the swap and the amortization of the principal of the 2004 A Bonds are exactly matched.

Fair value: As of June 30, 2007, the swap had a positive fair value of \$1,296,248. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2007 is positive, the City has credit exposure to the counterparty equal to the fair value amount. As of June 30, 2007, the swap counterparty, Morgan Stanley was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap is structured to reduce the City's exposure to interest rate risk.

Basis risk: The swap exposes the City to basis risk should the relationship between LIBOR and BMA converge to a ratio higher than variable leg of the swap.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Swap payments and associated debt: It is expected that the variable payments received by the City on the swap will approximate the variable interest payments on the 2004 Series A Bonds, resulting in the City's net interest exposure being equal to the fixed payment on the swap to the counterparty. Because the variable payments on the 2004 Series A Bonds and the swap are on different bases, some basis differential is expected from time to time.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

The following summarizes the expected net debt service if BMA remains constant 3.73% and 1 Month LIBOR remains constant at 5.32% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Interest Rate Swap, Net	Total Debt Service
2008	\$ -	\$ 3,362,595	\$ 129,199	\$ 3,491,794
2009	-	3,362,595	129,199	3,491,794
2010	-	3,362,595	129,199	3,491,794
2011	-	3,362,595	129,199	3,491,794
2012	-	3,362,595	129,199	3,491,794
2013-2017	-	16,812,975	645,997	17,458,972
2018-2022	-	16,812,975	645,997	17,458,972
2023-2027	-	16,812,975	645,997	17,458,972
2028-2032	39,375,000	14,583,834	560,348	54,519,182
2033-2037	50,775,000	4,694,671	180,381	55,650,052
	<u>\$ 90,150,000</u>	<u>\$ 86,530,405</u>	<u>\$ 3,324,715</u>	<u>\$ 180,005,120</u>

Variable to Fixed Swap – 2004 Series B Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk and achieving a lower cost of capital relative to long term fixed rate bonds, the City elected to issue its \$83,575,000 2004 Series B Electric System revenue bonds (the "2004 Series B Bonds") in a variable rate mode and enter to a fixed payer swap to achieve synthetic fixed debt.

Terms: In December 2004, the City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2004 Series B Bonds. The notional amount of the swap is \$83,575,000. Under the original terms of the swap, the City pays a fixed rate of 3.572% and receives variable-rate payments equal to 62.87% of the London Interbank Offered Rate (LIBOR) one-month index plus .119%. On March 16, 2006, the City revised its fixed payment to 3.542% to the counterparty. The City expects that the variable-rate payments from the swap will approximate the interest payments on the 2004 Series B Bonds. The notional amount of the swap and the amortization of the principal of the 2004 Series B Bonds are exactly matched.

Fair value: As of June 30, 2007, the swap had a positive fair value of \$1,249,958. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2007 is positive, the City has credit exposure to the counterparty equal to the fair value amount. As of June 30, 2007, the swap counterparty, Morgan Stanley was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap is structured to reduce the City's exposure to interest rate risk.

Basis risk: The swap exposes the City to basis risk should the relationship between LIBOR and BMA converge to a ratio higher than variable leg of the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Swap payments and associated debt: It is expected that the variable payments received by the City on the swap will approximate the variable interest payments on the 2004 Series B Bonds, resulting in the City's net interest exposure being equal to the fixed payment on the swap to the counterparty. Because the variable payments on the 2004 Series B Bonds and the swap are on different bases, some basis differential is expected from time to time.

The following summarizes the expected net debt service if BMA remains constant 3.73% and 1 Month LIBOR remains constant at 5.32% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Interest Rate Swap, Net	Total Debt Service
2008	\$ -	\$ 3,117,348	\$ 65,453	\$ 3,182,801
2009	-	3,117,348	65,453	3,182,801
2010	-	3,117,348	65,453	3,182,801
2011	-	3,117,348	65,453	3,182,801
2012	-	3,117,348	65,453	3,182,801
2013-2017	-	15,586,738	327,263	15,914,001
2018-2022	28,825,000	13,840,010	290,588	42,955,598
2023-2027	42,650,000	6,883,404	144,526	49,677,930
2028-2029	12,100,000	472,156	9,914	12,582,070
	<u>\$ 83,575,000</u>	<u>\$ 52,369,048</u>	<u>\$ 1,099,556</u>	<u>\$ 137,043,604</u>

Variable to Fixed Swap – 2004 Taxable Series D Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the City elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$69,100,000 2004 Taxable Series D Electric System revenue bonds (the "2004 Taxable Series D Bonds") issued in a variable rate mode.

Terms: On March 16, 2006, the City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2004 Taxable Series D Bonds. The notional amount of the swap is \$61,825,000. Under the terms of the swap, the City pays a fixed rate of 5.227% and receives variable-rate payments equal to 100.00% of the London Interbank Offered Rate (LIBOR) three-month index. The City expects that the variable-rate payments from the swap will approximate the interest payments on the 2004 Taxable Series D Bonds. The notional amount of the swap and the amortization of the principal of the 2004 Taxable Series D Bonds are exactly matched.

Fair value: As of June 30, 2007, the swap had a positive fair value of \$838,473. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2007 is positive, the City has credit exposure to the counterparty equal to the fair value amount. As of June 30, 2007, the swap counterparty, Morgan Stanley was rated A+ by Standard & Poor's and Aa3 by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (BBB/Baa2), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Interest rate risk: The swap is structured to reduce the City's exposure to interest rate risk.

Basis risk: The swap exposes the City to basis risk should the three month LIBOR rate be less than the rate on the 2004 Taxable Series D Bonds.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Swap payments and associated debt: It is expected that the variable payments received by the City on the swap will approximate the variable interest payments on the 2004 Taxable Series D Bonds, resulting in the City's net interest exposure being equaled to the fixed payment on the swap to the counterparty. Because the variable payments on the 2004 Taxable Series D Bonds and the swap are on different bases, some basis differential is expected from time to time.

The following summarizes the expected net debt service if 1 Month LIBOR remains constant at 5.32% and the 3 Month LIBOR remains constant at 5.36% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Interest Rate Swap, Net	Total Debt Service
2008	\$ 4,175,000	\$ 3,063,463	\$ (53,153)	\$ 7,185,310
2009	4,350,000	2,838,120	(49,244)	7,138,876
2010	4,550,000	2,603,173	(45,167)	7,108,006
2011	4,775,000	2,357,283	(40,901)	7,091,382
2012	4,775,000	2,101,343	(36,460)	6,839,883
2013-2017	28,700,000	6,247,973	(108,407)	34,839,566
2018	6,525,000	291,450	(5,057)	6,811,393
	<u>\$ 57,850,000</u>	<u>\$ 19,502,805</u>	<u>(338,389)</u>	<u>\$ 77,014,416</u>

Basis Swap – Series 2005

Objective of the interest rate swap: As a means to reduce its bond interest cost, the RDA entered into an interest basis swap in connection with its \$49,420,000 Industrial Redevelopment Project Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds").

Terms: As structured, the Series 2005 Bonds and the related swap agreement mature on September 1, 2035, and the swap's aggregate notional amount of \$49,420,000 million matches the par amount of the Series 2005 Bonds. The swap was entered into on March 1, 2007. Under the swap, the RDA pays the counterparty payments equal to the average of the weekly Bond Market Association (BMA) variable rate index and receives payments equal to 67.073% of the USD-ISDA (ISDA) ten-year swap rate index.

Fair value: Because the differential between the BMA index and ISDA index has decreased since execution of the swap, the swap has an aggregate negative fair value of \$255,741 as of June 30, 2007. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Credit risk: As the swap's fair value as of June 30, 2007 was negative, the RDA does not have credit exposure to the counterparty. Should the RDA's fair value become positive, the RDA would have credit exposure to the counterparty equal to the fair value amount. The swap counterparty, Lehman Brothers, was rated A+ by Standard & Poor's and A1 by Moody's Investors Service as of June 30, 2007. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A-" or "A3", the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk: The swap exposes the RDA to basis risk should the relationship between ISDA index and BMA index diverge to a ratio lower than that stated in the swap. If such a change occurs, the swap may not provide the expected interest cost savings.

Termination risk: The RDA or its counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap may be terminated by the RDA at any time. If at the time of termination, the swap has a negative fair value, the RDA would be liable to the counterparty for a payment equal to the swap's fair value.

The following summarizes the expected net debt service if BMA remains constant 3.73% and 10 Year ISDA remains constant at 5.6655% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Basis Swap, Net	Total Debt Service
2008	\$ -	\$ 2,275,306	\$ (46,040)	\$ 2,229,266
2009	-	2,275,306	(46,040)	2,229,266
2010	1,160,000	2,256,456	(45,500)	3,370,956
2011	1,285,000	2,216,725	(44,361)	3,457,364
2012	1,380,000	2,171,694	(43,120)	3,508,574
2013-2017	6,970,000	10,091,619	(197,259)	16,864,360
2018-2022	7,840,000	8,457,347	(162,668)	16,134,679
2023-2027	7,200,000	6,631,244	(127,826)	13,703,418
2025-2032	10,960,000	4,556,700	(86,137)	15,430,563
2033-2036	12,625,000	1,316,875	(24,536)	13,917,339
	<u>\$ 49,420,000</u>	<u>\$ 42,249,272</u>	<u>\$ (823,487)</u>	<u>\$ 90,845,785</u>

Variable to Fixed Swap – 2006 Series A Gas Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the Vernon Natural Gas Financing Authority elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$200,000,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series A (the "2006 Series A Gas Bonds") issued in a variable rate mode.

Terms: The City entered into four (4) pay-fixed, receive-variable interest rate swaps for the term of its 2006 Series A Gas Bonds. The notional amounts of each of the four (4) swaps is \$50,000,000. Under the terms of the swaps, the City pays a fixed rate of 3.683% and receives variable-rate payments equal to 62.6% of the London Interbank Offered Rate (LIBOR) one month index. The City expects that the variable-rate payments from the swaps will approximate the interest payments on the 2006 Series A Gas Bonds. The notional amount of the swaps and the amortization of the principal of the 2006 Series A Gas Bonds are exactly matched.

Fair value: As of June 30, 2007, the swaps had a negative fair value of \$2,933,887. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Credit risk: As the swap's fair value as of June 30, 2007 is negative, the City does not have credit exposure to the counterparty. Should the City's fair value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2007, the swap counterparty, Citibank, N.A. was rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (A-/A3), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap is structured to reduce the City's exposure to interest rate risk.

Basis risk: The swap exposes the City to basis risk should the relationship between LIBOR and BMA converge to a ratio higher than variable leg of the swap.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Swap payments and associated debt: It is expected that the variable payments received by the City on the swap will approximate the variable interest payments on the 2006 Series A Gas Bonds, resulting in the City's net interest exposure being equaled to the fixed payment on the swap to the counterparty. Because the variable payments on the 2006 Series A Gas Bonds and the swap are on different bases, some basis differential is expected from time to time.

The following summarizes the expected net debt service if BMA remains constant 3.73% and 1 Month LIBOR remains constant at 5.32% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Interest Rate Swap, Net	Total Debt Service
2008	\$ 9,950,000	\$ 7,150,721	\$ 676,117	\$ 17,776,838
2009	10,400,000	6,765,598	639,703	17,805,301
2010	10,775,000	6,366,022	601,922	17,742,944
2011	11,200,000	5,950,904	562,672	17,713,576
2012	11,650,000	5,519,157	521,849	17,691,006
2013-2017	65,825,000	20,471,950	1,935,669	88,232,619
2018-2022	80,200,000	6,716,487	635,059	87,551,546
	<u>\$ 200,000,000</u>	<u>\$ 58,940,839</u>	<u>\$ 5,572,991</u>	<u>\$ 264,513,830</u>

Variable to Fixed Swap – 2006 Series B and C Gas Bonds

Objective of the interest rate swap: As a means to reducing its overall exposure to interest rate risk, the Vernon Natural Gas Financing Authority elected to enter into a fixed payer swap to achieve synthetic fixed debt with respect to its \$115,440,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series B and \$115,405,000 Variable Rate Revenue Bonds (Vernon Gas Project), 2006 Series C (the "2006 Series B and C Gas Bonds") issued in a variable rate mode.

Terms: The City entered into a pay-fixed, receive-variable interest rate swap for the term of its 2006 Series B and Series C Gas Bonds. The notional amount for the swap is \$230,845,000. Under the terms of the swap, the City pays a fixed rate of 3.753% and receives variable-rate payments equal to 64.8% of the London Interbank Offered Rate (LIBOR) one month index. The City expects that the variable-rate payments from the swaps will approximate the interest payments on the 2006 Series B and Series C Gas Bonds. The notional amount of the swaps and the amortization of the principal of the 2006 Series B and Series C Gas Bonds are exactly matched.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Fair value: As of June 30, 2007, the swaps had a negative fair value of \$2,112,730. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk: As the swap's fair value as of June 30, 2007 is negative, the City does not have credit exposure to the counterparty. Should the City's fair market value become positive, the City would have credit exposure to the counterparty equal to the fair value amount. As of June 30, 2007, the swap counterparty, Citibank, N.A. was rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. To mitigate the potential for credit risk, if the counterparty's credit quality falls below (A-/A3), the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Interest rate risk: The swap is structured to reduce the City's exposure to interest rate risk.

Basis risk: The swap exposes the City to basis risk should the relationship between LIBOR and BMA converge to a ratio higher than variable leg of the swap.

Termination risk: The City or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In addition, the City may optionally terminate the agreement on any date. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for an amount equal to the negative fair value.

Swap payments and associated debt: It is expected that the variable payments received by the City on the swap will approximate the variable interest payments on the 2006 Series B and Series C Gas Bonds, resulting in the City's net interest exposure being equaled to the fixed payment on the swap to the counterparty. Because the variable payments on the 2006 Series BC Gas Bonds and the swap are on different bases, some basis differential is expected from time to time.

The following summarizes the expected net debt service if BMA remains constant 3.73% and 1 Month LIBOR remains constant at 5.32% (actual rates as of June 30, 2007).

Fiscal year Ending June 30	Principal Amount	Interest	Interest Rate Swap, Net	Total Debt Service
2008	\$ 11,420,000	\$ 8,255,547	\$ 676,468	\$ 20,352,015
2009	11,930,000	7,813,728	640,265	20,383,993
2010	12,360,000	7,355,374	602,707	20,318,081
2011	12,855,000	6,878,959	563,669	20,297,628
2012	13,275,000	6,386,413	523,309	20,184,722
2013-2017	75,905,000	23,719,288	1,943,583	101,567,871
2018-2022	93,100,000	7,806,952	639,710	101,546,662
	<u>\$ 230,845,000</u>	<u>\$ 68,216,261</u>	<u>\$ 5,589,711</u>	<u>\$ 304,650,972</u>

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 7 – BOND INTEREST RATE SWAP AGREEMENTS (CONTINUED)

Natural Gas Commodity Swap

The Vernon Natural Gas Financing Authority issued its Revenue Bonds (Vernon Gas Project) 2006 Series A, B and C to finance the cost of acquiring a fixed quantity of natural gas to be delivered over a fifteen year period by Citigroup Energy, Inc. under an Agreement for Purchase and Sale of Natural Gas, the gas supply contract. In connection with the gas supply contract, the City entered into a natural gas commodity swap agreement with a counterparty Societe Generale' to adjust the cost of gas from fixed prices to market prices. The counterparty under such natural gas commodity swap is rated "Aa1" by Moody's and "AA" by S&P.

Under the terms of the natural gas commodity swap, the City will pay a floating natural gas price over fifteen years and receive a fixed natural gas price for a notional quantity equal to 25% of the monthly quantity of natural gas supplied under the gas supply contract with Citigroup Energy, Inc. The natural gas commodity swap was entered into in July 2006.

The natural gas commodity swap addresses the termination payments received or payable by the City in the event the termination of the natural gas commodity swap apart from or in connection with the termination of the gas supply contract. In the event of termination, the natural gas commodity swap has provisions whereby the City may have to make a termination payment to the counterparty.

For the fiscal year ended June 30, 2007, the City was a net receiver under the natural gas commodity swap in the amount of \$925,129. As of June 30, 2007, the fair market value of the natural gas commodity swap was negative \$6,278,181. The fair market value was based on the estimated forward curve for natural gas at the delivery points set forth in the gas supply contract. Under current GAAP, the effect of marking-to-market the natural gas commodity swap has no effect on the statement of net assets or on net revenues (expenses) in the accompanying statement of revenues, expenses and change in net assets.

Termination of Interest Rate Swap Agreements

During the fiscal year ended June 30, 2007, four interest rate swap agreements were terminated. Three of the four interest rate swaps were swaps entered into by the City, and one by the RDA. The swaps terminated by the City were the 2003 A & B basis swap with Bank of America, 2003 C basis swap with Wachovia and 2003 C fixed-to-variable swap with Bank of America, which resulted in the follow receipts/(payments), respectively: \$1,550,000, \$730,000, and (\$950,000) less transaction costs of \$293,573 for a net receiver of \$1,036,427. The swap terminated by the RDA was the basis swap with Lehman, which resulted in the RDA receiving \$818,280.

NOTE 8 – OTHER DERIVATIVE FINANCIAL INSTRUMENTS

The City's Light and Power Fund (Fund), which accounts for the maintenance and operations of the City's electric utility plant, enters into contracts for electricity and natural gas to meet the expected needs of its retail customers. The Fund also sells excess electricity capacity during periods when it is not needed to meet its retail requirements. Derivative contracts (futures and options) designated as cash flow hedges are entered into by the Fund to hedge variable price risk associated with the purchase and sale of commodities and extend out to November of 2007. At June 30, 2007, the Fund's derivative contracts totaled \$2,881,742 and are recorded at cost in the Fund's financial statements and are included with other assets. For the year ended June 30, 2007, the City realized a net loss of \$3,272,849 on closed derivative contracts. The fair value of the derivative instruments at June 30, 2007 totaled \$829,542. Unrealized gains and losses on the derivative instruments are not recognized in the accompanying financial statements since the Fund does not apply FASB statements issued after November 1, 1989.

CITY OF VERNON, CALIFORNIA
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June 30, 2007

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage, and providing health benefits to employees, retirees, and their dependents. The City is self-insured for its general liability, workers' compensation, and property liability. The City has chosen to establish risk financing Internal Service Funds, whereby assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

The City has obtained various insurance policies that provide coverage for "Special Form Perils" against direct physical loss or damage, including earthquake and flood, to all real and personal property of the City, including equipment, business and revenue interruption, errors and omissions, boiler and machinery and pollution legal liability. The earthquake and flood portion of the policies have a 5% deductible of the total insurable values per building, structure or covered item at the time and place of loss. In the most recent "Statement of Values" for the City, real and personal property total insured values equaled \$293,136,673.

Crime (Employee Theft and, Depositors Forgery and Alteration, and Computer and Funds Transfer Fraud) coverage is also in force with a limit \$100,000 for each line of coverage.

The City is self insured for the first \$1,000,000 of workers' compensation claims and for the first \$2,000,000 of its general liability coverage.

Excess coverage is provided by a stand alone policy purchased by the City. Excess coverage is provided by the Insurance Company of Pennsylvania and Traders & Pacific Insurance Company. The insurance limits are as follows:

Type of Coverage	Self-Insurance	Limit	Excess Carrier
General Liability	Up to \$2,000,000	Up to \$10,000,000	Insurance Co. of the State of PA
Workers' Compensation	Up to \$1,000,000	Up to \$50,000,000	ACE American Insurance Co.
Property:	Not Applicable		
Blanket Building & Contents		Up to \$150,000,000	Global Special Risks
Earthquake Sublimit – Annual		Up to \$50,000,000	Master Program
Flood Sublimit – Annual		Up to \$50,000,000	Underwriters at Lloyd's
Electronic Data Processing		Up to \$5,000,000	Underwriters at Lloyd's
Equipment			
Unscheduled Locations		Up to \$500,000	Underwriters at Lloyd's
Machinery Breakdown		Included	Underwriters at Lloyd's

Insured limits are:

Type of Coverage	Limits
Excess General Liability	\$10,000,000 excess of \$2,000,000 (self insured)
Excess General Liability	\$10,000,000 excess of \$10,000,000

Amounts in excess of these limits are self-insured. There have been no significant reductions of coverage from the prior year. There have been no settlements exceeding insurance coverage for each of the past three fiscal years.

The unpaid claims liabilities included in each of the self-insurance Internal Service Funds are based on the results of actuarial studies and third-party administrator claim reports and include amounts for claims incurred but not reported, including loss adjustment expenses. Claims liabilities are calculated considering the effects of inflation and recent claim settlement trends, including frequency and amount of payouts and other economic and social factors.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 9 – RISK MANAGEMENT (CONTINUED)

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

	Fiscal Year Ended June 30	
	2007	2006
Claims payable, beginning of fiscal year	\$ 7,358,573	\$ 4,992,957
Incurred claims	992,028	2,998,117
Claims payments and adjustments	(3,798,566)	(632,501)
Claims payable, end of fiscal year	\$ 4,552,035	\$ 7,358,573

NOTE 10 – PENSION PLAN

The City contributes to the California Public Employees’ Retirement System (PERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked 1,000 hours in a fiscal year are eligible to participate in the PERS. Benefits vest after five years of service. Employees who retire at age 50 with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on an employee’s average compensation for his or her single highest year of compensation for each year of credited service.

Miscellaneous members with five years of credited service may retire at age 55 with full benefits based on a benefit factor derived from the “2% at 55 Miscellaneous Factor” benefit factor table and between age 50 and 54 with reduced retirement benefits. Safety members may retire at age 50 with full benefits based on a benefit factor derived from the “3% at 50 Safety Factor” for Police Department Employees and “2% at 50 Safety Factor” for Fire Department Employees benefit factor table with five years of credited service. The PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City’s plan does not issue a stand-alone financial report but is included in the PERS report, which can be obtained from PERS at Lincoln Plaza, 400 P Street, Sacramento, California 95814.

The State-required City employee salary contributions of 7% for miscellaneous employees and 9% for safety members are subsidized by the City. The City is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis adopted by the PERS Board of Administration.

The City’s total contribution to the PERS for the year ended June 30, 2007 was \$4,919,700. City contribution rates as a percentage of covered payroll were 7.284% for miscellaneous plan members and 18.789% for safety plan members.

The City’s contribution was made in accordance with actuarially determined requirements based on an actuarial valuation performed as of June 30, 2005.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 10 – PENSION PLAN (CONTINUED)

The PERS uses the entry age normal actuarial cost method, which is a projected benefit cost method that takes into account those benefits expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry age normal cost method whereby the employer’s total normal cost is expressed as a level percentage of payroll. Unfunded liabilities are amortized over a closed, 20-year period.

Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.75% a year, compounded annually; (b) overall payroll growth of 3.25%, compounded annually; and (c) a merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15 year period.

Trend information for the current and two preceding fiscal years is as follows:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Amount Contributed	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 4,919,700	\$ 4,919,700	100%	-
2006	5,792,468	5,792,468	100%	-
2005	4,610,702	4,610,702	100%	-

NOTE 11 – DEFICITS IN FUND EQUITY

The Capital Project Funds has a deficit of \$17,573,644 at June 30, 2007, which will be recovered from future transfers from the General Fund.

The Gas Enterprise Fund has a deficit of \$7,261,925 at June 30, 2007, which will be recovered from future operating revenues from customers.

The Fiber Optic Other Enterprise fund has a deficit of \$29,863 at June 30, 2007, which will be recovered from future operating revenues from customers.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 11 – DEFICITS IN FUND EQUITY (CONTINUED)

The Equipment Replacement Internal Service Fund has a deficit of \$125,838 at June 30, 2007. To the extent such deficit is attributed to shortfalls in charges to other funds, such deficit will be recovered through future rate increases. A deficit arising from decreases in fair value of pooled investments will not be recovered through charges to other funds.

The Group Dental Insurance Internal Service Fund has a deficit of \$268,487 at June 30, 2007. To the extent such deficit is attributed to shortfalls in charges to other funds, such deficit will be recovered through future rate increases and transfers from the General Fund.

NOTE 12 – LIGHT AND POWER OPERATIONS AND COMMITMENTS

Deregulation

Effective April 1, 1998, competition was introduced into California's electric utility market, and customers of the state's investor-owned utilities (IOUs) became eligible for direct access. The implementation of competition in accordance with State Assembly Bill 1890 (AB1890) resulted in significant structural changes to the electric power industry, including mandated direct access for IOU customers, energy sales through the California Power Exchange ("CPX"), and management of transmission assets through an Independent System Operator (ISO). The original deregulation legislation applied to the State's IOUs and did not compel participation by publicly owned utilities, such as the City's electric utility.

During the fiscal year 2001, the City made sales of energy to CPX. CPX made minimal payments on these sales and filed for protection under Chapter 11 of the Federal Bankruptcy Statute in January 2001. As of June 30, 2007, a total of \$3,061,069 was due the City from CPX. The City has recorded a \$1,000,000 reserve for uncollectible accounts against this \$3,061,069 receivable at June 30, 2007.

Participating Transmission Owner

On August 30, 2000, the City filed a petition for declaratory order with the Federal Energy Regulatory Commission (FERC) requesting a determination by the FERC that the City's Transmission Revenue Requirement (TRR), as approved by its rate setting body, the City Council, is proper for purposes of the City becoming a Participating Transmission Owner (PTO) in the California ISO. The FERC issued its order accepting the City's petition, with certain modification, on October 27, 2000. Certain aspects of the FERC order were challenged by some of the State's other PTOs. A federal appeals court ruled that the way the FERC arrived at its decision was improper and remanded the case back to the FERC for further proceedings. The City's expected outcome of these proceedings is discussed in Note 14. As a PTO, the City turned over operational control of its transmission entitlements to the ISO effective January 1, 2001 and shall be reimbursed based upon its TRR by the ISO through the ISO's collection of a transmission access charge (TAC).

On December 21, 2000, the ISO filed, on behalf of itself and the Participating Transmission Owners (PTO), a number of changes to its Transmission Control Agreement (TCA) to recognize Vernon's application to become a Participating Transmission Owner. The ISO also filed revisions to identify the transmission interests that the City will be turning over to the ISO's operational control and the inclusion of an explicit contract provision to ensure that all PTOs, including an entity such as the City, which is not subject to the rate jurisdiction or refund jurisdiction of FERC under section 205 and 206 of the Federal Power Act (FPA), make appropriate refunds or payment adjustments to implement any relevant FERC order.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 12 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

Project Commitments

A. Southern California Public Power Authority

In 1980, the City entered into a joint powers agreement with nine (9) Southern California cities and an irrigation district to form the Southern California Public Power Authority (the “Authority”). The Authority’s purpose is the planning, financing, acquiring, constructing and operating of projects that generate or transmit electric energy.

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

Between 1983 and 2002, the Authority issued \$3.166 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’s proportionate share of costs during fiscal year 2007 was \$3,588,721.

B. Hoover Dam Power Plant Upgrade Program

In January 1987, the City entered into a contract with the Federal Bureau of Reclamation to fund part of an upgrading program of the Hoover Dam power plant to increase the plant’s generating capacity. In exchange, the City will receive its pro rata share of the additional power produced. Total program costs are estimated to be \$155 million.

As of June 30, 2007, the City’s total advances were \$6,690,998 for the upgrading program. At June 30, 2007, the outstanding note receivable was \$3,848,120. The City has no obligation to advance funds in the future. The note is being repaid with interest over a period of 30 years. The City must also make payments for its pro rata share of operating and maintenance costs not recovered by the plant through revenues. The amount paid during the current year for purchased power was reduced by principal and interest amounts totaling \$501,434 due the City on the outstanding note receivable. The contract expires in September 2017.

C. California-Oregon Transmission Project

In 1991, the City entered into the Interim Participation Agreement with several Northern California entities and the Western Area Power Administration. This agreement calls for the construction and operation of the project. Each party in the agreement has been allocated a respective share of the construction costs. The City’s share is 8.05%. As of June 30, 2007, the City’s share of total costs incurred for the project’s planning and construction was \$37,549,782.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 12 – LIGHT AND POWER OPERATIONS AND COMMITMENTS (CONTINUED)

Power Purchase Commitments

As of June 30, 2007, the City has entered into long-term commitments to purchase power subject to certain conditions. The following table summarizes the value of the commitments at June 30, 2007 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2007-08	\$ 14,091
2008-09	10,358
2009-10	6,600
2010-11	3,311
	<u>\$ 34,360</u>

Electric Rate Increase

Effective November 1, 2006, the City increased its electric rates 5% charged for electrical energy distributed and supplied by the City within its boundaries.

NOTE 13 – POSTEMPLOYMENT BENEFITS

The City Council approved a post-employment benefit plan for all employees with 20 years of service who retire at 60 or 30 years or more of service to the City. The plan pays for qualified employees' medical and dental insurance premiums and claims from age 60 to 65. Funding of the plan is on a pay-as-you-go basis. During the year ended June 30, 2007, approximately 352 (306 current employees and 46 retired employees) participants were able to receive benefits from the City's health insurance plans. Amounts paid for premiums for the year ended June 30, 2007 totaled \$62,898.

NOTE 14– CONTINGENCIES

At June 30, 2007, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000.

The City is currently in proceedings with the FERC and certain other utilities and agencies regarding the appropriate Transmission Revenue Requirement ("TRR") for the City. The City is currently receiving revenue from the ISO based on a TRR of approximately \$10.6 million annually. In addition, the City is involved in litigation over the market price charged by the City for certain electric energy sales made during the period October 2, 2000 through June 20, 2001. FERC has ordered reductions in certain of the market prices for electric energy during that period, and the legitimacy of that order and its impact on entities such as the City is being litigated before the United States Court of Appeals and other courts. The City cannot predict the outcome of either of these proceedings, but it is possible that those outcomes could affect the level of the City's TRR and/or cause the City to be subject to one or more refund obligations. The ultimate loss related to these matters, if any, is unknown at this time and no amount has been accrued in the accompanying financial statements.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 15 – FUTURE GASB PRONOUNCEMENTS

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability and provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. This Statement is effective for the City's fiscal year ending June 30, 2008.

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27.*, which more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25 and No. 27, and to conform with the requirements of Statements No. 43 and No. 45. This Statement is effective for periods beginning after June 15, 2007.

CITY OF VERNON, CALIFORNIA
Notes to Basic Financial Statements
June 30, 2007

NOTE 15 – FUTURE GASB PRONOUNCEMENTS (CONTINUED)

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and also addresses recognition and amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The City has not determined the impact on the City of the adoption of these statements.

NOTE 16 – SUBSEQUENT EVENTS

On October 9, 2007, the City entered into an agreement with an affiliate of Bicent Holdings and Natural Gas Partners to sell a portfolio of its generating and transmission assets for \$342 million, which includes the 134 MW Malburg Generating Station (MGS), economic interests in 11 MW generated by the Palo Verde Nuclear Generating Station and 22 MW from the Hoover Dam Upgrading Project, as well as the City's interests in the Mead-Adelanto Transmission Project and the Mead-Phoenix Transmission Project. The sale arrangement requires the buyers to sell back the power to the City from all of the generating assets being purchased at pre-established rates for terms of upwards of 15 years. The City shall remain in control of the dispatch of the MGS plant, while the buyers shall take on the operating equipment risk of the MGS plant.

In a separate transaction, the City entered into a sale agreement in late September 2007 with the Transmission Agency of Northern California for the purchase of the City's interest in the California Oregon Transmission Project for \$55 million.

The City intends to use the proceeds from both these transactions totaling \$397 million to retire approximately \$214 million in related project debt, provide funds for industrial development in the City, and increase the Light & Power fund's cash reserves.

After the completion of the sale, the City will no longer be receiving TRR (See Note 14).

In September 2007, the City entered into a \$50,000,000 revolving line of credit agreement with a bank for the purpose of financing the City's industrial development programs. As of the date of this report, the City has not yet used this credit line.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

In fiscal year 2006, the City erroneously recorded payments of \$8,600,000 made to an escrow account as partial payment for a land acquisition transaction anticipated to be completed in fiscal year 2008 as capital outlay expenditures in the General Fund.

At the fund level, GAAP requires these payments be reclassified from one asset to another on the General Fund balance sheet and not be recorded as an expenditure in the General Fund's operating statement. Accordingly, the City recorded an adjustment to increase its General Fund's beginning fund balance for this amount. There was no affect on the City's government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF VERNON, CALIFORNIA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 9,679,300	\$ 9,679,300	\$ 9,551,720	\$ (127,580)
Special assessments	-	-	840,404	840,404
Licenses and permits	1,332,000	1,332,000	1,364,292	32,292
Fines, forfeitures and penalties	323,000	323,000	178,517	(144,483)
Investment Income	850,000	850,000	232,452	(617,548)
Intergovernmental revenues	200,000	200,000	272,107	72,107
Charges for services	9,000,000	9,000,000	8,710,449	(289,551)
Other revenues	1,403,680	1,403,680	1,324,890	(78,790)
Total revenues	<u>22,787,980</u>	<u>22,787,980</u>	<u>22,474,831</u>	<u>(313,149)</u>
EXPENDITURES:				
General government	15,043,104	15,043,104	17,190,383	(2,147,279)
Public safety	18,176,439	18,176,439	19,194,101	(1,017,662)
Public works	6,023,998	6,023,998	5,052,726	971,272
Health services	1,387,237	1,387,237	1,229,530	157,707
Capital outlay	2,152,288	2,152,288	3,114,509	(962,221)
Total expenditures	<u>42,783,066</u>	<u>42,783,066</u>	<u>45,781,249</u>	<u>(2,998,183)</u>
Deficiency of revenues under expenditures	<u>(19,995,086)</u>	<u>(19,995,086)</u>	<u>(23,306,418)</u>	<u>(3,311,332)</u>
Other financing sources:				
Sale of City property	50,000	50,000	18,552,395	18,502,395
Transfers in / (out)	20,455,000	20,455,000	500,724	(19,954,276)
Net change	<u>\$ 509,914</u>	<u>\$ 509,914</u>		
Reconciliation of GAAP basis fund balance				
Current year encumbrances			<u>2,736,011</u>	<u>2,736,011</u>
NET CHANGE IN FUND BALANCE			(1,517,288)	(2,027,202)
FUND BALANCE, BEGINNING OF YEAR, RESTATED			<u>29,560,762</u>	<u>29,560,762</u>
FUND BALANCE, END OF YEAR			<u>\$ 28,043,474</u>	<u>\$ 27,533,560</u>

See accompanying note to the required supplementary information.

CITY OF VERNON, CALIFORNIA
Notes to Required Supplementary Information
June 30, 2007

NOTE 1 – BUDGET

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

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund, Special Revenue Funds and Capital Projects Funds;
- The budget is formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities under GAAP. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- The budget is adopted on a modified accrual basis, except that encumbrances are treated as budgetary basis expenditures in the year of incurrence of the commitment to purchase;
- The City Administrator is authorized to transfer appropriations between activities within any fund. Expenditures may not exceed appropriations at the total fund level. Excess expenditures over appropriations are financed by beginning fund balances. The final budgeted amounts used in the accompanying General Fund budgetary comparison schedule include any amendments made during fiscal year 2007. Encumbrances carried forward from the prior year are reflected in the original budget.

For the current year, the City's original and final budget for general fund expenditures was \$42,783,066. The General Fund's total negative variance between the final budgeted amount and actual amount for expenditures was \$2,998,183. The key reason for this variance was excess expenditures over appropriation for general government's supply and services and public safety's payroll expenditures of \$2,147,279 and \$1,017,662 respectively, due to increased costs in both areas. However, the General Fund did not exceed its appropriations at the fund total level, which is the legal level of control.

CITY OF VERNON, CALIFORNIA
Required Supplementary Information (UNAUDITED)
June 30, 2007

Schedule of Funding Progress

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) UAAL (OAAL) (a) - (b)	Funded Ratio (b) / (a)	Annual Covered Payroll (c)	UAAL (OAAL) as a % of Covered Payroll [(a) - (b)] / (c)
6/30/2004	\$ 180,335,028	\$ 170,504,773	\$ 9,830,255	94.5%	\$ 22,029,577	44.6%
6/30/2005	188,403,935	179,121,798	9,282,137	95.1%	22,607,110	41.1%
6/30/2006	202,834,706	191,024,453	11,810,253	94.2%	21,900,002	53.9%