

Water Enterprise Fund of the City of Vernon

Vernon, California

Financial Statements and Independent Auditors' Reports

For the Year Ended June 30, 2024



Water Enterprise Fund of the City of Vernon
For the Year Ended June 30, 2024

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Message from the General Manager

Vernon Public Utilities (VPU) is more than just a provider of essential utility services. We are a dedicated partner invested in the stability and growth of the Vernon community. We understand that businesses seeking to establish or expand in Vernon require not only reliable and competitively priced utilities, but also a responsive and forward-thinking utility partner. VPU is committed to meeting these needs while maintaining a strong financial and operational foundation to support the long-term stability and growth of the City of Vernon.

In line with our commitment to evolve and adapt, we are actively supporting a transition towards clean commerce in Vernon. This involves strategically targeting growth and investing in critical infrastructure, while supporting our financial and operational goals.

Over the past year, we have achieved significant milestones that demonstrate our dedication to this strategy:

- **Completion of the Prime Substation ahead of schedule and on budget:** Enhancing our transmission and distribution system to meet growing demands, especially the data center industry.
- **Planning the expansion of connections with Southern California Edison:** Building an even more robust energy grid with increased capacity, ensuring access to diverse energy resources, while meeting customer growth needs.
- **Development and adoption of the VPU Financial Reserves Policy:** Reinforcing our long-term financial stability.
- **Establishment and implementation of the 5-year capital infrastructure plan:** Guiding strategic investments in our electric system to support future growth and maintain industry best reliability.
- **Completion of the 2024 Cost-of-Service Study:** Ensuring competitive rates and maintaining VPU's high standards of reliability.
- **Completion of the 2024 Integrated Resources Plan:** Charting a course for a sustainable, affordable energy future.
- **Completion of the City's Sustainability Plan:** Aligning VPU operations with broader community sustainability goals.

These achievements underscore VPU's commitment to navigating utility challenges and ensuring the continued resilience and growth of our services.

Furthermore, we are proud to announce that in April 2024, Standard & Poor's upgraded VPU's credit rating to A- from BBB+. This upgrade cites "improved risk management practices including, for example, hedging," and is a testament to our



strong financial management. The improved credit rating, along with VPU's stable outlook, presents various opportunities for VPU, which includes accessing more favorable financing terms and reducing our cost of capital; and broadening our pool of potential energy counterparties to support new avenues for growth and enhancing our financial health.

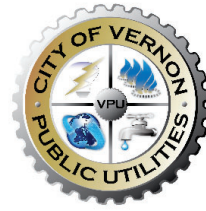
VPU is dedicated to being a proactive partner in building a thriving and sustainable future for Vernon. We look forward to continuing to work with all stakeholders to achieve our shared goals.

Sincerely,

Todd Dusenberry

General Manager of Public Utilities

VPU At A Glance



Electric

Number of customers: 2,044
Service area in square miles: 5.2
Number of distribution miles: 176
Number of poles: 3606
Number of substations: 8
Peak Day MW: 194
Current Year Peak Day in MW: 176



Water

Number of customers: 860
Service area in square miles: 4.8
Number of miles of water mains: 49
Number of wells: 7
Total Reservoir Capacity in Gallons:
16.6M
Number of Booster Stations: 3
Peak Day in Acre Feet: 26.7
Current Year Peak Day in Acre Feet: 19.3



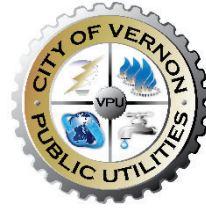
Gas

Number of customers: 125
Service area in square miles: 5.2
Number of distribution miles: 44.3
Number of transmission miles: 7.3
Peak Day in MMBTu: 6,822,598
Current Year Peak Day in MMBTu:
5,515,886



Fiber

Number of customers : 86
Service area in square miles : 5.2
Number of circuit miles : 2,495
Average Daily Peak in Mbps: 400
Current Year Peak Day in Gbps: 1.35



ELECTRIC FUND

Introduction

Vernon Public Utilities (VPU) is committed to providing the Vernon community with reliable, safe, and competitive energy while also achieving California's clean energy goals. As a publicly owned utility, VPU is focused on its customers, responsible operations, and a sustainable future. This commitment is reflected in its transparent operations, competitive rates, and policies tailored to the community's needs. By embracing emerging technologies and strategic opportunities, VPU is building a full-service utility that will shape a sustainable energy future for Vernon in partnership with the local community.

Awards

Since 2016, VPU has maintained its Reliable Public Power Provider (RP3) designation from the American Public Power Association (APPA) for its excellence in reliability. APPA designates the RP3 award to utilities that demonstrate exceptional proficiency in four key areas: safety, reliability, workforce development, and system improvement.

VPU has earned the highest designation for the RP3 award – Diamond Level –for three consecutive terms, encompassing nine years from 2016 to 2025. VPU earned these honors by providing exceptionally reliable and safe electric service. VPU is currently one of only 113 of the more than 2,000 public power utilities across the United States to achieve Diamond Level RP3 designation.

Reliability

VPU emphasizes operational reliability as a cornerstone of its strategic vision. VPU utilizes IEEE's beta methodology to track reliability metrics to assess and enhance the resilience and dependability of VPU's services. By tracking and analyzing key reliability indicators, VPU proactively identifies areas for improvement, allocates resources effectively, and implements targeted strategies to maintain an unwavering commitment to providing consistent and uninterrupted power supply to its valued customers.

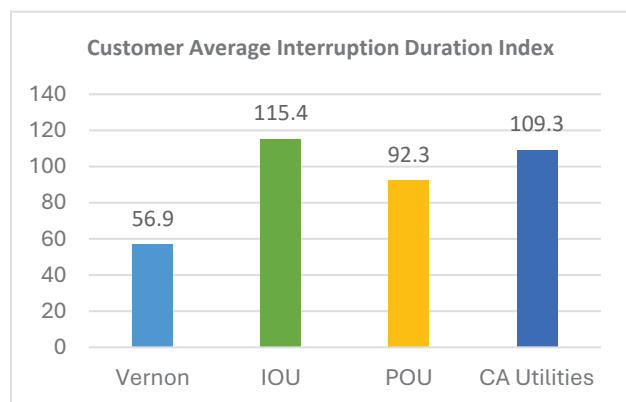
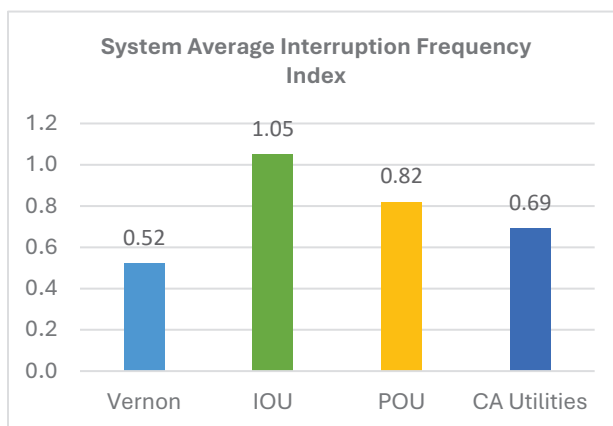
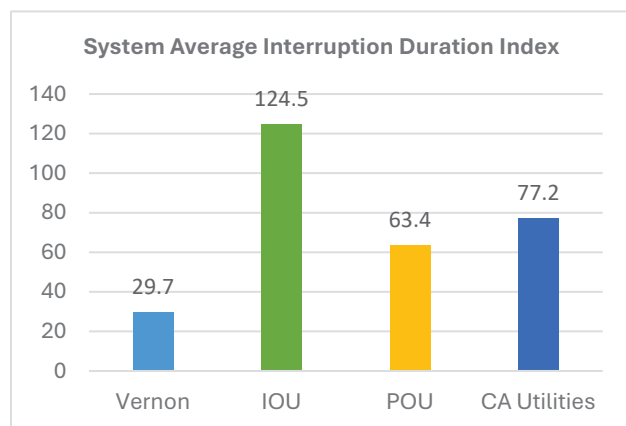
Reliability Indicators

VPU tracks three reliability indicators that the electric utility industry uses to assess and improve the performance of power distribution systems.

System Average Interruption Frequency Index (SAIFI) - represents the average number of power outages an average customer experiences in a year.

System Average Interruption Duration Index (SAIDI) - measures the average amount of time that an average customer experiences power outages in a year.

Customer Average Interruption Duration Index (CAIDI) - measures the average length of time it takes for a customer's power to be restored after an outage.



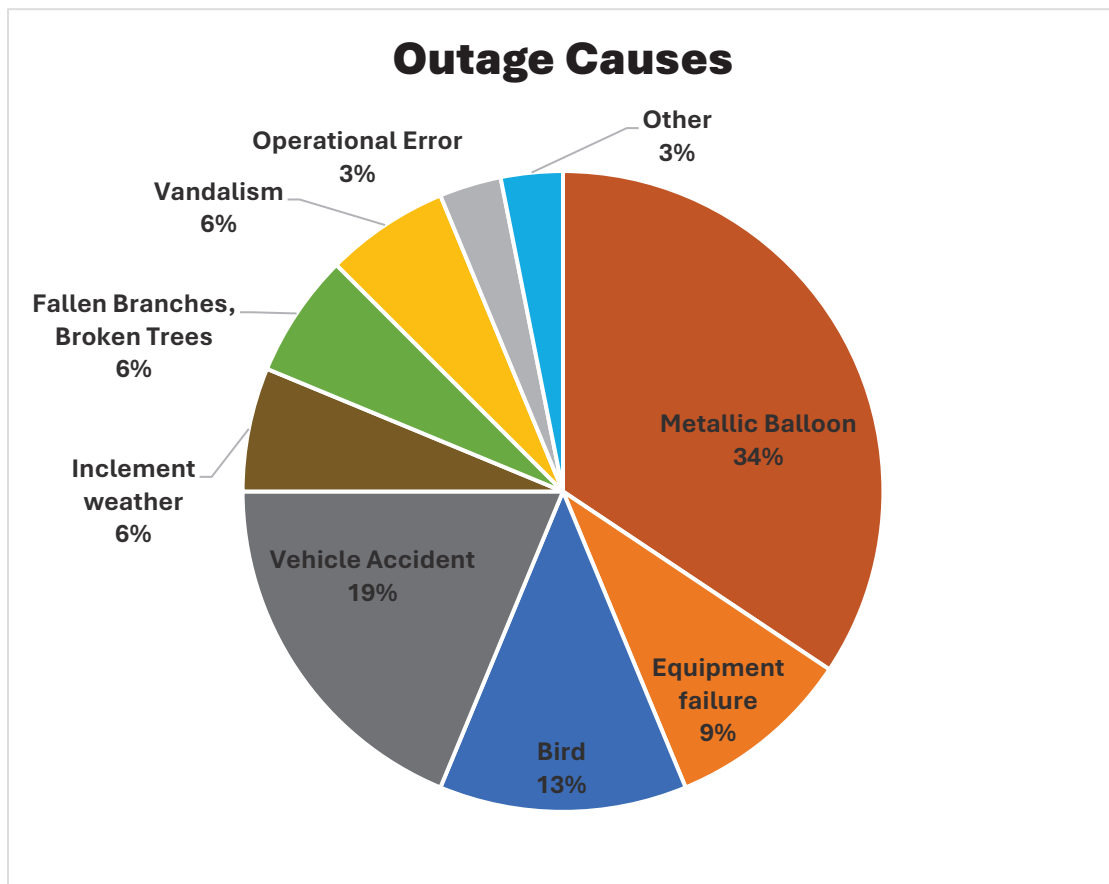
VPU leverages data and industry benchmarks to improve service quality, minimize downtime, and ensure a reliable power supply. VPU benchmarks its performance against data from the U.S. Energy Information Administration (EIA) to ensure alignment with industry standards and best practices.

For the data year of 2023, VPU's average customer experienced 0.52 outages for 29.7 minutes. The restoration time was

approximately 56.9 minutes. These metrics place VPU among the top 25 percent of the electric industry in reliability. Being in the top quartile of electric utility reliability benchmarking signifies VPU's commitment to excellence, ensuring that the utility consistently delivers dependable service, promotes customer satisfaction, and contributes positively to the overall health of the community it serves.

Cause of Outages

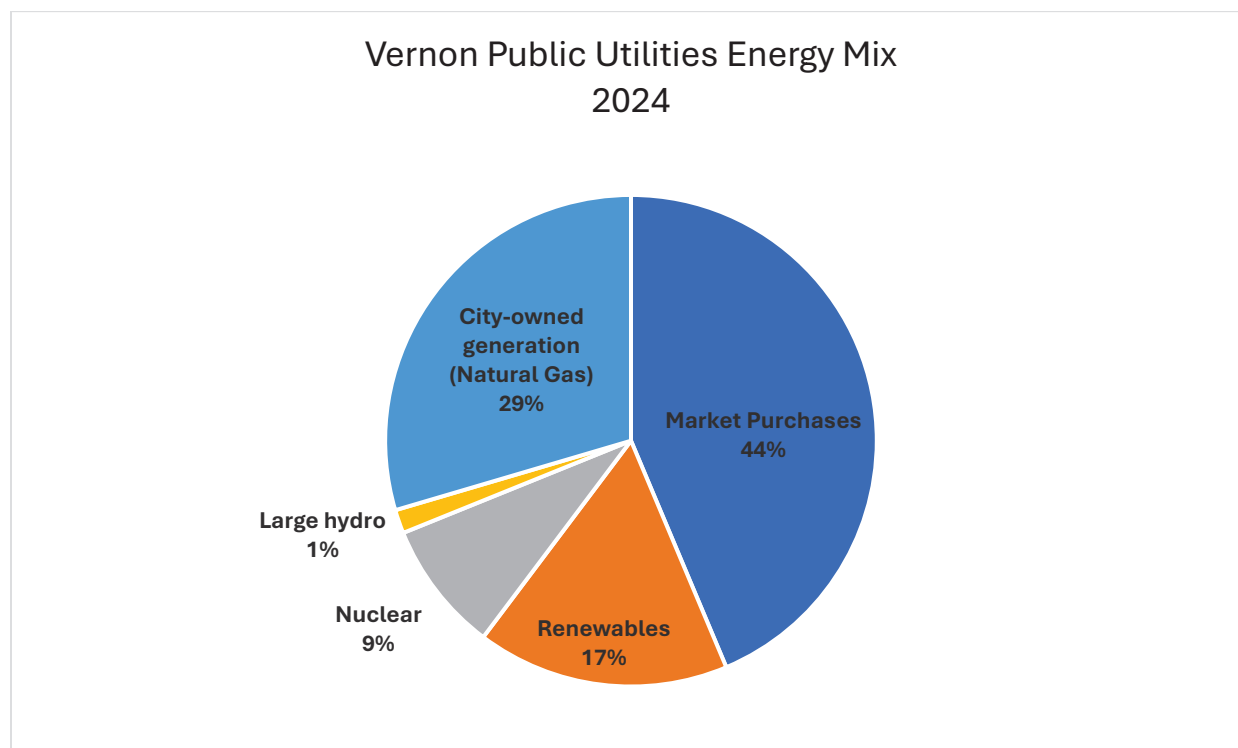
Virtually all outages in the City of Vernon are from accidental causes. Contact with metallic balloons is the primary cause of outages. The Other category includes single instances of storm damage, direct strike, and equipment damage.



Energy Resources

VPU is actively shifting its energy generation portfolio to comply with state mandates for renewable energy and zero-carbon sources. Currently, VPU participates in the California Independent System Operator (CAISO) wholesale energy markets, and its energy mix is summarized in the chart below.

To meet California's ambitious goals, VPU has an updated Integrated Resource Plan, approved by City Council in October 2023, with a state mandated goal of increasing renewable energy generation to 60% by 2030. This plan reflects VPU's commitment to a cleaner energy future for Vernon.



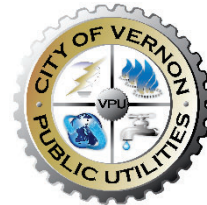
Distribution System Capital Improvement Plan

Vernon's electric utility is committed to providing reliable and sustainable power. To achieve this, VPU is investing significantly in its infrastructure through a Five-Year Capital Improvement Plan (CIP). This plan, updated annually, focuses on key upgrades to the distribution system that:

- **Improve reliability:** Proactive programs like replacing aging wood poles and upgrading conductors enhance the stability of the electrical grid, minimizing outages.
- **Increase safety:** Modernizing equipment and transitioning to higher voltage lines (7kV to 16kV) reduces risk of outages associated with vehicles, weather and foreign objects.
- **Enhance flexibility:** New substations along with equipment upgrades on a number of circuits prepares the system to support future energy demands.
- **Reduce environmental impact:** VPU is actively working to minimize its carbon footprint. This includes replacing equipment that uses sulfur hexafluoride (SF6) with more eco-friendly alternatives.

Most notably, VPU completed the Prime Substation for the development of Prime Data Center ahead of schedule and under budget. VPU's dedication to system improvements ensures a reliable and sustainable electric grid, supporting the City's growth and providing superior service to its customers. The estimated budget for the Fiscal Year 2024-25 CIP is \$20 million, demonstrating our commitment to critical infrastructure.





WATER FUND

Introduction

The VPU Water Division has been working for over a century to ensure that this critical infrastructure is able to provide safe, dependable, and affordability priced water to more than 800 customers, distributing around 1.4 billion gallons of water annually.

To accomplish its mission, the VPU Water Division proactively maintains the water infrastructure, responds to any issues as soon as possible, and proactively plans for the future needs of the water system in order to guarantee that the water delivered meets the highest quality and service standards. By prioritizing reliability, sustainability, and affordability, the VPU Water Division ensures that the Water Fund continues to succeed financially and operationally.

Reliability

With a network of 7 Wells, 3 pumping plants, and reservoirs with a total capacity of 16.6 million gallons spanning the City, as well as a direct connection to the Metropolitan Water District, the VPU Water Division ensures a consistent supply of high-quality water even during periods of peak demand or drought. This commitment to reliability is further bolstered by a comprehensive water quality monitoring program that meets rigorous Federal and State regulations.

The VPU Water Division pursues innovative technologies and best practices to ensure high-quality and reliable water service. This includes a bidirectional flushing program, valve exercising programs, prompt repair of leaks to mitigate water loss, and a state-of-the-art real-time water quality analyzer.

Capital Projects

The Water Fund continues to implement major capital investments that began in FY 2019-20. The VPU Water Division has made significant capital investments in such projects as the construction of the first new groundwater well since 1989, Well 22; well and reservoir rehabilitation; new reservoir mixing systems; and an entirely new Supervisory Control and Data Acquisition (SCADA) system along with electrical and fiber service upgrades to ensure the continued reliability of the water system.



GAS FUND

Introduction

The VPU Gas Division provides reliable and competitive natural gas service to Vernon residents and businesses. Our commitment to safety and customer service has earned national recognition, and our team of experts are available 24/7.

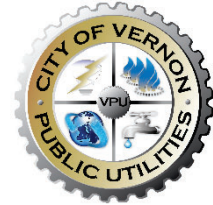
VPU Gas operates a state-of-the-art system delivering natural gas to over 125 customers, including residential, commercial, and industrial customer. Customers can save money and reduce their environmental impact with VPU's gas rebates and incentives for energy-saving upgrades. VPU's skilled technicians ensure the safety and reliability of our system with prompt leak detection and repair. VPU's gas division maintain a strong safety record through rigorous pipeline inspections, a robust Integrity Management Plan, and annual joint training with local emergency responders.

Awards

In 2021, the division received the APGA Safety Management Excellence Award, which highlights comprehensive and effective safety management systems. Furthermore, the division has been honored with the APGA Safety Award for six continuous years: 2018, 2020, 2021, 2022, 2023, and 2024. This consistent recognition of excellence in safety practices underscores the VPU Gas Division's dedication to maintaining a safe working environment and prioritizing the well-being of its employees and the community.

Gas Energy Efficiency Rebate

The VPU Gas Division supports its commercial and industrial gas customers in their efforts to decrease energy consumption and greenhouse gas (GHG) emissions through an Energy Efficiency Rebate Program, which assists customers in saving money, improving energy efficiency, and reducing GHG emissions. The rebate covers a wide range of projects, such as upgrading to high-efficiency equipment, implementing energy-saving retrofits, and replacing fleet for lower or zero-emission vehicles and forklifts.



FIBER OPTICS FUND

The VPU Fiber Optics Division offers high-speed fiber optic internet service to residents and businesses in Vernon. VPU's 2023 network upgrades deliver bidirectional speeds up to 1GB with a 100GB system capacity, exceeding AT&T speeds by up to 5 times. VPU fiber offers dedicated service lines, 24/7 technical support, consistent bi-directional high-speed connection, and 99.9% uptime, ensuring a reliable and high-performance connection. Dark fiber leases are also available. Recent upgrades have been made keeping in mind the future growth of the fiber system and to meet the system needs of our customers.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Water Enterprise Fund (the "Water Fund") of the City of Vernon, California (the "City"), as of and for the year ended June 30, 2024, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Water Fund, as of June 30, 2024, and the change in financial position, and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City as of June 30, 2024, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibility of Management for the Financial Statements

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, the Schedule of the Proportionate Share of the Net Pension Liability and Related Ratios, the Schedule of the Contributions – Pensions, the Schedule of the Proportionate Share of the Net Other Postemployment Benefits Liability and Related Ratios, and the Schedule of the Contributions – Other Postemployment Benefits be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Honorable Mayor and Members of the City Council
of the City of Vernon
Vernon, California
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Other Information

Management is responsible for the other information included in this annual report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2025 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
January 15, 2025

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The management of the Water Fund of the City of Vernon ("the City") offers the following overview and analysis of the basic financial statements of the Water Fund for the fiscal year ending June 30, 2024. Management encourages readers to utilize information in the Management's Discussion and Analysis ("MD&A") in conjunction with the accompanying basic financial statements.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

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

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

The *notes to the financial statements* provide additional information essential to fully understanding the data provided in the financial statements.

City of Vernon, California
Water Fund
Management's Discussion and Analysis (Unaudited) (Continued)
Year ended June 30, 2024

FINANCIAL HIGHLIGHTS

Net Position

The table below summarizes the Water Fund's net position as of the current fiscal year, which ended June 30, 2024, and the prior fiscal year, which ended June 30, 2023. The current year's summary details can be found on pages 12-13 of this report.

	City of Vernon Water Fund Net Position June 30, 2024 and 2023		
	<u>2024</u>	<u>2023</u>	<u>\$Variance</u>
Assets			
Current and other assets	\$ 22,702,321	\$ 20,467,062	\$ 2,235,259
Restricted and other assets	21,624	2,148,689	(2,127,065)
Due from other funds	-	18,247	(18,247)
Capital assets	23,396,376	22,413,711	982,665
Total assets	<u>46,120,321</u>	<u>45,047,709</u>	<u>1,072,612</u>
 Deferred Outflows of Resources	 <u>1,886,023</u>	 <u>1,969,039</u>	 <u>(83,016)</u>
 Liabilities			
Current liabilities	1,726,777	2,334,628	(607,851)
Long term liabilities	20,648,946	20,688,409	(39,463)
Total liabilities	<u>22,375,723</u>	<u>23,023,037</u>	<u>(647,314)</u>
 Deferred Inflows of Resources	 <u>266,718</u>	 <u>405,979</u>	 <u>(139,261)</u>
 Net Position			
Net investment in capital assets	7,642,067	8,238,109	(596,042)
Restricted for debt service	11,299	160,440	(149,141)
Unrestricted (deficit)	17,710,537	15,189,183	2,521,354
Total net position	<u><u>\$ 25,363,903</u></u>	<u><u>\$ 23,587,732</u></u>	<u><u>\$ 1,776,171</u></u>

The assets and deferred outflows of resources of the Water Fund exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$25.4 million (*net position*).

The category of the Water Fund's net position with the largest balance totaling \$17.7 million represents the unrestricted net position that is expected to be used for future projects or other purposes.

FINANCIAL HIGHLIGHTS (Continued)

The second category of net positions, totaling \$7.6 million, represents resources that are invested in capital assets, net of related debt.

The remaining category of the Water Fund's net position, totaling \$11,299, represents resources that are subject to external restrictions on how they can be used, in this case, bond debt.

Activities, Net Position

- Current assets increased by \$2,235,259 from the prior year due to increases in cash and investments by \$1,483,515, accounts receivable by \$253,650, and accrued unbilled revenue by \$505,541.
- Restricted assets decreased by \$2.1 million in 2024 as VPU continued to draw down on the Water System Revenue Bonds, 2020 Taxable Series A to fund capital projects.
- Net Capital assets increased by \$982,665 from the prior year due to additional water plant investment. (See Note 4)
- Current liabilities decreased by \$607,851 from the prior year, primarily due to a decrease in accounts payable of \$449,364.
- The net investments in capital assets and net of related debt decreased by \$569,042, the restricted for debt service decreased by \$149,141, and the unrestricted (deficit) increased by \$2.5 million, which resulted in an increase in the total net position by \$1,776,171.

City of Vernon, California
Water Fund
Management's Discussion and Analysis (Unaudited) (Continued)
Year ended June 30, 2024

FINANCIAL HIGHLIGHTS (Continued)

Changes in Net Position

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

City of Vernon Water Fund Changes in Net Position June 30, 2024 and 2023			
	<u>2024</u>	<u>2023</u>	<u>\$Variance</u>
Operating Revenues			
Charges for services	\$ 9,259,134	\$ 9,844,537	\$ (585,403)
Operating Expenses			
Cost of sales	7,097,861	6,226,053	871,808
Depreciation	708,447	575,512	132,935
Total operating expenses	<u>7,806,308</u>	<u>6,801,565</u>	<u>1,004,743</u>
 Operating income	 <u>1,452,826</u>	 <u>3,042,972</u>	 <u>(1,590,146)</u>
Nonoperating revenues (expenses)			
Investment income	928,649	327,529	601,120
Interest expense	(538,249)	(551,437)	13,188
Capital contribution	(40,524)	-	(40,524)
Gain (loss) on disposition of assets	(26,531)	14,889	(41,420)
Net nonoperating revenues (expenses)	<u>323,345</u>	<u>(209,019)</u>	<u>532,364</u>
 Change in net position	 1,776,171	 2,833,953	 (1,057,782)
 Net position - beginning of year	 <u>23,587,732</u>	 <u>20,753,779</u>	 <u>2,833,953</u>
 Net position - end of year	 <u><u>\$ 25,363,903</u></u>	 <u><u>\$ 23,587,732</u></u>	 <u><u>\$ 1,776,171</u></u>

The Water Fund's change in net position for FY 2023-24 was \$1.8 million, primarily due to an operating income of \$1.5 million and higher total nonoperating revenues (expenses) of \$323,345 when compared to the prior year. Although operating revenues decreased by \$585,403 and total operating expenses increased by \$1.0 million compared to the prior year, the change in net position for FY 2023-24 remained positive.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2024, the Water Fund's investment in capital assets amounted to \$23.4 million (net of accumulated depreciation). This investment includes land, construction in progress, and utility system improvements.

Additional information on the Water Fund's capital assets can be found in Note 4 of this report.

Outstanding Debt

As of June 30, 2024, the following Water Fund debt remains outstanding:

- \$14,085,000 City of Vernon Water System Revenue Bonds, 2020 Taxable Series A
- \$941,860 City of Vernon agreement with the Water Replenishment District of Southern California

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

As of June 30, 2024, the rating on the Water System Revenue Bonds is A-/Stable.

Additional information on the Water Fund's long-term debt can be found in Note 5 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

These factors were considered in preparing the Water Fund's FY 2024-25 operating and capital budgets.

- VPU is committed to providing dependable, high-quality electric, water, natural gas, and fiber services at competitive rates and the highest standards for reliability.
- VPU continues to respond to inflation and supply chain issues, including operating and capital costs, to maintain infrastructure investment, and to continue to provide exceptionally reliable service.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the Water Fund's FY 2023-24 financial results. Questions concerning the fund's financial results can be addressed to the Finance Department, City of Vernon, 4305 Santa Fe Avenue, Vernon, California, 90058.

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FINANCIAL STATEMENTS

Water Enterprise Fund of the City of Vernon
Statement of Net Position
June 30, 2024

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,070,299
Investments	8,407,980
Accounts receivable, net	1,197,167
Interest receivable	90
Accrued unbilled revenue	2,021,065
Prepaid items	5,720
	<hr/>
Total current assets	22,702,321
	<hr/>

Noncurrent assets:

Restricted cash and investments	21,624
Capital assets:	
Capital assets, not being depreciated	6,936,269
Capital assets, being depreciated, net	16,460,107
	<hr/>
Total capital assets	23,396,376
	<hr/>
Total noncurrent assets	23,418,000
	<hr/>
Total assets	46,120,321
	<hr/>

DEFERRED OUTFLOW OF RESOURCES

Pension related items	1,801,182
Other postemployment benefits related items	84,841
	<hr/>
Total deferred outflow of resources	\$ 1,886,023
	<hr/>

(Continued)

Water Enterprise Fund of the City of Vernon
Statement of Net Position (Continued)
June 30, 2024

LIABILITIES

Current liabilities:

Accounts payable	\$ 830,205
Accrued wages and benefits	16,732
Accrued interest payable	231,760
Customer deposits payable	193,988
Compensated absences, due within one year	39,557
Bonds payable, due within one year	275,000
Note payable, due within one year	139,535
Total current liabilities	1,726,777

Noncurrent liabilities:

Compensated absences, due in more than one year	79,115
Bonds, due in more than one year	14,307,673
Note payable, due in more than one year	802,325
Net pension liability	5,031,749
Net other postemployment benefits liability	428,084
Total noncurrent liabilities	20,648,946
Total liabilities	22,375,723

DEFERRED INFLOWS OF RESOURCES

Pension related items	154,795
Other postemployment benefits related items	111,923
Total deferred inflows of resources	266,718

NET POSITION

Net investment in capital assets	7,642,067
Restricted for debt service	11,299
Unrestricted	17,710,537
Total net position	\$ 25,363,903

(Concluded)

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Water Enterprise Fund of the City of Vernon
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2024

OPERATING REVENUES:

Charges for services	\$ 9,259,134
Total operating revenues	<u>9,259,134</u>

OPERATING EXPENSES:

Cost of sales	7,097,861
Depreciation expense	<u>708,447</u>
Total operating expenses	<u>7,806,308</u>

OPERATING INCOME	<u>1,452,826</u>
-------------------------	------------------

NONOPERATING REVENUES (EXPENSES):

Investment income	928,649
Interest expense	(538,249)
Loss on disposal of assets	<u>(6,227)</u>
Total nonoperating revenues (expenses)	<u>384,173</u>

INCOME BEFORE CONTRIBUTIONS	1,836,999
------------------------------------	-----------

TRANSFERS AND CAPITAL CONTRIBUTIONS:

Transfers out	(20,304)
Capital contribution to the City of Vernon	<u>(40,524)</u>
Total transfers and capital contributions	<u>(60,828)</u>

CHANGE IN NET POSITION	1,776,171
-------------------------------	-----------

NET POSITION:

Beginning of year	<u>23,587,732</u>
End of year	<u><u>\$ 25,363,903</u></u>

Water Enterprise Fund of the City of Vernon
Statement of Cash Flows
For the Year Ended June 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts from customers and users	\$ 8,499,943
Cash paid to suppliers for goods and services	(5,202,325)
Cash paid to employees for services	(2,061,020)
Net cash provided by operating activities	<u>1,236,598</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Receipt from other funds	18,247
Payment to other funds	(110,329)
Net cash (used in) noncapital financing activities	<u>(92,082)</u>

CASH FLOWS FROM CAPITAL AND

RELATED FINANCING ACTIVITIES:

Acquisition of capital assets	(1,758,167)
Principal paid on long-term debt	(404,535)
Interest paid on long-term debt	(562,850)
Net cash (used in) capital and related financing activities	<u>(2,725,552)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Payment to acquire investments	(8,408,124)
Interest received	937,631
Net cash provided by investing activities	<u>(7,470,493)</u>
Net (decrease) in cash and cash equivalents	<u>(9,051,529)</u>

CASH AND CASH EQUIVALENTS:

Beginning of year	20,143,452
End of year	<u>\$ 11,091,923</u>

CASH AND CASH EQUIVALENTS:

Cash and investment	\$ 11,070,299
Restricted cash and investment	21,624
Total cash and cash equivalents	<u>\$ 11,091,923</u>

(Continued)

Water Enterprise Fund of the City of Vernon
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2024

OPERATING INCOME TO NET CASH PROVIDED BY

OPERATING ACTIVITIES:

Operating income	\$ 1,452,826
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	708,447
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(253,650)
(Increase) decrease in accrued unbilled revenue	(505,541)
(Increase) decrease in prepaid items	(1,390)
(Increase) decrease in deferred outflows of resources related to pension	19,827
(Increase) decrease in deferred outflows of resources related to OPEB	63,189
Increase (decrease) in accounts payable	(449,363)
Increase (decrease) in accrued wages and benefits	(15,140)
Increase (decrease) in deposits payable	(42,900)
Increase (decrease) in compensated absences	16,206
Increase (decrease) in net pension liabilities	433,034
Increase (decrease) in OPEB liabilities	(49,686)
Increase (decrease) in deferred inflows of resources related to pension	(75,366)
Increase (decrease) in deferred inflows of resources related to OPEB	(63,895)
Total adjustment	(216,228)
Net cash provided by operating activities	\$ 1,236,598

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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Water Enterprise Fund of the City of Vernon
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For the Year Ended June 30, 2024

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Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies

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

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

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

A. *Basis of Accounting and Measurement Focus*

The Water Fund’s financial statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Water Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the sale of water. 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.

B. *Pooled Cash*

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

C. *Cash, Cash Equivalents, and Investments*

For purposes of the statement of cash flows, the Water Fund considers all highly liquid investments (including restricted cash and investments) with an original maturity of three months or less when purchased to be cash equivalents. Investment transactions are recorded on the settlement date. Investments in nonparticipating interest-earning investment contracts are reported at cost and all other investments are reported at fair value.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Fair Value Measurement

U.S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosure about fair value measurement. Investments, unless otherwise specified at fair value in the financial statements, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

- Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.
- Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

E. Interfund Transactions

Outstanding short-term borrowing between funds are reported as “due from/to other funds City funds”. Long-term interfund loans are classified as “advances to/from other City funds” on the statement of net position.

F. Accounts Receivables

Accounts receivables are shown net of an allowance for uncollectible accounts. Allowances for uncollectible accounts were \$50,684 as of June 30, 2024. Utility customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying statement of net position.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements by using purchase method.

H. Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Donated capital assets are valued at their acquisition value. Capital assets include intangible assets with indefinite lives and public domain (infrastructure) general capital assets consisting of certain improvements including water distribution mains, water wells, and pumping stations. The capitalization threshold for all capital assets is \$5,000. Capital assets used in operations are depreciated using the straight-line method over their estimated useful lives in the government-wide and proprietary funds statements.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method.

Assets	Years
Utility Plant	3-50

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

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Deferred Outflows and Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources, when applicable.

Deferred Outflows of Resources represents consumption of net assets that applies to future periods.

Deferred Inflows of Resources represents acquisition of net assets that applies to future periods.

J. Compensated Absences

Accumulated vacation is accrued when incurred. Upon termination of employment, the Water Fund will pay the employee all accumulated vacation leave at 100% of the employee's base hourly rate.

K. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs except for any portion related to prepaid insurance were recognized as expense in the period incurred. Premium or discount not considered as part of the reacquisition price was amortized over the life of the bond.

L. Pensions

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

The following timeframes are used for pension reporting:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Measurement Period	July 1, 2022 to June 30, 2023

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 1 – Summary of Significant Accounting Policies (Continued)

M. Other Postemployment Benefits (“OPEB”)

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

The following timeframes are reported OPEB reporting:

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Measurement Period	July 1, 2022 to June 30, 2023

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The amortization period differs depending on the sources of gain or loss. The difference between projected and actual earnings is amortized on a straight-line basis over 5 years. All other amounts are amortized on a straight-line basis over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) at the beginning of the measurement period.

N. Net Position

The Water Fund financial statements utilize a net position presentation. Net position is classified as follows.

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of retention payable and debt that are attributable to the acquisition, construction, or improvement of those assets, and related deferred outflows and inflows of resources, net of unspent debt proceeds.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted components of net position are available, the City’s policy is to apply the restricted component of net position first, then the unrestricted component of net position as needed.

O. Use of Estimates

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

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 2 – Cash, Cash Equivalent, and Investments

The Water Fund has the following cash and investments at June 30, 2024:

Cash and investments	\$ 19,478,279
Restricted cash and investments	21,624
Total cash and investments	\$ 19,499,903

The Water Fund cash and investments at June 30, 2024, in more detail:

Cash and cash equivalents:	
Equity in pooled cash	\$ 3,383,522
Money Market Funds	7,686,777
Total cash and cash equivalents	11,070,299
Investments:	
U.S. Government Sponsored Enterprise Securities	8,407,980
Investments with fiscal agents:	
Money Market Funds	21,624
Total	\$ 19,499,903

A. Equity in the Cash Pool of the City of Vernon

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

B. Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed ¹	Maximum Investments in One Issuer
United States Treasury Bills, Bonds and Notes	5 Years	None	None
United States Government Sponsored Agency Securities	5 Years	None	None
Local Agency Bonds	5 Years	None	None
California State and Local Agency Bonds	5 Years	30%	None
Negotiable Certificates of Deposit	5 Years	30%	None
Corporate Notes	5 Years	30%	None
Non-Government issued Mortgage-backed pass-through securities, Repurchasement Agreement	5 Years	20%	None
Banker's Acceptance Notes	1 year	None	None
Commercial Paper	180 Days	40%	30%
Reverse Repurchase Agreements	270 Days	25%	10% of the issuer outstanding paper
Mutual Funds	92 Days	20%	None
Local Agency Investment Fund (LAIF)	N/A	20%	10% of the issuer outstanding paper
	N/A	None	None

N/A - Not Applicable

¹ Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 2 – Cash and Cash Equivalents (Continued)

C. Fair Value Measurement

At June 30, 2024, investments are reported at fair value. The following table presents the fair value measurements of investments on a recurring basis and the levels with GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2024:

Investment Type	Significant Other Observable Inputs (Level 2)	Uncategorized	Total
U.S. Government Sponsored Enterprise Securities	\$ 8,407,980	\$ -	\$ 8,407,980
Investments with fiscal agents: Money Market Funds	-	21,624	21,624
Total	\$ 8,407,980	\$ 21,624	\$ 8,429,604

D. Risk Disclosures

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years.

At June 30, 2024, the Water Fund had the following investment maturities:

Investment Type	Remaining Maturity (in Years)		Total
	1 Year or Less	3 Years to 5 Years	
U.S. Government Sponsored Enterprise Securities	\$ -	\$ 8,407,980	\$ 8,407,980
Investments with fiscal agents: Money Market Funds	21,624		21,624
Total	\$ 21,624	\$ 8,407,980	\$ 8,429,604

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 (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standard and Poor's and Moody's at June 30, 2024 for each investment type:

Investment Type	Fair Value at June 30, 2024	Minimum Legal Rating	AAA
U.S. Government Sponsored Enterprise Securities	\$ 8,407,980	AAA	\$ 8,407,980
Investments with fiscal agents: Money Market Funds	21,624	AAA	21,624
Total	\$ 8,429,604		\$ 8,429,604

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 2 – Cash and Cash Equivalents (Continued)

D. Risk Disclosures (Continued)

Concentration of Credit Risk – The investment policy of the City contains no limitations on the amount that can be invested in any one issuer excluding a 10% limitation on commercial papers, mutual funds, and money market mutual funds and a 30% limitation on bankers' acceptances. The City's investment policy places no limit on the amount of debt proceeds held by a bond trustee that the trustee may invest in one issuer that is governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Custodial Credit Risk – The 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 deposits or will not be able to recover collateral securities that are in the possession of a third 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 investment or collateral securities that are in the possession of the third party. At June 30, 2024, none of the City's deposits or investments were exposed to custodial credit risk.

Note 3 – Accounts Receivable

The Water Fund's accounts receivable at June 30, 2024 are as follows:

Accounts receivable	\$ 1,247,851
Less: allowance for uncollectible accounts	(50,684)
Total accounts receivable, net	<u>\$ 1,197,167</u>

Note 4 – Capital Assets

A summary of changes in the capital assets for the Water Fund for the year ended June 30, 2024 is as follows:

	Balance July 1, 2023	Additions	Deletions	Transfers	Balance June 30, 2024
Capital assets, not being depreciated:					
Water Utility - Water	\$ 467,640	\$ -	\$ -	\$ -	\$ 467,640
Water Utility - Construction in Progress	10,643,631	1,401,035	-	(5,576,037)	6,468,629
Total capital assets, not being depreciated	<u>11,111,271</u>	<u>1,401,035</u>	<u>-</u>	<u>(5,576,037)</u>	<u>6,936,269</u>
Capital assets, being depreciated:					
Water Utility Plant	26,707,369	357,132	(685,144)	5,490,729	31,870,086
Total capital assets, being depreciated	<u>26,707,369</u>	<u>357,132</u>	<u>(685,144)</u>	<u>5,490,729</u>	<u>31,870,086</u>
Less accumulated depreciation for:					
Water Utility Plant	(15,404,929)	(708,447)	678,917	24,480	(15,409,979)
Total accumulated depreciation	<u>(15,404,929)</u>	<u>(708,447)</u>	<u>678,917</u>	<u>24,480</u>	<u>(15,409,979)</u>
Total capital assets, being depreciated, net	<u>11,302,440</u>	<u>(351,315)</u>	<u>(6,227)</u>	<u>5,515,209</u>	<u>16,460,107</u>
Total capital assets, net	<u>\$ 22,413,711</u>	<u>\$ 1,049,720</u>	<u>\$ (6,227)</u>	<u>\$ (60,828)</u>	<u>\$ 23,396,376</u>

The Water Fund's total depreciation expense for the year was \$708,447.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 5 – Long-Term Debt

A summary of changes in long-term debt for the Water Fund for the year ended June 30, 2024 is as follows:

	Balance July 1, 2023	Additions	Deletions	Balance June 30, 2024	Due within One Year	Due in More Than One Year
<u>Public Offering:</u>						
<u>Revenue Bonds:</u>						
2020 Taxable Revenue Bonds - Series A - Water	\$ 14,350,000	\$ -	\$ (265,000)	\$ 14,085,000	\$ 275,000	\$ 13,810,000
<u>Unamortized Premiums/(Discounts):</u>						
2020 Taxable Revenue Bonds - Series A - Water	516,753	-	(19,080)	497,673	-	497,673
Total Public Offering	14,866,753	-	(284,080)	14,582,673	275,000	14,307,673
<u>Direct Borrowing:</u>						
Water Replenishment District Note Payable	1,081,395	-	(139,535)	941,860	139,535	802,325
Total Direct Borrowing	1,081,395	-	(139,535)	941,860	139,535	802,325
Compensated absences	102,466	95,072	(78,866)	118,672	39,557	79,115
Total business-Type activities	\$ 16,050,614	\$ 95,072	\$ (502,481)	\$ 15,643,205	\$ 454,092	\$ 15,189,113

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

The bonds are special obligation bonds which are secured by an irrevocable pledge of water revenues payable to bondholders. Under the Indenture of Trust dated May 6, 2020, interest and principal on the bonds are payable from Net Revenues (or Revenues less Operation and Maintenance Expenses) and/or amounts in the Water Enterprise (as those terms are defined in the Indenture of Trust). The total unpaid balance as of June 30, 2024, was \$14,085,000.

The future annual debt service requirements for the Taxable Revenue Bonds, Series 2020A are as follows:

Year Ending June 30,	Principal	Interest	Total
2025	\$ 275,000	\$ 549,350	\$ 824,350
2026	-	542,475	542,475
2027	-	542,475	542,475
2028	-	542,475	542,475
2029	-	542,475	542,475
2030-2034	1,985,000	2,365,000	4,350,000
2035-2039	2,180,000	1,834,625	4,014,625
2040-2044	2,680,000	1,354,550	4,034,550
2045-2049	3,180,000	829,325	4,009,325
2050-2051	3,785,000	198,713	3,983,713
Total	<u>\$ 14,085,000</u>	<u>\$ 9,301,463</u>	<u>\$ 23,386,463</u>

Water Replenishment District Note Payable – Direct Borrowing

In May 2019, the City entered into an agreement with Water Replenishment District of Southern California (WRD) for assistance with the construction of a new groundwater well or rehabilitation of an existing groundwater well. The promissory note is unsecured and has no interest basis for an amount not to exceed \$1,500,000. As of June 30, 2024, WRD has disbursed all of the funds under the agreement to the City. The note is payable in quarterly principal payments commencing September 1, 2020, in an amount which, together with all quarterly payments, will be sufficient to fully amortize the principal balance of the note by the maturity date of April 1, 2031. The total unpaid balance as of June 30, 2024, was \$941,860.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 5 – Long-Term Debt (Continued)

Water Replenishment District Note Payable – Direct Borrowing (Continued)

Upon an event of default, WRD may declare any or all of the outstanding and unpaid principal balance immediately due and payable, without presentment, demand, protest, notice of protest, notice of acceleration or of intention to accelerate or any other notice, declaration or act of any kind, all of which are hereby expressly waived by the City.

The future annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2025	\$ 139,535	\$ -	\$ 139,535
2026	139,535	-	139,535
2027	139,535	-	139,535
2028	139,535	-	139,535
2029	139,535	-	139,535
2030-2031	244,185	-	244,185
Total	\$ 941,860	\$ -	\$ 941,860

Compensated Absences

The balance outstanding at June 30, 2024, was \$118,672.

Right to Accelerate Upon Default

Notwithstanding anything contrary in the indenture or in the bonds, upon the occurrence of an event of default, the Trustee may, with the consent of each credit provider whose consent is required by a supplemental indenture or a credit support agreement, and shall, at the direction of the owners of a majority in principal amount of outstanding bonds (other than bonds owned by or on behalf of the City) by written notice to the City, declare the principal of the outstanding bonds and the interest thereon to be immediately due and payable, whereupon such principal and interest shall, without further action, become and be immediately due and payable.

Credit Ratings

As of June 30, 2024, the ratings on Water System Revenue Bonds were A- stable by S&P and not rated by Moody's.

Note 6 – Risk Management

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

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors, and omissions; injuries to employees, and natural disasters. The City utilizes insurance policy(s) to transfer these risks. Each policy has either self-insured retention or deductible, which are parts of the City's Risk Financing Program. These expenses are paid on a cash basis as they are incurred. There have been no significant settlements or deductions in insurance coverage during the past three fiscal years. Starting in Fiscal 2010, the City chose to establish Risk Financing in the General Fund, whereby assets are set aside for claim-litigation settlements associated with the above mentioned risks up to their self-insured retentions or policy deductibles. Athens Administrators Inc. is the Third-Party Administrator for the City's workers' compensation program and they provide basic services for general liability claims and litigation.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 6 – Risk Management (Continued)

The insurance limits for the fiscal year 2024 are as follows:

Insurance Type	Program Limits	Deductible/SIR (Self-Insured Retention)
1st Excess Liability	\$5,000,000	\$2 Million \$3 Million Law Enforcement
2nd Excess Liability	\$5,000,000	\$5,000,000
3rd Excess Liability	\$5,000,000	\$10,000,000
4th Excess Liability	\$5,000,000	\$15,000,000
Excess Workers Compensation	\$50,000,000	\$1,000,000
Excess Liability - Malburg Generating Station	\$100,000,000	-
Property - Power Generating	\$100,000,000	\$1.5 Million Presumptive Loss
Property - Residential	\$7,950,653	Various
Property - Municipal	\$59,614,930	\$2,500
Property - Malburg Generating Station	\$200,000,000	\$25,000
Commercial Property/EQ and FL	\$50,000,000	-
Government Crime	\$1,000,000	\$25,000
Premise Pollution/Environmental Impairment	\$5,000,000 \$5,000,000 per Claim	\$25,000 \$50,000 Utility Locs.
Cyber Liability	\$5,000,000	\$100,000 Natural Gas Pipeline \$100,000
Auto Physical Damage	\$10,000,000	\$5,000
Residential Property Insurance	\$7,950,653	\$2,500
Terrorism	\$100 Million Property Terrorism \$5 Million Terrorism Liability \$5 Million Active Shooter	\$0
Special Events	\$2,000,000	\$1,000,000 Each Occurrence

Note 7 – Pension Plan

A. General Information about the Pension Plans

Plan Descriptions

The City contribution to the California Public Employees Retirement System (“CalPERS”), an agent multiple-employer defined benefit pension plan for miscellaneous employees and a cost-sharing multiple-employer defined benefit plan for safety employees. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. The City allocates pension costs across all funds on a cost-sharing basis.

A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2022 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 7 – Pension Plan (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions under both plans are established by State Statute and City Resolution as follows:

	Miscellaneous	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 yrs	52 yrs
Monthly benefits, as a % of eligible compensation	2.0%-2.7%, 50 yrs -55 yrs, respectively	1.0%-2.0%, 52 yrs -62 yrs, respectively
Required employee contribution rate (FY23-24)	8.00%	7.00%
Required employer contribution rate (FY23-24)	13.17%	13.17%
Required employer contribution rate (FY22-23)	11.50%	11.50%

	Safety	
	Classic	PEPRA
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 yrs	50 yrs
Monthly benefits, as a % of eligible	3%, 50 yrs	2.0%-2.7% 50 yrs - 57 yrs respectively
Required employee contribution rate (FY23-24)	9.00%	14.50%
Required employer contribution rate (FY23-24)	27.40%	19.78%
Required employer contribution rate (FY21-22)	23.39%	20.70%

Participants are eligible for non-industrial disability retirement if they become disabled and have at least 5 years credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by service years.

Industrial disability benefits are not offered to miscellaneous employees. The City provides industrial disability retirement benefits to safety employees only. The industrial disability retirement benefit is a monthly allowance equal to 50 percent of final compensation.

An employee's beneficiary may receive the basic death benefit if the employee becomes deceased while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 6.0 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 7 – Pension Plan (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis up to 2 percent.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute to the difference between the actuarially determined rate and the contribution rate of employees. For the year ended Jun 30, 2024, the Water Fund's share of employer contributions made to the plans was \$490,031.

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

Assumptions

The net pension liability of each of the Plans is measured as of June 30, 2023, using an annual actuarial valuation as of June 30, 2022, rolled forward to June 30, 2023, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds.
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection. Allowance floor on purchasing power applies, 2.30% thereafter

⁽¹⁾The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more details, please refer to the 2021 experience study report that can be found on the CalPERS website.

Long-Term Expected Rate of Return

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

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 7 – Pension Plan (Continued)

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

Long-Term Expected Rate of Return (Continued)

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

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

Asset Class ¹	Assumed Asset Allocation	Real Return ^{1,2}
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.80%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
	<u>100%</u>	

¹ An expected inflation of 2.30% used for this period.

² Figures are based on the 2021 Asset Liability Management study.

Discount Rate

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on the assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Proportionate Share of Net Pension Liability – Allocation of the City's Pension Plans to the Water Fund

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

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 7 – Pension Plan (Continued)

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

Proportionate Share of Net Pension Liability – Allocation of the City’s Pension Plans to the Water Fund

The Water Fund’s proportionate share of the aggregate net pension liability for the pension plans as of the measurement date ended June 30, 2022 and 2023 were as follows:

	Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)	Proportionate Share
Balance at 6/30/22 (Valuation Date)	\$ 14,979,776	\$ 10,381,061	\$ 4,598,715	2.92%
Balance at 6/30/23 (Measurement Date)	15,829,660	10,797,911	5,031,749	2.96%
Net changes during 2022-2023	\$ 849,884	\$ 416,850	\$ 433,034	0.04%

Pension Expense and Deferred Outflows and Inflows of Resources

For the measurement period ended June 30, 2023, the Water Fund recognized its proportionate share of the aggregate pension expense of the Plans totaled \$822,051. At June 30, 2024, the Water Fund reported its proportionate share of the Plans’ aggregate deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution made after measurement period	\$ 490,031	\$ -
Changes of assumptions	243,421	-
Difference between expected and actual experience	355,554	(19,785)
Net difference between projected and actual earning on pension plan investments	652,451	-
Adjustment due to differences in proportions	40,075	(32,513)
Difference between City contributions and proportionate share of contribution	19,650	(102,497)
Total	\$ 1,801,182	\$ (154,795)

\$490,031 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the collective net pension liability in the year ending June 30, 2024. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ending June 30	Total
2024	\$ 389,002
2025	249,052
2026	499,833
2027	18,469
Thereafter	-
Total	\$ 1,156,356

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 7 – Pension Plan (Continued)

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

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

The following presents the Water Fund’s proportionate share of the Plans’ aggregate net pension liability, calculated using a discount rate of 6.90%, as well as what the Water Fund’s proportionate share of the Plans’ aggregate net pension liability would be if it were calculated using a discount rate that is a 1-percentage point lower (5.90%) or a 1-percentage point higher (7.90%) than the current rate:

Water Fund's Net Pension Liability			
	Discount Rate	Current Discount	Discount Rate
	- 1% (5.90%)	Rate (6.90%)	+ 1% (7.90%)
Miscellaneous Plan	\$ 2,813,873	\$ 1,883,966	\$ 1,123,737

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

The Water Fund had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2024.

Note 8 – Other Postemployment Benefits (“OPEB”)

A. General Information about the OPEB Plan

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

Benefits Provided

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

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

A. General Information about the OPEB Plan (Continued)

Benefits Provided (Continued)

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

Contributions

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

For the fiscal year ended June 30, 2024, the Water Fund’s proportionate share of contributions made to the trust was \$40,724, \$54,595 for retiree premiums, resulting in a total contribution of \$95,319.

B. Net OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB

The OPEB liability was measured as of June 30, 2023, and total liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

B. Net OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Significant Actuarial Assumptions Used for Total OPEB Liability

The total OPEB liability, measured as of June 30, 2023, was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry-age normal, level percent of pay
Actuarial Assumptions:	
Asset Valuation Method	Market value of assets
Inflation	2.30%
Salary Increases	2.80% wage inflation plus seniority, merit, and promotion salary increases based on CalPERS Expenditure Study and Review of Actuarial Assumptions published in November 2021
Long Term return on Assets	5.10%
Discount Rate	6.00%
Mortality Improvement	CalPERS 2021 Experience Study; Project with MP Scale 2020
Healthcare Trend	Based on 2022 Getzen model with in inflation rate of 6.50% non-Medicare / 5.40% Medicare decreasing gradually to an ultimate rate of 3.73% by 2076

Change in assumptions

In 2023, there were no changes in assumptions.

Discount Rate

The discount rate used to measure the total OPEB liability was 6.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are aggregate to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

B. Net OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	49.00%	6.80%
Fixed Income	23.00%	3.70%
Global Real Estate (REITs)	20.00%	6.00%
Treasury Inflation Protected Securities (TIPS)	5.00%	2.80%
Commodities	3.00%	3.40%
	<u>100.00%</u>	

* Preliminary estimate, pending confirmation by CalPERS

The Water Fund’s proportionate share of the net OPEB liability as of the measurement dates ended June 30, 2022 and 2023 was as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)	Proportionate Share
Balance at June 30, 2022	\$ 796,735	\$ 318,965	\$ 477,770	2.92%
Balance at June 30, 2023 (Measurement Date)	819,100	391,016	428,084	2.96%
Net changes during 2022-23	22,365	72,051	(49,686)	0.04%

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

The following presents the Water Fund’s proportionate share of the net OPEB liability if it were calculated using a discount rate that is 1% point lower (5.00%) or 1% point higher (7.00%) than the current rate:

Plan's Net OPEB Liability		
Discount Rate -1% (5.00%)	Current Discount Rate (6.00%)	Discount Rate +1 % (7.00%)
\$ 520,254	\$ 428,084	\$ 350,673

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

The following presents the Water Fund’s proportionate share of the net OPEB liability if it were calculated using a healthcare cost trend rates that are 1% percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates:

Plan's Net OPEB Liability		
Healthcare Cost Trend Rate - 1%	Healthcare Cost Trend Rate	Healthcare Cost Trend Rate + 1%
\$ 389,090	\$ 428,084	\$ 466,225

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 8 – Other Postemployment Benefits (“OPEB”) (Continued)

B. Net OPEB Liabilities, OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

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

For the year ended June 30, 2024, the Water Fund recognized its proportionate share of the OPEB expense of \$18,151. At June 30, 2024, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contribution made after measurement period	\$ 39,889	\$ -
Changes in assumptions	19,019	(41,052)
Difference between expected and actual experience	2,114	(70,871)
Net difference between projected and actual earning on OPEB plan investments	23,819	-
Total	<u>\$ 84,841</u>	<u>\$ (111,923)</u>

The \$39,889 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2025. Differences between projected and actual investment earnings are amortized on a five-year straight-line basis and all other amounts are amortized over the expected average remaining service lives of all members that are provided with benefits. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Measurement Period Ending June 30	Deferred Outflows/(Inflows) of Resources
2024	\$ (58,200)
2025	(7,827)
2026	8,561
2027	(5,713)
2028	(2,908)
Thereafter	(884)
Total	<u>\$ (66,971)</u>

Payable to the OPEB Plan

At June 30, 2024, the Water Fund had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2024.

Water Enterprise Fund of the City of Vernon
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2024

Note 9 – Net Investment in Capital Assets

The investment in capital assets for Water Fund is calculated as follows:

Total capital assets, net	\$ 23,396,376
Unspent capital debt proceed	10,325
Retention payable	(240,101)
Capital related debt	<u>(15,524,533)</u>
Net investment in capital assets	<u><u>\$ 7,642,067</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2024

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan

Fiscal year	2015	2016	2017	2018	2019
Measurement period	2013-14	2014-15	2015-16	2016-17	2017-18
Water Fund's proportion of the net pension liability	3.70%	3.55%	3.80%	3.74%	3.11%
Water Fund's proportionate share of the net pension liability	\$ 2,906,320	\$ 2,715,464	\$ 3,619,851	\$ 4,100,788	\$ 3,533,209
Covered payroll ¹	\$ 872,232	\$ 867,934	\$ 499,838	\$ 1,038,438	\$ 1,100,727
Water Fund's proportionate share of the net pension liability as a percentage of covered payroll	333.20%	312.87%	724.20%	394.90%	320.99%
Water Fund fiduciary net position as a percentage of the total pension liability	77.73%	78.15%	78.91%	77.85%	77.68%

¹ Includes one year's payroll growth using 2.80 percent payroll growth assumption for fiscal years ended June 30, 2022 and 2023; 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00 percent payroll growth assumption for fiscal years ended June 30, 2015-17.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2023-24 were derived from the June 30, 2021 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	Fair Market Value
Inflation	2.300%
Salary increases	varies by entry age and service
Payroll Growth	2.800%
Investment rate of return	6.8% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios (Continued)
For the Year Ended June 30, 2024

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan

Fiscal year	2020	2021	2022	2023	2024
Measurement period	2018-19	2019-20	2020-21	2021-22	2022-23
Water Fund's proportion of the net pension liability	3.28%	3.45%	3.23%	2.92%	2.96%
Water Fund's proportionate share of the net pension liability	\$ 3,964,339	\$ 4,668,011	\$ 2,845,943	\$ 4,598,715	\$ 5,031,748
Covered payroll ¹	\$ 925,620	\$ 891,592	\$ 792,625	\$ 628,181	\$ 734,026
Water Fund's proportionate share of the net pension liability as a percentage of covered payroll	428.29%	523.56%	359.05%	732.07%	685.50%
Water Fund fiduciary net position as a percentage of the total pension liability	76.15%	74.79%	85.45%	69.30%	68.21%

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions
For the Year Ended June 30, 2024

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan

Fiscal year	2015	2016	2017	2018	2019
Measurement period	2013-14	2014-15	2015-16	2016-17	2017-18
Water Fund's Allocation Percentage	3.70%	3.55%	3.80%	3.74%	3.11%
Actuarially determined contribution	\$ 239,819	\$ 293,125	\$ 346,113	\$ 354,831	\$ 339,930
Contributions in relation to the actuarially determined contribution	(239,819)	(293,125)	(346,113)	(354,831)	(339,930)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll ¹	\$ 903,792	\$ 927,331	\$ 1,038,438	\$ 1,100,727	\$ 925,620
Contributions as a percentage of covered payroll.	26.53%	31.61%	33.33%	32.24%	36.72%

¹ Includes one year's payroll growth using 2.80 percent payroll growth assumption for fiscal years ended June 30, 2022-2024; 2.75 percent payroll growth assumption for fiscal years ended June 30, 2018-21; 3.00 percent payroll growth assumption for fiscal years ended June 30, 2015-17.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2023-24 were derived from the June 30, 2021 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percentage of payroll
Asset valuation method	Fair Market Value
Inflation	2.300%
Salary increases	varies by entry age and service
Payroll Growth	2.800%
Investment rate of return	6.8% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Pensions (Continued)
For the Year Ended June 30, 2024

Last Ten Fiscal Years

California Public Employees' Retirement System Defined Pension Plan

Fiscal year	2020	2021	2022	2023	2024
Measurement period	2018-19	2019-20	2020-21	2021-22	2022-23
Water Fund's Allocation Percentage	3.28%	3.45%	3.23%	2.92%	2.96%
Actuarially determined contribution	\$ 404,765	\$ 435,752	\$ 459,607	\$ 470,851	\$ 490,031
Contributions in relation to the actuarially determined contribution	(404,765)	(435,752)	(459,607)	(470,851)	(490,031)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll ¹	\$ 891,592	\$ 792,625	\$ 628,181	\$ 734,026	\$ 754,579
Contributions as a percentage of covered payroll.	45.40%	54.98%	73.16%	64.15%	64.94%

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Other Postemployment
Benefits Liability and Related Ratios
For the Year Ended June 30, 2024

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2018	2019	2020	2021	2022
Measurement period	2016-17 ¹	2017-18	2018-19	2019-20	2020-21
Water Fund's proportion of the net OPEB liability	4.08%	3.11%	3.28%	3.45%	3.23%
Water Fund's proportionate share of the net OPEB liability	\$ 1,482,614	\$ 719,107	\$ 719,261	\$ 697,329	\$ 529,343
Covered employee payroll	\$ 1,368,760	\$ 1,368,166	\$ 1,095,236	\$ 1,048,734	\$ 1,093,781
Water Fund's proportionate share of the net OPEB liability as a percentage of covered employee payroll	108.32%	52.56%	65.67%	66.49%	48.40%
Water Fund Fiduciary Net Position as a percentage of the total OPEB liability	2.83%	8.62%	16.30%	25.70%	40.22%

¹ Historical information is presented only for measurement periods after GASB 75 was implemented in fiscal year of 2017-18 (measurement period of 2016-17). Additional years of information will be displayed as it becomes available.

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Proportionate Share of the Net Other Postemployment
Benefits Liability and Related Ratios (Continued)
For the Year Ended June 30, 2024

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2023	2024
Measurement period	2021-22	2022-23
Water Fund's proportion of the net OPEB liability	2.92%	2.96%
Water Fund's proportionate share of the net OPEB liability	\$ 477,770	\$ 428,084
Covered employee payroll	\$ 739,897	\$ 724,665
Water Fund's proportionate share of the net OPEB liability as a percentage of covered employee payroll	64.57%	59.07%
Water Fund Fiduciary Net Position as a percentage of the total OPEB liability	40.03%	47.74%

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits
For the Year Ended June 30, 2024

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 109,990	\$ 83,829	\$ 63,389	\$ 53,086	\$ 49,744
Contributions in relation to the actuarially determined contribution	(84,361)	(93,060)	(128,484)	(108,041)	(94,830)
Contribution deficiency (excess)	<u>\$ 25,629</u>	<u>\$ (9,231)</u>	<u>\$ (65,095)</u>	<u>\$ (54,955)</u>	<u>\$ (45,086)</u>
Covered-employee payroll	\$ 1,368,166	\$ 1,095,236	\$ 1,048,734	\$ 1,093,781	\$ 1,024,922
Contributions as a percentage of covered-employee payroll	6.17%	8.50%	12.25%	9.88%	9.25%

¹ Historical information is presented only for measurement periods after GASB 75 was implemented in fiscal year of 2017-18 (measurement period of 2016-17). Additional years of information will be displayed as it becomes available.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2023-204 were derived from the June 30, 2022 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll
Amortization period	30 years
Inflation	2.30%
Discount Rate	6.00%
Payroll Growth	2.80%
Healthcare trend rates	7.00%, trending down to 3.73%

Water Enterprise Fund of the City of Vernon
Required Supplementary Information (Unaudited)
Schedule of Contributions - Other Postemployment Benefits (Continued)
For the Year Ended June 30, 2024

Last Ten Fiscal Years¹

Other Postemployment Benefits ("OPEB") Plan

Fiscal year	2023	2024
Actuarially determined contribution	\$ 40,896	\$ 40,724
Contributions in relation to the actuarially determined contribution	(90,700)	(92,073)
Contribution deficiency (excess)	<u>\$ (49,804)</u>	<u>\$ (51,349)</u>
Covered-employee payroll	\$ 713,856	\$ 724,665
Contributions as a percentage of covered-employee payroll	12.71%	12.71%

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