

In the Matter of the Calculation of Final Compensation of:

Bruce Malkenhorst, Sr., Respondent,  
and  
City of Vernon, Respondent

OAH Case No. 2013080917

CalPERS Case No. 2012-0671

**EXHIBIT LLL (36 PAGES)**

**CITY OF VERNON**

**General-Purpose Financial Statements  
and Supplemental Combining Statements  
with Independent Auditor's Reports**

**Fiscal Year Ended June 30, 2002**



**Macias, Gini & Company LLP**

**Certified Public Accountants and  
Management Consultants**

CalPERS011556

**CITY OF VERNON**  
**FISCAL YEAR ENDED JUNE 30, 2002**

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Honorable City Council  
City of Vernon, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the City of Vernon, California (the "City"), as of June 30, 2002, and for the fiscal year then ended, as listed in the accompanying table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management; as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of June 30, 2002, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The supplemental combining statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements of the City. Such supplemental combining statements have been subjected to the auditing procedures applied in our audit of the general-purpose financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

*Macias, Gini & Company LLP*  
Certified Public Accountants

Los Angeles, California  
January 24, 2003

Offices Located Throughout California

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**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**CITY OF VERNON**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP**  
**JUNE 30, 2002**

ASSETS	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Cash and investments	\$ 11,897,514	\$ 3,405,121	\$ 2,225,746
Accrued interest receivable	-	-	25,000
Accounts receivable	848,058	330,982	-
Taxes receivable	715,493	549,015	-
Employee loans receivable	73,042	-	-
Accrued unbilled revenue	-	-	-
Due from other funds	1,586,070	-	167,824
Inventories, at cost	710,377	-	-
Deposits	153,933	-	-
Advance receivable from outside party	-	-	-
Advances to other funds	12,580,488	-	-
Loans receivable	-	-	3,000,000
Restricted cash and investments	-	9,172,742	-
Fixed assets	-	-	-
Accumulated depreciation	-	-	-
Other assets	-	-	-
<b>TOTAL</b>	<b>\$ 28,564,975</b>	<b>\$ 13,457,860</b>	<b>\$ 5,418,570</b>

See accompanying notes to general-purpose financial statements.

Proprietary Fund Types		Account Group	Totals
Enterprise	Internal Service	General Fixed Assets	(Memorandum Only)
\$ 59,609,999	\$ 10,147,624	\$ -	\$ 87,286,004
1,035,659	-	-	1,060,659
9,576,368	-	-	10,755,408
-	-	-	1,264,508
-	-	-	73,042
6,783,720	-	-	6,783,720
-	66,124	-	1,820,018
7,398	-	-	717,775
7,860	-	-	161,793
4,819,543	-	-	4,819,543
29,795,941	-	-	42,376,429
-	-	-	3,000,000
7,044,206	-	-	16,216,948
182,622,928	-	38,149,245	220,772,173
(59,173,697)	-	-	(59,173,697)
1,208,848	-	-	1,208,848
<u>\$ 243,338,773</u>	<u>\$ 10,213,748</u>	<u>\$ 38,149,245</u>	<u>\$ 339,143,171</u>

(Continued)

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP**  
**JUNE 30, 2002**

LIABILITIES, FUND EQUITY (DEFICIT) AND OTHER CREDIT	Governmental Fund Types		
	General	Special Revenue	Capital Projects
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	\$ 2,564,749	\$ 81,423	\$ 593,840
Customer deposits and advances	725,292	-	-
Accrued in lieu of taxes due to General Fund	-	-	-
Due to other funds	167,824	-	-
Deferred revenue	1,088,274	438,389	-
Advances from other funds	-	-	17,000,218
Total liabilities	4,546,139	519,812	17,594,058
<b>FUND EQUITY (DEFICIT) AND OTHER CREDIT:</b>			
Investment in general fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings	15,103,816	-	3,000,000
Reserved fund balances	-	-	-
Unreserved, undesignated fund balances (deficit)	8,915,020	12,938,048	(15,175,488)
Total fund equity (deficit) and other credit	24,018,836	12,938,048	(12,175,488)
<b>TOTAL</b>	<b>\$ 28,564,975</b>	<b>\$ 13,457,860</b>	<b>\$ 5,418,570</b>

See accompanying notes to general-purpose financial statements.

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Proprietary Fund Types		Account Group	Totals
Enterprise	Internal Service	General Fixed Assets	(Memorandum Only)
\$ 12,959,496	\$ 4,598,056	\$ -	\$ 20,797,564
1,021,630	-	-	1,746,922
1,196,413	-	-	1,196,413
389,657	66,124	-	623,605
25,376,211	-	-	1,526,663
<u>40,943,407</u>	<u>4,664,180</u>	<u>-</u>	<u>42,376,429</u>
-	-	38,149,245	38,149,245
2,402,205	4,388,676	-	6,790,881
199,993,161	1,160,892	-	201,154,053
-	-	-	18,103,816
-	-	-	<u>6,677,580</u>
<u>202,395,366</u>	<u>5,549,568</u>	<u>38,149,245</u>	<u>270,875,575</u>
<u>\$ 243,338,773</u>	<u>\$ 10,213,748</u>	<u>\$ 38,149,245</u>	<u>\$ 339,143,171</u>

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICITS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	General	Special Revenue
<b>REVENUES:</b>		
Sales and use taxes	\$ 4,510,113	\$ -
Franchise taxes	3,969,222	-
Property taxes	2,033,154	4,741,013
Building permits and plan check fees	1,469,055	-
Community services	598,328	8,587
Business licenses	973,337	326,826
Intergovernmental		9,760
Investment income (loss):		
Interest income, including gains (losses) on sale of investments	473,938	-
Net increase (decrease) in fair value of investments	11,771	(94,867)
Fines and forfeitures	346,910	-
Miscellaneous	600,374	-
Charges for services to Enterprise Funds	7,131,953	-
	<u>22,118,155</u>	<u>4,991,319</u>
<b>Total revenues</b>		
<b>EXPENDITURES:</b>		
Current:		
General government	5,497,074	-
Fire protection	7,636,174	96,076
Police protection	6,484,560	-
Public works	5,285,970	10,245
Health services	906,896	137,490
Debt service - interest	-	-
Capital outlay	1,199,385	-
	<u>27,030,059</u>	<u>243,811</u>
<b>Total expenditures</b>		
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(4,911,904)	4,747,508
<b>OTHER FINANCING SOURCES:</b>		
Operating transfers in	8,860,618	-
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	3,948,714	4,747,508
<b>FUND BALANCES (DEFICITS), BEGINNING OF YEAR</b>	<u>20,070,122</u>	<u>8,190,540</u>
<b>FUND BALANCES (DEFICITS), END OF YEAR</b>	<u>\$ 24,018,836</u>	<u>\$ 12,938,048</u>

See accompanying notes to general-purpose financial statements.

Capital Projects	Totals (Memorandum Only)
\$ -	\$ 4,510,113
-	3,969,222
3,490,258	10,264,425
-	1,469,055
-	606,915
-	1,300,163
-	9,760
183,124	657,062
3,229	(79,867)
-	346,910
12,300	612,674
-	7,131,953
<u>3,688,911</u>	<u>30,798,385</u>
392,914	5,889,988
-	7,752,250
-	6,484,560
2,118,513	7,414,728
-	1,044,386
512,661	512,661
-	1,199,385
<u>3,024,088</u>	<u>30,297,958</u>
664,823	500,427
-	8,860,618
664,823	9,361,045
<u>(12,840,311)</u>	<u>15,420,351</u>
<u>\$ (12,175,488)</u>	<u>\$ 24,781,396</u>

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES (DEFICITS) - BUDGET AND ACTUAL ON A BUDGETARY BASIS**  
**GENERAL FUND, SPECIAL REVENUE FUNDS AND CAPITAL PROJECTS FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Budget	Actual on a Budgetary Basis	Variance Favorable (Unfavorable)	Budget	Actual on a Budgetary Basis	Variance Favorable (Unfavorable)
<b>REVENUES:</b>						
Sales and use taxes	\$ 3,000,000	\$ 4,510,113	\$ (499,887)	-	-	-
Franchise taxes	3,254,000	3,969,232	715,232	-	-	-
Property taxes	4,399,400	2,023,194	(2,365,246)	-	4,741,015	4,741,015
Building permits and plan check fees	1,477,500	1,469,055	(8,445)	-	-	-
Community services	153,000	398,328	443,328	-	8,527	8,527
Business licenses	1,400,000	973,337	(426,663)	708,800	326,826	(373,174)
Intergovernmental	-	-	-	8,800	9,760	960
Investment income (loss)	7,000,000	483,709	(6,514,291)	-	(94,867)	(94,867)
Fines and forfeitures	150,000	346,910	196,910	-	-	-
Miscellaneous	482,790	600,374	117,584	-	-	-
Charges for services to Employee Funds	10,000,000	7,131,533	(2,868,467)	-	-	-
Reserve	4,750,000	-	4,750,000	-	-	-
<b>Total revenues</b>	<b>40,270,290</b>	<b>22,118,155</b>	<b>(18,152,135)</b>	<b>708,800</b>	<b>4,971,319</b>	<b>4,262,519</b>
<b>EXPENDITURES:</b>						
Current:						
General government	4,771,544	5,668,821	1,102,745	-	-	-
Fire protection	7,551,052	4,095,530	(1,42,478)	-	96,896	(96,878)
Police protection	7,333,434	6,535,499	1,297,985	-	-	-
Public works	7,027,921	3,571,924	1,435,997	-	10,245	(10,245)
Public services	1,316,813	937,990	232,843	-	137,490	(137,490)
Debt service - interest	-	-	-	-	-	-
Capital outlay	3,318,922	118,544	3,200,376	-	-	-
<b>Total expenditures</b>	<b>34,029,748</b>	<b>26,912,260</b>	<b>7,147,468</b>	<b>-</b>	<b>243,811</b>	<b>(243,811)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>6,190,542</b>	<b>(4,814,123)</b>	<b>(11,004,667)</b>	<b>708,800</b>	<b>4,747,508</b>	<b>4,006,708</b>
<b>OTHER FINANCING SOURCES:</b>						
Operating transfers in	-	8,660,618	8,660,618	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>6,190,542</b>	<b>4,046,493</b>	<b>(2,144,049)</b>	<b>708,800</b>	<b>4,747,508</b>	<b>4,006,708</b>
<b>FUND BALANCES (DEFICITS), BEGINNING OF YEAR</b>	<b>20,070,123</b>	<b>20,070,123</b>	<b>-</b>	<b>3,190,540</b>	<b>3,190,540</b>	<b>-</b>
<b>FUND BALANCES (DEFICITS), END OF YEAR</b>	<b>\$ 26,260,664</b>	<b>\$ 24,116,613</b>	<b>(2,144,051)</b>	<b>\$ 3,900,540</b>	<b>\$ 12,938,048</b>	<b>4,038,708</b>

See accompanying notes to general-purpose financial statements.

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Capital Project Funds			Totals (Manufacture City)		
Budget	Actual on a Budgetary Basis	Variance Favorable (Unfavorable)	Budget	Actual on a Budgetary Basis	Variance Favorable (Unfavorable)
\$	\$	\$	\$	\$	\$
			1,000,000	4,510,113	(489,887)
			3,254,000	3,849,222	715,222
	3,490,351	3,490,358	4,398,400	10,284,425	5,886,025
			1,479,300	1,469,264	(10,036)
			153,800	606,915	453,115
			2,100,000	1,300,163	(799,837)
			8,300	9,760	960
	184,333	184,337	7,000,000	377,193	(6,622,807)
			(50,000)	346,910	196,910
	12,300	12,300	683,390	612,674	(70,716)
			10,000,000	7,131,953	(2,868,047)
			6,750,000		(6,750,000)
	3,682,911	3,682,911	40,979,090	30,798,385	(10,180,705)
	392,914	(392,914)	6,771,346	6,061,735	(709,611)
			7,937,032	8,190,806	(253,774)
1,926,000	2,118,515	(192,515)	7,833,434	6,335,469	(1,497,965)
	582,661	(582,661)	8,853,921	7,700,882	(1,153,039)
1,709,496		1,709,496	1,170,833	1,075,480	(95,353)
				512,661	(512,661)
				118,546	(118,546)
3,635,496	3,024,081	611,415	37,715,244	30,300,179	(7,415,065)
(3,635,496)	664,823	4,300,319	3,263,846	598,206	(2,665,640)
				8,860,618	8,860,618
(3,635,496)	664,823	4,300,319	3,263,846	9,458,824	6,194,978
(12,840,311)	(12,840,311)		13,420,351	15,420,351	
\$ (16,472,807)	\$ (12,175,488)	4,300,319	\$ 18,684,197	\$ 24,879,125	\$ 6,194,928

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS**  
**ALL PROPRIETARY FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	Enterprise	Internal Service	Totals (Memorandum Only)
<b>OPERATING REVENUES:</b>			
Power and water sales	\$ 105,798,713	\$ -	\$ 105,798,713
Charges for services	-	5,770,977	5,770,977
<b>Total operating revenues</b>	<b>105,798,713</b>	<b>5,770,977</b>	<b>111,569,690</b>
<b>OPERATING EXPENSES:</b>			
Cost of sales	105,072,189	-	105,072,189
In lieu of franchise tax	2,638,046	-	2,638,046
Depreciation	3,430,317	-	3,430,317
Employee benefits	-	6,486,421	6,486,421
<b>Total operating expenses</b>	<b>111,140,552</b>	<b>6,486,421</b>	<b>117,626,973</b>
<b>OPERATING LOSS</b>	<b>(5,341,839)</b>	<b>(715,444)</b>	<b>(6,057,283)</b>
<b>NONOPERATING REVENUES:</b>			
Investment income:			
Interest income, including gains (losses) on sale of investments	8,938,625	-	8,938,625
Net increase in fair value of investments	521,451	22,839	544,290
<b>Total nonoperating revenues, net</b>	<b>9,460,076</b>	<b>22,839</b>	<b>9,482,915</b>
<b>NET INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>4,118,237</b>	<b>(692,605)</b>	<b>3,425,632</b>
<b>OPERATING TRANSFERS OUT</b>	<b>(8,503,702)</b>	<b>(356,916)</b>	<b>(8,860,618)</b>
<b>NET LOSS</b>	<b>(4,385,465)</b>	<b>(1,049,521)</b>	<b>(5,434,986)</b>
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<b>204,378,626</b>	<b>2,210,413</b>	<b>206,589,039</b>
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 199,993,161</b>	<b>\$ 1,160,892</b>	<b>201,154,053</b>

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Operating loss	\$ (5,341,839)	\$ (715,444)	\$ (6,057,283)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	3,430,317	-	3,430,317
(Increase) decrease in:			
Accounts receivable	6,624,897	-	6,624,897
Accrued unbilled revenue	231,579	-	231,579
Due from other funds	-	(9,448)	(9,448)
Inventories	38,292	-	38,292
Other assets	(1,144,756)	-	(1,144,756)
Increase (decrease) in:			
Accounts payable and accrued liabilities	3,847,704	315,177	4,162,881
Customer deposits and advances	253,161	-	253,161
Due to other funds	(10,345)	66,124	55,779
Due to General Fund	83,261	-	83,261
Net cash provided by (used in) operating activities	<u>8,012,271</u>	<u>(343,591)</u>	<u>7,668,680</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating transfers to other funds	(8,503,702)	(356,916)	(8,860,618)
Advances to outside party	487,630	-	487,630
Advances to other funds	(3,622,721)	-	(3,622,721)
Advances from other funds	2,420,005	-	2,420,005
Net cash used in noncapital financing activities	<u>(9,218,788)</u>	<u>(356,916)</u>	<u>(9,575,704)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Acquisition of fixed assets	(47,383,164)	-	(47,383,164)
Net cash used in capital and related financing activities	<u>\$ (47,383,164)</u>	<u>\$ -</u>	<u>\$ (47,383,164)</u>

(Continued)

See accompanying notes to general-purpose financial statements.

**CITY OF VERNON**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in fair value of investments	\$ 521,451	\$ 22,839	\$ 544,290
Interest income received	7,540,705	-	7,540,705
Net cash provided by investing activities	<u>8,062,156</u>	<u>22,839</u>	<u>8,084,995</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(40,527,525)</b>	<b>(677,668)</b>	<b>(41,205,193)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>107,181,730</u>	<u>10,825,292</u>	<u>118,007,022</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 66,654,205</u>	<u>\$ 10,147,624</u>	<u>\$ 76,801,829</u>

See accompanying notes to general-purpose financial statements.



**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** – The City of Vernon (the “City”) was incorporated on September 16, 1905 as a General Law City. Effective July 1, 1988, the City became a Charter City. The City operates under a Council-City Administrator form of government.

The general-purpose financial statements of the City include the operations and financial activities of the City and its component unit, the City of Vernon Redevelopment Agency (the “Agency”). The financial operations of the Agency are closely related to those of the City, and the City Council is financially accountable for it. The Agency is a separate legal entity that is governed by a board composed of the City Council. Accordingly, the Agency is reported as a blended component unit in a Capital Projects Fund and in the account group. Separate audited financial statements of the Agency are available at the City Administrator/City Clerk’s Office at 4305 Santa Fe Avenue, Vernon, California 90058.

**Fund Accounting** – The accounts of the City are organized on the basis of funds and an account group. A fund is defined as an independent fiscal and accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. An account group is used to establish accounting control and accountability for the City’s general fixed assets. The account group is a reporting device to account for fixed assets of the governmental funds not recorded directly in those funds.

The following is a summary of the fund types and account group utilized by the City:

**A. Governmental Fund Types**

**General Fund** – Used to account for all financial resources except those required to be accounted for in other funds.

**Special Revenue Funds** – Used to account for the proceeds of specific revenue sources (other than Capital Projects Funds) that are legally restricted to expenditures for specific purposes.

**Capital Projects Funds** – Used to account for financial resources designated for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

**B. Proprietary Fund Types**

**Enterprise Funds** – Used to account for operations that are financed and operated in a manner similar to private business enterprises, for which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City’s enterprise operations include power, water and gas utilities.

**Internal Service Funds** – Are specifically designed to account for goods or services that are provided on a cost-reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges.

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Account Group**

*General Fixed Assets Account Group* – Used to maintain control and cost information of capital assets owned by the City, other than those accounted for in the Proprietary Fund Types.

*Basis of Accounting* – Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied.

All Governmental Fund Types are maintained on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance operations during the current year. Available means collectible within the current period or within 60 days after year-end. Revenues that are susceptible to accrual include taxes, charges for services, intergovernmental revenues and investment income. Expenditures are generally recognized when the related fund liability is incurred. Expenditures for principal and interest on long-term debt are recognized when due.

Proprietary Fund Types are maintained on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when the related liabilities are incurred.

*Budgetary Control and Accounting* – The City adheres to the following general procedures in establishing its annual budget, which is reflected in the accompanying general-purpose financial statements:

- An annual budget is adopted by the City Council that provides for the general operation of the City. The budget includes authorized expenditures and estimated revenues of the General Fund, Special Revenue Funds and Capital Projects Funds;
- The budget is formally integrated into the accounting system and employed as a management control device during the year;
- Encumbrances, which are commitments related to executory contracts for goods and services, are recorded to assure effective budgetary control and accountability;
- Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures. Unencumbered appropriations lapse at year-end;
- The budget is adopted on a modified accrual basis, except that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase;

**CITY OF VERNON  
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
 FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- The City Administrator is authorized to transfer appropriations between activities within any fund. Expenditures may not exceed appropriations at the fund level. Excess expenditures over appropriations are financed by beginning fund balances. The budgeted amounts used in the accompanying general-purpose financial statements include any amendments made during fiscal year 2002.

The following schedule reconciles General Fund expenditures on the modified accrual basis with expenditures on a budgetary basis:

	Actual Expenditures on Modified Accrual Basis	Add Encumbrances Outstanding June 30, 2002	Less Expenditures Related to Encumbrances Outstanding in Prior Years	Actual Expenditures on Budgetary Basis
<b>Current:</b>				
General government	\$ 5,497,074	\$ 197,839	\$ 26,092	\$ 5,668,821
Fire protection	7,656,174	467,926	24,570	8,099,530
Police protection	6,484,560	110,051	59,142	6,535,469
Public works	5,285,970	311,327	25,373	5,571,924
Health services	906,896	31,094	-	937,990
Capital outlay	1,199,385	161,347	1,242,186	118,546
<b>Total</b>	<b>\$ 27,030,059</b>	<b>\$ 1,279,584</b>	<b>\$ 1,377,363</b>	<b>\$ 26,932,280</b>

No reconciling items existed for the Special Revenue or Capital Projects Funds.

**Accrued Unbilled Revenue** – Accrued unbilled revenue consists of utility services delivered to customers but not billed as of June 30, 2002.

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

**Fixed Assets** – General fixed assets are recorded as expenditures in the Governmental Fund Types at the time of purchase and are recorded at cost in the General Fixed Assets Account Group. The City does not record the purchase or construction of public domain or infrastructure assets in the General Fixed Assets Account Group. Donations are recorded in the General Fixed Assets Account Group at fair market value at the time received. No depreciation is provided for on general fixed assets. Fixed assets that are disposed of are removed from the accounts on the basis of their historical costs.

Enterprise Fund fixed assets are recorded at cost or, if contributed, at estimated fair market value at the time received. Depreciation of such assets is computed on the straight-line method over the estimated useful lives of the assets.

**CITY OF VERNON**  
**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2002**

**1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A summary of the estimated useful lives of Enterprise Fund fixed assets is as follows:

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

*Vacation Benefits* – The City pays accumulated vacation benefits to employees upon retirement or termination of employment. The liability for the benefits has been recorded in accounts payable and accrued liabilities.

*Insurance Programs* – The City is partially self-insured for claims arising under workers' compensation, general liability and medical claims. (See Note 8.)

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

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

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

*Total Columns on General-Purpose Financial Statements* – Total columns on the accompanying general-purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. Therefore, amounts in these columns do not purport to present financial position, results of operations, or cash flows of the City in conformity with generally accepted accounting principles.

*Statement of Cash Flows* – For the purpose of reporting cash flows, cash and cash equivalents include cash and investments in the City's pooled program and any investments with original maturities of three months or less at the time of purchase.

*Use of Estimates* – The preparation of general-purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**2. CASH AND INVESTMENTS**

*Deposits* - At June 30, 2002, the carrying amount of the City's cash deposits was \$1,574,746. The bank balance of such deposits was \$1,395,407. Of the total bank balance, \$700,000 was covered by federal depository insurance, and \$1,195,407 was on deposit with California financial institutions and collateralized with government securities or first trust deed mortgage notes held by the pledging financial institution or by its trust department or agent. The California Government Code requires California financial institutions to secure the City's deposits by pledging government securities or first trust deed mortgage notes as collateral. The market value of pledged government securities and first trust deed mortgage notes must equal at least 110% and 150%, respectively, of the City's deposits. Such collateral is considered to be held in the name of the City.

*Investments* - Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bankers' acceptances; medium-term corporate notes; repurchase agreements; negotiable certificates of deposit; commercial paper of the highest quality or of the highest letter and numerical rating as provided by Moody's Investors Service Incorporated or Standard and Poor's Corporation; the Los Angeles County treasury pool and the State Treasurer's investment pool. Investments with original maturity dates greater than one year are stated at fair value based on quoted market prices.

The City's investments at June 30, 2002, are categorized below to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name. Certain investments held by the City are not subject to categorization, including deposits in the State Treasurer's Local Agency Investment Fund and money market mutual funds.

**CITY OF VERNON**  
**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2002**

**2. CASH AND INVESTMENTS (Continued)**

*Investments (Continued)*

	Category			Total
	1	2	3	
<b>Categorized investments:</b>				
U.S. government and agency securities	\$ 51,231,640	\$ -	\$ -	\$ 51,231,640
Commercial paper	19,595,285	-	-	19,595,285
	<u>\$ 70,826,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>70,826,925</u>
<b>Investments not subject to categorization:</b>				
State of California Local Agency Investment Fund				10,000,000
Money market mutual funds				21,101,281
<b>Total investments at fair value</b>				<u>\$ 101,928,206</u>

As of June 30, 2002, the City's investment in LAIF is \$10,000,000. The fair value of the total amount invested by all public agencies in LAIF at that date is \$47,889,555,193. Of that amount, 96.92% is invested in non-derivative financial products and 3.08% in structured notes and asset-backed securities. The Local Investment Advisory Board (the "Board") has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City's position in the pool.

For the year ended June 30, 2002, interest earned by the Enterprise Funds' equity in pooled cash and investments is now reported as interest income in the respective Enterprise Funds. In accordance with City Council Resolution No. 6102 and California Government Code Section 53647, interest earned by the Enterprise Funds may be transferred to the General Fund. During the fiscal year ended June 30, 2002, interest of \$8,503,702 was transferred to the General Fund.

**3. FIXED ASSETS**

Fixed assets of the Enterprise Funds consist of the following at June 30, 2002:

<b>Utilities:</b>	
Utility plant, including related machinery and equipment	\$ 105,972,820
Buildings	481,800
Construction in progress	48,305,451
<b>Total Utilities</b>	<u>154,760,071</u>
Water utility plant	11,856,722
Gas lines - construction in progress	16,006,135
<b>Total</b>	<u>\$ 182,622,928</u>

**CITY OF VERNON  
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
 FISCAL YEAR ENDED JUNE 30, 2002**

**3. FIXED ASSETS (Continued)**

Changes in the fixed assets reported in the General Fixed Assets Account Group during the year ended June 30, 2002 were as follows:

	Balance July 1, 2001	Additions	Transfers	Balance June 30, 2002
Land	\$ 7,615,728	\$ -	\$ 1,574,296	\$ 9,190,024
Structures and improvements	10,874,568	3,179,800	(1,574,296)	12,480,072
Equipment	14,864,059	1,235,383	-	16,099,442
Construction in progress	375,290	4,417	-	379,707
<b>Total</b>	<b>\$ 33,729,645</b>	<b>\$ 4,419,600</b>	<b>\$ -</b>	<b>\$ 38,149,245</b>

**4. PENSION PLAN**

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

All full-time safety (police and fire personnel) and miscellaneous personnel and temporary or part-time employees who have worked 1000 hours in a fiscal year are eligible to participate in the PERS. Benefits vest after five years of service. Employees who retire at age 50 with five years of credited service are entitled to retirement benefits. Monthly retirement benefits are based on an employee's average compensation for his or her single highest year of compensation for each year of credited service.

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

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

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

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**4. PENSION PLAN (Continued)**

The City's total contribution to the PERS for the year ended June 30, 2002 was \$1,726,373. City contribution rates as a percentage of covered payroll were 0% for miscellaneous plan members and 1.994% for safety plan members. The City's contribution was made in accordance with actuarially determined requirements based on an actuarial valuation performed as of June 30, 1999.

The PERS uses the entry age normal actuarial cost method, which is a projected benefit cost method that takes into account those benefits expected to be earned in the future as well as those already accrued. According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry age normal cost method whereby the employer's total normal cost is expressed as a level percentage of payroll. PERS also uses the level percentage of payroll method to amortize any unfunded accrued actuarial liabilities. The amortization period of the unfunded accrued actuarial liability ends on June 30, 2011.

Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8.25% a year, compounded annually; (b) projected salary increases of 3.75% a year, compounded annually, and 3.50% attributable to inflation; (c) additional projected salary increases of 0.0% a year, attributable to cost-of-living increases; and (d) merit raises that vary by length of service and age of entry.

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

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

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Amount Contributed	Percentage of APC Contributed	Net Pension Obligation
2002	\$ 1,726,373	\$ 1,726,373	100%	-
2001	1,459,905	1,459,905	100%	-
2000	1,491,531	1,491,531	100%	-

The following schedule represents the required supplemental information for the three most recent actuarial valuations. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due (dollar amounts in millions):

Actuarial Valuation Date June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Overfunded AAL (OAAL)	Funded Ratio	Annual Covered Payroll	OAAL as % of Covered Payroll
2001	\$ 179.8	\$ 155.7	\$ (24.1)	115.5%	\$ 18.9	(127.5%)
2000	164.3	148.1	(16.2)	110.9	18.5	(87.6%)
1999	160.3	133.8	(26.5)	119.8	18.1	(146.4%)



**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**5. DEFICITS IN FUND EQUITY**

The deficit fund balance of \$12,175,488 in the Capital Projects Funds relates to recording the Agency's loan from the City on its balance sheet, which will be repaid through future property tax increments.

The Gas Enterprise Fund has an accumulated deficit of \$6,068,705 at June 30, 2002, which will be recovered from customers once the fund commences operations.

The following Internal Service Funds have accumulated deficits at June 30, 2002:

Unemployment Insurance	\$ 34,836
Equipment Replacement	190,522
Group Medical Insurance	82,417

To the extent such deficits are attributed to shortfalls in charges to other funds, such deficits will be recovered through future rate increases. Deficits arising from decreases in fair value of pooled investments will not be recovered through charges to other funds.

**6. UTILITY OPERATIONS AND COMMITMENTS**

*Deregulation*

Effective April 1, 1998, competition was introduced into California's electric utility market, and customers of the state's investor-owned utilities ("IOUs") became eligible for direct access. The implementation of competition in accordance with State Assembly Bill 1890 ("AB1890") resulted in significant structural changes to the electric power industry, including mandated direct access for IOU customers, energy sales through a Power Exchange, and management of transmission assets through an Independent System Operator ("ISO"). AB 1890 also legislated the recovery of stranded investment through the assessment of a non-by passable competition transition charge ("CTC").

The original deregulation legislation applied to the State's IOUs and did not compel participation by publicly owned utilities, such as the City's electric utility.

*Participating Transmission Owner*

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

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**6. UTILITY OPERATIONS AND COMMITMENTS (Continued)**

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

***Project Commitments***

**A. Southern California Public Power Authority**

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

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

Between 1983 and 2002, the Authority issued \$3.166 billion (with \$630 million currently outstanding) of Power Project Revenue Bonds to finance the purchase of the Authority's share of the Station and related transmission rights. The bonds are not obligations of any member of the Authority or public agency other than the Authority. Under a power sales contract with the Authority, the City is obligated on a "take or pay" basis for its proportionate share of power generated, as well as to make payments for its proportionate share of the operating and maintenance expenses of the Station, debt service on the bonds and any other debt, whether or not the project or any part thereof or its output is suspended, reduced or terminated. The City's proportionate share of costs during fiscal year 2002 was \$9,199,445. The City estimates its proportionate share of costs will be approximately \$9,037,000 for the fiscal years ending 2003 and approximately \$9,476,000 for fiscal year ending 2004.

At June 30 2002, the City designated \$35,506,654 of cash and investments of the Utilities Department Enterprise Fund for payment of its future above market costs. During the year ended June 30, 2002, the account earned \$548,766 of interest and the City used \$3,073,693 to pay the Palo Verde Project power costs to the Authority.

**B. Hoover Dam Power Plant Upgrade Program**

In January 1987, the City entered into a contract with the Federal Bureau of Reclamation to fund part of an upgrading program of the Hoover Dam power plant to increase the plant's generating

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**6. UTILITY OPERATIONS AND COMMITMENTS (Continued)**

capacity. In exchange, the City will receive its pro rata share of the additional power produced. Total program costs are estimated to be \$155 million.

As of June 30, 2002, the City's total advances were \$ 6,731,123 for the upgrading program. At June 30, 2002, the outstanding advances receivable were \$4,819,543. The City has no obligation to advance funds in the future. The advances are being repaid with interest over a period of 30 years. The City must also make payments for its pro rata share of operating and maintenance costs not recovered by the plant through revenues. The contract expires in June 2017.

**C. Mead-Phoenix Transmission Project**

In 1992, the City entered into Project Agreements for the construction and operation of the Mead-Phoenix Transmission Project. The City's cost shares are currently 2.154% for the Westwing-Mead Component, 3.793% for the Mead-Substation Component, and 4.050% for the Mead-Marketplace Component. The project was completed April 15, 1996. The City's share of construction costs was \$6,443,915.

**D. Mead-Adelanto Transmission Project**

In 1992, the City entered into Project Agreements for the construction and operation of the Mead-Adelanto Transmission Project. The City's cost share is 6.25%. This project was completed April 15, 1996. The City's share of construction costs was \$13,984,362.

**E. California-Oregon Transmission Project**

In 1991, the City entered into the Interim Participation Agreement with several Northern California entities and the Western Area Power Administration. This agreement calls for the construction and operation of the project. Each party in the agreement has been allocated a respective share of the construction costs. The City's share is 8.05%. As of June 30, 2002, the City's share of total costs incurred for the project's planning and construction was \$35,480,802.

In 2001 and 2002, the project added a second 500 kV transformer bank at the Tracy Substation. Beginning February 2001 through the June 2002 service month, the City's proportionate share of costs was \$1,122,656.

**F. Santa Clara Demonstration Project**

In January 1993, the City entered into an agreement with the Los Angeles Department of Water and Power, Southern California Edison, the City of Santa Clara, the Sacramento Municipal Utility District and the National Rural Electric Cooperative Association to research and develop the first utility-scale carbonate fuel cell power plant. Total funding by all of the participants is expected to be \$22.05 million; the City's share is \$3.15 million. In exchange for funding, each participant will own rights to the technology and any future royalty payments. Following a demonstration period, the physical plant will be dismantled. The project was completed in April 1996. The City's share

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**6. UTILITY OPERATIONS AND COMMITMENTS (Continued)**

of total costs for research and development was \$3,005,235. These costs were expensed as incurred.

**G. California Independent System Operator**

In December 2000, the City entered into an agreement with California Independent System Operator Corporation (ISO) to establish the rights and obligations of the City and the ISO with respect to the City's cooperation and coordination with the ISO to aid the reliability and the operational control of the ISO controlled grid and the City's Distribution System. The City owns and operates a Distribution System within the ISO Control area subject to the authority of a Local Regulatory Authority.

**H. Alstom Power Inc.**

In May 2001 and September 2001, the City entered into agreements with Alstom Power Inc., for the purchase and delivery of generating units, a steam turbine generator, heat recovery steam generator and emissions control equipment at an approximate cost of \$60 million. Progress payments to Alstom Power Inc., will be made as the units are manufactured, beginning in June 2001. Delivery of the units is anticipated in March 2003. Total payments made to Alstom Power Inc. at June 30, 2002 were \$48,004,191.

***Power Purchase Commitments***

As of June 30, 2002, the City has entered into long-term commitments to purchase power subject to certain conditions. The following table summarizes the value of the commitments at June 30, 2002 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2002-03	\$ 40,611
2003-04	38,659
2004-05	36,054
2005-06	19,038
2006-07	14,091
2007-11	34,361
	<u>\$ 182,814</u>

**7. FUND BALANCE RESERVES**

Fund balances, which are not available for general appropriation and expenditure, are reserved at June 30, 2002, for the following purposes:

**CITY OF VERNON**  
**NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED JUNE 30, 2002**

**7. FUND BALANCE RESERVES (Continued)**

	<u>General Fund</u>	<u>Capital Projects Fund</u>
Federal forfeiture funds	\$ 460,325	\$ -
Advances to other funds	12,580,488	-
Inventories	710,377	-
Encumbrances	1,279,584	-
Employee loans receivable	73,042	-
Loans receivable	-	3,000,000
<b>Total</b>	<b>\$ 15,103,816</b>	<b>\$ 3,000,000</b>

**8. SELF-INSURANCE AND CONTINGENCIES**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage, and providing health benefits to employees, retirees, and their dependents. The City is self-insured for its general liability, workers' compensation, and property liability. The City has chosen to establish risk financing Internal Service Funds, whereby assets are set aside for claim settlements associated with the above risks of loss up to certain limits. Excess coverage is provided by the Independent Cities Risk Management Authority (the "ICRMA"), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member cities. The IRCMA is governed by a Board of Directors consisting of representatives of its member cities. Self-insurance and ICRMA limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance</u>	<u>ICRMA</u>
General Liability	Up to \$300,000	\$300,000 to \$10,000,000
Workers' Compensation	Up to \$300,000	\$300,000 to \$10,000,000
Property	Up to \$ 10,000	\$ 10,000 to \$20,000,000

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

Health benefits risks are covered on an occurrence basis for amounts in excess of \$75,000 per person up to \$2,000,000 per person by commercial insurance purchased from independent third parties.

The unpaid claims liabilities included in each of the self-insurance Internal Service Funds are based on the results of actuarial studies and third-party administrator claim reports and include amounts for claims incurred but not reported, including loss adjustment expenses. Claims liabilities are calculated considering

**CITY OF VERNON  
 NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
 FISCAL YEAR ENDED JUNE 30, 2002**

**8. SELF-INSURANCE AND CONTINGENCIES (Continued)**

the effects of inflation and recent claim settlement trends, including frequency and amount of payouts and other economic and social factors.

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

	Fiscal Year Ended June 30	
	2002	2001
Unpaid claims, beginning of fiscal year	\$ 4,078,995	\$ 4,207,452
Incurred claims	821,364	169,374
Claim payments	(290,571)	(297,831)
Unpaid claims, end of fiscal year	\$ 4,609,788	\$ 4,078,995

At June 30, 2002, a number of lawsuits and claims were pending against the City that arose in the normal course of operations. Management estimates that certain pending lawsuits and claims may result in additional liabilities of approximately \$500,000. However, the ultimate loss, if any, is unknown at this time and no amount has been accrued in the accompanying financial statements because it is not probable that a loss has been incurred as of June 30, 2002.

**9. POST-RETIREMENT BENEFITS**

The City Council approved a post-retirement benefit plan for all employees with 30 years or more of service to the City. The plan pays for qualified employees' medical and dental insurance premiums and claims from age 60 to 65. Funding of the plan is on a pay-as-you-go basis. During the year ended June 30, 2002, approximately 36 employees were eligible to receive benefits. Amounts paid for the year ended June 30, 2002 are as follows:

Total premiums paid for retirees	\$ 43,345
Medical and dental claims paid	290,571
Total	\$ 333,916

**10. EFFECTS OF NEW PRONOUNCEMENTS**

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34), which is effective for the City's fiscal year ending June 30, 2003. GASB 34 establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. GASB 34 represents the most important single change in history of accounting and financial reporting for state and local governments. One of the most significant changes is that all capital assets, including infrastructure, will

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**10. EFFECTS OF NEW PRONOUNCEMENTS (Continued)**

be reported within the basic financial statements, along with depreciation expense and accumulated depreciation. Currently, infrastructure related to governmental funds is not reported in the financial statements. GASB 34 provides an alternative to depreciation for infrastructure, termed the "modified approach."

The modified approach requires the use of a qualified asset management system and additional schedule to be reported in another new element of the financial statements, the "Management's Discussion and Analysis (MD&A)" section. The costs to implement GASB 34 are unknown at this time.

In June 2002, GASB issued Statement No. 37, *Basic Financial Statements and Management Discussions and Analysis for State and Local Governments: Omnibus - an amendment of GASB Statements No. 21 and 34*. This Statement is effective for the same periods as GASB 34 and clarifies and modifies certain provisions in GASB Statements No. 21 *Accounting for Escheat Property* and No. 34, establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management's Discussion and Analysis (MD&A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc. The City is analyzing the impact of implementation of this new statement in fiscal year 2003.

Also in June 2002, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB. The analysis required for the implementation of this new statement is being completed along with GASB 34.

Finally, GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. This interpretation impacts the fund level financial statements required by GASB Statement No. 34 but has no direct impact on the government-wide financial statements.

**11. SUBSEQUENT EVENTS**

Since calendar year 2000, the California energy crisis has produced significant events and caused financial difficulties for several major companies. These include the state's two largest IOUs and numerous power marketing companies, including the Enron Corporation, Pacific Gas & Electric (PG&E) filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code (Code). PG&E has filed a Plan of Reorganization, intending to pay most of the debts it owes to various creditors, which includes significant amounts due to the California Power Exchange (PX) and the California Independent

**CITY OF VERNON  
NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002**

**11. SUBSEQUENT EVENTS (Continued)**

**System Operator (ISO).** The Southern California Edison Company (Edison) has experienced severe liquidity problems, but worked out its difficulties through revised billing rate schedules recently approved by the California Public Utilities Commission (CPUC).

The PX, a state organized power trading company, closed operations, filed for bankruptcy protection and left unsettled billions of dollars in wholesale electricity transactions. The PX's principal assets, block forward wholesale electricity contracts, which would be sufficient to nearly cover all of its unsettled transactions, were seized by the Governor of the State of California during the height of the energy crisis. The Ninth Circuit Court of Appeals found that the seizure by the Governor and the state was unconstitutional and that both are liable for damages to the PX and its various market participants. Currently, a retired Judge of the Superior Court in Sacramento has been assigned various cases, all related to this matter, to determine what sums of money each of the various PX market participants are owed (Sacramento proceedings). The PX Plan of Reorganization is currently working its way through the approval process of the Federal bankruptcy court and the Federal Energy Regulatory Commission.

The ultimate impact of all these events on the City's operations is unknown at this time. However, the following facts exist.

The PX did not settle wholesale electricity transactions with the City, which totals approximately \$3.0 million. The City is currently actively involved in the Sacramento proceedings. The City believes it will receive the moneys owed to it within the next two years and has not provided an allowance against the account.

The City and PG&E are parties to a high voltage transmission exchange agreement that has a term remaining of nearly 40 years. PG&E chose not to reject this agreement under the Code. PG&E does not owe the City any moneys under this agreement.



**SUPPLEMENTAL COMBINING STATEMENTS**

CaIPERS011587

**CITY OF VERNON**  
**SUPPLEMENTAL COMBINING BALANCE SHEET**  
**ALL ENTERPRISE FUNDS**  
**JUNE 30, 2002**

	<u>Light &amp; Power Department</u>	<u>Water Department</u>	<u>Gas Department</u>	<u>Total Enterprise Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 52,546,970	\$ 7,073,854	\$ (10,825)	\$ 59,609,5
Accrued Interest Receivable	1,035,659	-	-	1,035,6
Accounts receivable	9,496,540	79,828	-	9,576,3
Accrued unbilled revenue	6,440,009	343,711	-	6,783,7
Inventories, at cost	7,398	-	-	7,3
Deposits	7,860	-	-	7,8
Advance receivable from outside party	4,819,543	-	-	4,819,5
Advances to other funds	29,795,941	-	-	29,795,9
Restricted cash and investments	7,044,206	-	-	7,044,2
Fixed assets	154,760,071	11,856,722	16,006,135	182,622,92
Accumulated depreciation	(49,820,254)	(9,353,443)	-	(59,173,69)
Other assets	1,208,848	-	-	1,208,8
<b>TOTAL</b>	<u>\$ 217,342,791</u>	<u>\$ 10,000,672</u>	<u>\$ 15,995,310</u>	<u>\$ 243,338,77</u>
<b>LIABILITIES AND FUND EQUITY (DEFICIT)</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 12,267,066	\$ 495,597	\$ 196,833	\$ 12,959,496
Customer deposits and advances	713,958	307,672	-	1,021,630
Accrued in lieu of taxes due to General Fund	1,114,306	82,107	-	1,196,413
Due to other funds	389,657	-	-	389,657
Advances from other funds	-	3,509,029	21,867,182	25,376,211
<b>Total liabilities</b>	<u>14,484,987</u>	<u>4,394,405</u>	<u>22,064,015</u>	<u>40,943,407</u>
<b>FUND EQUITY (DEFICIT):</b>				
Contributed capital	1,682,205	720,000	-	2,402,205
Retained earnings (deficit)	201,175,599	4,886,267	(6,068,705)	199,993,161
Total fund equity (deficit)	<u>202,857,804</u>	<u>5,606,267</u>	<u>(6,068,705)</u>	<u>202,395,366</u>
<b>TOTAL</b>	<u>\$ 217,342,791</u>	<u>\$ 10,000,672</u>	<u>\$ 15,995,310</u>	<u>\$ 243,338,773</u>

**CITY OF VERNON**  
**SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS (DEFICIT) - ALL ENTERPRISE FUNDS**  
**FISCAL YEAR ENDED JUNE 30, 2002**

	Light & Power Department	Water Department	Gas Department	Total Enterprise Funds
<b>OPERATING REVENUES:</b>				
Power and water sales	\$ 99,579,546	\$ 6,219,167	\$ -	\$ 105,798,713
<b>OPERATING EXPENSES:</b>				
Cost of sales	100,602,170	4,470,019	-	105,072,189
In lieu of franchise tax	2,455,094	182,952	-	2,638,046
Depreciation	3,203,832	226,485	-	3,430,317
Total operating expenses	106,261,096	4,879,456	-	111,140,552
<b>OPERATING INCOME (LOSS)</b>	(6,681,550)	1,339,711	-	(5,341,839)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment income:				
Interest income, including gains (losses) on sale of investments	8,938,625	-	-	8,938,625
Net increase in fair value of investments	521,451	-	-	521,451
Total nonoperating revenues, net	9,460,076	-	-	9,460,076
<b>NET INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	2,778,526	1,339,711	-	4,118,237
<b>OPERATING TRANSFERS OUT</b>	(8,503,702)	-	-	(8,503,702)
<b>NET INCOME (LOSS)</b>	(5,725,176)	1,339,711	-	(4,385,465)
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR</b>	206,900,775	3,546,536	(6,068,705)	204,378,606
<b>RETAINED EARNINGS (DEFICIT), END OF YEAR</b>	\$ 201,175,599	\$ 4,886,267	\$ (6,068,705)	\$ 199,993,161



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Honorable City Council  
City of Vernon, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

We have audited the general-purpose financial statements of the City of Vernon, California (City), as of June 30, 2002, and for the fiscal year ended, and have issued our report thereon dated January 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the City's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing the audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, City Council, and the City's management and is not intended to be and should not be used by anyone other than these specified parties.

*Mason, Sims & Company LLP*

Certified Public Accountants

Los Angeles, California  
January 24, 2003