

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**(A Component Unit of the City of Adelanto, California)**

**FINANCIAL STATEMENTS**

**June 30, 2005**

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**(A Component Unit of the City of Adelanto, California)**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board  
of the Adelanto Public Utility Authority,  
Adelanto, California

We have audited the accompanying financial statements of the business-type activities and each major fund of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, California (City), as of and for the fiscal year ended June 30, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on this component unit financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Authority has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2008, on our consideration of the Authority'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California  
February 12, 2008

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF NET ASSETS**

June 30, 2005

<b>ASSETS</b>	<u>Business-type Activities</u>
<b>Current Assets:</b>	
Cash and investments	\$ 12,804,081
Receivables:	
Accounts, net	1,483,588
Interest	33,743
Inventories	60,252
Due from City of Adelanto	<u>3,621,792</u>
Total Current Assets	<u>18,003,456</u>
<b>Restricted Assets:</b>	
Cash and investments with fiscal agents	<u>3,773,595</u>
Total Restricted Assets	<u>3,773,595</u>
<b>Capital Assets:</b>	
Capital assets not being depreciated	4,515,307
Capital assets being depreciated, net	<u>19,977,259</u>
Total Capital Assets	<u>24,492,566</u>
<b>Other Assets:</b>	
Investment in Adelanto Public Financing Authority Bonds	18,305,069
Deferred bond issuance costs, net of accumulated amortization	2,454,460
Deferred loss on bond refunding, net of accumulated amortization	<u>4,364,157</u>
Total Other Assets	<u>25,123,686</u>
Total Assets	<u>\$ 71,393,303</u>

(Continued)

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF NET ASSETS**

**June 30, 2005**

**(Continued)**

<b>LIABILITIES</b>	<u>Business-type Activities</u>
<b>Current Liabilities:</b>	
Accounts payable	\$ 219,399
Accrued liabilities	16,392
Deposits payable	<u>489,315</u>
Total Current Liabilities	<u>725,106</u>
<b>Current Liabilities (payable from restricted assets):</b>	
Accrued interest payable	<u>96,119</u>
Total Current Liabilities (payable from restricted assets)	<u>96,119</u>
<b>Long-Term Liabilities:</b>	
Accrued employee leave benefits	60,716
Bonds payable, non-current	<u>44,325,000</u>
Total Long-Term Liabilities	<u>44,385,716</u>
Total Liabilities	<u>45,206,941</u>
 <b>NET ASSETS</b>	
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	(13,013,817)
Restricted for debt service	3,677,476
Unrestricted	<u>35,522,703</u>
Total Net Assets	<u>\$ 26,186,362</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2005**

**Business-type Activities**

	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets
<b>Expenses:</b>			
Public utility activities	\$ 2,228,581	\$ 4,404,102	\$ 2,175,521
Water activities	2,143,294	9,922,908	7,779,614
Total	\$ 4,371,875	\$ 14,327,010	9,955,135
 <b>General Revenues:</b>			
Use of money and property			233,478
Transfers to the City of Adelanto			(2,000,000)
Total General Revenues and Transfers			(1,766,522)
Change in Net Assets			8,188,613
<b>Net Assets - July 1, 2004</b>			17,997,749
<b>Net Assets - June 30, 2005</b>			\$ 26,186,362

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

June 30, 2005

(Continued)

	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
<b><u>Liabilities and Net Assets</u></b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 96,066	\$ 123,333	\$ 219,399
Accrued liabilities		16,392	16,392
Deposits payable	65,846	423,469	489,315
	<u>161,912</u>	<u>563,194</u>	<u>725,106</u>
Total Current Liabilities			
<b>Current Liabilities:</b>			
<b>(payable from restricted assets):</b>			
Accrued interest payable	96,119		96,119
	<u>96,119</u>		<u>96,119</u>
Total Current Liabilities (payable from restricted assets)			
	<u>96,119</u>		<u>96,119</u>
<b>Long-Term Liabilities:</b>			
Due to Public Utility Authority		17,576,864	17,576,864
Accrued employee leave benefits		60,716	60,716
Bonds payable, non-current	44,325,000		44,325,000
	<u>44,325,000</u>	<u>17,637,580</u>	<u>61,962,580</u>
Total Long-Term liabilities			
	<u>44,325,000</u>	<u>17,637,580</u>	<u>61,962,580</u>
Total Liabilities			
	<u>44,583,031</u>	<u>18,200,774</u>	<u>62,783,805</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	(27,778,772)	14,764,955	(13,013,817)
Restricted for debt service	3,677,476		3,677,476
Unrestricted	24,774,912	10,747,791	35,522,703
	<u>24,774,912</u>	<u>10,747,791</u>	<u>35,522,703</u>
Total Net Assets			
	<u>\$ 673,616</u>	<u>\$ 25,512,746</u>	<u>\$ 26,186,362</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**

For The Fiscal Year Ended June 30, 2005

	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
<b>Operating Revenues:</b>			
Charges for services	\$ 4,404,102	\$ 8,601,289	\$13,005,391
Other revenue		1,321,619	1,321,619
<b>Total Operating Revenues</b>	<u>4,404,102</u>	<u>9,922,908</u>	<u>14,327,010</u>
<b>Operating Expenses:</b>			
Salaries and benefits		589,601	589,601
Contract services	448,255	112,001	560,256
Sewer operations	73,450		73,450
Water operations		350,411	350,411
Utilities	145,674	665,759	811,433
Administration	30,031	15,742	45,773
Depreciation	238,519	249,083	487,602
<b>Total Operating Expenses</b>	<u>935,929</u>	<u>1,982,597</u>	<u>2,918,526</u>
<b>Operating Income</b>	<u>3,468,173</u>	<u>7,940,311</u>	<u>11,408,484</u>
<b>Nonoperating Revenues (Expenses):</b>			
Amortization expense	(293,072)		(293,072)
Interest expense and fiscal charges	(999,580)	(160,697)	(1,160,277)
Interest revenue	118,688	114,790	233,478
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(1,173,964)</u>	<u>(45,907)</u>	<u>(1,219,871)</u>
<b>Net income before transfers</b>	2,294,209	7,894,404	10,188,613
<b>Transfers to City of Adelanto</b>		<u>(2,000,000)</u>	<u>(2,000,000)</u>
<b>Change in Net Assets</b>	2,294,209	5,894,404	8,188,613
<b>Net Assets - July 1, 2004</b>	<u>(1,620,593)</u>	<u>19,618,342</u>	<u>17,997,749</u>
<b>Net Assets - June 30, 2005</b>	<u>\$ 673,616</u>	<u>\$25,512,746</u>	<u>\$26,186,362</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 1**      **Organization and Summary of Significant Accounting Policies**

The financial statements of the Adelanto Public Utility Authority, a component unit of the City of Adelanto, (hereafter referred to as "the Authority"), have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting policies of the Authority are described below.

**(a) Reporting Entity**

The Authority was formed by action of the Adelanto City Council on October 22, 1996. The Authority was formed for the purpose of purchasing and operating the City's wastewater operations. In conjunction with that purchase, the Authority issued bonds to finance the down payment to the City and the construction of a wastewater treatment plant. The Authority also issued a note payable to the City to finance the purchase of the existing wastewater assets.

On February 29, 2000, the Adelanto Public Utility Authority entered into a purchase agreement with the Adelanto Water Authority (the Water Authority) to purchase the Water Authority's water system (Water Enterprise), including the Water Enterprise's total assets and assumption of its total liabilities. The purchase price consisted of amounts sufficient to refund all of the outstanding prior water bonds and assumption of the Water Authority's obligations under the original agreement dated January 9, 1996, under which the Water Authority was first formed by the City.

The Authority is an integral part of the reporting entity of the City. The funds of the Authority are included within the scope of the basic financial statements of the City because the City Council is the governing board over the operations of the Authority. Only the funds of the Authority are included herein; therefore, these financial statements do not purport to represent the financial position, results of operations, or cash flows of the City of Adelanto.

**(b) Fund Accounting**

The activities of the Authority are accounted for as enterprise funds. In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises-where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**(c) Basis of Accounting**

The financial records of the Authority are maintained on the flow of economic resources measurement focus using the accrual basis of accounting, wherein revenues are recognized in the accounting period in which they are earned, regardless of when they are received, and expenses are recognized in the period incurred.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 1      Organization and Summary of Significant Accounting Policies (Continued)**

**(c) Basis of Accounting (Continued)**

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, for proprietary fund accounting, the Authority applies all applicable GASB pronouncements, as well as pronouncements of the Financial Accounting Standards Board (FASB) and predecessor entities issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**(d) Government-wide and Fund Financial Statements**

The government-wide financial statements (ie, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The Authority reports the following major funds:

**The Adelanto Water Authority Fund** – This fund accounts for the operation and maintenance of the Authority's water distribution system.

**The Adelanto Public Utility Authority** – This fund accounts for the operation and maintenance of the Authority's wastewater collection system including operating costs of the wastewater treatment facility.

**(e) Other Accounting Policies**

**Cash and Investments**

The Authority's cash and investments are governed by and in compliance with the California Government Code. For purpose of the statement of cash flows, the Authority considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Authority has adopted the provisions of Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB No. 31). This statement requires that certain investments and external investment pools be reported at fair value.

**Investments with Bond Trustee**

In accordance with terms of the bond indenture related to the 2000 Utility Authority Bonds, reserve and other funds are invested with the Bond Trustee. The Bond Trustee invests these funds in accordance with the terms of the bond indenture; accordingly, such funds are invested primarily in U.S. government and government agency securities and money market funds, which invest in such securities. Such investments are stated at fair value.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 1**      **Organization and Summary of Significant Accounting Policies (Continued)**

**(e) Other Accounting Policies (Continued)**

**Due to/from the City of Adelanto**

Short-term receivables and payables, representing temporary operating advances between the City and the Authority, have been classified as "due from City of Adelanto" or "due to City of Adelanto", respectively, on the accompanying financial statements. Such activities have been netted on the statement of Net Assets.

**Capital Assets**

Upon the original formation of the Authority on October 22, 1996, the Authority purchased the existing wastewater capital assets of the City of Adelanto. On January 9, 1996, the Adelanto Water Authority, now consolidated with the Authority, purchased the water delivery system assets of the City.

Additions to capital assets are carried at historical cost or, for donated capital assets, at appraised fair value on the date donated.

In accordance with the terms of the water delivery system purchase agreement, water rights and the related note payable balance to the City may be adjusted based upon the final outcome of litigation related to water rights on George Air Force Base.

Normal maintenance and repair costs that do not add to the value of the capital assets or materially extend capital asset lives are not capitalized. Improvements that extend the life of the wastewater and water delivery systems are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

In accordance with accounting principles generally accepted in the United States of America, depreciation is not recorded for land, water rights, sewer rights-of-way, or construction in progress. Depreciation is recorded on a straight-line basis over the estimated useful lives of the capital assets as follows:

Buildings and improvements	50 years
Pipes and storage facilities	50 years
Sewers	50 years
Machinery and equipment	10 years
Vehicles	10 years

**Use of Estimates**

The preparation of 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.

**Inventories**

Inventories of materials and supplies are carried at cost on an average cost basis. The Authority uses the consumption method of accounting for inventories.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 1**      **Organization and Summary of Significant Accounting Policies (Continued)**

**(e) Other Accounting Policies (Continued)**

**Bond Discounts/Issuance Costs/Deferred Loss on Refundings**

Bond discounts, issuance costs, and deferred loss on refundings, for proprietary fund types and on the government-wide financial statements are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method.

**Other**

The Public Utility Authority accrues for all capital appreciation/depreciation due and adds/subtracts such amounts to the account balance under the financial statements caption, "Investment in Adelanto Public Financing Authority Bonds," in the accompanying financial statements. In this regard, the Public Utility Authority has accrued \$450,990 of capital appreciation during the fiscal year ended June 30, 2005. The Public Utility Authority records its investment in Adelanto Public Financing Authority Bonds at fair value at June 30, 2005.

Management's projections indicate that incremental property tax revenues of the Redevelopment Agency, as the underlying revenue base for the Financing Authority Bonds, should grow sufficiently to fund the scheduled principal and interest payments for the Financing Authority loans; however, the Agency loans are third and fourth subordinated loans and have lower priority to Agency tax revenues than other Agency indebtedness.

In addition, the Redevelopment Agency and County of San Bernardino have amended their pass-through agreement for incremental property taxes in the Merged Project Area. Under the amended agreement, the Redevelopment Agency is to relinquish approximately 33% of its incremental property taxes to the County, of which approximately half (16.26%) will be subordinate to the existing Redevelopment Agency debt.

During fiscal year 1996, the Agency and the County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed, up to \$100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds, but senior to the Series D Bonds. During the fiscal year ended June 30, 2005, the County loaned the Agency its share of incremental property taxes aggregating approximately \$1,357,705, and the balance outstanding was \$8,945,746.

**(f) Implementation of New GASB Pronouncements**

The Authority adopted a new accounting standard, Governmental Accounting Standards Board Statements No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*.

GASB Statement No. 40 updates the custodial credit risk disclosure requirements of Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of deposits and investments of state and local governments, such as credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 2**      **Purchase of Operations**

**(a) Water Operations**

**Water System Purchase Note**

As part of the original purchase of the City's water operation by the Adelanto Water Authority, which was acquired by the Public Utility Authority in 2000, the Water Authority issued bonds to purchase the City's water delivery system. In conjunction with the original purchase of the City's water operation, the Authority issued a note payable in the amount of \$34,113,079 with minimum annual payments of \$500,000 plus any additional funds available after payment of operating and debt service requirements of the Water Authority plus establishment of reasonable reserve. This note was originally subordinated to the 1995 and 1998 Water Bonds. The outstanding balance on the Water System Purchase Note is \$27,293,413 at June 30, 2005. Management expects that no payments of amounts in excess of the minimum annual payment will be made until final repayment of the Water Authority Bonds in 2028.

The original purchase note accrued interest at 7.5% on the outstanding balance. Because the purchase note payable to the City is subordinate to the Water Authority Bonds, interest on the note would be substantially in excess of the minimum annual payment. Management does not anticipate that any payment in excess of the minimum annual payments due on the note will be made prior to the final maturity date. Accordingly, on January 26, 1998, the Governing Board of the Water Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate the accrual of interest from July 1, 1996 until such time as all outstanding bonds are repaid, presently scheduled for November 1, 2026. The unpaid balance of the note at that time will accrue interest at 7.5%. Interest accrued through June 30, 1996 amounting to \$1,219,659 was unaffected by the purchase note amendment.

Further, as described above, the Adelanto Public Utility Authority is required to fix, prescribe, revise and collect rates, fees and charges for the water system for the services and improvements furnished by the water system during each fiscal year which are sufficient to meet all debt service requirements, including the minimum annual payments required under this note.

**(b) Wastewater Operations**

**Wastewater System Purchase Note**

The Authority was formed in October, 1996 and on November 1, 1996 issued Public Utility Authority Bonds to finance the construction of a wastewater treatment plant. In conjunction with the original purchase of the City's water operations, the Authority issued a note payable to the City, which is subordinate to the Public Utility Authority Bonds and accrues interest at 7.5% on the outstanding balance. Annual payments on this note are equal to surplus revenues, which are defined as gross wastewater receipts plus amounts on deposit in the wastewater rate stabilization fund and less payment of operating and maintenance costs and debt service requirements of the Public Utility Authority.

As part of the purchase of the City's wastewater operations by the Adelanto Public Utility Authority, the Authority issued a note payable in the amount of \$10,267,874, which accrued interest at 7.5% per annum with annual payments payable from wastewater system revenues. Such annual payments on this note are equal to surplus revenues, which are defined as gross wastewater receipts plus amounts on deposit in the wastewater rate stabilization fund less payment of operating and maintenance costs and debt service requirements of the Authority.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 2**    **Purchase of Operations (Continued)**

**(b) Wastewater Operations (Continued)**

This note was originally subordinated to the 1996 Public Utility Bonds. Management does not anticipate that any payment in excess of the minimum annual payments due on the note will be made prior to the final maturity date.

As the annual payment on the note as originally stated was insufficient to pay accrued interest on the note, management anticipated that accrued interest on the note would grow substantially until final repayment of the 1996 Public Utility Bonds in 2026. Accordingly, on January 26, 1998, the governing Board of the Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate any accrual of interest payable to the City until such time as all outstanding bonds are repaid, presently scheduled for November 1, 2026. Any unpaid balance at that time will accrue interest at 7.5%. The outstanding balance on the Wastewater System Purchase Note is \$6,431,169 at June 30, 2005.

**(c) Other**

The notes issued represent an amount equivalent to the fair value of the assets at date of purchase. Due to the fact that the purchase was between related parties, the City and the Authority, the notes payable and related fair value adjustments have been eliminated from the statements. The Authority presently makes minimum annual payments on the notes which are recorded as transfers to the City of Adelanto.

**Note 3**    **Cash and Investments**

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 12,804,081
Cash and investments with fiscal agents	3,773,595
Investment in Adelanto Public Financing Authority Bonds	<u>18,305,069</u>
Total cash and investments	<u>\$ 34,882,745</u>

Cash and investments as of June 30, 2005 consist of the following:

Petty cash	\$ 300
Deposits with financial institutions	7,956,033
Investments	<u>26,926,412</u>
Total cash and investments	<u>\$ 34,882,745</u>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 3 Cash and Investments (Continued)**

**(a) Investments Authorized by the California Government Code and the Authority's Investment Policy**

The table below identifies the investment types that are authorized for the Adelanto Public Utility Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California government Code or the Authority's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	None	\$40 million
Local Agency Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$100,000
Certificates of Deposit	1 year	None	\$100,000
Bankers Acceptances			
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Public Financing Authority Bonds	N/A	None	None

**(b) Investment Authorized by Debt Agreements**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$100,000
Certificates of Deposit	1 year	None	\$100,000
Commercial Paper	270 days	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Investment Agreements	N/A	None	None
Repurchase Agreements	N/A	None	None
State Bonds	N/A	None	None

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 3 Cash and Investments (Continued)**

**(f) Concentration of Credit Risk**

The investment policy of the Authority contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Authority investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Adelanto Public Financing Authority Bonds	Bonds	\$ 18,305,069

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, governmental activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.) are as follows:

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority bonds in the amount of \$18,365,069. These bonds are \$13,733,019 in 1995 Series C Bonds and \$4,572,050 in 1995 Series D Bonds.

**(g) Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2005, Authority's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Authority to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Money market funds	\$ 2,773,595
Investment Agreements	1,000,000

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 4 Capital Assets (Continued)**

Capital asset activity for the fiscal year ended June 30, 2005 was as follows (Continued):

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<b><u>Total Authority:</u></b>				
Capital assets, not being depreciated:				
Land	\$ 977,179	\$ 177,917	\$ -	\$ 1,155,096
Water rights	3,124,799			3,124,799
Construction in progress	3,045,958	1,055,676	(3,866,222)	235,412
<b>Total Capital Assets, not being depreciated</b>	<b>7,147,936</b>	<b>1,233,593</b>	<b>(3,866,222)</b>	<b>4,515,307</b>
Capital Assets, being depreciated:				
Fields and grounds	6,856,157	229,976		7,086,133
Wells and pump stations	707,356	3,866,222		4,573,578
Reservoirs	387,863			387,863
Machinery and equipment	273,081	12,996		286,077
Pipelines	12,378,919	174,942		12,553,861
Vehicles	138,656			138,656
Less - Accumulated depreciation	(4,561,307)	(487,602)		(5,048,909)
<b>Total Capital Assets, being depreciated</b>	<b>16,180,725</b>	<b>3,796,534</b>		<b>19,977,259</b>
<b>Total Authority Capital Assets, net</b>	<b>\$ 23,328,661</b>	<b>\$ 5,030,127</b>	<b>\$ (3,866,222)</b>	<b>\$ 24,492,566</b>

Depreciation expense has been included by function in the Statement of Revenue, Expenses, and Changes in Net Assets as follows:

Wastewater Activities	\$238,519
Water Activities	\$249,083

**Note 5 Long-Term Debt**

The following is a schedule of changes in long-term debt of the Authority for the fiscal year ended June 30, 2005:

	Balance July 1, 2004	Additions/ accretions	Principal payments	Balance June 30, 2005
Adelanto Public Utility Authority Revenue Bonds, 2000 Series A	\$ 9,385,000	\$ -	\$ -	\$ 9,385,000
Adelanto Public Utility Authority Revenue Bonds, 2000 Series B	21,285,000			21,285,000
Adelanto Public Utility Authority Revenue Bonds 2000 Series C	13,655,000			13,655,000
<b>Total long-term debt</b>	<b>\$44,325,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$44,325,000</b>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

A description of individual long-term obligations outstanding at June 30, 2005 is as follows:

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series A**

In February, 2000, the Adelanto Public Utility Authority issued \$9,385,000 of Revenue Bonds with a initial interest rate of 4.45% to advance refund \$9,255,000 of outstanding Revenue Bonds (Wastewater System Project), 1996 Series A (1996 Series A Revenue Bonds) bearing interest at rates ranging from 6.00% to 6.55%. The interest rate on the 2000 Series A bonds was .95% at June 30, 2005. Interest on the 2000 Series A Revenue Bonds is payable initially on May 1, 2000, and semiannually thereafter on November 1 and May 1 of each year until November 1, 2001. After November 1, 2001, interest due on the 2000 Series A Revenue Bonds is payable December 1, 2001 and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2005, at a redemption price equal to the principal amount plus accrued interest.

The net proceeds of approximately \$8.5 million (after payment of a \$187,700 underwriter's discount, \$436,288 in issuance costs, and \$207,000 to a rate stabilization fund) plus an additional \$1.2 million of 1996 Series A debt service reserve fund monies were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 Series A Revenue Bonds. As a result, the 1996 Series A Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1 million.

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series A (Continued)**

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$207,000 was deposited for the 2000 Series A Bonds. As of June 30, 2005, the total balance in the Rate Stabilization Fund was \$1,000,000 and is included in restricted cash and investments.

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year.
- The 2000 Series A Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year.
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund.
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payments required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility Authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series A Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series A Revenue Bonds at June 30, 2005 was \$9,385,000.

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B**

In February, 2000, the Adelanto Public Utility Authority issued \$21,285,000 of Revenue Bonds (2000 Series B Revenue Bonds), approximately \$17 million of which, along with proceeds from the 2000 Series C Taxable Revenue Bonds, was used to advance refund \$23,330,000 of outstanding Revenue Bonds (Water System Acquisition Project), 1995 Series A (1995 Series A Revenue Bonds) bearing interest at 7.5%. The proceeds were also used to advance refund the outstanding \$3,410,000 Adelanto Water Authority Parity Revenue Bonds, 1998 Series A (1998 Series A Parity Revenue Bonds) bearing interest at 7.5%. The interest rate on the 2000 Series B bonds was .95% at June 30, 2005. Interest on the 2000 Series B Revenue Bonds is payable initially on April 1, 2000, and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2005, at a redemption price equal to the principal amount plus accrued interest.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B (Continued)**

The issuance resulted in net proceeds of approximately \$19.4 million (after payment of a \$425,700 underwriter's discount, \$983,221 in issuance costs, and \$460,000 to a rate stabilization fund). Of the \$19.4 million in net proceeds and an additional \$2.7 million in funds from prior bond reserve funds, \$17 million was used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used, along with the securities purchased from the 2000 Series C Bonds, to pay principal and interest on the 1995 Series A Revenue Bonds and on the 1998 Series A Parity Revenue Bonds through and including September 1, 2008 and to pay the redemption price on the remaining 1995 Series A Revenue Bonds and 1998 Series A Parity Revenue Bonds on September 1, 2008. As a result, the 1995 Series A Revenue Bonds and the 1998 Series A Parity Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The remaining amount of \$5.1 million was used to fund a Water Project Fund for approximately \$3.6 million and a Wastewater Project Fund for \$1.5 million. The Water Project Fund includes a \$2.8 million amount to pay the cost of construction of a 4.0 million gallon water tank and a \$750,000 reserve for litigation costs. The Wastewater Project Fund will be used to pay for construction of various sewer and facility upgrades.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.7 million. The Public Utility Authority completed the advance refunding in part to refund the 1995 Series A Revenue Bonds and obtain additional funds to finance the Water and Wastewater Funds.

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$460,000 was originally deposited for the 2000 Series B Bonds.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

• **Adelanto Public Utility Authority Revenue Bonds, 2000 Series B (Continued)**

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and errors in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year.
- The 2000 Series B Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year.
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund.
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payment required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility Authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series B Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series B Revenue Bonds at June 30, 2005 was \$21,285,000.

• **Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C**

In February, 2000, the Adelanto Public Utility Authority issued \$13,655,000 of Revenue Bonds (2000 Series C Revenue Bonds), which in addition to prior bond reserve funds of approximately \$1.7 million, was used to advance refund a portion of the \$23,330,000 of outstanding Revenue Bonds (Water System Acquisition Project), 1995 Series A (1995 Series A Revenue Bonds) bearing interest at 7.5%. The interest rate on the 2000 Series C bonds was 1.15% at June 30, 2005. Interest on the 2000 Series C Revenue Bonds is payable initially on April 1, 2000, and the first business day of each month thereafter, so long as the Bonds bear interest at a variable interest rate, and, after conversion to a fixed rate, at a fixed interest rate in accordance with the Indenture. The Bonds are also subject to mandatory sinking fund redemption commencing November 1, 2006, at a redemption price equal to the principal amount plus accrued interest.

The issuance resulted in net proceeds of approximately \$12.5 million (after payment of a \$273,100 underwriter's discount, \$588,462 in issuance costs, and \$333,000 to a rate stabilization fund). The aggregate of \$12.5 million in net proceeds and an additional \$1.7 million in funds from prior bond reserve funds, was used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to be used, along with the securities purchased from the 2000 Series B Bonds, to pay principal and interest on the 1995 Series A Revenue Bonds through and including September 1, 2008 and to pay the redemption price on the remaining 1995 Series A Revenue Bonds on September 1, 2008. As a result, the 1995 Series A Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.2 million.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

• **Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C (Continued)**

During the variable rate period and on the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part (in an amount of \$100,000 or any integral multiple of \$5,000) at a redemption price equal to the principal amount with accrued interest to the date fixed for redemption, without premium.

After the fixed rate conversion date, the Bonds are subject to redemption at the option of the Public Utility Authority in whole or in part in integral multiples of \$5,000, at a redemption price equal to the principal amount plus premium (expressed as a percentage of the principal amount of such bonds to be prepaid) plus accrued interest to the date fixed for prepayment, as set forth below:

<u>Prepayment dates</u>	<u>Redemption price</u>
Ninth anniversary of the fixed rate conversion date to the day before the tenth anniversary date of the fixed rate conversion date	102%
Tenth anniversary of the fixed rate conversion date to the day before the eleventh anniversary date of the fixed rate conversion date	101%
Eleventh anniversary of the fixed rate conversion date and thereafter	100%

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2000 Bonds Series A, B, and C is \$1,000,000, of which \$333,000 was originally deposited for the 2000 Series C Bonds.

The Public Utility Authority is required under the Bond Indenture to fix, prescribe, revise and collect rates, fees, and charges for the services and facilities furnished by the wastewater system during each fiscal year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield gross wastewater revenues to pay the following amounts in the following order of priority:

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year.
- The 2000 Series C Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year.
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund.
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payments required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

In addition, the Public Utility authority is required to fix, prescribe, revise, and collect rates, fees and charges for the services and facilities furnished by the wastewater system during each fiscal year which are sufficient to yield net wastewater revenues at least equal to 115% of the total 2000 Series C Bonds debt service coming due and payable in such fiscal year.

The outstanding balance on the 2000 Series C Revenue Bonds at June 30, 2005 was \$13,655,000.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 5 Long-Term Debt (Continued)**

• **Debt Service Requirements**

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30:

<u>Fiscal year</u>	<u>2000 Public Utility Bonds Series A</u>	<u>2000 Public Utility Bonds Series B</u>	<u>2000 Public Utility Bonds Series C</u>	<u>Total</u>
2005-06	\$ 250,868	\$ 681,841	\$ 170,688	\$ 1,103,397
2006-07	254,246	691,974	349,563	1,295,783
2007-08	262,546	696,979	362,219	1,321,744
2008-09	265,769	706,855	369,719	1,342,343
2009-10	273,915	716,576	382,063	1,372,554
2010-15	1,468,571	3,723,289	2,069,656	7,261,516
2015-20	1,662,929	3,962,889	2,424,659	8,050,477
2020-25	1,907,482	4,264,955	2,906,721	9,079,158
2025-30	2,208,779	4,595,990	3,540,003	10,344,772
2030-35	2,587,208	4,972,438	4,399,375	11,959,021
	<u>11,142,313</u>	<u>25,013,786</u>	<u>16,974,666</u>	<u>53,130,765</u>
Less amount representing interest	<u>1,757,313</u>	<u>3,728,786</u>	<u>3,319,666</u>	<u>8,805,765</u>
Balance outstanding	<u>\$ 9,385,000</u>	<u>\$ 21,285,000</u>	<u>\$ 13,655,000</u>	<u>\$ 44,325,000</u>

• **Defeasance of Debt**

At June 30, 2005, the principal amount of defeased debt still outstanding was as follows:

1995	Series A Revenue Bonds	\$ 23,330,000
1998	Series A Revenue Bonds	3,250,000
	Total	<u>\$ 26,580,000</u>

As of the fiscal year ended June 30, 2005, the total non-current portion of accrued employee leave benefits for the Authority was \$60,716.

**Note 6 Retirement Plan**

The City of Adelanto terminated the City of Adelanto Money Purchase Pension Plan on March 20, 2003 and contracted with the State of California Public Employees Retirement System to provide retirement benefits for its employees. Each Participant's account was credited with the cash value of his or her life insurance policy. On September 30, 2003, the balance of each member's account was transferred to PenChecks, Inc. who was appointed as agent of the Trustee of the Plan for the purpose of processing benefit distributions for the participants and beneficiaries.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2005**

**Note 7**     **Commitments and Contingencies**

**General Litigation**

In the normal course of operations, the City has been subjected to certain routine litigation matters which are relevant to the Authority. The ultimate outcome of these lawsuits is not presently determinable; however, in the opinion of management, the amount of losses that might be sustained, if any, would not materially affect the financial position of the Authority.

**Note 8**     **Due To/From Other Funds**

The Adelanto Water Authority owes the Adelanto Public Utility Authority a net amount of \$17,576,864. These amounts have been eliminated on the Statement of Net Assets. The City of Adelanto owes the Adelanto Water Authority \$3,621,792. These amounts are shown as due to/due from City of Adelanto on the Statement of Net Assets – Proprietary Funds.

**Note 9**     **Net Assets**

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets.

**Note10**    **Subsequent Events**

In September 2005, the Financing Authority issued Variable Rate Refunding Revenue Bonds, 2005 Series A in the amount of \$55,615,000. The 2005 Series A Bonds are being issued on a parity with the Authority's Taxable Variable Rate Refunding Revenue Bonds, 2005 Series B in order to provide a portion of the moneys to refinance all of the authority's outstanding Variable Rate Revenue Bonds, 2000 Series A and 2000 Series B, to provide funds to finance certain improvements to the Wastewater Enterprise and the Water Enterprise, to fund a debt service reserve account, and to pay the expenses of the Authority in connection with the delivery of the 2005 Series A Bonds.

In September 2005, the Financing Authority issued Taxable Variable Rate Refunding Revenue Bonds, 2005 Series B in the amount of \$15,020,000. The 2005 Series B Bonds are being issued to provide a portion of the moneys to refinance the Authority's Variable Rate Taxable Revenue Bonds, 2000 Series C Bonds currently outstanding, to fund a debt service reserve account, and to pay certain costs in connection with the issuance of the 2005 Series B Bonds.



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS:**

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

Members of the Governing Board  
of the Adelanto Public Utility Authority  
Adelanto, California

We have audited the financial statements of the business-type activities and each major fund of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, California (City), as of and for the fiscal year ended June 30, 2005, which collectively comprise the Authority's financial statements, and have issued our report thereon dated February 12 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in a separate report to Management dated February 12, 2008.

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements of the Authority are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, and the governing board and is not intended and should not be used by anyone other than these specified partners.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Beverly Hills, California  
February 12, 2008