

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

FINANCIAL STATEMENTS

June 30, 2006

ADELANTO PUBLIC UTILITY AUTHORITY
(A Component Unit of the City of Adelanto, California)
BASIC FINANCIAL STATEMENTS
June 30, 2006

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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, 2006, 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, 2006, 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 of the notes to the basic financial statements, the Authority adopted Governmental Accounting Standards Board Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and No. 46, *Net Assets Restricted by Enabling Legislation, and amendment to GASB No. 34*.

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 October 6, 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
October 6, 2008

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS

June 30, 2006

ASSETS	<u>Business-type Activities</u>
Current Assets:	
Cash and investments	\$ 23,657,478
Receivables:	
Accounts, net	1,481,197
Interest	80,674
Inventories	60,252
Due from City of Adelanto	<u>106,133</u>
Total Current Assets	<u>25,385,734</u>
Restricted Assets:	
Cash and investments with fiscal agents	<u>25,723,780</u>
Total Restricted Assets	<u>25,723,780</u>
Capital Assets:	
Capital assets not being depreciated	5,194,788
Capital assets being depreciated, net	<u>19,666,938</u>
Total Capital Assets	<u>24,861,726</u>
Other Assets:	
Investment in Adelanto Public Financing Authority Bonds	18,474,798
Deferred bond issuance costs, net of accumulated amortization	2,133,703
Deferred loss on bond refunding, net of accumulated amortization	<u>6,944,412</u>
Total Other Assets	<u>27,552,913</u>
Total Assets	<u>\$ 103,524,153</u>

(Continued)

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS

June 30, 2006
(Continued)

LIABILITIES	Business-type Activities
Current Liabilities:	
Accounts payable	\$ 159,224
Accrued liabilities	83,102
Deposits payable	<u>530,789</u>
Total Current Liabilities	<u>773,115</u>
Current Liabilities (payable from restricted assets):	
Accrued interest payable	<u>217,431</u>
Total Current Liabilities (payable from restricted assets)	<u>217,431</u>
Long-Term Liabilities:	
Accrued employee leave benefits	14,398
Bonds payable, non-current	<u>70,635,000</u>
Total Long-Term Liabilities	<u>70,649,398</u>
Total Liabilities	<u>71,639,944</u>
NET ASSETS	
Net Assets:	
Invested in capital assets, net of related debt	(15,951,474)
Restricted for debt service	4,762,664
Unrestricted	<u>43,073,019</u>
Total Net Assets	<u>\$ 31,884,209</u>

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Business-type Activities

	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Expenses:			
Public utility activities	\$ (5,349,071)	\$ 3,056,218	\$ (2,292,853)
Water activities	(2,859,509)	10,675,595	7,816,086
Total	<u>\$ (8,208,580)</u>	<u>\$ 13,731,813</u>	<u>5,523,233</u>
 General Revenues:			
Use of money and property			1,086,563
Transfers to the City of Adelanto			<u>(911,949)</u>
Total General Revenues and Transfers			<u>174,614</u>
Change in Net Assets			5,697,847
Net Assets - July 1, 2005			<u>26,186,362</u>
Net Assets - June 30, 2006			<u>\$ 31,884,209</u>

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
Current Assets:			
Cash and investments	\$ 9,316,687	\$ 14,340,791	\$ 23,657,478
Receivables:			
Accounts, net	518,028	963,169	1,481,197
Interest	6,909	73,765	80,674
Inventories		60,252	60,252
Due from City of Adelanto		106,133	106,133
	<u>9,841,624</u>	<u>15,544,110</u>	<u>25,385,734</u>
Restricted Assets:			
Cash and investments with fiscal agents	<u>25,723,780</u>		<u>25,723,780</u>
	<u>25,723,780</u>		<u>25,723,780</u>
Capital assets, net of accumulated depreciation	<u>9,601,286</u>	<u>15,260,440</u>	<u>24,861,726</u>
Other Assets:			
Due from Water Authority	17,883,326		17,883,326
Investment in Adelanto Public Financing Authority Bonds		18,474,798	18,474,798
Deferred bond issuance costs, net of accumulated amortization	2,133,703		2,133,703
Deferred loss on bond refunding, net of accumulated amortization	<u>6,944,412</u>		<u>6,944,412</u>
	<u>26,961,441</u>	<u>18,474,798</u>	<u>45,436,239</u>
Total Assets	<u>\$ 72,128,131</u>	<u>\$ 49,279,348</u>	<u>\$ 121,407,479</u>

(Continued)

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006
(Continued)

<u>Liabilities and Net Assets</u>	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
Current Liabilities:			
Accounts payable	\$ 73,540	\$ 85,684	\$ 159,224
Accrued liabilities	72,425	10,677	83,102
Deposits payable	60,088	470,701	530,789
Total Current Liabilities	206,053	567,062	773,115
Current Liabilities: (payable from restricted assets):			
Accrued interest payable	217,431		217,431
Total Current Liabilities (payable from restricted assets)	217,431		217,431
Long-Term Liabilities:			
Due to Public Utility Authority		17,883,326	17,883,326
Accrued employee leave benefits		14,398	14,398
Bonds payable, non-current	70,635,000		70,635,000
Total Long-Term liabilities	70,635,000	17,897,724	88,532,724
Total Liabilities	71,058,484	18,464,786	89,523,270
Net Assets:			
Invested in capital assets, net of related debt	(31,211,914)	15,260,440	(15,951,474)
Restricted for debt service	4,762,664		4,762,664
Unrestricted	27,518,897	15,554,122	43,073,019
Total Net Assets	\$ 1,069,647	\$ 30,814,562	\$ 31,884,209

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, 2006

	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
Operating Revenues:			
Charges for services	\$ 3,056,218	\$ 9,324,174	\$12,380,392
Other revenue		1,351,421	1,351,421
	<u>3,056,218</u>	<u>10,675,595</u>	<u>13,731,813</u>
Total Operating Revenues			
Operating Expenses:			
Salaries and benefits		611,997	611,997
Contract services	674,849	170,316	845,165
Sewer operations	296,773		296,773
Water operations		682,593	682,593
Utilities	144,187	975,732	1,119,919
Administration	182,673	9,391	192,064
Depreciation	246,226	279,796	526,022
	<u>1,544,708</u>	<u>2,729,825</u>	<u>4,274,533</u>
Total Operating Expenses			
Operating Income	<u>1,511,510</u>	<u>7,945,770</u>	<u>9,457,280</u>
Nonoperating Revenues (Expenses):			
Amortization expense	(315,848)		(315,848)
Interest expense and fiscal charges	(3,488,515)	(129,684)	(3,618,199)
Interest revenue	800,833	285,730	1,086,563
	<u>(3,003,530)</u>	<u>156,046</u>	<u>(2,847,484)</u>
Total Nonoperating Revenues (Expenses)			
Net income before transfers	<u>(1,492,020)</u>	<u>8,101,816</u>	<u>6,609,796</u>
Transfers in	2,800,000		2,800,000
Transfers out		(2,800,000)	(2,800,000)
Transfers to City of Adelanto	(911,949)		(911,949)
	<u>396,031</u>	<u>5,301,816</u>	<u>5,697,847</u>
Change in Net Assets			
Net Assets - July 1, 2005	<u>673,616</u>	<u>25,512,746</u>	<u>26,186,362</u>
Net Assets - June 30, 2006	<u>\$ 1,069,647</u>	<u>\$30,814,562</u>	<u>\$31,884,209</u>

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006

	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 3,069,427	\$ 10,706,251	\$ 13,775,678
Payments to suppliers	(1,248,583)	(1,881,396)	(3,129,979)
Payments to employees		(658,315)	(658,315)
Net cash provided (used) by operating activities	<u>1,820,844</u>	<u>8,166,540</u>	<u>9,987,384</u>
Cash flows from noncapital financing activities:			
Transfer to the City of Adelanto	(911,949)		(911,949)
Payments received (paid) to/(from) other funds or City	(306,462)	3,822,121	3,515,659
Transfers in (out)	<u>2,800,000</u>	<u>(2,800,000)</u>	
Net cash provided (used) in noncapital financing activities	<u>1,581,589</u>	<u>1,022,121</u>	<u>2,603,710</u>
Cash flows from capital and related financing activities:			
Proceeds from debt issuance	70,635,000		70,635,000
Purchase of capital assets	(119,901)	(775,281)	(895,182)
Interest paid on long-term debt	(3,367,203)	(129,684)	(3,496,887)
Principal paid on long-term debt	(44,325,000)		(44,325,000)
Increase in deferred charges	<u>(2,575,346)</u>		<u>(2,575,346)</u>
Net cash provided (used) in capital and related financing activities	<u>20,247,550</u>	<u>(904,965)</u>	<u>19,342,585</u>
Cash flows from investing activities:			
Principal repayment on bond investment		(169,729)	(169,729)
Interest on investments	793,924	245,708	1,039,632
Net cash provided (used) by investing activities	<u>793,924</u>	<u>75,979</u>	<u>869,903</u>
Net increase (decrease) in cash and cash equivalents	24,443,907	8,359,675	32,803,582
Cash and cash equivalents, beginning of fiscal year	<u>10,596,560</u>	<u>5,981,116</u>	<u>16,577,676</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 35,040,467</u>	<u>\$ 14,340,791</u>	<u>\$ 49,381,258</u>
Reconciliation of cash and cash equivalents to amounts reported on the statement of net assets:			
Reported on the Statement of Net Assets:			
Cash and investments	\$ 9,316,687	\$ 14,340,791	\$ 23,657,478
Cash and investments with fiscal agents	<u>25,723,780</u>		<u>25,723,780</u>
Cash and cash equivalents - June 30, 2006	<u>\$ 35,040,467</u>	<u>\$ 14,340,791</u>	<u>\$ 49,381,258</u>
Reconciliation of operating income to net cash provided by operations:			
Operating income	<u>\$ 1,511,510</u>	<u>\$ 7,945,770</u>	<u>\$ 9,457,280</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	246,226	279,796	526,022
Increase (decrease) in accounts receivable	18,967	(16,576)	2,391
Increase (decrease) in accounts payable	(22,526)	(37,649)	(60,175)
Increase (decrease) in accrued liabilities	72,425	(5,715)	66,710
Increase (decrease) in deposits payable	(5,758)	47,232	41,474
Increase (decrease) in accrued employee leave benefits		(46,318)	(46,318)
Total adjustments	<u>309,334</u>	<u>220,770</u>	<u>530,104</u>
Net Cash Provided by Operating Activities	<u>\$ 1,820,844</u>	<u>\$ 8,166,540</u>	<u>\$ 9,987,384</u>

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

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, 2006

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 2005 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, 2006

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, 2006

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 \$169,729 of capital appreciation during the fiscal year ended June 30, 2006. The Public Utility Authority records its investment in Adelanto Public Financing Authority Bonds at fair value at June 30, 2006.

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 subordinated 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, 2006, the County loaned the Agency its share of incremental property taxes aggregating approximately \$1,533,294, and the balance outstanding was \$10,479,040.

(f) Implementation of New GASB Pronouncements

Governmental Accounting Standards Board Statement No. 44

For the fiscal year ended June 30, 2006, the Authority implemented GASB Statement No. 44, "Economic Condition Reporting: The Statistic Section". This Statement is effective for the Authority for the fiscal period beginning after June 15, 2005. This Statement enhances and updates the statistical section that accompanies a local government's basic financial statements to reflect the significant changes that have taken place in the government. The statistical section comprises schedules presenting trend information about revenues and expenses, trend information about the government's significant revenue source, outstanding debt, economics and demographics, and operating information. Implementation of GASB Statement of GASB Statement No. 44 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2006.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

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

(f) Implementation of New GASB Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 46

For fiscal year June 30, 2006, the Authority implemented Governmental Accounting Standard Board Statement No. 46, "Net assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34". This Statement is effective for fiscal periods beginning after June 15, 2005. This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction in one that a party external to the Authority as citizens, public interest groups, or the judiciary — can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2006, but required additional disclosure related to restricted net assets.

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 \$26,485,464 at June 30, 2006. 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.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

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

(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.

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, 2006.

(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, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 23,657,478
Cash and investments with fiscal agents	25,723,780
Investment in Adelanto Public Financing Authority Bonds	<u>18,474,798</u>
Total cash and investments	<u>\$ 67,856,056</u>

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 3 Cash and Investments (Continued)

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

Cash and investments as of June 30, 2006 consist of the following:

Petty cash	\$	450
Deposits with financial institutions		16,499,628
Investments		<u>51,355,978</u>
Total cash and investments	\$	<u><u>67,856,056</u></u>

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.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 3 Cash and Investments (Continued)

(b) Investment Authorized by Debt Agreements (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Totals	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool	\$ 7,157,400	\$ 7,157,400	\$ -	\$ -	\$ -
Held by Bond Trustees:					
Money Market Funds	1,842,482	1,842,482			4,280,094
Investment Agreements	23,881,298		19,601,204		18,474,798
Bonds	18,474,798				18,474,798
	<u>\$ 51,355,978</u>	<u>\$ 8,999,882</u>	<u>\$ 19,601,204</u>	<u>\$ -</u>	<u>\$ 22,754,892</u>

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 3 Cash and Investments (Continued)

(d) Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Authority has no investments (including investments held by bond trustee) that are highly sensitive to interest rate fluctuations to a greater degree than already indicated in the information provided above.

(e) Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 7,157,400	N/A	\$ -	\$ -	\$ -	\$ -	\$ 7,157,400
Held by bond trustee:							
Money Market Funds	1,842,482	N/A		1,842,482			
Investment Agreements	23,881,298	N/A			23,881,298		
Bonds	18,474,798	N/A					18,474,798
Total	\$ 51,355,978		\$ -	\$ 1,842,482	\$ 23,881,298	\$ -	\$ 25,632,198

(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:

Issuer	Investment Type	Reported Amount
IXIS Investment Agreements	Investment Contracts	\$ 23,881,298
Adelanto Public Financing Authority Bonds	Bonds	18,474,798

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 Public Utility Authority holds investments in IXIS Investment Contracts equal to \$23,881,298. The agreements mature on February 1, 2008 and September 15, 2015 and pay interest of 4.060% and 4.360%.

ADELANTO PUBLIC UTILITY AUTHORITY

Notes to Basic Financial Statements

June 30, 2006

Note 3 Cash and Investments (Continued)

(f) Concentration of Credit Risk (Continued)

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority bonds in the amount of \$18,474,798. These bonds are \$13,901,987 in 1995 Series C Bonds and \$4,572,811 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, 2006, 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	\$ 1,842,482
Investment Agreements	23,881,298

The Authority pools its deposits with the City of Adelanto. See the City's annual report for more information of pooled cash and investments.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 4 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Wastewater Activity:</u>				
Capital Assets, not being depreciated:				
Land	\$ 363,040	\$ -	\$ -	\$ 363,040
Construction in progress	235,412			235,412
Total Capital Assets, not being depreciated	598,452			598,452
Capital Assets, being depreciated:				
Fields and grounds	7,086,133	19,714		7,105,847
Machinery and equipment	269,303	100,187		369,490
Pipelines	3,618,320			3,618,320
Less - Accumulated depreciation	(1,844,597)	(246,226)		(2,090,823)
Total Capital Assets, being depreciated	9,129,159	(126,325)		9,002,834
Total Wastewater Capital Assets, net	\$ 9,727,611	\$ (126,325)	\$ -	\$ 9,601,286
<u>Water Activity:</u>				
Capital Assets, not being depreciated:				
Land	\$ 792,056	\$ -	\$ -	\$ 792,056
Water rights	3,124,799			3,124,799
Construction in progress		679,481		679,481
Total Capital Assets, not being depreciated	3,916,855	679,481		4,596,336
Capital Assets, being depreciated:				
Wells and pump stations	4,573,578	95,800		4,669,378
Reservoirs	387,863			387,863
Machinery and equipment	16,774			16,774
Pipelines	8,935,541			8,935,541
Vehicles	138,656			138,656
Less - Accumulated depreciation	(3,204,312)	(279,796)		(3,484,108)
Total Capital Assets, being depreciated	10,848,100	(183,996)		10,664,104
Total Water Capital Assets, net	\$ 14,764,955	\$ 495,485	\$ -	\$ 15,260,440

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 4 Capital Assets (Continued)

Capital asset activity for the fiscal year ended June 30, 2006 was as follows (Continued):

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>Total Authority:</u>				
Capital assets, not being depreciated:				
Land	\$ 1,155,096	\$ -	\$ -	\$ 1,155,096
Water rights	3,124,799			3,124,799
Construction in progress	235,412	679,481		914,893
Total Capital Assets, not being depreciated	4,515,307	679,481		5,194,788
Capital Assets, being depreciated:				
Fields and grounds	7,086,133	19,714		7,105,847
Wells and pump stations	4,573,578	95,800		4,669,378
Reservoirs	387,863			387,863
Machinery and equipment	286,077	100,187		386,264
Pipelines	12,553,861			12,553,861
Vehicles	138,656			138,656
Less - Accumulated depreciation	(5,048,909)	(526,022)		(5,574,931)
Total Capital Assets, being depreciated	19,977,259	(310,321)		19,666,938
Total Authority Capital Assets, net	\$ 24,492,566	\$ 369,160	\$ -	\$ 24,861,726

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

Wastewater Activities	\$ 246,226
Water Activities	\$ 279,796

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, 2006:

	Balance July 1, 2005	Additions/ accretions	Principal payments	Balance June 30, 2006	Due in 1 year
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)		
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A		55,615,000		55,615,000	
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series B		15,020,000		15,020,000	
Total long-term debt	\$ 44,325,000	\$ 70,635,000	\$ (44,325,000)	\$ 70,635,000	\$ -

ADELANTO PUBLIC UTILITY AUTHORITY

Notes to Basic Financial Statements

June 30, 2006

Note 5 Long-Term Debt (Continued)

A description of individual long-term obligations outstanding at June 30, 2006 is as follows:

• **Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A**

In September, 2005, the Adelanto Public Utility Authority issued \$55,615,000 of Variable Rate Refunding Revenue Bonds to advance refund \$30,670,000 of outstanding Revenue Bonds 2000 Series A and B. Interest on the 2005 Series A Revenue Bonds is payable initially on October 1, 2005, and monthly thereafter until November 1, 2034.

Net proceeds of approximately \$30.9 million (after payment of a \$436,578 underwriter's discount, \$1,254,983 in issuance costs, and \$3,308,384 to a reserve fund) plus an additional \$817,710 of 2000 Series A and B 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 2000 Series A and B Revenue Bonds. As a result, the 2000 Series A and B 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 \$20.5 million is to be used to finance improvements to both the Water and Wastewater Systems.

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:

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 2005 Bonds Series A and B is \$700,000. As of June 30, 2006, the total balance in the Rate Stabilization Fund was \$700,000 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 2005 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.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 5 Long-Term Debt (Continued)

• **Adelanto Public Utility Authority Revenue Bonds, 2005 Series A (Continued)**

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 2005 Series A Revenue Bonds at June 30, 2006 was \$55,615,000.

• **Adelanto Public Utility Authority Revenue Bonds, 2005 Series B**

In September, 2005, the Adelanto Public Utility Authority issued \$15,020,000 of Variable Rate Refunding Revenue Bonds (2005 Series B), approximately \$13.8 million, was used to advance refund \$13,655,000 of outstanding Revenue Bonds, 1990 Series C Bonds. Interest on the 2005 Series B Revenue Bonds is payable initially on October 1, 2005, and monthly thereafter through November 1, 2034.

The issuance resulted in net proceeds of approximately \$13.5 million (after payment of a \$117,907 underwriter's discount, \$495,356 in issuance costs, and \$971,711 in a reserve fund). Of the \$13.5 million in net proceeds and an additional \$300,696 in funds from prior bond reserve funds, \$13.8 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, to pay principal and interest on the 2000 Series C Revenue Bonds. As a result, the 2000 Series C Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

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 2005 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 2005 Series B Revenue Bonds at June 30, 2006 was \$15,020,000.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

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

• **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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds Series 2005 A. As such the 2000 Bonds are considered to be defeased and the liability has been removed form the accompanying financial statements.

The outstanding balance on the 2000 Series A Revenue Bonds at June 30, 2006 was \$0.

• **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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds Series 2005A. As such the 2000 bonds are considered to be defeased and the liability has been removed from the accompanying financial statements.

The outstanding balance on the 2000 Series B Revenue Bonds at June 30, 2006 was \$0.

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

Note 5 Long-Term Debt (Continued)

• **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.

These bonds were advance refunded through the issuance of the Adelanto Public Utility Authority Refunding Revenue Bonds 2005 Series B. As such these bonds are considered to be defeased and the liability has been removed from the financial statements.

The outstanding balance on the 2000 Series C Revenue Bonds at June 30, 2006 was \$0.

• **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>2005 Public Utility Bonds Series A</u>	<u>2005 Public Utility Bonds Series B</u>	<u>Total</u>
2007	\$ 2,035,509	\$ 751,000	\$ 2,786,509
2008	2,035,509	751,000	2,786,509
2009	3,255,509	1,051,000	4,306,509
2010	3,260,857	1,046,000	4,306,857
2011	3,259,375	1,045,500	4,304,875
2012-2016	16,322,608	5,193,750	21,516,358
2017-2021	16,365,320	5,142,750	21,508,070
2022-2026	16,417,853	5,083,000	21,500,853
2027-2031	16,489,634	4,993,000	21,482,634
2032-2035	13,238,744	3,930,250	17,168,994
	<u>92,680,918</u>	<u>28,987,250</u>	<u>121,668,168</u>
Less amount representing interest	<u>37,065,918</u>	<u>13,967,250</u>	<u>51,033,168</u>
Balance outstanding	<u>\$ 55,615,000</u>	<u>\$ 15,020,000</u>	<u>\$ 70,635,000</u>

• **Defeasance of Debt**

At June 30, 2006, the principal amount of defeased debt still outstanding was as follows:

1995	Series A Revenue Bonds	\$ 23,330,000
1998	Series A Revenue Bonds	<u>3,150,000</u>
	Total	<u>\$ 26,480,000</u>

ADELANTO PUBLIC UTILITY AUTHORITY
Notes to Basic Financial Statements
June 30, 2006

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

• **Compensated Absences**

As of the fiscal year ended June 30, 2006, the total non-current portion of accrued employee leave benefits for the Authority was \$14,398.

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.

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 \$17,883,326. These amounts have been eliminated on the Statement of Net Assets. The City of Adelanto owes the Adelanto Water Authority \$106,133. 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**

On December 19, 2007 the Authority reoffered its 2005 Series A and B Variable Rate Refunding Revenue Bonds in the amounts of \$55,615,000 and \$15,020,000 respectfully. The bonds were reoffered as auction rate securities. The interest for the Series A Bonds will be set based on 7-day auction periods while the Series B bonds will be set based on a 28-day auction period. Both Series of bonds mature on November 1, 2034. The net revenues of the Water and Wastewater System are pledged as security for the 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, 2006, which collectively comprise the Authority's financial statements, and have issued our report thereon dated October 6, 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. We noted no 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.

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.

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
October 6, 2008