

*In the opinion of Rutan & Tucker, LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Bonds. See "TAX MATTERS."*

**\$14,130,000**

**ADELANTO PUBLIC UTILITY AUTHORITY  
Fixed Rate Revenue Bonds, 2014 Series A  
(Utility System Project)**

Dated: Date of Delivery

Due: July 1, as shown on the inside cover

The above-titled bonds (the "2014 Bonds") are being issued by the Adelanto Public Utility Authority (the "Authority") in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Payments of the principal of, premium, if any, and interest on the 2014 Bonds will be made by MUFG Union Bank, N.A., as trustee for the 2014 Bonds (the "Trustee") to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2014 Bonds. The authorized denomination of the 2014 Bonds is \$100,000 and any integral multiple of \$5,000 in excess of \$100,000.

The 2014 Bonds are being issued to (i) finance certain capital improvements to the Authority's water treatment, production, storage and distribution system (the "Water Enterprise") and its wastewater collection and treatment system (the "Wastewater Enterprise," and collectively with the Water Enterprise, the "Utility System") and other related costs, (ii) pay costs related to a legal judgment, (iii) make a deposit to a debt service reserve fund for the 2009 Bonds (defined below) and the 2014 Bonds (see "SECURITY FOR THE 2014 BONDS – Debt Service Reserve Account"), and (iv) pay the costs of issuing the 2014 Bonds.

The 2014 Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2005 (the "Master Indenture"), as amended and supplemented, including as supplemented by a Fifth Supplemental Indenture of Trust, dated as of November 1, 2014 (the "Fifth Supplemental Indenture"; together with the Master Indenture, the "Indenture") by and between the Authority and the Trustee. Interest on the 2014 Bonds is payable on January 1 and July 1 of each year, commencing on July 1, 2015.

The 2014 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of Pledged Utility Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Pledged Utility Revenues primarily consist of (i) Net Wastewater Revenues and (ii) Net Water Revenues, as those terms are defined in this Official Statement. In order to comply with applicable law, each of the Water Enterprise and the Wastewater Enterprise is obligated to pay only its "Proportionate Share" of the 2014 Bonds. See "THE FINANCING PLAN" for a discussion of the Proportionate Share of the 2014 Bonds payable from each enterprise.

In the Indenture, the Authority has covenanted to fix, prescribe and collect fees, tolls, assessments, rates and charges for the Utility System in order to satisfy certain coverage requirements. See "SECURITY FOR THE 2014 BONDS – Rate Covenant." The Authority's ability to satisfy its rate covenant is subject to a variety of risks, including the ability to pay of the Utility System's customers. See "BOND OWNERS' RISKS - Pledged Utility Revenues; Rate Covenant" and "- Demographics of the Utility System's Customers."

The 2014 Bonds are being issued under the terms of the Master Indenture relating to issuance of "Parity Obligations." The Authority is authorized to issue additional obligations secured by and payable from Pledged Utility Revenues on a parity with the 2014 Bonds. The Authority has previously issued its Fixed Rate Refunding Revenue Bonds, 2009 Series A (Utility System Project) (the "2009 Bonds"), currently outstanding in the amount of \$73,190,000, which are secured by a pledge of Pledged Utility Revenues on a parity basis with the 2014 Bonds. See "SECURITY FOR THE 2014 BONDS - Parity Obligations." The Water Enterprise's Proportionate Share of the 2009 Bonds is 59% and the Wastewater Enterprise's Proportionate Share of the 2009 Bonds is 41%.

**The 2014 Bonds are subject to optional and mandatory redemption prior to maturity as described in this Official Statement. See "THE 2014 BONDS – Redemption."**

**The credit and taxing power of the Authority are not pledged for the payment of the principal of and interest on the 2014 Bonds. The owners of the 2014 Bonds may not compel the exercise of the taxing power by the Authority or the forfeiture of its property. The principal of and interest on the 2014 Bonds are not a debt of the Authority, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Pledged Utility Revenues of the Utility System.**

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**MATURITY SCHEDULE**

(see inside cover)

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**THE 2014 BONDS ARE NOT APPROPRIATE INVESTMENTS FOR EVERY INVESTOR. THERE ARE SUBSTANTIAL RISKS ASSOCIATED WITH THESE BONDS AS DESCRIBED IN THIS OFFICIAL STATEMENT. THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE 2014 BONDS.**

The 2014 Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Rutan & Tucker, LLP, Bond Counsel. Jones Hall, A Professional Law Corporation is acting as Disclosure Counsel to the Authority. Nixon Peabody LLP is acting as Underwriter's Counsel. Certain legal matters will be passed upon for the Authority by Rutan & Tucker, LLP, in its capacity as City Attorney. It is anticipated that the 2014 Bonds will be delivered in definitive form through DTC on or about December 30, 2014.

**RAYMOND JAMES®**

The date of this Official Statement is December 17, 2014

## MATURITY SCHEDULE

\$8,420,000 5.000% Term Bonds Due July 1, 2024, Yield 4.000%, Price 104.083 C;

CUSIP†: 006797 BE3

\$5,710,000 5.000% Term Bonds Due July 1, 2039; Yield 5.000%, Price 100.000;

CUSIP†: 006797 BF0

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C: Priced to first optional par call date of July 1, 2019.

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# **ADELANTO PUBLIC UTILITY AUTHORITY**

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## **BOARD OF COMMISSIONERS/CITY COUNCIL**

Rich Kerr, *President/Mayor*  
Edgar Camargo, *Vice President/Mayor Pro Tem*  
Charley B. Glasper  
John R. Woodward  
Jermaine Wright Sr.

## **AUTHORITY STAFF**

James Hart, *Executive Director/City Manager*  
Onyx Jones, *Interim Finance Director*

## **PROFESSIONAL SERVICES**

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*Irvine, California*

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*Costa Mesa, California*

### **DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

### **TRUSTEE**

MUFG Union Bank, N.A.  
*Los Angeles, California*

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the 2014 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2014 Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Authority, in any press release and in any oral statement made with the approval of an authorized officer of the Authority, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority since the date hereof.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

**Involvement of Underwriter.** The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the information set forth in this Official Statement is not guaranteed as to accuracy or completeness by the Underwriter, and this Official Statement is not to be construed as a representation by the Underwriter.

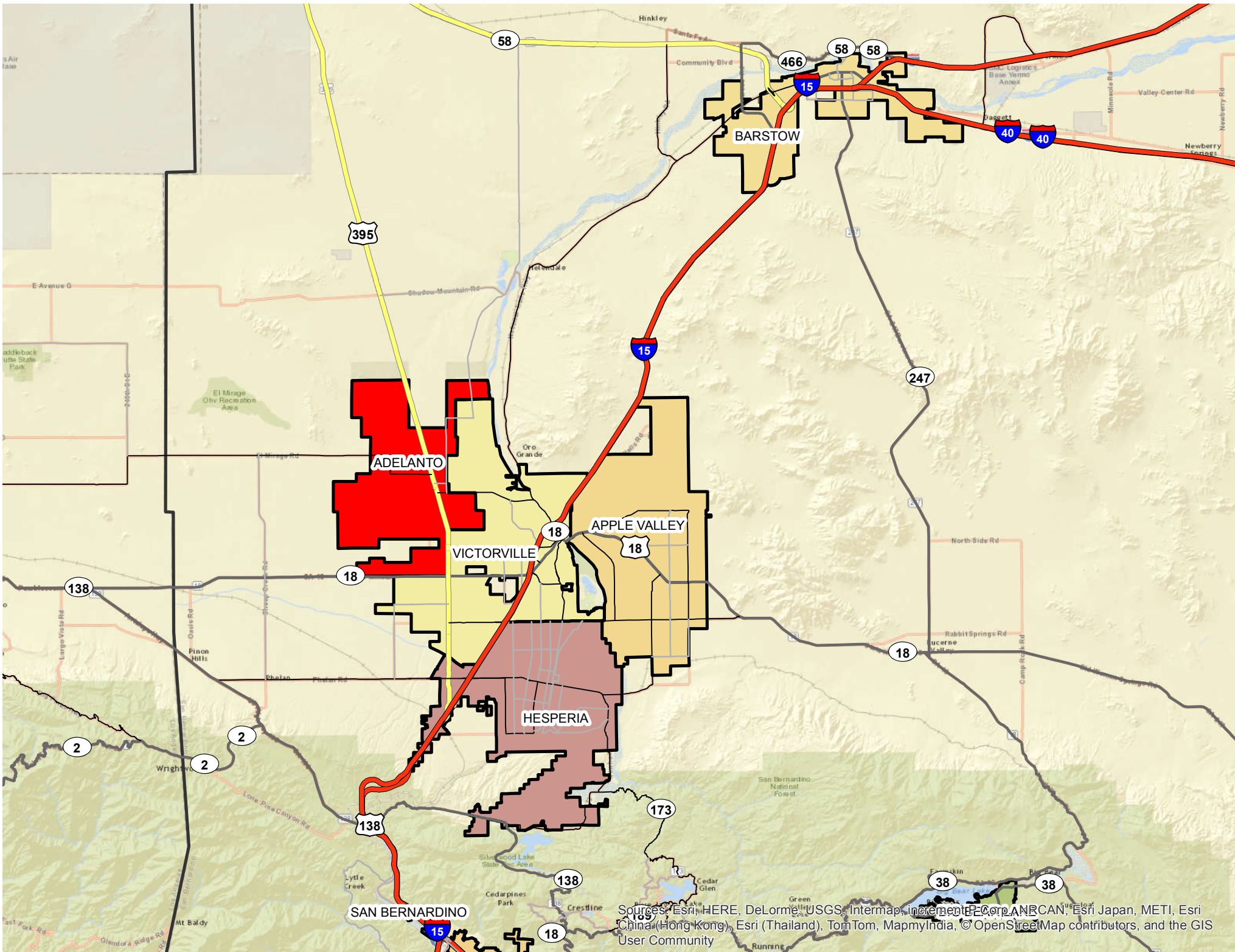
**Investor Letter.** The Underwriter is requiring initial purchasers of the 2014 Bonds from the Underwriter to sign an investor letter stating that they are qualified institutional buyers and sophisticated municipal market participants and are aware of the risks associated with the purchase of the 2014 Bonds and are qualified to assume such risks. Subsequent purchasers will not be required to execute an investor letter.

**Limited Scope of Information.** The Authority has obtained certain information set forth in this Official Statement from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the Authority. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used in this Official Statement, unless noted otherwise, shall have the meanings prescribed in the Indenture.

**Stabilization of Prices.** In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the 2014 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2014 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

THE 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2014 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

**Authority and City Websites.** The Authority and the City of Adelanto maintain Internet websites, but the information on those websites is not incorporated in this Official Statement.



Sources: Esri, HERE, DeLorme, USGS, Intermap, increment P Corp., ANRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri (Thailand), TomTom, MapmyIndia, © OpenStreetMap contributors, and the GIS User Community

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## TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION.....	1	Article XIIB of the California Constitution....	35
THE 2014 BONDS.....	4	Environmental Regulation.....	36
Authority for Issuance.....	4	Secondary Market for Bonds.....	36
General Provisions.....	4	Parity Obligations.....	37
Redemption.....	4	THE AUTHORITY.....	38
THE FINANCING PLAN.....	6	General.....	38
Improvements to the Water Enterprise and the Wastewater Enterprise.....	7	Organization.....	38
Payment of Judgment.....	7	Retirement System.....	38
Estimated Sources and Uses of Funds.....	8	City Investments.....	41
Scheduled Debt Service.....	9	Audited Financial Statements.....	41
Scheduled Combined Debt Service.....	10	THE WASTEWATER ENTERPRISE.....	42
SECURITY FOR THE 2014 BONDS.....	11	Description.....	42
Pledged Utility Revenues.....	11	Service Area.....	43
Limited Obligation.....	12	Historical Wastewater Flow.....	43
Proportionate Share.....	12	Wastewater Enterprise Regulatory Requirements.....	43
Receipt and Deposit of Pledged Utility Revenues; Special Fund.....	13	Wastewater Enterprise Customers.....	44
Flow of Funds.....	13	Sewer Charges and Fees.....	45
Debt Service Reserve Account.....	14	Capital Improvement Plan.....	50
Rate Stabilization Fund.....	15	Historical Revenues and Expenses.....	50
Rate Covenant.....	15	Historical Debt Service Coverage.....	52
Purchased Securities Revenues.....	19	Projected Debt Service Coverage.....	52
Wastewater Purchase Payments.....	19	THE WATER ENTERPRISE.....	55
Water Purchase Payments.....	20	Description.....	55
Parity Obligations.....	21	Service Area.....	55
Subordinate Obligations.....	23	Sources of Supply.....	55
Eminent Domain Proceeds.....	23	Water Storage, Distribution and Treatment.....	58
Insurance.....	23	Water Enterprise Regulatory Requirements.....	59
BOND OWNERS' RISKS.....	24	Water Enterprise Customers.....	60
City Fiscal Emergency.....	24	Water Service Charges and Fees.....	61
Pledged Utility Revenues; Rate Covenant.....	27	Water Service Charges, Billing and Collections.....	64
Demographics of the Utility System's Customers.....	28	Capital Improvement Plan.....	65
Authority Expenses.....	28	Historical Revenues and Expenses.....	65
Availability of Water.....	28	Historical Debt Service Coverage.....	67
Drought Conditions.....	28	Projected Debt Service Coverage.....	67
Future Land Use Regulations.....	29	TAX MATTERS.....	70
Limitations on Remedies Available to Bondowners.....	30	CERTAIN LEGAL MATTERS.....	71
Natural Disasters.....	31	LITIGATION.....	71
Loss of Tax-Exemption.....	32	NO RATING.....	71
Articles XIIC and XIID of the California Constitution.....	32	CONTINUING DISCLOSURE.....	71
		UNDERWRITING.....	73
		MISCELLANEOUS.....	74
APPENDIX A:	SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE		
APPENDIX B:	AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2013		
APPENDIX C:	FORM OF CONTINUING DISCLOSURE CERTIFICATE		
APPENDIX D:	GENERAL INFORMATION ABOUT THE CITY OF ADELANTO		
APPENDIX E:	FORM OF BOND COUNSEL OPINION		
APPENDIX F:	DTC AND THE BOOK-ENTRY ONLY SYSTEM		
APPENDIX G:	AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2014		

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## OFFICIAL STATEMENT

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**\$14,130,000**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Fixed Rate Revenue Bonds, 2014 Series A**  
**(Utility System Project)**

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The offering of the above-captioned bonds (the “2014 Bonds”) to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Official Statement have the meaning given those terms in the Indenture described below.*

**The City of Adelanto.** The City of Adelanto (the “**City**”), incorporated in 1970, is located near US Highway 395, in the California Mojave Desert, 35 miles north of the City of San Bernardino via Interstate 15. The City is located in the County of San Bernardino (the “**County**”). Highway 395, “The Three Flags Highway,” provides a direct link between Baja California and Canada. Interstate 15 provides a route north to Nevada and south to the metropolitan Los Angeles and San Diego area. On June 26, 2013, the City Council adopted a resolution declaring a state of fiscal emergency in the City. See “BOND OWNERS’ RISKS - Fiscal Emergency” for information regarding the current financial status of the City and its impact on the Adelanto Public Utility Authority (the “**Authority**”) and the Authority’s ability to pay debt service on the 2014 Bonds. See “APPENDIX D – Information Relating to the City of Adelanto” for general economic and demographic information about the City of Adelanto.

**Adelanto Public Utility Authority.** The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Powers Agreement among the City, the Successor Agency of the Redevelopment Agency of the City of Adelanto (as successor to the Adelanto Redevelopment Agency (the “**Successor Agency**”), which was also known as the Adelanto Improvement Agency) and the Adelanto Industrial Development Authority. The Authority was formed for the purposes of owning, operating and maintaining the Utility System. The Authority is governed by a five member commission, which consists of all the members of the City Council. The Mayor of the City is appointed as the President of the Authority. The Authority has no taxing power. See “THE AUTHORITY” below.

**Purpose of the 2014 Bonds.** The 2014 Bonds are being issued to (i) finance certain capital improvements to the Authority’s water treatment, production, storage and distribution system (the “**Water Enterprise**”) and its wastewater collection and treatment system (the “**Wastewater Enterprise**,” and collectively with the Water Enterprise, the “**Utility System**”) and other related costs, (ii) pay costs related to a legal judgment, (iii) make a deposit to a debt service reserve fund for the 2009 Bonds (defined below) and the 2014 Bonds (see “SECURITY FOR THE 2014 BONDS – Debt Service Reserve Account”), and (iv) pay the costs of issuing the 2014 Bonds.

**Authority for Issuance.** The 2014 Bonds are issued pursuant to (i) Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “**Bond Law**”), (ii) a resolution of the Board of Commissioners of the Authority (the “**Board of Commissioners**”) adopted on November 19, 2014 (the “**Authority Resolution**”) and (iii) an Indenture of Trust, dated as of September 1, 2005 (the “**Master Indenture**”), as amended and supplemented, including as supplemented by a Fifth Supplemental Indenture of Trust, dated as of November 1, 2014 (the “**Fifth Supplemental Indenture**”; together with the Master Indenture, the “**Indenture**”), between the Authority and MUFG Union Bank, N.A., as trustee (the “**Trustee**”).

**Pledge of Pledged Utility Revenues.** The 2014 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of “**Pledged Utility Revenues**” and from certain other amounts on deposit in funds and accounts under the Indenture.

Pledged Utility Revenues primarily consist of the following (see “SECURITY FOR THE 2014 BONDS – Pledged Utility Revenues”):

- (i) “**Net Wastewater Revenues,**” which are defined in the Indenture as, for each Bond Year, an amount equal to all of the Gross Wastewater Revenues (as defined below) received with respect to such Bond year minus the amount required to pay all Wastewater Operation and Maintenance Costs (as defined below) becoming payable with respect to such Bond Year.
- (ii) “**Net Water Revenues,**” which are defined in the Indenture as, for each Bond Year, an amount equal to all of the Gross Water Revenues (as defined below) received with respect to such Bond year minus the amount required to pay all Water Operation and Maintenance Costs (as defined below) becoming payable with respect to such Bond Year.

In order to comply with applicable law of the State of California (the “**State**”), each of the Water Enterprise and the Wastewater Enterprise is obligated to pay only its “**Proportionate Share**” of the 2014 Bonds. See “THE FINANCING PLAN – Improvements to the Water Enterprise and the Wastewater Enterprise” and “THE FINANCING PLAN – Payment of Judgment.”

Pledged Utility Revenues includes “**Purchased Securities Revenue.**” The Indenture defines “Purchased Securities Revenue” as all amounts received, including principal and interest payments, with respect to the “Purchased Securities”. The Purchased Securities are certain obligations of the Adelanto Public Financing Authority described below. The Authority will not include Purchased Securities Revenues in Pledged Utility Revenue for purposes of complying with its rate covenants or to calculate debt service coverage in connection with issuance of Parity Obligations, and owners of the 2014 Bonds should not rely on the availability of Purchased Securities Revenues to pay debt service on the 2014 Bonds. See “SECURITY FOR THE 2014 BONDS — Purchased Securities Revenues” below.

**Rate Covenant.** In the Indenture, the Authority has covenanted to fix, prescribe and collect fees, tolls, assessments, rates and charges for the Utility System in order to satisfy certain coverage requirements. See “SECURITY FOR THE 2014 BONDS - Rate Covenant.” The Authority’s ability to satisfy its rate covenant is subject to a variety of risks, including the ability of the Utility System’s customers to pay rates and charges of the Utility System. See “BOND OWNERS’ RISKS - Pledged Utility Revenues; Rate Covenant” and “- Demographics of the Utility System’s Customers.”

**Parity Obligations.** The 2014 Bonds are being issued under the provisions of the Master Indenture governing the issuance of “**Parity Obligations,**” which are obligations payable

from Pledged Utility Revenues on a parity with the Authority's outstanding Fixed Rate Refunding Revenue Bonds, 2009 Series A (the "**2009 Bonds**") (see "APPENDIX A – Summary of Certain Provisions of the Indenture" for a more complete definition of Parity Obligations). The Master Indenture authorizes the Authority to issue additional Parity Obligations, subject to satisfaction of certain conditions. See "SECURITY FOR THE 2014 BONDS - Parity Obligations."

The Water Enterprise's Proportionate Share of the 2009 Bonds is 59% and the Wastewater Enterprise's Proportionate Share of the 2009 Bonds is 41%.

**Debt Service Reserve Account.** Proceeds of the 2014 Bonds will be deposited into the Debt Service Reserve Account established and held by the Trustee under the Indenture, which is a common reserve fund for the 2009 Bonds and the 2014 Bonds. See "SECURITY FOR THE 2014 BONDS – Debt Service Reserve Account."

**Redemption.** The 2014 Bonds are subject to redemption prior to their stated maturity dates, as provided in this Official Statement. See "THE 2014 BONDS – Redemption."

**Risks of Investment.** The 2014 Bonds are not appropriate investments for every investor. There are substantial risks associated with these bonds, as described in this Official Statement.

The 2014 Bonds are repayable only from certain Pledged Utility Revenues available to the Authority from the Utility System. For a discussion of some of the risks associated with the purchase of the 2014 Bonds, see "BOND OWNERS' RISKS" in this Official Statement.

**Neither the 2014 Bonds nor the obligation to pay principal of or interest thereon constitutes a debt of the Authority, the State or any of its political subdivisions within the meaning of any constitutional limitation on indebtedness, or a pledge of the full faith and credit of the Authority. The 2014 Bonds are secured solely by the pledge of Pledged Utility Revenues of the Authority and certain funds held under the Indenture.**

## THE 2014 BONDS

### Authority for Issuance

The 2014 Bonds are being issued pursuant to (i) the Bond Law, (ii) the Authority Resolution and (iii) the Indenture.

### General Provisions

The 2014 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$100,000 or any multiple of \$5,000 in excess of \$100,000, so long as no Bond shall have more than one maturity date. The 2014 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

**Repayment of the 2014 Bonds.** Interest on the 2014 Bonds will be payable on January 1 and July 1 in each year, beginning July 1, 2015 (each an “**Interest Payment Date**”) to the person whose name appears on the Bond Registration Books as the Owner thereof as of the close of business on the fifteenth (15<sup>th</sup>) day of the month immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the 2014 Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books. In the event there exists a default in payment of interest due on such Interest Payment Date, such interest will be payable on a payment date established by the Trustee to the persons in whose names the 2014 Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the 2014 Bonds not less than 15 days preceding such special record date. Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office. Both the principal of and interest and premium (if any) on the 2014 Bonds will be payable in lawful money of the United States of America.

The 2014 Bonds will bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date next preceding the date of authentication thereof, unless said date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to the Record Date preceding the first Interest Payment Date, in which event such interest is payable from their date of issuance; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

**DTC as Registered Owner.** The 2014 Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”). Purchasers of the 2014 Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “APPENDIX F - DTC and the Book-Entry Only System.”

### Redemption

**Optional Redemption.** The 2014 Bonds maturing on July 1, 2024 are subject to redemption prior to their respective maturity dates, at the option of the Authority, as a whole, or in part, as determined by the Authority, on any date on or after July 1, 2019, from any source of

available funds, at the principal amount of the 2014 Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

The 2014 Bonds maturing on July 1, 2039 are subject to redemption prior to their respective maturity dates, at the option of the Authority, as a whole, or in part, as determined by the Authority, on any date on or after July 1, 2024, from any source of available funds, at the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

**Mandatory Sinking Fund Redemption.** The 2014 Bonds maturing July 1, 2024 are subject to redemption in part by lot, on July 1 in each year commencing July 1, 2015 from sinking fund installments made by the Authority into the Sinking Fund Account (“**Sinking Fund Installments**”), at a Redemption Price equal to the principal amount to be redeemed, without premium, in the aggregate respective principal amounts and on July 1 in the respective years set forth in the following tables, or in lieu thereof may be purchased as described in “Purchase of 2014 Bonds in Lieu of Redemption” below.

The 2014 Bonds maturing July 1, 2039 are subject to redemption in part by lot, on July 1 in each year commencing July 1, 2025 from Sinking Fund Installments made by the Authority into the Debt Service Fund, at a Redemption Price equal to the principal amount to be redeemed, without premium, in the aggregate respective principal amounts and on July 1 in the respective years set forth in the following tables, or in lieu thereof may be purchased as described in “Purchase of 2014 Bonds in Lieu of Redemption” below.

If some, but not all, of the 2014 Bonds have been redeemed as described in “Optional Redemption” above, the total amount of all future Sinking Fund Installments with respect to the 2014 Bonds of a particular maturity will be reduced by the aggregate principal amount of 2014 Bonds of such maturity so redeemed or purchased, to be allocated among such Sinking Fund Installments in integral multiples of Authorized Denominations as determined by the Authority.

The Sinking Fund Installments applicable to the 2014 Bonds maturing July 1, 2024 are as follows:

Sinking Fund Account Redemption Date (July 1)	Sinking Fund Installments Redeemed or Purchased
2015	\$665,000
2016	700,000
2017	735,000
2018	775,000
2019	815,000
2020	855,000
2021	900,000
2022	940,000
2023	990,000
2024 (maturity)	1,045,000

The Sinking Fund Installments applicable to the Term Bonds maturing July 1, 2039 are as follows:

Sinking Fund Account Redemption Date (July 1)	Sinking Fund Installments Redeemed or Purchased
2025	\$265,000
2026	275,000
2027	290,000
2028	305,000
2029	320,000
2030	335,000
2031	355,000
2032	370,000
2033	390,000
2034	410,000
2035	430,000
2036	455,000
2037	475,000
2038	505,000
2039 (maturity)	530,000

**Purchase of 2014 Bonds in Lieu of Redemption.** In lieu of mandatory sinking fund redemption of 2014 Bonds, amounts in the Redemption Account of the Debt Service Fund may be used and withdrawn by the Trustee at any time, upon the Request of the Authority, for the purchase of 2014 Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Authority may in its discretion determine, but not to exceed the principal amount of the 2014 Bonds to be purchased plus the redemption premium applicable on the next ensuing optional redemption date.

**Notice of Redemption.** Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds shall be given, at the expense of the Authority, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice shall affect the sufficiency of the proceedings for the redemption of the 2014 Bonds.

All notices of redemption are required to include (i) the redemption date, (ii) the Redemption Price, (iii) if fewer than all Outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2014 Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable with respect to each such Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, and the place or places where such Bonds are to be surrendered for payment of the Redemption Price, which places of payment may include the Principal Corporate Trust Office of the Trustee.

## THE FINANCING PLAN

The 2014 Bonds are being issued to (i) finance certain capital improvements to the Authority's Utility System and other related costs, (ii) pay costs related to a legal judgment, (iii) make a deposit to a debt service reserve fund for the 2009 Bonds and the 2014 Bonds (see

“SECURITY FOR THE 2014 BONDS – Debt Service Reserve Account”), and (iv) pay the costs of issuing the 2014 Bonds.

### **Improvements to the Water Enterprise and the Wastewater Enterprise**

A portion of the proceeds of the 2014 Bonds (the “**Capital Portion**”) will be used to finance authorized improvements to the Water Enterprise and the Sewer Enterprise. The Water Enterprise’s Proportionate Share of the Capital Portion of the 2014 Bonds is approximately 91% and the Wastewater Enterprise’s Proportionate Share of the Capital Portion of the 2014 Bonds is approximately 9%.

More specifically, the Authority plans to finance various equipment, repair or replacement and construction projects for the Water Enterprise, including installation of generators at treatment plants and meters and registers city-wide, and reservoir maintenance. The estimated cost of the water improvements that will be financed with proceeds of the 2014 Bonds is \$4,522,000. The Authority also plans to finance various equipment, repair or replacement and construction projects for the Wastewater Enterprise, including the installation of sewer relief piping and influent lift station reconfiguration, the purchase of sludge pumps, a bypass bump, a bio-solids loader and a lift station, replace electrical controls and maintain manhole locations. The estimated cost of the above wastewater improvements that will be financed with proceeds of the 2014 Bonds is \$478,000.

### **Payment of Judgment**

The 2009 Bonds were issued for the purpose of refunding the Authority’s \$53,125,000 Variable Rate Refunding Revenue Bonds, 2005 Series A (Utility System Project) (the “**2005 Bonds**”).

In connection with issuance of the 2005 Bonds, the Authority entered into an interest rate swap agreement pursuant to a Master Agreement, effective September 7, 2005, as supplemented by the Schedule and the Credit Support Annex (the “**Swap Agreement**”), and evidenced by three Confirmations, each between the Authority and Piper Jaffray Financial Products Inc. (the “**Swap Provider**”), and a Replacement Swap Undertaking, among the Swap Provider, the Authority and Morgan Stanley Capital Services Inc. The Swap Agreement provided for termination under certain circumstances and provided for compensation payable by one party to the other as a result of the termination (a “**Termination Payment**”).

In connection with the Swap Agreement, Ambac issued a Surety Bond for Swap Agreement dated as of September 7, 2005 (the “**Swap Surety**”). Pursuant to the Swap Surety, Ambac agreed to pay the Swap Provider if the Authority failed to make certain payments under the Swap Agreement, including a Termination Payment.

In 2007, the 2005 Bonds were converted to auction rate securities. Following a credit rating downgrade of Ambac in November 2008, the Swap Provider terminated the Swap Agreement in June 2009. Subsequently, Ambac, as the provider of the Swap Surety, paid a Termination Payment of \$4,524,000 to the Swap Provider. Subsequently, Ambac demanded reimbursement from the Authority for the Termination Payment and filed a complaint in the United States District Court, Southern District of New York seeking reimbursement.

The Authority filed a counter claim, and subsequently an amended counter claim, against Ambac based on Ambac’s sale to the Authority of Financial Guarantee Insurance Policies premised on Ambac’s “AAA” rating. The Authority alleged that Ambac’s own actions resulted in its loss of its own “AAA” rating and this in turn damaged the Authority in the amount of approximately \$16,000,000 based on higher interest payments and costs that Authority paid

on the 2005 Bonds, Ambac’s demand for the Termination Payment, and the Authority’s costs of issuance of new bonds. However, the Court dismissed the Authority’s amended counter claim in its entirety. Furthermore, the Court granted Ambac’s motion for summary judgment pertaining to liability on the matter.

In a judgment entered March 18, 2014, the Court ruled that the Authority owes Ambac the amount of the Swap termination payment, which was \$4,524,000, plus interest at a rate of 6.25%. As of December 23, 2014, the total judgment payable will be \$7,767,756.28.

The Authority has authorized an appeal of the matter but is attempting to resolve the matter with Ambac.

A portion of the proceeds of the 2014 Bonds (the “**Ambac Portion**”) will be used to pay the judgment, including interest, in the amount of \$7,767,756.28.

**Estimated Sources and Uses of Funds**

The estimated sources and uses of funds are as follows:

Sources:

Principal Amount of Bonds	\$14,130,000.00
<i>Plus</i> Original Issue Premium	343,788.60
2009 Bond Funds	<u>57,028.52</u>
<b>TOTAL SOURCES</b>	<b>\$14,530,817.12</b>

Uses:

Deposit to Water Project Fund	\$4,522,000.00
Deposit to Wastewater Project Fund	478,000.00
Deposit to Ambac Portion	7,767,756.28
Deposit to Debt Service Reserve Account	1,252,506.26
Costs of Issuance <sup>(1)</sup>	<u>510,554.58</u>
<b>TOTAL USES</b>	<b>\$14,530,817.12</b>

(1) Costs of Issuance include underwriter’s discount, legal fees, printing costs, rating agency fees and other miscellaneous expenses.



## Scheduled Debt Service

Scheduled annual debt service on the 2014 Bonds is presented below.

<u>Maturity (July 1)</u>	<u>2014 Bonds Principal</u>	<u>2014 Bonds Interest</u>	<u>Total 2014 Bonds Debt Service</u>
2015	\$665,000	\$355,213	\$1,020,213
2016	700,000	673,250	1,373,250
2017	735,000	638,250	1,373,250
2018	775,000	601,500	1,376,500
2019	815,000	562,750	1,377,750
2020	855,000	522,000	1,377,000
2021	900,000	479,250	1,379,250
2022	940,000	434,250	1,374,250
2023	990,000	387,250	1,377,250
2024	1,045,000	337,750	1,382,750
2025	265,000	285,500	550,500
2026	275,000	272,250	547,250
2027	290,000	258,500	548,500
2028	305,000	244,000	549,000
2029	320,000	228,750	548,750
2030	335,000	212,750	547,750
2031	355,000	196,000	551,000
2032	370,000	178,250	548,250
2033	390,000	159,750	549,750
2034	410,000	140,250	550,250
2035	430,000	119,750	549,750
2036	455,000	98,250	553,250
2037	475,000	75,500	550,500
2038	505,000	51,750	556,750
2039	530,000	26,500	556,500
<b>Total</b>	<b>\$14,130,000</b>	<b>\$7,539,213</b>	<b>\$21,669,213</b>

## Scheduled Combined Debt Service

Scheduled annual debt service on the outstanding Parity Bonds is presented below.

Bond Year Ending June 30	2009 Bonds Debt Service	2014 Bonds Debt Service	Total Debt Service
2015	\$5,964,706	--	\$5,964,706
2016	5,966,563	\$1,356,838	7,323,400
2017	5,964,244	1,355,750	7,319,994
2018	5,963,744	1,354,875	7,318,619
2019	5,968,541	1,357,125	7,325,666
2020	5,966,328	1,357,375	7,323,703
2021	5,966,581	1,355,625	7,322,206
2022	5,968,363	1,356,750	7,325,113
2023	5,965,944	1,350,750	7,316,694
2024	5,964,681	1,352,500	7,317,181
2025	5,965,031	1,356,625	7,321,656
2026	5,966,159	543,875	6,510,034
2027	5,965,863	540,375	6,506,238
2028	5,964,775	541,250	6,506,025
2029	5,967,888	541,375	6,509,263
2030	5,963,909	540,750	6,504,659
2031	5,967,013	539,375	6,506,388
2032	5,966,203	542,125	6,508,328
2033	5,963,406	539,000	6,502,406
2034	5,967,138	540,000	6,507,138
2035	5,963,319	540,000	6,503,319
2036	5,965,769	539,000	6,504,769
2037	5,967,969	541,875	6,509,844
2038	5,963,738	538,625	6,502,363
2039	5,966,556	544,125	6,510,681
2040	5,964,738	543,250	6,507,988
<b>Total</b>	<b>\$155,109,166</b>	<b>\$21,669,213</b>	<b>\$176,788,378</b>

## SECURITY FOR THE 2014 BONDS

### Pledged Utility Revenues

**Pledged Utility Revenues.** The Authority has pledged Pledged Utility Revenues as security for its obligation to pay debt service on the 2014 Bonds and any Parity Obligations. Upon issuance of the 2014 Bonds, the 2009 Bonds, issued under the Indenture and outstanding in the amount of \$73,190,000, will be payable on a parity basis with the 2014 Bonds.

The following are material terms defined in the Indenture:

**"Pledged Utility Revenues"** are defined in the Indenture to consist of (i) "Net Wastewater Revenues," (ii) "Net Water Revenues" and (iii) "Purchased Securities Revenues."

**"Net Wastewater Revenues"** are defined in the Indenture as, for each Bond Year, an amount equal to all of the Gross Wastewater Revenues received with respect to such Bond Year minus the amount required to pay all Wastewater Operation and Maintenance Costs becoming payable with respect to such Bond Year.

**"Gross Wastewater Revenues"** are defined in the Indenture as, for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the ownership and operation of the Wastewater Enterprise or otherwise arising from the Wastewater Enterprise, including but not limited to investments earnings thereon.

**"Wastewater Operation and Maintenance Costs"** the reasonable and necessary costs and expenses paid for maintaining and operating the Wastewater Enterprise, including but not limited to (a) costs of wastewater collection and treatment services to be provided by the Wastewater Enterprise, (b) cost of electricity and other forms of energy supplied to the Wastewater Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Wastewater Enterprise, but in all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Water Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

**"Net Water Revenues"** are defined in the Indenture as, for each Bond Year, an amount equal to all of the Gross Water Revenues received with respect to such Bond Year minus the amount required to pay all Water Operation and Maintenance Costs becoming payable with respect to such Bond Year.

**"Gross Water Revenues"** are defined in the Indenture as, for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the ownership and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to investments earnings thereon.

**"Water Operation and Maintenance Costs"** are defined in the Indenture as the reasonable and necessary costs and expenses paid for maintaining and operating the Water Enterprise, including but not limited to (a) costs of acquisition of water to be supplied by the Water Enterprise, (b) cost of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Water Enterprise, but in all cases excluding (i) debt service payable on

obligations incurred by the Authority with respect to the Water Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

**“Purchased Securities Revenues”** means all amounts received, including principal and interest payments, with respect to the Purchased Securities. **The Authority may not include Purchased Securities Revenues in Pledged Utility Revenues for purposes of complying with its rate covenants (see “ – Rate Covenant” below) or to calculate debt service coverage in connection with issuance of Parity Obligations (see “ – Parity Obligations” below), and owners of the 2014 Bonds should not rely on the availability of Purchased Securities Revenues to pay debt service on the 2014 Bonds.**

**“Purchased Securities”** are defined in the Indenture as the Adelanto Public Financing Authority Local Agency Third Subordinated Revenue Bonds, 1995 Series C (the **“1995 Series C Bonds”**) and the Adelanto Public Financing Authority Local Agency Fourth Subordinated Revenue Bonds, 1995 Series D (the **“1995 Series D Bonds”**), transferred from the Water Authority to the Authority. The 1995 Series D Bonds are no longer outstanding. See **“SECURITY FOR THE 2014 Bonds – Purchased Securities Revenues”** for additional information about the Purchased Securities.

***First and Exclusive Lien on Pledged Utility Revenues.*** Under the Indenture, the Authority grants for the benefit of the owners of the 2014 Bonds and all Parity Obligations (including the outstanding 2009 Bonds) a first pledge of and charge and lien upon and a security interest in, and pledges, the Pledged Utility Revenues and all money in the Special Fund and in the funds and accounts established under the Indenture. All Pledged Utility Revenues collected or received by the Authority are deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will be paid by the Authority to the Trustee pursuant to the Indenture.

### **Limited Obligation**

The Pledged Utility Revenues constitute a trust fund for the security and payment of the principal of and interest on the 2014 Bonds (and any Parity Obligations, including the outstanding 2009 Bonds). The credit and taxing power of the Authority are not pledged for the payment of the principal of and interest on the 2014 Bonds (and any Parity Obligations, including the outstanding 2009 Bonds). The Owner of the 2014 Bonds may not compel the exercise of the taxing power by the Authority or the forfeiture of its property. The principal of and interest on the 2014 Bonds are not a debt of the Authority, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Pledged Utility Revenues and all money in the Special Fund and in the funds and accounts established under the Indenture.

### **Proportionate Share**

Although Pledged Utility Revenues are pledged to payment of debt service on the 2014 Bonds, each of the Water Enterprise and the Wastewater Enterprise is obligated to pay only its **“Proportionate Share”** of the debt service on the 2014 Bonds.

The Indenture defines **“Proportionate Share”** as the percentage of the proceeds of a Series of Bonds or any Parity Obligations allocated separately to the Wastewater Enterprise and the Water Enterprise, as specified in the Supplemental Indenture with respect to such Series of Bonds or Parity Obligations.

With respect to the Ambac Portion of the 2014 Bonds, the Water Enterprise's Proportionate Share is 59% and the Wastewater Enterprise's Proportionate Share is 41%. See "THE FINANCING PLAN – Payment of Judgment." With respect to the Capital Portion of the 2014 Bonds, the Water Enterprise's Proportionate Share is approximately 91% and the Wastewater Enterprise's Proportionate Share is approximately 9%. See "THE FINANCING PLAN – Improvements to the Water Enterprise and the Wastewater Enterprise."

The Water Enterprise's Proportionate Share of the 2009 Bonds is 59% and the Wastewater Enterprise's Proportionate Share of the 2009 Bonds is 41%.

## **Receipt and Deposit of Pledged Utility Revenues; Special Fund**

**Funds and Accounts.** The following accounts are established under the Indenture:

- Special Fund, consisting of an Interest Account, a Principal Account, a Sinking Fund Account and a Debt Service Reserve Account.
- Redemption Fund, including the Net Proceeds Account.
- Rate Stabilization Fund.

**Deposit to Special Fund.** On or before the Business Day immediately preceding the first Business Day of each month, the Authority is obligated to transfer to the Trustee for deposit in the Special Fund from Net Water Revenues and from Net Wastewater Revenues their respective Proportionate Shares of debt service on the 2014 Bonds and any Parity Obligations. All Purchased Securities Revenues will be deposited directly upon receipt to the Special Fund and credited toward the Water Enterprise's Proportionate Share. The Authority is not obligated to transfer to the Trustee for deposit in the Special Fund an amount of Pledged Utility Revenues which, together with other available moneys in the Special Fund, exceeds the amounts required to be deposited in the Interest Account, the Principal Account, the Sinking Fund Account and the Debt Service Reserve Account in that fiscal year.

**Loan from One Enterprise to the Other.** To the extent Net Water Revenues are insufficient to pay the Water Enterprise's Proportionate Share of debt service on the 2014 Bonds and any Parity Obligations when due and payable, the Authority agrees to loan any available moneys from Net Wastewater Revenues to be repaid from Net Water Revenues when available.

To the extent Net Wastewater Revenues are insufficient to pay the Wastewater Enterprise's Proportionate Share of debt service on the 2014 Bonds and any Parity Obligations when due and payable, the Authority agrees to loan any available moneys from Net Water Revenues to be repaid from Net Wastewater Revenues when available.

**Deposit to Rate Stabilization Fund.** On June 1 of each year, after making the deposits to the Special Fund described above, the Authority will transfer to the Trustee for deposit in the Rate Stabilization Fund from Net Water Revenues and Net Wastewater Revenues an amount, if any and not to exceed \$700,000 in any fiscal year, required to restore the balance in the Rate Stabilization Fund to the Rate Stabilization Requirement (\$2,100,000).

## **Flow of Funds**

All moneys in the Special Fund will be set aside by the Trustee in the following respective special accounts within the Special Fund, and will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

**Interest Account.** On or before the Business Day immediately preceding the first Business Day of each month, the Trustee will deposit in the Interest Account an amount equal to (A) the product of (i) one divided by the number of months remaining until the next succeeding Interest Payment Date times (ii) the amount which, together with the balance then on deposit in the Interest Account, is equal to the aggregate amount of the interest becoming due and payable on such Interest Payment Date and (B) any additional amounts necessary to provide sufficient funds to pay Net Payments (which are, generally, amounts payable with respect to a Qualified Swap Agreement) due from the Authority in the following month, to the extent funds are not otherwise available in the Interest Account.

In addition, the Trustee will deposit in the Interest Account all receipts and payments made to the Authority pursuant to Qualified Swap Agreements entered into in connection with any Parity Obligations and constituting Pledged Utility Revenues.

In addition, the Trustee will deposit in the Interest Account all receipts and payments made to the Authority pursuant to other Public Finance Contracts entered into in connection with any Bonds or other Parity Obligations and constituting Pledged Utility Revenues.

Amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and other Parity Obligations, including Net Payments as they become due and payable.

**Principal Account.** On or before the Business Day immediately preceding the First Business Day of each month, but in no event earlier than 12 months prior to the date on which a principal payment becomes due and payable, the Trustee will set aside from the Special Fund and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to 1/12th of the aggregate amount of the principal becoming due and payable on the Parity Bonds and all outstanding Parity Obligations that are Serial Obligations. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the 2014 Bonds and all outstanding Parity Obligations which are Serial Obligations as they become due and payable.

**Sinking Fund Account.** On or before the Business Day immediately preceding the first Business Day of each month, but in no event earlier than 12 months prior to the date on which a principal payment becomes due and payable, the Trustee will set aside from the Special Fund and deposit in the Sinking Fund Account an amount of money which, together with any money contained therein, is equal to 1/12th of the aggregate amount of Sinking Fund Installments becoming due and payable with respect to the Parity Bonds and sinking fund installments becoming due and payable with respect to all outstanding Parity Obligations which are Term Obligations. All moneys in the Sinking Fund Account will be used by the Trustee to redeem the Parity Bonds and all outstanding Parity Obligations which are Term Obligations.

**Debt Service Reserve Account.** The Debt Service Account is a common reserve fund for the 2009 Bonds and the 2014 Bonds. On or before the Business Day immediately preceding the first Business Day of each month, the Trustee will set aside from the Special Fund and deposit in the Debt Service Reserve Account an amount of money (or other authorized deposit of security, as described in “ – Debt Service Reserve Account” below) necessary to replenish the Debt Service Reserve Account to the Debt Service Reserve Requirement. See “ – Debt Service Reserve Account” below.

#### **Debt Service Reserve Account**

**General.** The Authority is obligated to maintain an amount in the Debt Service Reserve Account equal to the Debt Service Reserve Requirement, as defined in “APPENDIX A –

Summary of Certain Provisions of the Indenture.” The Debt Service Account is a common reserve fund for the 2009 Bonds and the 2014 Bonds.

***Use of Moneys in the Debt Service Reserve Account.*** In the event one or more Paying Agents have been appointed for the Parity Bonds and any Additional Bonds issued under the Indenture, moneys may be transferred by the Trustee to such Paying Agents from the appropriate account in the Special Fund for deposit into a special trust account to ensure the payment when due of the principal of, Redemption Price, if any, and interest on the 2014 Bonds, the Additional Bonds or on the other Parity Obligations. See “APPENDIX A – Summary of Certain Provisions of the Indenture.”

### **Rate Stabilization Fund**

The Indenture provides that moneys in the Rate Stabilization Fund are pledged to secure payment, to the extent Gross Wastewater Revenues, Gross Water Revenues and/or Purchased Securities Revenues are insufficient for such purposes, the following amounts in the following order of priority:

- (a) all Wastewater Operation and Maintenance Costs and Wastewater Operation and Maintenance Costs to become due and payable in the current fiscal year;
- (b) principal of and interest on the Outstanding Bonds and Parity Obligations becoming due and payable during the fiscal year, including sinking fund installments;
- (c) all other payments required for compliance with the Indenture and the legal documents pursuant to which any Parity Obligations were issued;
- (d) Water Purchase Payments and Wastewater Purchase Payments up to a maximum of \$1 million annually; provided, however, that no amounts will be transferred from the Rate Stabilization Fund for this purpose unless Pledged Utility Revenues plus Additional Revenues equal 125% of Debt Service in the current fiscal year;
- (e) any Termination Payments.

The Indenture provides that, if for any reason the amount on deposit in the Rate Stabilization Fund is at any time less than the Rate Stabilization Requirement, the Authority will transfer on June 1 of each year to the Rate Stabilization Fund an amount, not to exceed \$700,000 in any fiscal year, required to restore the total funds on deposit in the Rate Stabilization Fund to not less than the Rate Stabilization Requirement, pro rata from Net Water Revenues and Net Wastewater Revenues based on the total percentage of Bonds Debt Service allocated to the Water Enterprise and the Wastewater Enterprise.

Pursuant to the Indenture, the Rate Stabilization Requirement is \$2,100,000.

### **Rate Covenant**

The Authority makes three separate covenants in the Indenture with respect to the amount of rates and charges it will fix, prescribe, revise and collect.

***Covenant Regarding Gross Wastewater Revenues.*** The Authority covenants to fix, prescribe, revise and collect rates, fees and charges for the Wastewater Enterprise as a whole for the services and improvements furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the

estimates, to yield Gross Wastewater Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Wastewater Operation and Maintenance Costs estimated by the Authority to become due and payable in such Fiscal Year;

(ii) The Proportionate Share of Debt Service payments as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;

(iv) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund to the full amount of the Rate Stabilization Requirement;

(v) All amounts required by the Wastewater Purchase Agreement for payment of scheduled Wastewater Purchase Payments (see "Wastewater Purchase Payments" below); and

(vi) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Wastewater Revenues during such Fiscal Year, including repayments of loans from the Net Water Revenues (see "- Receipt and Deposit of Gross Pledged Utility Revenues; Special Fund).

**Covenant Regarding Gross Water Revenues.** The Authority covenants to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates and specifically excluding the "**Purchased Securities Revenues**" (see "- Purchased Securities Revenues" below), to yield Gross Water Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Water Operation and Maintenance Costs for the Water Enterprise estimated by the Authority to become due and payable in such Fiscal Year;

(ii) The Proportionate Share of Debt Service payments as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;

(iv) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund to the full amount of the Rate Stabilization Requirement;

(v) All amounts required by the Water Purchase Agreement for payment of scheduled Water Purchase Payments; and



(vi) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Water Revenues during such Fiscal Year, including repayments of loans from the Net Wastewater Revenues (see “ - Receipt and Deposit of Gross Pledged Utility Revenues; Special Fund”).

**Covenant Regarding Net Wastewater Revenues and Net Water Revenues.** The Authority covenants to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Wastewater Enterprise and Water Enterprise during each Fiscal Year which, excluding the Purchased Securities Revenues, are sufficient to yield combined Net Wastewater Revenues and Net Water Revenues, at least equal to 125% of the total Debt Service payments coming due and payable in such Fiscal Year. **The Authority’s covenant described in this paragraph is subject to the Proportionate Share limitation described in “- Proportionate Share” above, which means that an Enterprise is only responsible for paying the portion of the debt service on the 2014 Bonds and any Parity Obligation that is calculated as its Proportionate Share, and it is not responsible for paying the other Enterprise’s Proportionate Share.** The Proportionate Share limitation is consistent with limitations imposed on the Authority by Article XIID of the California Constitution (see “BOND OWNERS’ RISKS – Articles XIIC and XIID of the California Constitution”), which prohibits the Authority from levying rates and charges for each of the Water Enterprise and the Wastewater Enterprise in excess of the cost of providing the related service.

See “THE WASTEWATER ENTERPRISE – Historical Debt Service Coverage” and “ – Projected Debt Service Coverage” and “THE WATER ENTERPRISE – Historical Debt Service Coverage” and “ – Projected Debt Service Coverage” for additional information about the Authority’s historical and projected compliance with this rate covenant based on each of the Water Enterprise and the Wastewater Enterprise’s Proportionate Share of Debt Service.

**Risks of Compliance with the Rate Covenant.** The Authority’s ability to satisfy its rate covenant is subject to a variety of risks, including the ability to pay of the Utility System’s customers. See “BOND OWNERS’ RISKS - Pledged Utility Revenues; Rate Covenant” and “- Demographics of the Utility System’s Customers.”

**Historical and Projected Debt Service Coverage.** The following table shows the Authority’s historical and projected debt service coverage *without regard for the Proportionate Share limitation described above.* **As explained above, however, the Authority’s covenant is subject to the Proportionate Share limitation described in “- Proportionate Share” above, which means that an Enterprise is only responsible for paying the portion of the debt service on the 2014 Bonds and any Parity Obligation that is calculated as its Proportionate Share, and it is not responsible for paying the other Enterprise’s Proportionate Share.**

**Table No. 1**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WASTEWATER ENTERPRISE AND WATER ENTERPRISE**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

	<u>Fiscal Year 2009-10<sup>(1)</sup></u>	<u>Fiscal Year 2010-11<sup>(1)</sup></u>	<u>Fiscal Year 2011-12<sup>(1)</sup></u>	<u>Fiscal Year 2012-13<sup>(1)</sup></u>	<u>Fiscal Year 2013-14<sup>(1)</sup></u>
<b>Net Wastewater Revenues<sup>(2)</sup></b>	\$2,155,079	\$4,067,707	\$2,844,921	\$4,041,652	\$5,111,159
<b>Net Water Revenues (Excluding Purchase Security Revenues)<sup>(3)</sup></b>	2,279,314	3,284,357	4,175,385	4,455,577	4,674,617
<b>Total Net Revenues</b>	<u>\$4,434,393</u>	<u>\$7,352,064</u>	<u>\$7,020,306</u>	<u>\$8,497,228</u>	<u>\$9,785,776</u>
<b>Debt Service</b>					
2005 Bonds	\$5,406,233	--	--	--	--
2009 Bonds <sup>(4)</sup>	--	\$4,945,529	\$4,824,906	\$5,966,607	\$5,964,106
<b>Total Debt Service</b>	<u>\$5,406,233</u>	<u>\$4,945,529</u>	<u>\$4,824,906</u>	<u>\$5,966,607</u>	<u>\$5,964,106</u>
<b>Debt Service Coverage</b>	0.82	1.49	1.46	1.42	1.64

(1) Based on Audited Financial Statements from fiscal years 2009-10 through 2013-14.

(2) Net Wastewater Revenues are equal to "Net Wastewater Revenues" as shown in Table No. 14 plus depreciation, interest earnings and non-operating miscellaneous revenues.

(3) Net Water Revenues is equal to "Net Water Revenues" as shown in Table No. 26 plus depreciation, plus interest revenues and plus non-operating miscellaneous revenues.

(4) Excludes interest earnings from amounts in the Debt Service Reserve Account.

Source: Adelanto Public Utility Authority

**Table No. 2**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WASTEWATER ENTERPRISE AND WATER ENTERPRISE**  
**PROJECTED DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2014-15 THROUGH 2018-19**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<b>Operating Revenues</b>					
Total Water Operating Revenues	\$8,673,018	\$9,121,428	\$9,211,028	\$9,327,725	\$9,431,924
Total Wastewater Operating Revenues	6,618,792	6,452,093	6,491,660	6,531,227	6,570,794
<b>Total Operating Revenues</b>	<u>\$15,291,810</u>	<u>\$15,573,521</u>	<u>\$15,702,688</u>	<u>\$15,858,952</u>	<u>\$16,002,718</u>
<b>Operating Expenses</b>					
Total Water Operating Costs	\$3,528,240	\$3,598,805	\$3,670,781	\$3,744,193	\$3,819,076
Total Wastewater Operating Costs	2,207,108	2,251,251	2,296,276	2,342,200	2,389,045
<b>Total Operating Expenses</b>	<u>\$5,735,348</u>	<u>\$5,850,056</u>	<u>\$5,967,057</u>	<u>\$6,086,393</u>	<u>\$6,208,121</u>
<b>Net Revenues</b>	\$9,556,462	\$9,723,465	\$9,735,631	\$9,772,559	\$9,794,597
<b>Debt Service on the 2009 Bonds/2014 Bonds</b>	\$5,964,706	\$7,323,400	\$7,319,994	\$7,318,619	\$7,325,666
<b>Debt Service Coverage</b>	1.60	1.33	1.33	1.34	1.34

Source: Adelanto Public Utility Authority: Fieldman Rolapp & Associates, Inc.

## Purchased Securities Revenues

**Relevance of Purchased Securities Revenues.** Purchased Securities Revenues are one element of Pledged Utility Revenues. However, the Indenture does not allow the Authority to include Purchased Securities Revenues in Pledged Utility Revenues in order to calculate the rate covenants described above or in order to satisfy the debt service coverage tests in connection with issuance of Parity Obligations. **As a result, the Authority does not consider the Purchased Securities Revenues to be material to investors, it is not providing disclosure about the Purchased Securities Revenues beyond that set forth in this section, and owners of the 2014 Bonds should not rely on the availability of Purchased Securities Revenues to pay debt service on the 2014 Bonds.**

**Definition.** “Purchased Securities Revenues” is defined in the Indenture as all amounts received, including principal and interest payments, with respect to the Purchased Securities, which are defined in the Indenture as the Adelanto Public Financing Authority Local Agency Third Subordinated Revenue Bonds, 1995 Series C (the “**1995 Series C Bonds**”) and the Adelanto Public Financing Authority Local Agency Fourth Subordinated Revenue Bonds, 1995 Series D (the “**1995 Series D Bonds**”), transferred from the Water Authority to the Authority.

**1995 Series C Bonds.** The 1995 Series C Bonds are capital appreciation bonds and were issued in the denominational amount of \$11,786,856. At June 30, 2014, the 1995 Series C Bonds were outstanding in the principal amount of \$13,628,487.60.

The 1995 Series C Bonds are payable from loan repayments made by the Successor Agency to the Adelanto Public Financing Authority; the loan repayments are payable from tax increment generated in the Successor Agency’s Merged Redevelopment Project on a basis subordinate to certain other obligations of the Successor Agency.

**1995 Series D Bonds.** The 1995 Series D Bonds have been defeased and are no longer a source of revenue for the Authority.

## Wastewater Purchase Payments

The Indenture requires the Authority to take “**Wastewater Purchase Payments**” into consideration in connection with its rate covenant. Wastewater Purchase Payments are defined in the Indenture as amounts payable by the Authority to the City pursuant to the “**Wastewater Purchase Agreement**,” which is defined in the Indenture as the Purchase Agreement dated as of November 1, 1996, by and between the Authority and the City, relating to the purchase of the Wastewater Enterprise by the Authority from the City, as amended from time to time, including most recently by a fourth amendment dated as of November 1, 2014 (the “**Fourth Wastewater Amendment**”).

The Authority’s obligation to make the Wastewater Purchase Payments to the City is in consideration of its acquisition of the Wastewater Enterprise from the City. The Wastewater Purchase Payments are payable from and secured by a pledge of “Surplus Revenues” of the Wastewater Enterprise. Surplus Revenues are defined as Gross Wastewater Revenues less (i) Wastewater Operation and Maintenance Costs and (ii) amounts required to pay debt service on the Wastewater Enterprise’s Proportionate Share of the 2009 Bonds/2014 Bonds, subject to a maximum amount equal to the scheduled Wastewater Purchase Payments. Consequently, the Authority’s obligation to make the Wastewater Purchase Payments is secured by a lien on revenues of the Wastewater Enterprise that is subordinate to the lien on such revenues securing the Authority’s obligation to pay debt service on the 2009 Bonds/2014 Bonds. See “BOND OWNERS’ RISKS – Articles XIIC and XIID of the California Constitution” for a

discussion of certain issues relating to the Wastewater Purchase Payments under the California Constitution.

The Purchase Payments consist of two components: (i) Scheduled Purchase Payments, which are equal each fiscal year to 5% of the outstanding principal balance of the Purchase Price and (ii) all remaining Surplus Revenues. The Authority has not paid Surplus Revenues to the City in the past five years and, as a result of the Fourth Wastewater Amendment, Surplus Revenues will no longer exceed the amount of the Scheduled Purchase Payments. The outstanding balance of the Purchase Price for the Wastewater Enterprise as of June 30, 2014 was \$6,431,169.00.

Set forth in the following table is a description of the Wastewater Purchase Payments for the past five fiscal years:

Fiscal Year	Outstanding Principal Balance of Purchase Price	Scheduled Wastewater Purchase Payments	Surplus Revenues Paid to City	Total Purchase Payments	Cumulative Wastewater Purchase Payments as of June 30
2009-10	\$6,431,169	\$386,835	\$0	\$386,835	\$1,734,222
2010-11	6,431,169	341,601	0	341,601	2,075,823
2011-12	6,431,169	344,077	0	344,077	2,419,900
2012-13	6,431,169	347,079	0	347,079	2,766,979
2013-14	6,431,169	350,791	0	350,791	3,117,770

The Authority accounts for the Wastewater Purchase Payments and the Wastewater Enterprise's Proportionate Share of debt service on the 2009 Bonds/2014 Bonds as expenditures of the Wastewater Enterprise.

Based on projected revenues (see "THE WASTEWATER ENTERPRISE - Projected Debt Service Coverage") and the Wastewater Enterprise's Proportionate Share of debt service on the 2009 Bonds/2014 Bonds, the Authority anticipates making the following Wastewater Purchase Payments.

Fiscal Year	Outstanding Principal Balance of Purchase Price	Scheduled Wastewater Purchase Payments	Cumulative Wastewater Purchase Payments as of June 30
2015	\$6,431,169	\$321,558	\$3,473,262
2016	6,431,169	321,558	3,834,891
2017	6,431,169	321,558	4,204,856
2018	6,431,169	321,558	4,586,785
2019	6,431,169	321,558	5,952,496

### Water Purchase Payments

The Indenture requires the Authority to take "Water Purchase Payments" into consideration in connection with its rate covenant. Water Purchase Payments are defined in the Indenture as amounts payable by the Authority to the City pursuant to the "Water Enterprise Purchase Agreement," which is defined in the Indenture as the Water Enterprise Purchase Agreement dated as of February 1, 2000, by and between the Authority and the Water Authority, relating to the purchase of the Water Enterprise by the Authority from the Water Authority, as amended from time to time, including most recently by a third amendment dated as of November 1, 2014 (the "Third Water Amendment").

The Authority's obligation to make the Water Purchase Payments to the City is in consideration of its acquisition of the Water Enterprise from the City. The Water Purchase

Payments are payable from and secured by a pledge of “Surplus Revenues” of the Water Enterprise. Surplus Revenues are defined as Gross Water Revenues less (i) Water Operation and Maintenance Costs and (ii) amounts required to pay debt service on the Water Enterprise’s Proportionate Share of the 2009 Bonds/2014 Bonds. Consequently, the Authority’s obligation to make the Water Purchase Payments is secured by a lien on revenues of the Water Enterprise that is subordinate to the lien on such revenues securing the Authority’s obligation to pay debt service on the 2009 Bonds/2014 Bonds. See “BOND OWNERS’ RISKS – Articles XIIIC and XIIID of the California Constitution” for a discussion of certain issues relating to the Water Purchase Payments under the California Constitution.

The Purchase Payments consist of two components: (i) Scheduled Purchase Payments, which are equal each fiscal year to 5% of the outstanding principal balance of the Purchase Price and (ii) all remaining Surplus Revenues. The Authority has not paid Surplus Revenues to the City in the past five years and, as a result of the Third Water Amendment, Surplus Revenues will no longer exceed the amount of the Scheduled Purchase Payments. The outstanding balance of the Purchase Price for the Water Enterprise as of June 30, 2014 was \$8,900,045.15.

Set forth in the following table is a description of the Water Purchase Payments for the past five fiscal years:

Fiscal Year	Outstanding Principal Balance of Purchase Price	Scheduled Water Purchase Payments	Surplus Revenues Paid to City	Total Purchase Payments	Cumulative Water Purchase Payments as of June 30
2009-10	\$14,089,328	\$5,013,164	\$0	\$5,013,164	\$18,640,778
2010-11	12,885,353	1,888,399	0	1,888,399	20,529,177
2011-12	11,621,179	1,885,923	0	1,885,923	22,415,100
2012-13	10,293,797	1,882,921	0	1,882,921	24,298,021
2013-14	8,900,045	1,879,209	0	1,879,209	26,177,230

The Authority accounts for the Water Purchase Payments and the Water Enterprise’s Proportionate Share of debt service on the 2009 Bonds/2014 Bonds as expenditures of the Water Enterprise.

Based on projected revenues (see “THE WATER ENTERPRISE - Projected Debt Service Coverage”) and the Water Enterprise’s Proportionate Share of debt service on the 2009 Bonds/2014 Bonds, the Authority anticipates making the following Water Purchase Payments in the next five fiscal years.

Fiscal Year	Outstanding Principal Balance of Purchase Price	Scheduled Water Purchase Payments	Cumulative Water Purchase Payments as of June 30
2015	\$7,436,606	\$1,908,442	\$28,051,738
2016	5,899,995	1,908,442	29,920,110
2017	4,286,553	1,908,442	31,780,144
2018	2,592,439	1,908,442	33,628,215
2019	813,619	1,908,442	34,482,504

## Parity Obligations

**Conditions to Issuance of Parity Obligations.** In addition to the 2009 Bonds, which are currently outstanding in the amount of \$73,190,000, and the 2014 Bonds, the Authority may issue bonds (“**Additional Bonds**”) and other obligations, including “Qualified Swap Agreements” (together with Additional Bonds, “**Parity Obligations**,” as defined more completely

in “APPENDIX A – Summary of Certain Provisions of the Indenture”), payable from Pledged Utility Revenues on a parity with the 2014 Bonds, subject to certain conditions established by the Indenture, including the following (see “APPENDIX A – Summary of Certain Provisions of the Indenture” for a complete summary of the provisions relating to Parity Obligations):

(a) When calculated in accordance with sound accounting principles, as shown by the books of the Authority for the most recent Fiscal Year for which audited financial statements are available, or for any more recent consecutive 12 month period selected by the Authority, in either case verified by a certificate or opinion of an Independent Certified Public Accountant or an Independent Financial Consultant:

- (i) the Pledged Utility Revenues (excluding Purchased Securities Revenues) are at least equal to 125% of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued;
- (ii) the Pledged Utility Revenues (excluding connection fee charges and excluding Purchased Securities Revenues) are at least equal to 100% of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued;
- (iii) the Net Wastewater Revenues are at least equal to 100% of the Wastewater Enterprise’s allocable share of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued; and
- (iv) the Net Water Revenues (excluding Purchased Securities Revenues) are at least equal to 100% of the Water Enterprise’s allocable share of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations then proposed to be issued.

(b) If the Parity Obligations are Refunding Parity Obligations, either:

- (i) the requirements set forth in paragraph (a) above must be satisfied upon the issuance of the proposed Refunding Parity Obligations and the application of the proceeds thereof or
- (ii) the Authority must have provided to the Trustee a certificate showing that the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, the proposed Refunding Parity Obligations and any unsubordinated loans, advances or indebtedness payable from Pledged Utility Revenues is not greater than the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, and any unsubordinated loans if the proposed Refunding Bonds are not issued.

Nothing contained in the Master Indenture limits the issuance of any bonds of the Authority payable from Pledged Utility Revenues and secured by a lien and charge on Pledged Utility Revenues if, after the issuance and delivery of such revenue bonds, none of the Parity Obligations previously issued under the Indenture or other Issuing Instrument will be Outstanding.

## **Subordinate Obligations**

The Authority may issue bonds or other obligations secured by a lien on Pledged Utility Revenues that is subordinate to the lien established under the Indenture. See “APPENDIX A – Summary of Certain Provisions of the Indenture.”

## **Eminent Domain Proceeds**

The Indenture provides that any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise or the Water Enterprise by the lawful exercise of eminent domain, at the election of the Authority may either (i) be used for the acquisition or construction of improvements and extension of the Wastewater Enterprise or Water Enterprise or (ii) be applied to redeem the 2014 Bonds and any Parity Obligations.

## **Insurance**

The Indenture requires the Authority to maintain or cause to be maintained with respect to the Water Enterprise and the Wastewater Enterprise a standard comprehensive general insurance policy and a casualty insurance policy against loss or damage to any improvements constituting any part of the Wastewater Enterprise and the Water Enterprise, or appropriate self-insurance, but not earthquake insurance. See “APPENDIX A – Summary of Certain Provisions of the Indenture” for a summary of the provisions of the Indenture relating to insurance and use of the proceeds of insurance.

## BOND OWNERS' RISKS

*The following describes certain special considerations and risk factors affecting the payment of and security for the 2014 Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the 2014 Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the 2014 Bonds. There can be no assurance that other considerations will not materialize in the future.*

### City Fiscal Emergency

**City Financial Condition.** With few exceptions, the City's expenditures have exceeded revenues for many years. At the beginning of fiscal year 2013-14, tax revenues of \$4.5 million were not sufficient to cover a reduced public safety budget of \$7 million, let alone any other City services. This revenue shortfall, coupled with severe economic downturns, State revenue reallocation, and a decline in development activity within the City, created a serious structural imbalance in the City's general fund.

Beginning with the declaration of a fiscal emergency in June 2013, the City has taken steps to address the operating deficit by cutting expenditures by \$2.5 million. This was made possible by the following actions:

- outsourcing the building and safety department;
- drastically cutting 19 staff positions (23% of the General Fund's workforce);
- reducing amounts due under the contract with the County Fire Department (the "**Fire Department**") by closing a fire station and cutting staff levels on all shifts;
- reducing amounts due under the contract with the County Sheriff's Department (the "**Sheriff's Department**") by reducing administrative staff and a gang officer; and
- cutting more than \$500,000 of operational and capital budgets from various departments that offer public services.

These actions could affect the quality of essential services such as neighborhood police patrols, crime and gang prevention, 9-1-1 response times, and improvements to parks, streets, and roads.

Despite the steps taken to significantly reduce the General Fund's previous budget deficit of \$5.5 million to \$2.6 million, the City's current operating reserves/available cash are projected to be depleted by the end of calendar year 2015. The City's auditors have expressed concern with respect to the City's ability to continue to operate as a viable municipal organization if the General Fund deficit continues.

In November 2014, the City placed a utility user tax measure on the ballot to address the General Fund deficit, but the measure did not pass (approximately 38% of those who voted on the measure voted in favor of the measure; a 50% simple majority is required for passage). The Authority is informed that the City may again ask the voters to approve a utility user tax at an election in August 2015.

**Possible Future Actions by the City.** Should the deficit fail to be sufficiently addressed in another manner, the Authority would expect the City to consider two options, among others:



(i) a bankruptcy filing, subject to fulfilling the requirements of Chapter 9 of the United States Bankruptcy Code (“**Chapter 9**”) as well as the municipal bankruptcy authorization statute in California, and

(ii) disincorporation, subject to the applicable procedures under California municipal law.

The Authority anticipates that disincorporation would be the most likely course of action by the City, for the reasons explained below. The Authority does not expect disincorporation or bankruptcy proceedings by the City to have a material impact on the Authority, which exists and operates as a separate legal entity from the City.

***Disincorporation of the City.*** If the City were to disincorporate, residents would cease to be subject to the jurisdiction of the City and the County Board of Supervisors would be responsible for winding up the affairs of the City. In the event of disincorporation, the County would provide services currently provided to residents by the City. Because the Authority is a separate entity from the City, the Authority does not expect disincorporation to change the way in which the Authority operates the Water Enterprise or the Wastewater Enterprise or to adversely impact the Pledged Utility Revenues. The Authority has covenanted in the Indenture not to take any action or enter into any agreement which would alter or impair the pledge of the Pledged Utility Revenues.

The Authority does not expect a disincorporation of the City to adversely impact the Authority’s ability to pay debt service on the 2014 Bonds, even though the City is a member of the Authority, because California law establishes a broad protection of contracts rights in the event of a change of organization:

“No change of organization or reorganization, or any term or condition of a change of organization or reorganization, shall impair the rights of any bondholder or other creditor of any county, city, or district. Nor shall any change of organization or reorganization, or any term or condition of a change of organization or reorganization, impair the contract rights, or contracts entered into by a public entity created by a joint exercise of powers agreement established pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code.” (Cal. Gov. Code §56121.)

This provision is consistent with a provision of the Bond Law under which the 2014 Bonds are issued:

“The State of California does hereby pledge to, and agrees with, the holders of any bonds issued under this article, and with those parties who may enter into contracts with the authority pursuant to this article, that the state will not limit or alter the rights hereby vested in the authority to finance any public capital improvement and to fulfill the terms of any loan agreement, lease, or other contract with the authority pursuant to this part, or in any way impair the rights or remedies of the bonds or of the parties until those bonds, together with the interest thereon, are fully met and discharged and those contracts are fully performed on the part of the authority. However, nothing in this section precludes this limitation or alteration if and when adequate provision has been made by law for the protection of the holders of those bonds of the authority or those entering into those contracts with the authority.” (Cal. Gov. Code §6596.)

***City Bankruptcy Proceedings.*** If the City were to seek bankruptcy protection under Chapter 9, the City’s residents could experience interruption of the basic services provided by

the City, and the City would probably have difficulty attracting new businesses and residents and may be unable to obtain financing for important projects. Although City officials have discussed the possibility of a bankruptcy filing by the City as an option, the City may be unlikely to choose that path because bankruptcy would probably not resolve the financial situation of the City. The City has very little long-term debt that could be restructured in the bankruptcy process. The City's largest contracts by a substantial margin are with the Sheriff's Department and Fire Department, which are paid on a yearly basis. If the City's financial situation deteriorated to where it could not pay these contracts, the City would likely seek alternative financial arrangements with the County's Sheriff and Fire Departments or different providers of public safety services to the extent possible at a lower cost.

If the City were to seek bankruptcy relief, the Authority's obligations to make Wastewater Purchase Payments and Water Purchase Payments would be assets of the City in the bankruptcy proceeding and the Authority could be forced to transfer to the City certain surplus revenues for previous years that it was obligated to transfer under the Wastewater Enterprise Purchase Agreement and the Water Enterprise Purchase Agreement, but did not. The two Purchase Agreements will be amended in connection with the issuance of the 2014 Bonds to limit the Authority's payment obligation to the Scheduled Purchase Payments and eliminate the obligation to transfer Surplus Revenues.

Under the chapters of the United States Bankruptcy Code for non-municipal persons and entities, Chapters 7 and 11, a bankruptcy court can order the consolidation of assets and liabilities of separate legal entities, under the doctrine of "substantive consolidation." This relief may be granted, even involuntarily against persons or entities not subject to a pending bankruptcy filing, if, for example, an individual or corporation completely dominates a group of affiliated entities, ignores corporate formalities and transfers money between them as if the entities are mere departments of a larger operation.

To the knowledge of the Authority, the doctrine of substantive consolidation has never been applied in a Chapter 9 case. Nevertheless, the law governing Chapter 9 remains significantly undeveloped. Accordingly, the Authority cannot predict whether, if the City were to seek bankruptcy relief, a creditor of the City would seek, or a bankruptcy court might order, the consolidation of the assets and the liabilities of the City with those of the Authority for purposes of the bankruptcy proceedings. However, although it can provide no assurances as to how a bankruptcy court might rule, the Authority believes that a court would be unlikely to consolidate the City and the Authority in the City's bankruptcy proceedings because, among other reasons, (i) the Authority and the City are separately formed and existing legal entities as a matter of California law, (ii) the general rule in bankruptcy proceedings is that legally distinct entities will be respected, unless the entities engaged in some form of misconduct, (iii) the City and the Authority separately account for their assets and liabilities, (iv) the Authority was not formed to avoid or defraud the City's creditors and (v) involuntary bankruptcy proceedings are not permitted, pursuant to the provisions of Chapter 9 and the 10th Amendment to the U.S. Constitution.

Moreover, although the Authority can provide no assurances as to how a bankruptcy court would rule, even if the court in the City's bankruptcy proceedings were to consolidate the assets and liabilities of the City with those of the Authority, the consolidation should not materially impact the availability of Pledged Utility Revenues to pay debt service on the 2014 Bonds because (i) the Net Water Revenues and Net Wastewater Revenues that make up most of the Pledged Utility Revenues constitute "special revenues" under Chapter 9 ("receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems"), (ii) Section 928(a) of Chapter 9 expressly states that special revenues received by a municipal debtor after

the commencement of a Chapter 9 case remain subject to a pre-petition pledge and (iii) Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Water Revenues and Net Wastewater Revenues are not special revenues. In addition, even if the bankruptcy court were to determine that they are special revenues, because the Chapter 9 plan confirmation statute was not likewise amended by Congress when the “special revenues” provisions were enacted, it is also possible in a bankruptcy proceeding of the Authority that, without the consent and over the objection of the Trustee and the Bondowners, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Trust Indenture as amended and the 2014 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

While not determinative, the Authority has stated in the Indenture that it intends for the Pledged Utility Revenues to constitute “special revenues” within the meaning of Chapter 9.

**Conclusion.** In sum, because the Authority and the City are separately formed and existing legal entities, and although the Authority cannot predict the future actions of the City or its voters, or the outcome of any bankruptcy proceedings affecting the City, the Authority believes that the City’s financial condition should not materially impact its ability to operate the Water Enterprise or the Wastewater Enterprise or to pay debt service on the 2014 Bonds.

#### **Pledged Utility Revenues; Rate Covenant**

Pledged Utility Revenues are dependent upon the demand for water and wastewater services, which can be affected by a variety of factors, including population factors, drought conditions, the availability of water, and voluntary or mandatory conservation measures. There can be no assurance that demand for water and wastewater services will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water and wastewater services could require an increase in rates or charges in order to comply with the rate covenant.

The Authority’s ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand or increasing customer delinquencies to a level such that available revenues would be insufficient to meet debt service on the 2014 Bonds and any Parity Obligations. In light of the rate increases in 2009, the Authority believes it may be difficult to increase rates in the foreseeable future.

Even if increased rates would impact demand for its water and sewer services, the Authority believes that reduced demand would impact its ability to pay debt service on the 2014 Bonds only if the number of accounts declined because the Sewer Service Charge, which is set on a per-“equivalent dwelling unit” (“**EDU**”) basis (there is no volume component) and the base monthly service rate of the Water Service Charges (which is not tied to usage) have been set to generate sufficient revenue to pay the costs of operating the Wastewater Enterprise and the Water Enterprise and to pay debt service on the 2014 Bonds and any Parity Obligations.

Even if the Authority acts to increase rates in order to meet its rate covenant, there could be a delay in the implementation of the rates (see, for example, “- Articles XIII C and XIII D of the California Constitution”).

In fiscal years 2007-08 through 2010-11, the Authority failed to satisfy its rate covenant, but met the rate covenant in subsequent years as a result of rate increases. See “SECURITY FOR THE 2014 Bonds - Rate Covenant.”

## **Demographics of the Utility System's Customers**

Based on 2010 census data, approximately 32% of persons living in the City are below the poverty level. Because of the below-average wealth of the Utility System's customers and above-average service charges of the Authority (see Table No. 7 for comparative sewer service charges and Tale No. 22 for comparative water service charges), the revenues of the Authority may be more sensitive to economic downturns. In addition, the Authority may not be able to increase rates in the foreseeable future without driving down demand or increasing customer delinquencies to a level such that Pledged Utility Revenues would be insufficient to pay debt service on the 2014 Bonds and any Parity Obligations. See "- Pledged Utility Revenues; Rate Covenant."

## **Authority Expenses**

There can be no assurance that expenses of the Authority will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards and other applicable regulations, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could drive down demand for water and wastewater services or otherwise increase the possibility of nonpayment of the 2014 Bonds.

## **Availability of Water**

The Authority receives water for the Water Enterprise from a variety of sources (see "THE WATER ENTERPRISE – Sources of Supply"). The City is approximately 20-30% built-out, and the Authority believes its current water supply will be sufficient to serve the current population of the City. The Authority does not expect significant new development in the next 5-10 years. The Authority estimates that additional water will be needed when the City reaches a 60-70% build-out level, and expects to pay for acquisition of additional water rights with connection fees paid by any new development. Consequently, the Authority does not believe the limited availability of water to adversely impact its ability to pay debt service on the 2014 Bonds.

## **Drought Conditions**

California is currently in the midst of the worst drought in its recorded history. On January 17, 2014, Governor Brown declared a drought in the State and requested a 20% reduction in water use statewide.

On July 29, 2014, an emergency regulation to increase conservation practices for all Californians went into effect. The new conservation regulation targets outdoor urban water use (which, in some areas of the State, accounts for 50% or more of daily water use). This regulation establishes the minimum level of activity that residents, businesses and water suppliers must meet as the drought deepens and will be in effect for 270 days unless extended or repealed.

The regulation, adopted by the State Water Board July 15, and approved by the Office of Administrative Law on July 28, 2014, mandates minimum actions to conserve water supplies both for this year and into 2015.

Larger water suppliers are required to activate their Water Shortage Contingency Plan to a level where outdoor irrigation restrictions are mandatory. In communities where no water shortage contingency plan exists, the regulation requires that water suppliers either limit outdoor irrigation to twice a week or implement other comparable conservation actions. Finally, large urban water suppliers must report water use on a monthly basis to track progress beginning in 2015.

The State Water Board could initiate enforcement actions against water agencies that don't comply with the new regulations. Failure to comply with a State Water Board enforcement order by water agencies is subject to up to a \$10,000 a day penalty.

The Authority is currently in compliance with the regulation, has taken steps to educate its staff regarding code enforcement, and makes regular reports to the State Water Board. The State Water Board has never initiated a related enforcement order against the Authority.

The Authority derives its water by pumping from the Upper Mojave River Ground Water Basin, which is an "adjudicated basin", which means the water is allocated by a "watermaster," in this case the Mojave Water Agency, to a variety of parties based on a legal judgment. See "THE WATER ENTERPRISE - Sources of Supply." In its most recent annual report on the Upper Mojave River Ground Water Basin (May 1, 2014), the Mojave Water Agency reported on the reduced inflow to the basin, but noted that the physical solution embodied in the adjudication of the basin is designed to take advantage of the large amount of storage available in the basin and its subareas; during periods of shortfall, water can be pumped from groundwater storage until it is replaced either by natural recharge from precipitation, or by importation of supplemental water, including recycled water. According to the Annual Report, the Mojave Water Agency's purchase of replacement water and significant precipitation events in 2005 and 2010 have increased storage in the Authority's subarea of the basin (the Alto subarea), resulting in approximately 2 years of consumptive use in storage.

The Authority does not anticipate any additional restrictions, even if the drought should continue. However, should there be water shortages in the future, the Authority could restrict water use restrictions during peak demand times, require construction water to be from taken from non-potable sources, or increase public awareness and outreach. The Authority can also increase supply, if necessary, by purchasing imported water directly from the Mojave Water Agency, assuming such water is available.

A loss of revenues due to the limited availability of water or its reduced usage by customers of the Authority could impact the Authority's ability to pay debt service on the 2014 Bonds.

### **Future Land Use Regulations**

Development within the Authority's service area is contingent upon the future construction and acquisition of a number of public improvements such as arterial streets, water distribution facilities, sewage collection and transmission facilities, drainage facilities and street lighting, as well as the necessary local in-tract improvements. The installation of the necessary infrastructure improvements and the construction of the residential development are subject to the receipt of discretionary approvals from a number of public agencies concerning the layout and design of the development, the nature and extent of the improvements, land use, health and safety requirements and other matters. The failure to obtain any such approval could adversely affect the planned land development within the Authority.

In addition, there can be no assurance that land development operations within the Authority will not be adversely affected by future government policies, including, but not limited to, governmental policies to restrict or control development.

The Authority's projections of revenues to be generated by the Water Enterprise and the Wastewater Enterprise assume no growth in the Enterprises' rate base. See "THE WASTEWATER ENTERPRISE - Projected Debt Service Coverage" and "THE WATER ENTERPRISE – Projected Debt Service Coverage."

## **Limitations on Remedies Available to Bondowners**

The ability of the Authority to comply with its covenants under the Indenture and to generate Pledged Utility Revenues sufficient to pay principal of and interest on the 2014 Bonds may be adversely affected by actions and events outside of the control of the Authority, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “Articles XIII C and XIII D of the California Constitution” below. Furthermore, any remedies available to the owners of the 2014 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the 2014 Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings against the Authority, if and to the extent permitted by law, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the 2014 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The Authority may file for bankruptcy protection, subject to compliance with the requirements of Chapter 9 of the United States Bankruptcy Code and California law.

In the event the Authority were subject to a bankruptcy proceeding, it would constitute an “Event of Bankruptcy” under the Indenture, which would constitute an “Event of Default” under the Indenture.

The Indenture provides that, following an Event of Default, the Trustee may demand that the Authority pay all Pledged Utility Revenues for a month to the Trustee by the first Business Day of the succeeding month, and that the Trustee shall apply the Pledged Utility Revenues as set forth the Indenture; in general, Pledged Utility Revenues will first be used to pay the Trustee fees and expenses and then to pay debt service on the 2009 Bonds, the 2014 Bonds and any Parity Obligations, on a pro rata basis (based on the amounts to be paid). The Indenture also provides that, following an Event of Default, the Trustee may take enforcement action and shall do so at the request of the owners of a majority in principal amount of the 2009 Bonds, the 2014 Bonds and any Parity Obligations. “APPENDIX A – Summary of Certain Provisions of the Indenture”

Although the Authority can provide no assurances as to how a bankruptcy court would rule, the Authority’s bankruptcy proceedings should not materially impact the availability of Pledged Utility Revenues to pay debt service on the 2014 Bonds because (i) the Net Water Revenues and Net Wastewater Revenues that make up most of the Pledged Utility Revenues constitute “special revenues” under Chapter 9 (“receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide transportation, utility, or other services, including the proceeds of borrowings to finance the projects or systems”), (ii) Section 928(a) of Chapter 9 expressly states that special revenues received by a municipal debtor after the commencement of a Chapter 9 case remain subject to a pre-petition pledge and (iii) Section 922 provides that the automatic stay imposed by Chapter 9 does not stay the

application of special revenues to the payment of bonded indebtedness. However, a bankruptcy court may determine that the Net Water Revenues and Net Wastewater Revenues are not special revenues. In addition, even if the bankruptcy court were to determine that they are special revenues, because the Chapter 9 plan confirmation statute was not likewise amended by Congress when the “special revenues” provisions were enacted, it is also possible in a bankruptcy proceeding of the Authority that, without the consent and over the objection of the Trustee and the Bondowners, the bankruptcy court may permit the alteration of the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources and uses, covenants (including tax-related covenants and call protection), and other terms or provisions of the Trust Indenture as amended and the 2014 Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

See “- City Fiscal Emergency” (above) for a discussion of the City’s financial condition, including the risks associated with a possible bankruptcy declaration by or a disincorporation of the City.

## **Natural Disasters**

**General.** If there were to be an occurrence of severe seismic activity, wildfires or flooding in the area of the Authority, there could be an interruption in the service provided by the Utility System, resulting in a temporary reduction in the amount of Pledged Utility Revenues available to pay debt service when due on the 2014 Bonds. Damage to Utility System revenues could also increase the costs of operating the Utility System. Finally, widespread damage could decrease demand for Utility System services.

**Seismic.** No known earthquake faults are located within the City. However, the San Andreas Fault, located south and west of the City, and the Helendale Fault, located north and east of the City, may pose potential threats to urban development in the City.

Some of the land in the City may be susceptible to surface liquefaction as a result of water-saturated, sandy, unstable soils being subjected to intense shaking, such as that caused by an earthquake. Liquefaction conditions are most likely to exist along the Mojave River, or in sandy areas with high water tables. The City expects geologic studies undertaken prior to construction and standard engineering techniques to reduce the level of potential impact of liquefaction to less than significant levels. In addition, the reduction of groundwater levels has probably reduced the potential for liquefaction in most of the City.

**Floods.** The City does not currently have an extensive storm drainage system in place. Drainage improvements are constructed on a project-by-project basis to mitigate specific drainage impacts caused by the individual project. As development occurs in the City, the drainage system will become more complete, eliminating gaps that may cause potential drainage problems.

Portions of the City are subject to flooding during heavy rainfall, especially those areas adjacent to natural drainage courses. The Mojave River, located along the eastern boundary of the City, is the major regional surface channel and is subject to periodic flooding.

**Fires.** Fires present a unique threat in the City, particularly during summer months when temperatures exceed 100 degrees and precipitation is almost non-existent. The abundance of desert scrub and poor access contribute significantly to wildfires and may present significant dangers to residents and structures. Although increased urban development will reduce the open rangeland that may be subject to potential wildfires, it will also reduce the possible buffer area between potential wildfires and urban uses and increase the total urban perimeter that must be protected from fires.

## Loss of Tax-Exemption

As discussed under the caption “TAX MATTERS” in this Official Statement, interest on the 2014 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2014 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture. Should such an event of taxability occur, the 2014 Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

## Articles XIIC and XIID of the California Constitution

**General.** On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an ad valorem tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

On November 2, 2010, California voters approved Proposition 26, the so-called “Supermajority Vote to Pass New Taxes and Fees Act”. Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIIC of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIIC broadly define “tax,” but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

**Property-Related Fees and Charges.** Specifically, under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the



parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

**Initiative Powers.** In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

**Judicial Interpretation of Articles XIIC and XIID.** After Proposition 218 was enacted in 1996, appellate court cases (such as *Apartment Association v. City of Los Angeles* (2001) 24 Cal. 4<sup>th</sup> 830) and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal. 4<sup>th</sup> 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal. App. 4<sup>th</sup> 914, the California Court of Appeal, Fifth District, was asked to consider a requirement by the City of Fresno that each municipal utility pay to the City, in lieu of property and other taxes normally placed upon private business, an amount designated by the City Council, i.e., an “in-lieu fee.” The trial court declared invalid the City of Fresno municipal code insofar as it authorized the in-lieu fee for water, sewer, and solid waste utilities, and enjoined Fresno from collecting the in-lieu fee. The Court of Appeal affirmed the judgment, concluding that the in-lieu fee was invalid under Article XIID on the basis that (i) water, sewer and trash fees are property-related fees subject to Proposition 218, (ii) although local agencies are entitled under Article XIID to recover all of their costs for utility services through user fees, the amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel and (iii) the City of Fresno did not establish that the in-lieu fee approximates the cost of services the City of Fresno provides to the utilities. The California Supreme Court denied the Authority of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal. 4<sup>th</sup> 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIIC’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire

initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

**Articles XIII C and XIID and the Authority's Rates.** The Authority complied with the procedures established by Article XIID in connection with increasing its Sewer Service Charges and its Water Service Charges on August 12, 2014 by mailing notices to all property owners in its service area on June 11, 2014 and holding a public hearing on August 12, 2014.

The Authority believes its rates and charges do not constitute "taxes" under Article XIII C as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIII C, they are "property-related fees imposed in accordance with the provisions of Article XIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIID) and because, as described in subsection 1(e)(2) of Article XIII C, they are charged for water and wastewater service, "a specific government service or product provided directly to the payor that is not provided to those not charged."

The Authority acquired the Water Enterprise under the terms of the Water Purchase Agreement and acquired the Wastewater Enterprise under the terms of the Wastewater Purchase Agreement. See "SECURITY FOR THE 2014 BONDS – Water Purchase Payments" and "– Wastewater Purchase Payments" above. The members of the City Council were, and are currently, the members of the legislative body of the Authority. Pursuant to the terms of the Water Purchase Agreement and the Wastewater Purchase Agreement, the Authority pays to the City the Water Purchase Payments and the Wastewater Purchase Payments in consideration for the acquisition of the Water Enterprise and the Wastewater Enterprise, respectively. The Water Purchase Payments and the Wastewater Purchase Payments are payable from and secured by a pledge of "Surplus Revenues" of the Water Enterprise and the Wastewater Enterprise, respectively. Consequently, the Authority's obligation to make these payments is secured by a lien on revenues of the Water Enterprise and the Sewer Enterprise that is subordinate to the lien on such revenues securing the Authority's obligation to pay debt service on the 2014 Bonds.

The Authority has made Wastewater Purchase Payments and Water Purchase Payments from revenues generated from a variety of sources, including Water Service Charges and Sewer Service Charges. The holdings in *Bighorn* and *Fresno* make clear that the Authority's Water Service Charges and its Sewer Service Charges are property-related fees or charges that must comply with Article XIID. This means that the revenues derived from these charges may not exceed the cost to the Authority to provide the related services. To the Authority's knowledge, no California court has considered whether the kinds of payments the Authority makes to the City are a cost of providing the related service. The Authority has not obtained an opinion of legal counsel as to whether the Wastewater Purchase Payments and the Water Purchase Payments are a cost of providing the related services. As of the date of this Official Statement, no claim has been filed with the Authority regarding the legality of including the Wastewater Purchase Payments and the Water Purchase Payments as a cost of providing the related services and no litigation has been threatened. The statute of limitations for filing a claim is three years from the date that the Authority collected a Sewer Service Charge or a Water Service Charge that was used to make the Wastewater Purchase Payments or the Water Purchase Payments.

If a court were to conclude that the Water Purchase Payments and the Wastewater Purchase Payments are not a cost of providing the service of the Water Enterprise and the Wastewater Enterprise, then the Authority might be required to revise its rates and charges to exclude these payments and the Authority could be required to rebate to its customers the amount of any rates and charges in excess of the cost of service. The Authority does not believe that judicial invalidation of the Water Service Charge and the Sewer Service Charge to the extent that they generate Surplus Revenues would materially adversely impact the availability of Pledged Utility Revenues to pay debt service on the 2014 Bonds. If a court were to conclude that the Water Purchase Payments and the Wastewater Purchase Payments are not a cost of providing the service of the Water Enterprise and the Wastewater Enterprise and if the Authority were required to rebate to its customers the amount of any rates and charges in excess of the cost of service, the Authority does not believe that its obligation to reimburse ratepayers would materially adversely impact the availability of Pledged Utility Revenues to pay debt service on the 2014 Bonds because, among other reasons:

- (i) Pursuant to Government Code section 970.6, a court entering a judgment against a local public entity, such as the Authority, must order that the local public entity pay the judgment, with interest, in not exceeding 10 equal annual installments if both of the following conditions are satisfied: (a) The governing body of the local public entity has adopted an ordinance or resolution finding that an unreasonable hardship will result unless the judgment is paid in installments, and (b) the court, after hearing, finds that payment of the judgment in installments as ordered by the court is necessary to avoid an unreasonable hardship.
- (ii) If necessary, and subject to market conditions (including whether the Authority would be able to secure an investment grade rating), the Authority could finance the judgment over a longer time period through issuance of judgment obligation bonds.

See “SECURITY FOR THE 2014 BONDS – Water Purchase Payments” and “– Wastewater Purchase Payments” above for a summary of cumulative Water Purchase Payments and Wastewater Purchase Payments made through June 30, 2014.

**Conclusion.** It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the Authority’s rates and charges, although it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for utility service, or to call into question previously adopted utility rate increases.

### **Article XIII B of the California Constitution**

An initiative to amend the California Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the California Constitution (“**Article XIII B**”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called

“appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Proposition 111, entitled the Traffic Congestion Relief and Spending Act of 1990, was approved by the voters on June 5, 1990. Proposition 111 changes the formula which allows for adjustments in the expenditure limits under Article XIII B. Rather than adjusting the limit by the percentage change in the California Consumer Price Index, Proposition 111 adjusts it by the percentage change in California Personal Income per capita. Local governments are given the option of using Personal Income per capita or the change in local assessment rolls for new, nonresidential construction as the basis for adjusting their limits. This change allows local governments limits to reflect economic growth, particularly in rapidly growing communities. Furthermore, Proposition 111 allows the averaging of two years’ tax revenues before requiring action regarding excess tax revenues.

Article XIII B is not generally applicable to the service charges and other revenues which are pledged to the Authority’s obligations under the Indenture. The Authority believes it is in full compliance with the provisions of Article XIII B to the extent Article XIII B is applicable to the Authority.

### **Environmental Regulation**

Water and wastewater treatment standards established by federal and state law control the operations of the Utility System. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or other federal or state legislation, should impose stricter water quality standards applicable to the Utility System, the Authority’s expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. The Authority cannot predict the future course of federal or state regulation, although it is likely that both federal and state law will impose more stringent standards with attendant higher costs. See “- Drought Conditions.”)

See “THE WATER ENTERPRISE – Water Enterprise Regulatory Requirements” and “THE WASTEWATER ENTERPRISE – Wastewater Enterprise Regulatory Requirements for additional information about regulations applicable to the Enterprises and the Authority’s historical compliance.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the 2014 Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price, particularly because the 2014 Bonds are not rated. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

## **Parity Obligations**

As described in “SECURITY FOR THE 2014 BONDS – Parity Obligations” above, the Authority’s 2009 Bonds, currently outstanding in the amount of \$73,190,000, are payable on a parity with the 2014 Bonds, and the Indenture permits the Authority to issue additional Parity Obligations that would be payable on a parity with the payment of debt service of the 2014 Bonds. In the event of a decline in Pledged Utility Revenues available to pay debt service on the 2014 Bonds, the existence of Parity Obligations could adversely affect the Authority’s ability to pay debt service on the 2014 Bonds.

## THE AUTHORITY

### General

The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Powers Agreement among the City, the Successor Agency and the Adelanto Industrial Development Authority.

The Authority was formed for the purposes of owning, operating and maintaining the Utility System, which currently consists of the Wastewater Enterprise and the Water Enterprise serving the City. The Joint Powers Act provides for the issuance of revenue bonds of joint exercise of powers authorities, such as the Authority, to be repaid from certain revenues. The Authority has no *ad valorem* taxing power. Pursuant to the Joint Powers Act, the Authority is authorized to issue its revenue bonds for the purpose of financing, among other things, public capital improvement projects of the Utility System.

The Authority has contracted with PERC Water Corporation to operate, maintain and manage both the Water and the Wastewater Enterprise. As a result, the Authority has eliminated almost all of its employees; the Authority employs approximately two full-time-equivalent employees, including a Public Works Director to oversee all of the operations, reporting and permitting performed by PERC Water Corporation to ensure compliance with State and Federal regulations.

### Organization

The Authority is governed by a five-member commission, which consists of all the members of the City Council. The Mayor of the City is appointed as the President of the Authority.

The Authority's members and term expiration dates are as follows:

<b><u>Commission Member</u></b>	<b><u>Term Expires</u></b>
Rich Kerr, <i>Mayor</i>	November 2018
Edgar Camargo, <i>Mayor Pro Tem</i>	November 2016
Charley B. Glasper	November 2018
John R. Woodward	November 2018
Jermaine Wright Sr.	November 2016

The City Manager is responsible for coordination of all departments and daily operation of City business, including operation of the Wastewater Enterprise and the Water Enterprise and acts as the Executive Director of the Authority. Current City staff assigned to administer the Authority are as follows:

D. James Hart, *City Manager and Authority Executive Director*  
Onyx Jones, *Interim Financial Director*  
Cindy M. Herrera, *City Clerk*

### Retirement System

The City allocates approximately 14% of retirement costs to the Water Enterprise. None of the retirement costs are allocated to the Wastewater Enterprise because the Wastewater Enterprise is operated by PERC Water Corporation and not by City employees.

**Pension Plan.** The City contributes to the California Public Employees Retirement System (“PERS”), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. As a result of the City’s contract with PERC Water Corporation, the City’s pension plan only covers approximately two full-time-equivalent employees of the Authority.

Participants are not required to contribute any of their annual covered salary. The City has elected to pay the cost of the participants’ share. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The projected employer contribution rate for the fiscal year ended June 30, 2014 was 6.1%. The City’s contribution for the fiscal year ended June 30, 2014, was \$61,060 (unaudited) and it expects to pay \$14,519 in fiscal year 2014-15.

The following table shows the a history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll from 2006-2010.

Valuation Date (June 30)	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Funded Ratio (AVA)	Funded Status (Market Value)	Annual Covered Payroll
2006	\$1,918,634	\$2,169,111	\$2,272,190	%113.1	%118.4	\$4,631,650
2007	2,727,873	3,035,385	3,378,153	111.3	123.8	5,471,010
2008	3,815,848	4,051,901	3,955,819	106.2	103.7	6,064,898
2009	5,013,411	5,058,640	3,714,177	100.9	74.1	6,530,192
2010	5,740,032	6,246,454	5,111,301	108.8	89.0	4,878,644

**Recent CalPERS Actions.** On March 14, 2012, the CalPERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, in fiscal year 2012-13, (i) the amounts of CalPERS member state and schools employer contributions increased by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans and (ii) the amounts of CalPERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the CalPERS discount rate adjustment can be accessed through CalPERS’s web site at [www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml](http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml). The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the Authority and is not incorporated herein by reference.

The CalPERS Board adjustment has been undertaken in order to address underfunding of the CalPERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The Authority is unable to predict what the amount of CalPERS liabilities will be in the future, or the amount of the CalPERS contributions which the Authority may be required to make.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy were used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the CalPERS Board approved new demographic actuarial assumptions based on the 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The CalPERS Board also assumed earlier retirements (Safety 3% at age 50; Fire 3% at age 55; and Miscellaneous 2.7% at age 55 and 3% at age 60), which will increase costs for those groups. Finally, the CalPERS Board projected higher pay increases for long-service Safety members, which will also increase Safety costs. As a result of these changes, rates will increase beginning in fiscal year 2016-17 (based on the 6/30/14 valuation) with full impact in fiscal year 2020-21. CalPERS staff estimates that local governments could see costs rise up to 5% of payroll for average state employees and up to 9% for Safety classifications in year 5 of the phase-in.

***Pension Reform Act of 2013 (Assembly Bill 340).*** On September 12, 2012, Governor Brown signed AB 340, a bill that will enact the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and that will also amend various sections of the California Education and Government Codes, including the County Employees Retirement Law of 1937. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA will apply to all public employers except the University of California, charter cities and charter counties (except to the extent they contract with CalPERS.)

The provisions of AB 340 went into effect on January 1, 2013 with respect to State employees hired on that date and after; local government employee associations, including employee associations of the City, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of CalPERS pension benefits, up to 8 percent of pay for civil workers and 11 percent or 12 percent for public safety workers.

CalPERS predicts that the impact of AB 340 on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS notes that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

The Authority is unable to predict what the amount of CalPERS liabilities will be in the future or the amount of the CalPERS contributions which the City may be required to make, all as a result of the implementation of AB 340, and as a result of negotiations with its employee associations.

More information about AB 340 can be accessed through PERS's website at [www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST](http://www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST). The reference to this internet website is shown for reference and convenience only; the information contained within the website may not be current and has not been reviewed by the Authority and is not incorporated herein by reference.



**Other Post Employment Benefits.** In April 2004, the Governmental Accounting Standards Board (“**GASB**”) issued Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” Statement No. 43 establishes uniform financial reporting standards for postemployment healthcare and other nonpension benefits (“**OPEB**”) plans. The approach followed in Statement No. 43 is generally consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. Statement No. 43 became effective for the City’s OPEB Plans for the fiscal year ending June 30, 2009.

In addition, in June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which addresses how state and local governments should account for and report their costs and obligations related to OPEB. Statement No. 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Statement No. 45’s provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial accrued liability is required to be amortized over future periods. Statement No. 45 also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Statement No. 45 became effective for the City’s fiscal year ending June 30, 2008.

The Authority provides OPEB benefits to 59 employees: those remaining employees employed after July 1, 1995, and before July 1, 2004 who had more than ten years of service. New employees are not eligible for OPEB benefits. The Authority does not offer OPEB benefits to new employees. In fiscal year 2012-13 and 2013-14, the Authority’s pay-as-you-go OPEB costs were estimated to be \$124,827 and \$132,384, respectively. Currently these costs are paid from the City’s general fund; however, the Authority may be required to pay OPEB costs for Authority employees in the future.

## **City Investments**

The Authority currently invests all of its surplus funds in the State of California’s Local Agency Investment Fund. As of September 23, 2014, the Authority’s account value was \$4,368,492.87. The Authority’s investments are invested in accordance with the City’s Investment Policy, which is subject to annual review and approval by the City Council. The City does not currently have an investment pool.

## **Audited Financial Statements**

**General.** The Authority’s fiscal year 2012-13 financial statements were audited by Moss, Levy & Hartzheim LLP, Beverly Hills, California (the “**Auditor**”) and are attached as Appendix B. The Authority’s fiscal year 2013-14 audited financial statements were audited by the Auditor and are attached as Appendix G.

Moss, Levy & Hartzheim LLP has not been asked to consent to the inclusion of its reports in this Official Statement and has not reviewed this Official Statement.

**GASB 34 Compliance.** Between fiscal year 2011-12 and 2012-13, the Authority performed an audit of all of its capital assets in order to comply with GASB 34; the audit required significant time for reconciliation and prevented the Authority from completing its fiscal year 2012-13 audit on time. The audit resulted in an increase in value of capital assets from \$42,473,791 in fiscal year 2011-12 to \$70,599,267 in 2012-13.

The audit also revealed that the fiscal year 2012-13 ending balance of the Wastewater Enterprise was overstated by approximately \$9 million due to an ongoing, approximately \$8 million, project related to the wastewater treatment plant was accounted for twice. The ending balance reflected in the fiscal year 2013-14 audit for the Wastewater Enterprise complies with GASB 34.

**History of Late Audits.** Although the Authority has not produced its audited financial statements on a timely basis during the last several years, the Authority believes that it has established a process for completing its audit by December 31 of each calendar year for the preceding fiscal year.

**Deficiencies in Internal Controls and Corrective Action by the Authority.** In a November 25, 2014 “Management Report and Auditor’s Communication Letter,” the Auditor reported that it identified certain deficiencies in internal control that it considers to be material weaknesses.<sup>1</sup> All of these recommendations, which are primarily procedural in nature and require adoption of policies and procedures, were also made by the auditor in prior fiscal years, but have not yet been adopted. The Authority responded to the Auditor’s letter by stating that it has implemented, or is in the process of implementing, the policies and procedures necessary to ensure that all material weaknesses are addressed during fiscal year 2014-15.

**Going Concern Note.** The Auditor stated in the Independent Auditor’s Report for fiscal year 2013-14 (see Appendix G) that, as a result of the Ambac judgment, it has concerns about the Authority’s ability to continue as a going concern because the Authority does not currently have an adequate cash balance to fulfill the required settlement payments. However, see “THE FINANCING PLAN - Payment of Judgment,” for discussion regarding the portion of proceeds of the 2014 Bonds that will be used to pay the Judgment, including interest, in the amount of \$7,767,756.28.

## THE WASTEWATER ENTERPRISE

### Description

The Wastewater Enterprise consists of a sewer collection system and a wastewater reclamation facility.

The sewer collection system consists primarily of gravity collection sewers which tie into gravity trunk sewers. One portion of the service area, located on the west side of the City north of Air Base Road, is served by a sewer lift station and force main. Sewer service pipeline ranges from 6” to 21” and totals more than 102 miles of existing trunk sewer pipeline.

The Adelanto Wastewater Reclamation Facility (“**AWRF**”) is designed and permitted to treat 4.0 million gallons per day (“**MGD**”) of wastewater to a secondary level as a result of a 2012 expansion, but such water cannot be used for reclaimed water purposes. The AWRF treated on average 2.2 MGD in fiscal year 2013-14. When economically feasible, the AWRF is designed to be modified in order to treat wastewater to a tertiary level, which could potentially be used for lawn/public parks irrigation, construction and dust control and other beneficial uses, but there are currently no plans to modify the AWRF to produce recycled water for non-potable use. The activated sludge process treatment facility includes headworks, influent pump station, equalization and aeration

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<sup>1</sup> According to the Management Report and Auditor’s Communication Letter, a “deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.”

basins, secondary clarifiers, automatic backwash filters, and chlorination disinfection system and a solids dewatering, drying and management system.

### Service Area

The City is a residential community of approximately 53 square miles. The service area of the Wastewater Enterprise encompasses the entire City limits. See “– Wastewater Enterprise Customers” below.

### Historical Wastewater Flow

The following table sets forth the volume of wastewater collected by the Wastewater Enterprise and treated at the AWRF in the preceding ten fiscal years. Although wastewater flow remains fairly stable throughout the year, there is typically a slight increase in flows sent to the AWRF during wet weather months due to infiltration and inflow.

**Table No. 3  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
ANNUAL WASTEWATER FLOW  
FISCAL YEARS 2003-04 THROUGH 2013-14**

<u>Fiscal Year</u>	Total Wastewater Flow <u>(MG/Year)</u>	Million Gallons per Day <u>(MGD)</u>
2003-04	370	1.01
2004-05	520	1.42
2005-06	686	1.88
2006-07	745	2.04
2007-08	788	2.16
2008-09	770	2.11
2009-10	770	2.11
2010-11	739	2.02
2011-12	772	2.12
2012-13	737	2.02
2013-14	765	2.10
2014-15 <sup>(1)</sup>	207	2.25

(1) Through September 2014.  
Source: Adelanto Public Utility Authority.

### Wastewater Enterprise Regulatory Requirements

**General.** The Authority is subject to the Federal Water Pollution Control Act, as amended (the “**Clean Water Act**”), and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations regulate the quality of effluent discharged from the AWRF, the disposal of biosolids from the AWRF, the discharge of pollutants into the groundwater and the nature of waste material (particularly industrial waste) discharged into the collection system.

**Permitting; Recent Enforcement Actions.** On December 23, 2010, the California Regional Water Quality Control Board, Lahontan Region (“**Board**”), issued a proposed Cease and Desist order (“**CDO**”) pertaining to the AWRF. The proposed CDO was revised on January 13, 2011. The proposed CDO alleged that the Authority was in violation of its permit and previous Board orders with respect to: (i) the average Biological Oxygen Demand (“**BOD**”) levels; (ii) the average daily volume of flow to the AWRF; (iii) the maintenance of freeboard levels in the percolation ponds; and (iv) unauthorized discharges from AWRF based on the construction of certain trenches and due to a

major storm even on December 23, 2010, that led to the discharge of treated effluent from Percolation Pond No. 4-S. The Board sought a “connection ban” that would have prevented additional connections and discharges to the AWRF.

On March 10, 2011, an administrative trial was conducted before the Board. The Board decided to adopt the proposed CDO but removed the connection ban from the CDO. The hearing was continued until May 11, 2011, to determine the progress made by the Authority toward addressing the issues raised in the CDO. At the hearing on May 11, 2011, the Board again declined to impose a connection ban and ordered the Authority to: (i) complete construction on Pond No. 5 no later than May 31, 2011; (ii) complete restoring Pond No. 4 no later than October 15, 2011; (iii) complete and submit to the Board various reports and work plans; and (iv) comply with its Waste Discharge Requirements (“WDRs”). The Revised CDO is No. R6V-2011-15A1.

On October 12, 2011, the Board held a follow up hearing on the status of the Authority’s progress in fulfilling the Board’s requirements and once again declined to impose a connection ban, noted the Authority’s progress, and directed that the Authority keep moving forward to satisfy all the requirements of the CDO.

The Authority worked with Board staff to satisfy all Board and CDO requirements. Furthermore, pursuant to the Authority’s contract with PERC Water Corporation, the Authority completed the AWRF expansion in the autumn of 2013. In July, 2013, the Board approved a Revised WDR for the AWRF that covered the expanded and completed AWRF operations. On January 9, 2014, the Board adopted Board Order No. R6V-2014-0004, which rescinded CDO Nos. R6V-2007-24 and R6V-2011-15A1. On March 5, 2014, the Board rescinded Cleanup and Abatement Order No. R6V-2010-0054 after verifying that the operational changes and facility upgrades at the AWRF satisfied applicable requirements.

**Wastewater Enterprise Customers**

The following table sets forth the historical Wastewater Enterprise connections by land use for fiscal year 2013-14.

**Table No. 4  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
EDUs BY LAND USE CATEGORY  
FISCAL YEAR 2013-14**

<u>Description</u>	<u>2013-14</u>
Single-Family Residential	5,607
Multi-Family	<u>873</u>
Subtotal Residential	6,480
Commercial & Industrial	638
Correctional Facility	747
Schools	<u>300</u>
Subtotal Non-Residential	1,685
<b>Total</b>	<b>8,165</b>

*Source: Adelanto Public Utility Authority.*

Set forth in the following table is a list of the 10 largest customers of the Wastewater Enterprise in fiscal year 2013-14 (by revenue).

**Table No. 5  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
TEN LARGEST CUSTOMERS  
FISCAL YEAR 2013-14**

<b>Rank</b>	<b>User</b>	<b>Average Monthly Charge</b>	<b>Annual Billing</b>	<b>% of Total Revenue<sup>(1)</sup></b>
1	San Bernardino County	\$31,141	\$373,687	6.36%
2	GEO Group	21,066	252,796	4.30%
3	Adelanto Unified School District	6,358	76,301	1.30%
4	Desert View MCCF	5,740	68,876	1.17%
5	Victor Valley High School District	4,060	48,720	0.83%
6	Oasis Village	2,473	29,675	0.50%
7	Adelanto Spring Village	2,473	29,675	0.50%
8	Capri Mobile Home Park	2,051	24,607	0.42%
9	LADWP	1,850	22,200	0.38%
10	Northwest Pipe	1,033	12,401	0.21%
		<b>\$78,245</b>	<b>\$938,938</b>	<b>15.98%</b>

(1) Sewer Service Charge revenue for fiscal year 2013-14 was \$6,134,702.

Source: Adelanto Public Utility Authority.

### **Sewer Charges and Fees**

**General.** The Authority currently has three types of sewer charges:

- **Sewer Service Charges:** Sewer Service Charges are billed monthly to existing sewer customers who are connected to the Wastewater Enterprise. The Sewer Service Charges are billed on a joint utility bill with the Water Service Charges described in "THE WATER ENTERPRISE" below. Sewer Service Charges pay for the cost of the Authority to operate, manage and maintain the Wastewater Enterprise which are attributable to existing developed properties in the City. The Sewer Service Charges are available to pay debt service on the 2014 Bonds.
- **Sewer Availability Charges:** Sewer Availability Charges are levied on the property tax bills of vacant undeveloped properties which benefit from the availability of Wastewater Enterprise capacity. The Sewer Availability Charges are available to pay debt service on the 2014 Bonds.
- **Sewer Connection Fees.** Sewer Connection Fees are collected at the time new land users connect to the Wastewater Enterprise to pay for collection, treatment and disposal facilities needed to accommodate new development. The Sewer Connection Fees are available to pay debt service on the 2014 Bonds.

**Historical and Current Sewer Service Charges.** Historical Sewer Service Charges and the current Sewer Service Charges, which were adopted by APUA Resolution No. 09-05 on August 12, 2009, are set forth below. The rate increases were necessary because the Wastewater Enterprise's net revenues had been negative in recent fiscal years and were projected to remain negative in future fiscal years.

**Table No. 6  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
SEWER SERVICE CHARGES PER EDU**

<u>Current Applicable Period</u>	<u>Rate</u>	<u>% of Increase</u>
January 1, 2000 through June 30, 2000	\$9.45	5.00%
July 1, 2000 through June 30, 2001	9.73	2.96
July 1, 2001 through June 30, 2002	10.80	11.00
July 1, 2002 through August 31, 2009	11.43	5.83
September 1, 2009 through June 30, 2010	47.82	318.27
July 1, 2010 through June 30, 2011	50.79	6.21
July 1, 2011 through June 30, 2012	55.36	9.00
July 1, 2012 through June 30, 2013	61.06	10.30
July 1, 2013 through June 30, 2014	61.06	--
July 1, 2014 through June 30, 2015	61.06	--

*Source: Adelanto Public Utility Authority.*

**Comparative Sewer Service Charges.** The Authority's sewer service charges are higher than similar charges imposed by other public agencies in the region because the Authority owns and operates its own Wastewater Treatment Facility. The agencies listed below, other than the Authority, are members of a joint powers authority known as the Victor Valley Water Reclamation Authority ("VWRA"). VWRA is able to spread its costs across a much larger service area. The initial connection fee to the VWRA is \$4,000.00, as compared to the Authority's initial connection fee of \$3,050.00 per EDU.

Set forth in the following table is a list of sewer service charges imposed by other public agencies in the region.

**Table No. 7  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
COMPARATIVE SEWER SERVICE CHARGES  
AS OF OCTOBER 22, 2014**

<u>Provider</u>	<u>Rates</u>
Town of Apple Valley	\$31.43
City of Hesperia <sup>(1)</sup>	22.99
City of Victorville	24.45
<b>Adelanto Public Utility Authority</b>	<b>61.06</b>

(1) This charge based on averaging two months of service for the City of Hesperia.

*Source: Adelanto Public Utility Authority.*

**Sewer Availability Rates.** Pursuant to authorization contained in Section 38743 of the Government Code, prior to the approval of Proposition 218, a city could elect to fix, levy and collect sewer service standby or immediate availability rates on an annual basis. See “BOND OWNERS’ RISKS — Issues Relating to Articles XIIC and XIID of the California Constitution.” On October 6, 1996, the City Council adopted Ordinance No. 327U initially establishing Sewer Availability Rates.

Ordinance 327U establishes three areas of benefit within the City that are based upon the availability of sewer service. These areas are as follows:

Sewer Zone “A” includes all parcels of land within the City which are located within 660 feet of all existing Wastewater Enterprise lines. Land located within Sewer Zone “A” has current sewer availability to that land without substantial improvement being required.

Sewer Zone “B” includes all lands located within the City within a distance of 1,660 feet from the existing Wastewater Enterprise lines, provided, however, that all lands situated within Sewer Zone “A” is excluded from Sewer Zone “B.” Land located within Sewer Zone “B” has immediate sewer availability; however, a moderate capital improvement would be necessary in order to extend sewer service to this area.

Sewer Zone “C” includes all lands within the City which are located more than 1,660 feet from existing Wastewater Enterprise facilities and are not currently levied against.

Sewer Availability Rates are collected by the San Bernardino County Tax Collector on the ad valorem property tax bill. Moneys collected by the Tax Collector are apportioned to the Authority as they are collected. Ordinance 327U establishes a rate structure for each Zone for each fiscal year commencing in fiscal year 1996-97 and ending in fiscal year 2038-39. Set forth in the following table are the Sewer Availability Rates for fiscal years 2012-13 and 2013-14.

**Table No. 8  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
SEWER AVAILABILITY RATES PER ACRE<sup>(1)</sup>  
FISCAL YEARS 2012-13 AND 2013-14**

<u>Description</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
Zone “A” Acres	\$27.15	\$27.15
Zone “B” Acres	9.05	9.05
Zone “C” Acres	8.70	8.70

(1) Excludes pending annexation areas.  
Source: Adelanto Public Utility Authority.

**Comparative Sewer Availability Rates.** The Authority is currently the only public agency in the region to impose a sewer availability rate.

**Historical Sewer Availability Rate Revenue.** Set forth in the following table is a five-year history of Sewer Availability Rate revenue.

**Table No. 9  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
HISTORICAL SEWER AVAILABILITY RATE REVENUES  
FISCAL YEARS 2009-10 THROUGH 2013-14**

<u>Fiscal Year</u>	<u>Sewer Availability Rate Revenue</u>
2009-10	349,342
2010-11	342,450
2011-12	278,156
2012-13	366,102
2013-14 <sup>(1)</sup>	364,793

(1) Unaudited.  
Source: Adelanto Public Utility Authority.

**Sewer Connection Fees.** The Authority's current Sewer Connection Fees were adopted by Resolution No. 08-27 adopted on April 23, 2008. The following table lists the current Sewer Connection Fees. Sewer Connection Fee revenue is available to pay debt service on the 2009 Bonds because proceeds of the 2005 Bonds were used to finance capital improvements that will serve future development.

**Table No. 10  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
CURRENT SEWER CONNECTION FEE <sup>(1)</sup>**

<u>Description</u>	<u>Total</u>
Adelanto Connection Fee/EDU	\$3,050

(1) Based on 17 fixture units per EDU.  
Source: Adelanto Public Utility Authority.

**Comparative Sewer Connection Fees.** Set forth in the following table is a list of Sewer Connection Fees charged by other public agencies in the region.

**Table No. 11  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
COMPARATIVE SEWER CONNECTION FEE  
(as of July 1, 2014)**

<u>Provider</u>	<u>Sewer Connection Fee</u>
VWVRA <sup>(1)</sup>	\$4,000 per EDU

(1) Includes City of Victorville, City of Hesperia, Town of Apple Valley and various unincorporated County Service Areas.  
Source: Adelanto Public Utility Authority and VWVRA website.



**Historical Sewer Connection Fee Revenue.** Set forth in the following table is a five-year history of Sewer Connection Fee revenue.

**Table No. 12  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
HISTORICAL SEWER CONNECTION FEE  
FISCAL YEARS 2009-10 THROUGH 2013-14**

<u>Fiscal Year</u>	<u>Sewer Connection Fee Revenue</u>
2009-10	\$ 157,772
2010-11	1,615,953
2011-12	581,056
2012-13	98,602
2013-14	326,212

*Source: Adelanto Public Utility Authority.*

**Sewer Service Charge Billing and Collections.** Sewer Service Charges are billed monthly on a joint bill with Water Service Charges. By Resolution No. 14-01, adopted by the Board on March 26, 2014, the Authority established policies and procedures governing the administration of water and sewer service customer accounts, including security deposits, late penalties and past-due or unpaid accounts. In general, accounts are considered past-due 20 days after the monthly bill was mailed. The Authority will notify customers with past-due bills that they have 10 days to pay the account in full before service may be terminated; the due date will be 15 days from the date of mailing. Customers may request a time extension for payment. If the account is not paid in the 15-day period, service will terminate in 7 days, and the Authority sends the customer a final disconnection notice. Late penalties are assessed at the time of the final disconnection notice.

**Sewer Service Charge Delinquencies.** Set forth in the following table is a five-year history of billings for fiscal years 2009-10 through 2013-14 and the cumulative balance of unpaid amounts at June 30 of those fiscal years.

**Table No. 13  
ADELANTO PUBLIC UTILITY AUTHORITY  
WASTEWATER ENTERPRISE  
SEWER SERVICE CHARGE BILLINGS AND COLLECTIONS  
FISCAL YEARS 2009-10 THROUGH 2013-14**

<u>Fiscal Year</u>	<u>Total Sewer Service Charge Levied</u>	<u>60+ Day Delinquency at June 30<sup>(1)</sup></u>
2009-10	\$3,846,217	\$87,948
2010-11	4,904,682	213,544
2011-12	5,462,814	395,091
2012-13	5,947,178	502,206
2013-14 <sup>(2)</sup>	6,090,115	599,284

(1) Outstanding delinquent amounts include cumulative unpaid amounts for all previous fiscal years. The Authority cannot provide fiscal year-specific delinquency amounts.

(2) Unaudited.

*Source: Adelanto Public Utility Authority.*

### **Capital Improvement Plan**

The Authority currently has plans to undertake capital improvement projects for the Wastewater Enterprise, which include construction of sewer relief piping, spare sludge pumps, lift stations, a solids loader, electrical upgrades, and manhole servicing. The estimated cost of the planned improvements which the Authority expects to fund with proceeds of the 2014 Bonds is \$478,000.

### **Historical Revenues and Expenses**

Set forth in the following table is a five-year history of the Wastewater Enterprise's revenues and expenses, including the Wastewater Enterprise's Proportionate Share of debt service on the 2005 Bonds and the 2009 Bonds.

**Table No. 14**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WASTEWATER ENTERPRISE**  
**HISTORICAL REVENUES AND EXPENSES**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

	<u>2009-10<sup>(1)</sup></u>	<u>2010-11<sup>(1)</sup></u>	<u>2011-12<sup>(1)</sup></u>	<u>2012-13<sup>(1)</sup></u>	<u>2013-14<sup>(1)</sup></u>
<b>Operating Revenues</b>					
Sewer Service Charges <sup>(2)</sup>	\$3,846,217	\$4,904,682	\$5,244,480	\$5,876,659	\$6,045,044
Sewer Availability Rates	349,342	342,450	278,156	366,102	364,793
Sewer Connection Fees	157,772	1,615,953 <sup>(3)</sup>	581,056	98,602	326,212
Other Revenue	-	-	-	913 <sup>(4)</sup>	270,966
<b>Total Operating Revenues</b>	<u>\$4,353,331</u>	<u>\$6,863,085</u>	<u>\$6,103,692</u>	<u>\$6,342,275</u>	<u>\$7,007,015</u>
<b>Operating Expenses</b>					
Personnel & Contract Services	\$1,247,790	\$1,406,078	\$1,618,812	\$1,056,698	\$176,536 <sup>(5)</sup>
Operating Costs	570,765	1,149,819	1,255,069	1,093,828	1,556,229
Utilities	211,734	256,813	184,317	203,940	220,897
Administration	251,161	63,197	280,932	25,020	176,470
Depreciation	251,432	251,432	251,432	674,652	674,653
<b>Total Operating Costs</b>	<u>\$2,532,882</u>	<u>\$3,127,339</u>	<u>\$3,590,562</u>	<u>\$3,054,138</u>	<u>\$2,804,785</u>
<b>Net Wastewater Revenues</b>	<u>\$1,820,449</u>	<u>\$3,735,746</u>	<u>\$2,513,130</u>	<u>\$3,288,137</u>	<u>\$4,202,230</u>
<b>Non-Operating Revenues (Expenses)</b>					
Interest Revenue	\$83,058	\$80,529	\$80,359	\$78,862	\$78,510
Interest Expense & Fiscal Charges <sup>(6)</sup>	(2,868,442)	(2,243,169)	(2,352,888)	(2,342,037)	(2,325,815)
Amortization	(249,818)	(249,818)	(132,249)	(132,249)	(132,249)
Miscellaneous Revenues (Expenses)	-	-	(1,854,840) <sup>(7)</sup>	(1,326,948) <sup>(7)</sup>	155,766 <sup>(8)</sup>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>\$(3,035,203)</u>	<u>\$(2,412,459)</u>	<u>\$(4,259,618)</u>	<u>\$(3,722,372)</u>	<u>\$(2,223,788)</u>
<b>Net Wastewater Results</b>	<u>\$(1,214,754)</u>	<u>\$1,323,288</u>	<u>\$(1,745,488)</u>	<u>\$(434,234)</u>	<u>\$1,978,442</u>
<b>Transfer from the City<sup>(9)</sup></b>	-	-	-	-	\$94,247
<b>Transfer to the City</b>	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>
<b>Change in Net Assets</b>	<u>(1,339,754)</u>	<u>\$1,198,287</u>	<u>\$(1,871,488)</u>	<u>\$(559,234)</u>	<u>1,947,689</u>
<b>Beginning Balance</b>	<u>\$(2,916,560)</u>	<u>\$(3,531,667)</u>	<u>\$(2,333,380)</u>	<u>\$(4,204,868)</u>	<u>\$536,627</u>
<b>Prior Period Adjustments</b>	<u>724,647</u>	<u>-</u>	<u>-</u>	<u>5,300,730</u>	<u>(9,205,107)</u>
<b>Beginning Balance (Restated)<sup>(10)</sup></b>	<u>(2,191,913)</u>	<u>-</u>	<u>-</u>	<u>1,095,862</u>	<u>(8,668,480)</u>
<b>Ending Balance</b>	<u>\$(3,531,667)</u>	<u>\$(2,333,379)</u>	<u>\$(4,204,868)</u>	<u>\$536,628</u>	<u>\$(6,720,791)</u>

(1) Based on Audited Financial Statements from fiscal years 2009-10 through 2013-14.

(2) Reflects amounts levied less assumed bad debt collections. Does not reflect actual collections.

(3) Sewer connection fees were unusually high in fiscal year 2010-11 due to the connection of a prison and new high school.

(4) Reflects a one-time efficiency rebate from Southern California Edison.

(5) Reduced contract costs reflect termination of diversion of wastewater to VVWRA when upgrades to the treatment plant became operational.

(6) Reflects the payment of interest on the 2005 Bonds and 2009 Bonds.

(7) Loss on Settlement agreement, which is not considered a cash expense.

(8) Miscellaneous Revenues are from a settlement of a FINRA case.

(9) Reflects a loan from a special fund of the City to the Authority to fund the purchase of financial and billing software.

(10) Reflects prior year adjustments.

Source: City of Adelanto Finance Department.

## Historical Debt Service Coverage

The following table presents historical debt service coverage based on Net Wastewater Revenues. The following table does not reflect the Wastewater Purchase Payments because they are payable from Surplus Revenues on a subordinate basis to the 2009 Bonds and the 2014 Bonds.

**Table No. 15**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WASTEWATER ENTERPRISE**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2009-10 THROUGH 2013-14 (AUDITED)**

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14
<b>Net Wastewater Revenues<sup>(1)</sup></b>	\$2,155,079	\$4,067,707	\$2,844,921	\$4,041,652	\$5,111,159
<b>Debt Service</b>					
2005 Bonds <sup>(2)</sup>	2,173,644	-	-	-	-
2009 Bonds <sup>(3)</sup>	-	2,027,667	1,978,212	2,446,309	2,445,284
<b>Total Debt Service</b>	\$2,173,644	\$2,027,667	\$1,978,212	\$2,446,309	\$2,445,284
<b>Debt Service Coverage</b>	0.99	2.01	1.44	1.65	2.09

(1) Net Wastewater Revenues is equal to "Net Wastewater Revenues" as shown in Table No. 14 plus depreciation, plus interest earnings and plus non-operating miscellaneous revenues. Excludes non-operating miscellaneous expenses which are subordinate to debt service.

(2) The 2005 Bonds have been fully defeased.

(3) Excludes interest earnings from amounts in the Debt Service Reserve Account.

Source: Adelanto Public Utility Authority.

## Projected Debt Service Coverage

Set forth in the following table is a projection of the revenues, expenses and debt service coverage of the Wastewater Enterprise. The projections are based on the following assumptions:

Growth: The projections assume an average of 8,165 EDUs in fiscal year 2014-15 and the addition of 54 EDUs per year thereafter. The projections assume Sewer Availability Charge revenue of \$340,000 per year; as land in the City is developed, Sewer Availability Charge revenue will decline.

Delinquencies: The projections assume 100% collections, and also assume revenue from delinquency penalties or reconnection fees of \$165,000 per year. See " – Sewer Charges and Fees" above.

Interest earnings: The projections assume 6.5% interest earnings on reserve funds as the result of a guaranteed investment contract.

Rate adjustments: With respect to Wastewater Enterprise charges, the projections assume rates will be consistent with the rates described in " – Sewer Charges and Fees" above. See Table No. 6 – "SEWER SERVICE CHARGES PER EDU" and "BOND OWNERS' RISKS – City Demographics."

Expenses: It is assumed annual operation and maintenance expenses of the Wastewater Enterprise will increase by an expenditure growth rate of 2%.

Debt Service: The projections assume no debt service through the remainder of fiscal year 2013-14 because the Authority will not make a debt service payment on the 2014 Bonds during that period.

These projections are based upon the Authority's current circumstances and probable occurrence of certain future events that the Authority believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such projections will be achieved. Actual results may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented and such variations may be material (see "BOND OWNERS' RISKS"). Additional rate increases may become necessary in the future in order for the Authority to comply with provisions of the Indenture.

The projections are based on the Authority's fiscal year 2014-15 budget, which was based on the Authority's fiscal year 2012-13 audited financial statements with appropriate revisions for changes in the Authority's staffing and other relevant considerations. The actual results of fiscal year 2013-14, which are currently unaudited, are consistent with the projections shown in the following table.

**Table No. 16**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WASTEWATER ENTERPRISE**  
**PROJECTED DEBT SERVICE COVERAGE <sup>(1)</sup>**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<b>Operating Revenues</b>					
Sewer Service Charges	\$5,662,826	\$5,702,393	\$5,741,960	\$5,781,527	\$5,821,094
Sewer Availability Rates	-	164,700	164,700	164,700	164,700
Connection Fees <sup>(2)</sup>	340,000	340,000	340,000	340,000	340,000
Fines, Forfeitures & Penalties	165,000	165,000	165,000	165,000	165,000
Other Revenue	370,966	-	-	-	-
Interest	80,000	80,000	80,000	80,000	80,000
<b>Total Operating Revenues</b>	<b>\$6,618,792</b>	<b>\$6,452,093</b>	<b>\$6,491,660</b>	<b>\$6,531,227</b>	<b>\$6,570,794</b>
<b>Operating Expenses</b>					
Facilities and Maintenance	\$661,464	\$674,694	\$688,188	\$701,951	\$715,990
Purchase of Power	200,000	204,000	208,080	212,242	216,487
Consulting and Outside Services	1,025,000	1,045,500	1,066,410	1,087,738	1,109,493
Other Operating Expenses	70,644	72,057	73,498	74,967	76,467
General and Administrative	250,000	255,000	260,100	265,302	270,608
<b>Total Operating Expenses</b>	<b>\$2,207,108</b>	<b>\$2,251,251</b>	<b>\$2,296,276</b>	<b>\$2,342,200</b>	<b>\$2,389,045</b>
<b>Net Sewer Revenues</b>	<b>\$4,411,684</b>	<b>\$4,200,842</b>	<b>\$4,195,384</b>	<b>\$4,189,027</b>	<b>\$4,181,749</b>
<b>Debt Service</b>					
Series 2009 Debt Service	\$2,445,530	\$2,446,291	\$2,445,340	\$2,445,135	\$2,447,102
Series 2014 Debt Service (Ambac)	-	434,474	435,125	435,500	435,125
Series 2014 Debt Service (Capital)	-	27,326	27,250	27,250	27,250
<b>Total Debt Service</b>	<b>\$2,445,530</b>	<b>\$2,908,091</b>	<b>\$2,907,715</b>	<b>\$2,907,885</b>	<b>\$2,909,477</b>
<b>Debt Service Coverage</b>	<b>1.80</b>	<b>1.44</b>	<b>1.44</b>	<b>1.44</b>	<b>1.44</b>

(1) Based on the Adopted Budget for fiscal year 2014-15 and other projected assumptions.

(2) Assumes approximately 216 single family residential connections coming on line, approximately 54 per year, during fiscal years 2015-16 through 2018-19 from a new development.

## THE WATER ENTERPRISE

### Description

The Water Enterprise, identified as No. 36-0001 with the State of California Office of Drinking Water, was issued Water Permit No. 03-93-037, in January of 1993. The Water Enterprise consists of 14 operating wells, 1 iron and manganese treatment plant, four booster stations that transmit water from lower to upper pressure zones, four pressure-reducing stations that transfer water from upper pressure zones to lower zones, a pipeline distribution system, 7 storage reservoirs and 2 emergency interties with the Victorville Water District, which serve the residents of 3 separate pressure zones.

### Service Area

The Water Enterprise provides water service within the City limits. All service connections are metered. See “Water Enterprise Customers” below.

### Sources of Supply

**General.** The Authority pumps water from underground storage areas called aquifers located within the City and along the Mojave River. These aquifers are recharged naturally by rainfall. Because the Upper Mojave River Ground Water Basin is in overdraft condition<sup>(2)</sup>, which has resulted in a declining groundwater table, the Authority will need to develop alternative water sources in the foreseeable future. Connection to the Mojave River Water Pipeline (which carries State Water Project water) and a new water treatment plant are expected to be additional sources, but others may be required. With approved and tentative tract maps, maximum day demand (“**MDD**”) is approximately 12,163 GPM, while available maximum supply is 6,718 GPM. Consequently, future growth will also create demand for additional supply and storage.

**Mojave River Basin.** The Water Enterprise’s current water supply consists of certain rights in the Mojave River Basin pursuant to a judgment (the “**Mojave Judgment**”) rendered by the California Superior Court in a case entitled *City of Barstow, et al., v. City of Adelanto, et al.* (1996) (the “**Mojave Adjudication Case**”). In addition, the City has purchased certain water rights from an individual in the area governed by the Mojave Adjudication Case, and it is anticipated that the Authority may purchase water from other sources in the future.

The Mojave Judgment found that historical natural inflow to the Mojave area groundwater basins were insufficient to meet current and projected future demands on the supply of groundwater and divided the Mojave area into six hydrologically interrelated Subareas, each of which was found to be overdrafting groundwater. The City draws water from the Alto and Alto Transitional Zone subareas. In addition, some Subareas were found historically to have received at least a part of their natural water supply as surface or subsurface water flowing to them from Subareas located upstream on the Mojave River. To maintain that historical relationship, the average annual obligation of any Subarea to another is set equal to the estimated average annual natural flow (excluding storm flow) between the Subareas over the 60 year period from 1930-31 through 1989-90. If the Subarea obligation is not met, producers of water in the upstream Subarea must provide additional water referred to as “Makeup Water” to the downstream Subarea.

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<sup>2</sup> Overdraft is a condition in which the total annual consumptive use of water exceeds the long-term average annual water supply.

To maintain proper water balances within each Subarea, the Judgment establishes a Base Annual Production and a Free Production Allowance<sup>(3)</sup> in each Subarea, subject to review and adjustment by the court. The Free Production Allowance is allocated among the water producers in each Subarea based on each producer's percentage share of the Free Production Allowance. All water produced in excess of any producer's share of the Free Production Allowance must be replaced by such producer, either by payment to the Watermaster (which is the entity responsible for administering the Mojave Adjudication Case, currently the Mojave Water Agency) of funds sufficient to purchase replacement water, or by transfer of unused Free Production Allowance from another producer. The Mojave Water Agency imports water from the State Water Project to meet the replacement obligation amounts.

The Authority's Base Annual Production and Free Production Allowance are 4,366 AFY and 2,620 AFY, respectively (the current Free Production Allowance for the Authority is set at 60% of the Base Annual Production).

Water pumped in excess of the Free Production Allowance is subject to a charge by the Watermaster, which is the entity responsible for administering the Mojave Adjudication Case (currently, the Mojave Water Agency); the charge is \$448/acre foot for fiscal year 2013-14 (see "Water Enterprise Customers – *Historical Water Consumption*" below). The Authority currently pumps water in excess of its Free Production Allowances.

In the event that the Authority requires water in excess of the available Free Production Allowance, the Authority may pump additional water and either acquire Free Production Allowance from another producer for the applicable production year or pay a replacement assessment to the Mojave Water Agency for the water pumped in excess of the available Free Production Allowance. Under the rules and regulations of the Watermaster, any unused Free Production Allowance may be carried over and accumulated for one year and the first water produced in the succeeding year is deemed to have been produced from the carryover water.

In accordance with the Mojave Judgment, each year the Watermaster may prepare a report that includes a recommendation for an adjustment of the Free Production Allowance. Further ramp down of the Free Production Allowance would increase the replacement assessments due to the Watermaster.

**Emergency Water Supplies.** During normal water system operation, there are no transfer exchanges of water within the Authority's service area. However, the Authority has two available emergency interties, both with the Victorville Water District. One intertie is a two-way connection from which the Authority and the Victorville Water District can both obtain and provide water; the second intertie only allows one way flow from the Victorville Water District to the Authority. The Authority only uses these interties on rare occasions with the last significant use coming in 2008 when it was used to fill the Authority's new 5 MG reservoir.

**Reliability of Water Supply.** The Southern California region faces a challenge in satisfying demands and securing firm water supplies. Increased environmental regulations and the competition for water from outside the region have exacerbated these challenges. Continued population and economic growth has also led to increased regional water demands, which results in larger demands on local supplies.

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<sup>3</sup> "Free Production Allowance" is defined in the Mojave Judgment as the total amount of water that may be produced by any entity with rights to water free of a "Replacement Obligation." Replacement Obligation is defined in the Mojave Judgment as the obligation of an entity to pay for replacement water as a result of the production of water in excess of that entity's Free Production Allowance.



Because of the Authority’s total reliance on groundwater, the reliability of the Authority’s water supply is entirely dependent on the reliability of the groundwater in the Mojave River Basin managed by the Mojave Water Agency.

Almost all of the water used within the Mojave Water Agency’s service area is supplied by pumped groundwater. To supplement the local groundwater supplies, the Mojave Water Agency recharges the groundwater basins with State Water Project imported water, natural surface water flows, wastewater imports from outside the Mojave Water Agency’s service area, agricultural depletion from storage, and return flow from pumped groundwater not consumptively used.

On or about June 4, 2014, the Mojave Water Agency issued revenue bonds (the “**2014 MWA Bonds**”). In connection with the issuance of the 2014 MWA Bonds, the Mojave Water Agency prepared an official statement dated May 21, 2014 (the “**MWA Official Statement**”). The MWA Official Statement includes a discussion of the Mojave Water Agency’s water sources and the impact of drought conditions and environmental restrictions in a section of the MWA Official Statement entitled “THE AGENCY.” Although the Authority believes the Mojave Water Agency is the best source of information about the Mojave Water Agency’s water sources and operational plans, and, therefore, encourages potential investors to review the MWA Official Statement, the Authority can provide no assurances as to the accuracy, completeness or timeliness of the MWA Official Statement. The MWA Official Statement is available on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system.

See “BOND OWNERS’ RISKS - Drought Conditions.”

**Wells.** The Authority currently produces water from 14 wells. The following table provides a summary of the wells of the Water Enterprise.

**Table No. 17  
ADELANTO PUBLIC UTILITY AUTHORITY  
WATER ENTERPRISE  
WELL CAPACITIES – OPERATED  
as of October 27, 2014**

<b><u>Well Number</u></b>	<b><u>Capacity (MGD)</u></b>	<b><u>Source</u></b>
Well No. 1G	309,600	River Underflow
Well No. 2G	Out of Service	River Underflow
Well No. 3G2	Off for Repair	River Underflow
Well No. 4G	1,173,600	River Underflow
Well No. 6G	Out of Service	River Underflow
Well No. 8G2	763,200	River Underflow
Well No. 2	Out of Service	River Underflow
Well No. 4	288,000	Ground Water
Well No. 5A	Off for Repair	Ground Water
Well No. 6	288,000	Ground Water
Well No. 7	397,440	Ground Water
Well No. 8A	Out of Service	Ground Water
Well No. 14	Out of Service	River Underflow
Well No. 14A	<u>1,036,800</u>	River Underflow
Total Capacity of Wells <sup>(1)</sup>	<u>4,256,640</u>	

<sup>(1)</sup> Total capacity of wells currently in service.  
Source: Adelanto Public Utility Authority.

**Sufficiency of Water Supply.** See “BOND OWNERS’ RISKS – Availability of Water” for a discussion of the risks associated with the Authority’s water supply.

## **Water Storage, Distribution and Treatment**

Because ground water from the Mojave River is the primary source of water for the Authority, the Authority constantly maintains, services and rehabilitates its wells to ensure a safe, clean and reliable source of water. Should two or more wells go offline at the same time the Authority has contingency plans in place to avoid a material impact on the Authority’s water supply. These plans include but are not limited to the intertie with the Victor Valley Water District, monitoring tank levels, curtailment of construction water and public notification. Set forth below is a description of the water storage, distribution and treatment system of the Water Enterprise assuming that all wells are operational at the same time.

**Water Storage Reservoirs and Pumping Facilities.** The Authority owns and maintains five storage reservoirs for a combined storage capacity of 16.75 million gallons. All are coated steel tanks at ground level, with pumps and apparatuses adjacent to supply water to the Water Enterprise. The Water Enterprise is divided into three pressure zones, south (Zone 1), central (Zone 2), and north (Zone 3).

The 0.75 MG tank receives water from Wells Nos. 4, 5A and 14A and is equipped with a top inlet and two bottom outlets. The outlets feed Booster Station #2, adjacent to the 0.75 MG tank. The concrete block structure houses three 75 HP pumps capable of pumping 800 gpm and three 150 HP pumps capable of pumping 1500 gpm. Booster Station #2 pumps water up to the two 3 MG tanks.

The two 3 MG tanks receive water from Wells Nos. 6, 7, 8 and 8a and Booster Station #2. Water outflow serves pressure Zone 2, pressure Zone 3 through five reducing valve stations, and Booster Station #3, which is adjacent to the two 3 MG tanks. Booster Station #3 is a concrete block structure containing three 150 HP pumps with a capacity of 2,000 gpm each.

Booster Station #3 pumps water up to the three 5 MG tanks. Discharge from these tanks serves Zone 1. A manual bypass at Booster Station #3 with a pressure reducing valve allows water to flow from the three 5 MG tanks back to the two 3 MG tanks in emergency situations. The Authority also has one of its intertie connections with the Victorville Water District located at the 5MG tank site.

**Pressure Zones and Distribution System.** The three pressure zones, from highest to lowest, correspond roughly to the southern, central, and northern parts of the City. The southern part, Zone 1, extends from Holly Road south to Palmdale Road and includes the City’s Industrial Park III. The central part, Zone 2, extends from Air Base Road south to Holly Road. The northern part, Zone 3, extends north of Air Base Road. Zone 1 has elevations ranging from 3,200 to 3,030 feet, the Zone 2 has elevations ranging from 3,030 to 2,910 feet, and Zone 3 has elevations ranging from 2,910 to 2,800 feet. Pressure within Zone 1 and Zone 3 is 60-125 pounds per square inch (psi) while pressure in Zone 2 is 50-125 psi.

The upper pressure zone, Zone 1, is fed by three 5 MG tanks. Approximately 4,131 service connections are served by pressure Zone 1. The middle pressure zone, Zone 2, is fed by the three MG tanks and Wells Nos. 6, 7, and 8a, and Booster Station #2. Approximately 183 service connections are directly served by Pressure Zone 2. The lower pressure zone, Zone 3, is fed by the two 3 MG tanks through five pressure reducing stations. The locations of these stations are Air Expressway and Raccoon, Bellflower and Air Expressway, Booster Station #2, and Adelanto Road and Verbena Road. Approximately 1,913 service connections are served by Pressure Zone 3.

The distribution system has polyvinyl chloride (PVC) (72%), ductile iron (6%), asbestos cement (4%), and cement lined steel pipes (18%). Repairs are made with PVC.

**Treatment.** In 2001, the State of California Department of Public Health (the “CDPH”) conducted a source water assessment of the City’s water wells. The purpose of the assessment was to determine the vulnerability of the wells to “possible contaminating activities.” Based on this assessment, at this time no treatment is required for nitrate because the level is below the applicable maximum contaminant level (45 mg/L). Water blending is required for fluoride adjustment from Wells 4 and 5A, and filtration treatment is required for iron and manganese for wells 1G, 2G, 3G, 4G, 5G, 6G and 8G. In 2004, the Authority constructed an 11.6 MGD treatment plant that removes iron and manganese from its water. Water from nine wells passes through the iron manganese treatment plant. The presence of certain inorganic constituents (such as iron, manganese, arsenic, etc.) and new water quality standards will require well-head treatment at some wells and that will increase the capital and operating cost of those wells.

### **Water Enterprise Regulatory Requirements**

**General.** The applicable drinking water standards for the Water Enterprise are provided in the California Domestic Water Quality and Monitoring Regulations, Title 22 of the California Administrative Code. These regulations incorporate the requirements of the U.S. Environmental Protection Agency in conformance with the Safe Drinking Water Act (PL 93-523). The standards specify water quality sampling frequencies and location as well as maximum concentrations of chemical constituents and are continuously revised and amended.

The Authority is not aware of any environmental or regulatory issues that would adversely impact its ability to deliver water.

**SB X7-7.** In 2008, in response to worsening water supply conditions, Governor Schwarzenegger ordered retail water suppliers statewide to reduce water use 20% by 2020 and by 10% by 2015. Senate Bill X7-7 (California Water Code, Section §10608 (e)), which was adopted by the Legislature in November 2009, implemented the Governor’s order and set up the regulatory framework that suppliers will follow to achieve the targeted water savings by 2020.

These targets, which allow credits for past water conservation efforts, are established by calculating baseline averages based on water usage from the most advantageous ten-year period occurring over the last 15 years. The Authority’s baseline average water usage from 1996-2005 (the most advantageous ten-year period) was 321.8 gallons per capita per day (gpcd). By analyzing the data using a number of allowable alternative methods, the Authority’s conservation targets for 2015 and 2020 have been established at 262.9 gpcd and 203.9 gpcd, respectively.

As a result of conservation efforts, the Authority has already met the 2015 water conservation target for the past eight years (2003 – 2010) and has met the 2020 target for the past four years (2007 – 2010). Despite already meeting its 2015 and 2020 targets, the City will continue to encourage water conservation through a variety of means.

## Water Enterprise Customers

**Historical Customer EDUs.** The following table summarizes the historical number of customer EDUs for fiscal years 2009-10 through 2013-14.

**Table No. 18**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**HISTORICAL WATER EDUs**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

<u>Fiscal Year Ending</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Residential	7,391	7,404	7,404	7,404	8,269
Multifamily	843	843	843	843	843
Industrial/Commercial	758	758	758	758	758
Correctional Facility	887	887	887	887	887
Schools	300	300	300	300	300

*Source: Adelanto Public Utility Authority.*

**Largest Customers.** Set forth in the following table is a list of the 10 largest customers of the Water Enterprise in fiscal year 2013-14 based on revenue.

**Table No. 19**  
**WATER ENTERPRISE**  
**TEN LARGEST WATER CUSTOMERS**  
**FISCAL YEAR 2013-14**

<u>Rank</u>	<u>User</u>	<u>Annual Usage</u>	<u>Average Monthly Charge</u>	<u>Annual Billing</u>	<u>% of Total Revenue<sup>(1)</sup></u>
1	Victor Valley High School District	63,478	\$13,522	\$162,264	2.30%
2	Geo Group	58,904	13,209	158,507	2.24
3	Adelanto Unified School District	39,387	7,524	90,294	1.28
4	Desert View MCCF	28,445	6,227	74,730	1.06
5	San Bernardino County	28,211	5,170	62,038	0.88
6	LADWP	28,158	4,747	56,966	0.81
7	Capri Mobile Home Park	13,661	4,575	54,901	0.78
8	Oasis Village	7,941	2,579	30,954	0.44
9	Adelanto Spring Village	7,765	2,491	29,886	0.42
10	Northwest Pipe	5,990	2,098	25,177	0.36
		281,940	\$62,143	\$745,715	10.57%

(1) Total fiscal year 2013-14 water service charge revenue: \$7,063,606.

*Source: Adelanto Public Utility Authority.*

**Water Service Charges and Fees**

**Water Service Charges.** The following tables list the current Water Services Charges, which were adopted by Resolution No. 09-05 on August 12, 2009.

**Table No. 20a  
ADELANTO PUBLIC UTILITY AUTHORITY  
WATER ENTERPRISE  
BASE MONTHLY SERVICE RATE**

<u>Meter Size</u>	<u>Effective July 1, 2014</u>
Base Rate Service Charge - Monthly	
3/4"	\$26.50
1"	44.26
1 1/2"	88.25
2"	141.25
3"	265.00
4"	441.76
Residential	
Commodity Charge (Per CCF)	
Tier 1	\$2.40
Tier 2	3.40
Tier 3	4.40
Commercial/Industrial/School	
Commodity Charge (Per CCF)	\$2.40
Lifeline <sup>(1)</sup>	
Base Rate	\$13.38
Bulk Water	
Per 1,000 gallon	\$11.65

(1) A lifeline rate is established for senior citizens/handicapped. Elderly is a person 65 years and older with an annual income that meet the HUD guidelines for low income. Handicapped is a person who is protected under the Americans with Disabilities Act with an annual income that meets the HUD guidelines for low income.

Source: Adelanto Public Utility Authority.

**Table No. 20b  
ADELANTO PUBLIC UTILITY AUTHORITY  
WATER ENTERPRISE  
MONTHLY WATER USAGE (COMMODITY) RATES**

<u>Tier</u>	<u>Effective September 1, 2009</u>	<u>Effective July 1, 2010</u>	<u>Effective July 1, 2011</u>	<u>Effective July 1, 2012</u>
1	1-20 \$1.25	1-15 \$2.40	1-15 \$2.40	1-15 \$2.40
2	21-35 2.16	16-25 3.40	16-25 3.40	16-25 3.40
3	36 and up 2.50	26 and up 4.40	26 and up 4.40	26 and up 4.40

- (1) Unit of water is equal to 1 hundred cubic feet of water or 748 gallons.
- (2) The number of units in each Tier will vary from the above based on meter size.
- (3) All commercial/industrial properties will be charged in Tier 1 for all water used.

**Comparative Water Service Charges.** Set forth in the following table is a list of water service charges imposed by other local agencies in the region.

**Table No. 21  
ADELANTO PUBLIC UTILITY AUTHORITY  
WATER ENTERPRISE  
COMPARATIVE AVERAGE MONTHLY RESIDENTIAL WATER BILLINGS  
(As of November 4, 2014)**

Each meter purchased is subject to a \$1,350.00 Water Acquisition fee that is not included in the price of the water meter. Meters of special size or special usage are billed at cost, labor, plus 25 percent. The comparative data shown below is of limited value because (i) the other agencies do not have monthly averages readily available and (ii) some of the agencies utilize a flat rate and others a tiered rate for water usage.

*Average Monthly Consumption (in gallons):*  
*Gallons per cubic foot:*  
*Average Monthly Consumption (in cubic feet):*

<b>Local Agency</b>	<b>Base Flat Fee</b>	<b>Basic Rate per 100 cubic feet</b>
City of Hesperia	19.64 <sup>(1)</sup>	0.90
City of Victorville	16.50	1.47
Apple Valley Ranchos	22.84	2.48
<b>Adelanto PUA (FY 2012-13)</b>	<b>26.50</b>	<b>2.40</b>

(1) This charge based on averaging two months of service for the City of Hesperia.  
 Source: Adelanto Public Utility Authority.

**Water Connection Fee and Water Acquisition Fee.** The Water Connection Fee was established in 1995 by City Resolution No. 95-91. The current Water Connection Fee was established by Resolution No. 08-27 adopted on April 23, 2008. The adopted fees are: \$5,800 per EDU for fiscal year 2008-09, \$7,000 per EDU for fiscal year 2009-10, \$8,265 for fiscal year 2010-11, and thereafter. Water Connection Fee revenue is available to pay debt service on the 2014 Bonds.

The Water Acquisition Fee was established in 2002 by Authority Ordinance No. 4. The current Water Acquisition Fee is \$1,350 per EDU. The Water Acquisition Fee is available to pay debt service on the 2014 Bonds.

The following table lists the current Water Connection Fee and Water Acquisition Fee.

**Table No. 22**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**WATER METER INSTALLATION CHARGES**

<b>Meter Size</b>	<b>Water Connection Fee</b>	<b>Water Acquisition Fee</b>	<b>Total</b>
¾ inch meter size	\$ 3,350.31	\$ 1,350.00	\$ 4,700.31
1 inch meter size	4,187.96	1,350.00	5,537.96
1 1/2 inch meter size	5,025.44	1,350.00	6,375.44
2 inch meter size	11,865.63	1,350.00	13,215.63
3 inch meter size	12,799.26	1,350.00	14,149.26
4 inch meter size	14,901.09	1,350.00	16,251.09

*Source: Adelanto Public Utility Authority.*

**Historical Water Connection Fees and Water Acquisition Fees.** Set forth in the following table is a five-year history of revenues generated as a result of the levy of the Water Connection Fees and Water Acquisition Fees.

**Table No. 23**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**HISTORICAL WATER CONNECTION FEE AND WATER ACQUISITION FEE REVENUE**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

<b>Fiscal Year</b>	<b>Water Connection Fee Revenue</b>	<b>Water Acquisition Fee Revenue</b>
2009-10	\$133,400	\$483,000
2010-11	56,808	2,700
2011-12	768,645	-
2012-13	74,385	231,420
2013-14	131,318	368,619

*Source: Adelanto Public Utility Authority.*

**Water Availability Charges.** Pursuant to authorization contained in Section 38743 of the Government Code, prior to the approval of Proposition 218, a City could elect to fix, levy and collect water service standby or immediate availability charges on an annual basis. See “BOND OWNERS’ RISKS — Articles XIIIC and XIID of the California Constitution.” On April 8, 1975, the City Council adopted Resolution No. 75-8 initially establishing Water Availability Charges. The Water Availability Charges are available to pay debt service on the 2014 Bonds.

Ordinance No. 326U, adopted on October 6, 1996, establishes three areas of benefit within the City that are based upon the availability of water service. These areas are as follows:

Water Zone “A” includes all parcels of land within the City which are located within 660 feet of all existing Water Enterprise lines. Land located within Water Zone “A” has current immediate water availability to that land without substantial improvement being required.

Water Zone “B” includes all lands located within the City within a distance of 1,660 feet from the existing Water Enterprise lines, provided, however, that all lands situated within Water Zone “A” are excluded from Water Zone “B.” Land located within Water Zone “B” has

immediate water availability, however, a moderate capital improvement would be necessary in order to extend water service to this area.

Water Zone "C" includes all lands within the City which are located more than 1,660 feet from existing Water Enterprise facilities.

Water Availability Charges are collected by the San Bernardino County Tax Collector on the *ad valorem* property tax bill. Moneys collected by the Tax Collector are apportioned to the Authority as they are collected.

The following table sets forth the Water Availability Charges for fiscal years 2011-12 and 2012-12, which were adopted on October 6, 1996 pursuant to Ordinance No. 326U. Ordinance No. 326U establishes a rate structure for each Zone for each fiscal year commencing in Fiscal Year 1996-97 and ending in Fiscal Year 2038-39.

**Table No. 24  
ADELANTO WATER AUTHORITY  
WATER ENTERPRISE  
WATER AVAILABILITY CHARGES  
FISCAL YEAR 2011-12 AND 2012-13**

	<u>Fiscal Year 2012-13</u>	<u>Fiscal Year 2013-14</u>
<u>Zone A</u>		
Per Acre	\$51.52	\$51.52
<u>Zone B</u>		
Per Acre	17.18	17.18
<u>Zone C</u>		
Per Acre	11.19	11.19

*Source: Adelanto Public Utility Authority.*

**Water Service Charges, Billing and Collections**

Water Service Charges are billed on a monthly basis on a joint bill with Sewer Service Charges. See "THE WASTEWATER ENTERPRISE - Sewer Charges and Fees - Sewer Service Charge Delinquencies" for a summary of the Authority's current policy regarding past-due bills.

The following table sets forth the Water Service Charge Billings and for fiscal years 2009-10 through 2013-14 and the cumulative balance of unpaid amounts at June 30 of those fiscal years.



**Table No. 25**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**WATER SERVICE CHARGE BILLINGS AND COLLECTIONS**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

<u>Fiscal Year</u>	<u>Total Water Service Charge Levied</u>	<u>60+ Day Delinquency at June 30 <sup>(1)</sup></u>
2009-10	\$3,131,896	\$178,067
2010-11	5,846,580	256,451
2011-12	6,304,737	471,610
2012-13	6,586,377	585,273
2013-14 <sup>(2)</sup>	6,948,332	697,495

(1) Outstanding delinquent amounts include cumulative unpaid amounts for all previous fiscal years. The Authority cannot provide fiscal year-specific delinquency amounts.

(2) Unaudited.

Source: Adelanto Public Utility Authority.

### **Capital Improvement Plan**

The Authority plans to finance various equipment, repair or replacement and construction projects for the Water Enterprise, including installation of generators at treatment plants and meters and registers city-wide, and reservoir maintenance. The estimated cost of the above water improvements that the Authority plans to finance with proceeds of the 2014 Bonds is \$4,522,000.

### **Historical Revenues and Expenses**

Set forth in the following table is a five-year history of Water Enterprise revenues and expenses.

**Table No. 26**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**HISTORICAL REVENUES AND EXPENSES**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

	<u>2009-10<sup>(1)</sup></u>	<u>2010-11<sup>(1)</sup></u>	<u>2011-12<sup>(1)</sup></u>	<u>2012-13<sup>(1)</sup></u>	<u>2013-14<sup>(1)</sup></u>
<b>Operating Water Revenues</b>					
Water Service Charges <sup>(2)</sup>	\$3,131,896	\$5,846,580	\$5,921,740	\$6,472,471	\$6,830,579
Water Connection Fees	133,400	56,808	768,645	74,385	131,318
Water Acquisition Fees	483,000	2,700	-	231,420	368,619
Water Availability Charges	574,086	561,770	459,083	559,090	596,124
Other Revenue	1,040,222	524,773	548,384	591,128	611,991
<b>Total Operating Revenues</b>	<b>\$5,362,604</b>	<b>\$6,992,631</b>	<b>\$7,697,852</b>	<b>\$7,928,494</b>	<b>\$8,538,631</b>
<b>Operating Expenses</b>					
Personnel	\$1,126,357	\$1,129,576	\$1,343,971	\$1,308,036	\$733,515 <sup>(3)</sup>
Contract Services	102,803	186,449	174,585	133,912	62,400 <sup>(3)</sup>
Operating Costs	1,187,659	1,723,459	1,210,494	1,152,334	2,529,495 <sup>(3)</sup>
Utilities	706,203	703,259	653,692	695,874	630,108
General and Administrative	162,028	120,821	269,378	348,425	348,373
Depreciation	415,571	415,571	415,571	780,101	679,202
<b>Total Operating Costs</b>	<b>\$3,700,621</b>	<b>\$4,279,135</b>	<b>\$4,067,691</b>	<b>\$4,418,681</b>	<b>\$4,983,093</b>
<b>Net Water Revenues</b>	<b>\$1,661,983</b>	<b>\$2,713,496</b>	<b>\$3,630,161</b>	<b>\$3,509,813</b>	<b>\$3,555,538</b>
<b>Non-Operating Revenues (Expenses)</b>					
Interest Revenue	201,760	155,290	129,653	165,664	119,326
Purchase Security Income	984,633	1,027,331	1,070,867	1,111,900	1,156,362
Interest Expense & Fiscal Charges	(4,589,969)	(4,835,942)	(3,551,449)	(3,428,756)	(3,327,565)
Amortization	(117,427)	(117,427)	(190,309)	(190,309)	(190,309)
Loss of Sale on Capital Assets	-	-	-	-	(69,564)
Miscellaneous	-	-	(2,669,160) <sup>(4)</sup>	(1,909,511) <sup>(4)</sup>	320,551 <sup>(5)</sup>
<b>Total Non-Operating Revenues (Expenses)</b>	<b>\$(3,521,003)</b>	<b>\$(3,770,748)</b>	<b>\$(5,210,398)</b>	<b>\$(4,251,012)</b>	<b>\$(1,991,198)</b>
<b>Net Water Results</b>	<b>\$(1,859,020)</b>	<b>\$(1,057,252)</b>	<b>\$(1,580,237)</b>	<b>\$(741,200)</b>	<b>\$1,564,340</b>
<b>Transfer from the City<sup>(6)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,247</b>
<b>Transfers to the City<sup>(7)</sup></b>	<b>(4,165,691)</b>	<b>-</b>	<b>(1,053,478)</b>	<b>(1,327,383)</b>	<b>(1,393,752)</b>
<b>Change in Net Assets</b>	<b>(6,024,711)</b>	<b>(1,057,252)</b>	<b>(2,633,715)</b>	<b>(2,068,583)</b>	<b>264,835</b>
<b>Beginning Balance</b>	<b>\$17,910,384</b>	<b>\$10,936,712</b>	<b>\$9,879,460</b>	<b>\$7,245,745</b>	<b>\$22,947,538</b>
<b>Prior Period Adjustments<sup>(8)</sup></b>	<b>(948,961)</b>	<b>-</b>	<b>-</b>	<b>17,770,376<sup>(9)</sup></b>	<b>(721,323)</b>
<b>Beginning Balance (Restated)</b>	<b>16,961,423</b>	<b>-</b>	<b>-</b>	<b>25,016,121</b>	<b>22,226,215</b>
<b>Ending Balance</b>	<b>\$10,936,712</b>	<b>\$9,879,460</b>	<b>\$7,245,745</b>	<b>\$22,947,538</b>	<b>\$22,491,050</b>

(1) Based on Audited Financial Statements from fiscal years 2009-10 through 2013-14.

(2) Reflects amounts levied less assumed bad debt collections. Does not reflect actual collections.

(3) Decrease in personnel costs and increase in operating cost reflect contract with PERC Water Corporation.

(4) Loss on settlement agreement for FY11/12 & FY12/13. FY13/14 is for Capital Purchase of new Utility Billing Software.

(5) Miscellaneous Revenues are from a settlement of a FINRA Case and revenues from the sale of an asset.

(6) Reflects a loan from a special fund of the City to the Authority to fund the purchase of financial and billing software.

(7) Amounts shown as "Transfers out to City" relate to the Water Purchase Payments. In fiscal year 2006-07, the "Transfers out to City" represent total Water Purchase Payments. In fiscal years 2007-08 and 2008-09, the "Transfers out to City" represent only the principal component of Water Purchase Payments; the interest component of the Water Purchase Payments is reported as "Interest Expense and Fiscal Charges."

(8) Reflects prior year adjustments.

(9) Reflects increase in capital assets value due to GASB 34.

Source: City of Adelanto Finance Department.

## Historical Debt Service Coverage

The following table presents historical debt service coverage based on Net Water Revenues, including the Water Enterprise's Proportionate Share of debt service on the 2005 Bonds and the 2009 Bonds. The following table does not reflect the Water Purchase Payments because they were payable from Surplus Revenues on a subordinate basis to the 2005 Bonds and the 2009 Bonds.

**Table No. 27**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**FISCAL YEARS 2009-10 THROUGH 2013-14**

	<u>2009-10<sup>(1)</sup></u>	<u>2010-11<sup>(1)</sup></u>	<u>2011-12<sup>(1)</sup></u>	<u>2012-13<sup>(1)</sup></u>	<u>2013-14<sup>(1)</sup></u>
<b>Net Water Revenues (Excluding Purchase Security Revenues)<sup>(2)</sup></b>	\$2,279,314	\$3,284,357	\$4,175,385	\$4,455,577	\$4,674,617
<b>Debt Service</b>					
2005 Bonds	3,232,589	-	-	-	-
2009 Bonds <sup>(3)</sup>	-	2,917,962	2,846,695	3,520,298	3,518,823
<b>Total Debt Service</b>	3,232,589	2,917,692	2,846,695	3,520,298	3,518,823
<b>Rate Covenant Debt Service Coverage</b>	0.71	1.13	1.47	1.27	1.33
<b>Net Water Revenues<sup>(4)</sup></b>	\$3,263,947	\$4,311,688	\$5,246,252	\$5,567,477	\$5,830,979
<b>Debt Service</b>					
2005 Bonds	3,232,589	-	-	-	-
2009 Bonds <sup>(4)</sup>	-	2,917,962	2,846,695	3,520,298	3,518,823
<b>Total Debt Service</b>	3,232,589	2,917,692	2,846,695	3,520,298	3,518,823
<b>Debt Service Coverage</b>	1.01	1.48	1.84	1.58	1.66

(1) Based on Audited Financial Statements from fiscal years 2009-10 through 2013-14.

(2) Net Water Revenues is equal to "Net Water Revenues" as shown in Table No. 26 plus depreciation, plus interest revenues and plus non-operating miscellaneous revenues.

(3) Excludes interest earnings from amounts in the Debt Service Reserve Account.

(4) Net Water Revenues is equal to "Net Water Revenues" as shown in Table No. 26 plus depreciation, plus interest revenues, plus purchase security revenues and non-operating miscellaneous revenues. Excludes non-operating miscellaneous expenses, which are subordinate to debt service.

Source: Adelanto Public Utility Authority.

## Projected Debt Service Coverage

Set forth in the following table is a forecast of the revenues, expenses and debt service coverage of the Water Enterprise. The projections are based on the following assumptions:

**Growth:** The projections assume 0% annual growth of the Water Enterprise rate base. The projections assume Water Availability Charge revenue of \$500,000 per year. As land in the City is developed, Water Availability Charge revenue will decrease.

**Reduced Consumption:** The projections assume average household water usage of 464 gallons per day for each of the fiscal years shown, which, in anticipation of the impact of higher rates and conservation measures, is lower than the average household water usage of 14,595.82 gallons (19.52 CCF) in fiscal year 2008-09.

Delinquencies: The projections are based on the fiscal year 2012-13 audit, which includes a write-down for unpaid collections. The projections assume 100% collections, and also assume revenue from delinquency penalties or reconnection fees of \$360,000 per year. See “– Water Service Charge Delinquencies” above.

Interest earnings: The projections assume 6.5% interest earnings on reserve funds as the result of a guaranteed investment contract. The projections assume no Purchased Securities Revenues. Although Purchased Securities Revenues are an element of Pledged Utility Revenues, they are not counted in Pledged Utility Revenues for purposes of complying with the rate covenant or the debt service coverage tests for issuance of Parity Obligations.

Rate adjustments: With respect to Water Enterprise charges, the projections assume rates will be consistent with the rates described in “– Water Charges and Fees” above. See “BOND OWNERS’ RISKS – City Demographics.”

Expenses: It is assumed annual operation and maintenance expenses of the Water Enterprise will increase as follows: expenditure growth rate of 2%.

Reserves: The Authority is not projecting any addition to reserves and will use existing reserves to phase the rate increases.

Debt Service: The projections assume no debt service through the remainder of fiscal year 2009-10 because the Authority will not make a debt service payment on the 2009 Bonds during that period.

These projections are based upon the Authority’s current circumstances and probable occurrence of certain future events that the Authority believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such forecasts will be achieved. Actual results may produce substantially different financial results. Actual operating results achieved during the forecast period may vary from those presented and such variations may be material (see “BOND OWNERS’ RISKS”). Additional rate increases may become necessary in the future in order for the Authority to comply with provisions of the Indenture.

The projections are based on the Authority's fiscal year 2014-15 budget, which was based on the Authority's fiscal year 2012-13 audited financial statements with appropriate revisions for changes in the Authority’s staffing and other relevant considerations. The projections do not assume the following expenses, which occurred in fiscal year 2013-14:

1. There was an incident of vandalism to one of the Authority's wells, which required a one-time purchase of water from Victorville in fiscal year 13-14 at a cost of approximately \$250,000. The projections do not include this one-time expense because the Authority does not expect this expense to recur in future fiscal years.
2. The Authority incurred a number of expenses in fiscal year 2013-14 that will not recur in future fiscal years as a result of the Authority's decision to outsource management of the Water Enterprise to PERC Water Corporation, including: (i) in fiscal year 2013-14, the Authority had to pay approximately \$500,000 of one-time expenses as a result of terminating employees (including payment for accrued vacation time and severance) and (ii) a variety of operating and administrative costs have been reduced between fiscal year 2013-14 and fiscal year 2014-15. These non-recurring costs from fiscal year 2013-14 are not included in the projected expenses.

**Table No. 28**  
**ADELANTO PUBLIC UTILITY AUTHORITY**  
**WATER ENTERPRISE**  
**PROJECTED DEBT SERVICE COVERAGE <sup>(1)</sup>**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
<b>Operating Revenues</b>					
Water Service Charges	\$7,547,518	\$7,649,618	\$7,739,218	\$7,855,915	\$7,960,114
Water Connection Fees <sup>(2)</sup>	-	446,310	446,310	446,310	446,310
Water Acquisition Fees <sup>(2)</sup>	-	-	-	-	-
Water Availability Charges	550,000	550,000	550,000	550,000	550,000
Fines, Forfeitures & Penalties	360,000	360,000	360,000	360,000	360,000
Other Revenue	115,500	15,500	15,500	15,500	15,500
Interest	100,000	100,000	100,000	100,000	100,000
<b>Total Operating Revenues</b>	<b>\$8,673,018</b>	<b>\$9,121,428</b>	<b>\$9,211,028</b>	<b>\$9,327,725</b>	<b>\$9,431,924</b>
<b>Operating Expenses<sup>(3)</sup></b>					
Source of Supply	\$1,573,000	\$1,604,460	\$1,636,549	\$1,669,280	\$1,702,666
Water Treatment	25,000	25,500	26,010	26,530	27,061
Transmission & Distribution	494,126	504,009	514,090	524,371	534,857
Customer Accounts	60,000	61,200	62,424	63,672	64,945
Other Operating Expense	1,151,614	1,174,646	1,198,140	1,222,101	1,246,544
General & Administrative	224,500	228,990	233,568	238,239	243,003
<b>Total Operating Expenses</b>	<b>\$3,528,240</b>	<b>\$3,598,805</b>	<b>\$3,670,781</b>	<b>\$3,744,193</b>	<b>\$3,819,076</b>
<b>Net Water Revenues</b>	<b>\$5,144,778</b>	<b>\$5,522,623</b>	<b>\$5,540,247</b>	<b>\$5,583,532</b>	<b>\$5,612,848</b>
<b>Debt Service</b>					
Series 2009 Debt Service	\$3,519,177	\$3,520,272	\$3,518,904	\$3,518,609	\$3,521,439
Series 2014 Debt Service (Ambac)	-	636,070	635,125	633,875	636,500
Series 2014 Debt Service (Capital)	-	258,967	258,250	258,250	258,250
<b>Total Debt Service</b>	<b>\$3,519,177</b>	<b>\$4,415,309</b>	<b>\$4,412,279</b>	<b>\$4,410,734</b>	<b>\$4,416,189</b>
<b>Debt Service Coverage</b>	1.46	1.25	1.26	1.27	1.27

(1) Based on the Adopted Budget for fiscal year 2014-15 and other projected assumptions.

(2) Assumes approximately 216 single family residential connections coming on line, approximately 54 per year, during fiscal years 2015-16 through 2018-19.

(3) Assumes 2% annual increase in Operating Expenses.

## TAX MATTERS

In the opinion of Rutan & Tucker, LLP (“**Bond Counsel**”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “**Code**”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E.

To the extent the issue price of any maturity of the 2014 Bonds is less than the amount to be paid at maturity of such 2014 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2014 Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the 2014 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2014 Bonds is the first price at which a substantial amount of such maturity of the 2014 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2014 Bonds accrues daily over the term to maturity of such 2014 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2014 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2014 Bonds. Owners of the 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2014 Bonds with original issue discount, including the treatment of purchasers who do not purchase such 2014 Bonds in the original offering to the public at the first price at which a substantial amount of such 2014 Bonds is sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2014 Bonds. The Authority has covenanted to comply with certain restrictions designed to insure that interest on the 2014 Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the 2014 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2014 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2014 Bonds may adversely affect the value of, or the tax status of interest on, the 2014 Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the 2014 Bonds. Prospective Beneficial Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2014 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any 2014 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Rutan & Tucker, LLP.

Although Bond Counsel is of the opinion that interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

## **CERTAIN LEGAL MATTERS**

Rutan & Tucker, LLP, Bond Counsel, will render an opinion with respect to the validity of the 2014 Bonds, the form of which opinion is set forth in Appendix E. Bond Counsel has assumed no responsibility for the accuracy, completeness or fairness of the Official Statement. Certain legal matters will also be passed upon for the Authority by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the Authority by Rutan & Tucker, LLP, as City Attorney. Nixon Peabody LLP is acting as Underwriter's Counsel. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon issuance of the 2014 Bonds.*

## **LITIGATION**

To the best knowledge of the Authority, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the Authority to restrain or enjoin the authorization, execution or delivery of the 2014 Bonds, or the pledge of the Pledged Utility Revenues or the collection of the payments to be made pursuant to the Indenture, or in any way contesting or affecting validity of the 2014 Bonds, the Indenture or the agreement for the sale of the 2014 Bonds, or in any way contesting or affecting the transactions described in this Official Statement.

See also "BOND OWNERS' RISKS – Articles XIII C and XIII D of the California Constitution" for a discussion of certain historical and ongoing practices that impose a risk of litigation on the Authority.

## **NO RATING**

The Authority has not requested, and it has not received, a credit rating on the 2014 Bonds.

## **CONTINUING DISCLOSURE**

The Authority has covenanted for the benefit of owners of the 2014 Bonds to provide certain financial information and operating data relating to the Authority and the Utility System by not later than nine months after the end of the Authority's fiscal year (which is currently June 30) in each year commencing with the report for the 2013-14 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of material events by the Authority is set forth in "APPENDIX C — Form of Continuing Disclosure Certificate."

In the previous five years, the Authority has filed its audited financial statements and its semi-annual reports with EMMA, but the annual reports were filed one or two days late on three occasions, and the audited financial statements were filed late on three occasions.

The staff of the City is responsible for the continuing disclosure by the Authority, the Adelanto Public Financing Authority, the Redevelopment Agency and the Successor Agency, City staff contracts for these services with a third-party administrator. This paragraph summarizes the failure to comply by these entities with their continuing disclosure undertakings in the past five years:

- The Adelanto Redevelopment Agency and the Successor Agency failed to timely file the required annual report on three occasions, did not timely file the required audited financial statements for fiscal years 2008-09 through 2010-11 and did not file the audited financial statements for fiscal years 2011-12 and 2012-13.
- The Adelanto Public Financing Authority filed its annual reports and audited financial statements late on numerous occasions, and in the case of (i) its Local Agency Taxable Subordinated Revenue Bonds 1995 Series A and Local Agency Second Subordinated Revenue Bonds 1995 Series B, did not include in its annual report the Authority and Redevelopment Agency budget and actual results for fiscal years 2008-09 through 2010-11 and did not file an annual report for fiscal years 2011-12 or 2012-13 and (ii) its Local Agency Revenue Refunding Bonds Series 2006, did not file any audited financial statements in the previous five years and did not file an annual report for fiscal year 2012-13.
- The Adelanto Public Financing Authority, the Redevelopment Agency and the Successor Agency failed to file notices of insured or underlying ratings changes, or made late filings, on numerous occasions.

The City has been working with its third-party administrator to remediate the above instances of non-compliance, and has been informed that all instances of non-compliance have been remedied with the exception of the filing of audited financial statements for fiscal year 2012-13. By adoption of its Resolution No. 1411 on November 19, 2014, the Authority adopted written policies and procedures for initial and continuing disclosure that it believes will be sufficient to guarantee compliance with its continuing disclosure undertakings in the future. Specifically, the interim finance director of the Authority has been designated as the responsible person at the Authority for continuing disclosure, and the Authority has retained an outside company to assist it with preparation of its annual reports and its annual filings.



## UNDERWRITING

The 2014 Bonds are being purchased by Raymond James & Associates, Inc. (the "**Underwriter**"). The Underwriter has agreed to purchase the 2014 Bonds at a price of \$14,262,315.42 (which price is equal to the aggregate principal amount of the 2014 Bonds, *plus* an original issue premium of \$343,788.60 and *less* an Underwriter's discount of \$211,473.18). The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the 2014 Bonds provides that the Underwriter will purchase all of the 2014 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the 2014 Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

## **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth in this Official Statement. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the 2014 Bonds.

The summaries of certain provisions of the 2014 Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the Authority.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement.

The execution of this Official Statement and its delivery have been authorized by the Authority.

### **ADELANTO PUBLIC UTILITY AUTHORITY**

By     
  */s/ James Hart*  
  Executive Director/City Manager

**A P P E N D I X A**  
**SUMMARY OF CERTAIN PROVISIONS**  
**OF THE INDENTURE**

*The following is a brief summary of the provisions of the Master Indenture and Fifth Supplemental Indenture. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof*

**DEFINITIONS**

"Accountant's Certificate" means a certificate signed by an Independent Certified Public Accountant selected by the Authority.

"Accreted Value" means, with respect to any Capital Appreciation Obligation and as of any date, the Initial Amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate with respect to such Capital Appreciation Obligation specified in or pursuant to the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligation on each date specified therein. The applicable Accreted Value at any date shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight-line interpolation with reference to such Accreted Value Table.

"Accreted Value Table" means, with respect to Capital Appreciation Obligations, the table denominated as such in, and to which reference is made in, the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligations.

"Additional Bonds" means Bonds issued in accordance with the terms and conditions of the Indenture for the purposes set forth in the Indenture and which are in addition to, and rank on a parity with, the 2005 Bonds.

"Additional Parity Obligations" means Parity Obligations, including Additional Bonds, issued for the purposes set forth in the Indenture and satisfying the conditions set forth in the Indenture.

"Additional Revenues" means an allowance for Pledged Utility Revenues arising from (i) an increase in the rates, fees and charges for the Water Enterprise or Wastewater Enterprise which has become effective during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the Authority, in an amount equal to the total amount by which the Pledged Utility Revenues would have been increased if such increase in rates, fees or charges had been in effect during the whole of such Fiscal Year or twelve (12) month period, all as shown by a certificate or opinion of an Independent Certified Public Accountant or an Independent Financial Consultant or (ii) any additions to or improvements or extensions of the Water Enterprise or Wastewater Enterprise to be constructed or acquired, but which during all or any part of such Fiscal Year or 12- month period, were not in service, in an amount equal to the estimated additional annual Pledged Utility Revenues to be derived from such additions, improvements or extensions during the first full Fiscal Year following the completion thereof, all as shown by a certificate or opinion of an Independent Certified Public Accountant or an Independent Financial Consultant.

"Adjusted Combined Debt Service" means, for any period of time, the Combined Debt

Service for such period minus the sum of the amount of such Combined Debt Service with respect to Outstanding Parity Obligations to be paid during such period from the proceeds of Parity Obligations as set forth in a certificate of the Authority.

"Agency" means the Adelanto Improvement Agency, a public body corporate and politic organized under the laws of the State, and any successor thereto.

"Agreement" means that certain Joint Exercise of Powers Agreement, dated as of November 1, 1996, by and between the City and the Agency, as may be duly amended and supplemented from time to time, creating the Authority for the purposes, among other things, of assisting the *City* and the Agency in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

"Applicable Combined Obligations" means, with respect to a certificate to be delivered in connection with Additional Parity Obligations pursuant to the Indenture and as of the date of such certificate, all Parity Obligations Outstanding on such date plus the Additional Parity Obligations proposed to be issued.

"Consultant's Report" means a report signed by an Independent Financial Consultant and including:

- (1) a statement that the person or firm making or giving such report has read the pertinent provisions of the Indenture to which such report relates;
- (2) a brief statement *as to* the nature and scope of the examination or investigation upon which the report is based;
- (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said Independent Financial Consultant to express an informed opinion with respect to the subject matter referred to in the report.

"Costs of Issuance" means, to the extent permitted by the Bond Law, all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the original authorization, execution, sale and delivery of Parity Obligations, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents relating to the sale of such Parity Obligations, initial fees and charges (including counsel fees) of any fiscal agent, any paying agent and any Credit Provider, legal fees and charges, financial advisor fees and expenses, fees and expenses of other consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Parity Obligations and any other cost, charge or fee in connection with the authorization, issuance, sale or original delivery of Parity Obligations.

"Credit Provider" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

"Credit Provider Reimbursement Obligations" means obligations of the Authority to pay from the Pledged Utility Revenues amounts due under a Credit Support Agreement, including without limitation amounts advanced by a Credit Provider pursuant to a Credit Support Instrument as credit support or liquidity for Parity Obligations and the interest with respect thereto.

"Credit Provider Bonds" means any Bonds paid as to principal, Redemption Price, Purchase Price and/or interest with funds provided under a Credit Support Instrument for so long

as such Bonds are held by or for the account of, or are pledged to, the applicable Credit Provider or any assignee thereof in accordance with the applicable Credit Support Agreement.

"Credit Support Agreement" means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the Authority and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument or for extensions of credit made to the Authority by the Credit Provider, and the interest thereon, and includes any subsequent agreement pursuant to which a substitute Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document.

"Credit Support Instrument" means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit and/or liquidity support with respect to the payment of interest, principal, Redemption Price or Purchase Price of any Parity Obligations but shall not include a Reserve Financial Guaranty.

"Crossover Date" means, with respect to a Series of Refunding Parity Obligations constituting Crossover Refunding Obligations, the date on which the proceeds of the sale of such Refunding Parity Obligations are to be applied to the payment of the principal of and premium, if any, on the Parity Obligations to be refunded with the proceeds of such Refunding Parity Obligations in accordance with the applicable Crossover Refunding Instructions.

"Crossover Refunding Escrow" means, with respect to any Series of Refunding Parity Obligations constituting Crossover Refunding Obligations, a trust or escrow fund or account established with an Escrow Agent into which proceeds of the sale of such Series of Refunding Parity Obligations and, if necessary, other available funds have been deposited in an amount sufficient to pay when due, or to purchase bonds, notes or other evidences of indebtedness the scheduled payments of principal of and interest on which shall provide moneys at the times and in amounts sufficient to pay when due, the applicable Crossover Refunding Requirements in accordance with the applicable Crossover Refunding Instructions.

"Crossover Refunding Instructions" means, with respect to a Series of Refunding Parity Obligations which constitute Crossover Refunding Obligations, a certificate, order, escrow deposit agreement, or other direction from an Authorized Representative to the Escrow Agent for the applicable Crossover Refunding Escrow to apply amounts in the applicable Crossover Refunding Escrow to the payments of principal and interest scheduled to be made on the Crossover Refunding Obligations to and including the applicable Crossover Date and on such Crossover Date to apply moneys in the applicable Crossover Refunding Escrow to the payment or redemption of the Parity Obligations to be refunded or, in the event that the conditions to such payment or redemption contained in the Issuing Instrument authorizing the issuance of such Crossover Refunding Obligations are not satisfied, to the payment or redemption of the Crossover Refunding Obligations on the terms and conditions set forth in such Issuing Instrument.

"Crossover Refunding Obligations" means Refunding Parity Obligations *as* to which a Crossover Refunding Escrow has been established and which are payable, prior to the application of moneys in the applicable Crossover Refunding Escrow to the payment or redemption of the Parity Obligations to be refunded, only from amounts in such Crossover

## Refunding Escrow.

"Crossover Refunding Requirements" means, with respect to a Series of Refunding Parity Obligations constituting Crossover Refunding Obligations and the Parity Obligations to be refunded with the proceeds of the sale of such Refunding Parity Obligations, moneys sufficient to pay when due: (i) the scheduled principal of and interest on the Series of Refunding Parity Obligations coming due on and before the applicable Crossover Date (other than as a result of the failure to apply moneys in the applicable Crossover Refunding Escrow to the refunding of the Parity Obligations to be refunded with the proceeds of the sale of such Refunding Parity Obligations on the Crossover Date); (ii) the principal of, premium, if any, and interest on such Refunding Parity Obligations which are payable in accordance with the applicable Crossover Refunding Instructions in the event the amounts in the applicable Crossover Refunding Escrow are not applied to the payment or redemption of the Parity Obligations to be refunded with the proceeds of the sale of such Refunding Parity Obligations; and (iii) the principal of and premium, if any, on the Parity Obligations to be refunded with the proceeds of the sale of the Refunding Parity Obligations coming due in accordance with the applicable Crossover Refunding Instructions.

"Debt Service" means, for any period of time, the sum of (a) the interest and Net Payments payable during such period on all Parity Obligations or Subordinated Obligations, as applicable, assuming that all Outstanding Parity Obligations or Subordinated Obligations, as applicable, are retired as scheduled and that all Outstanding Term Obligations that are Parity Obligations or Subordinated Obligations, as applicable, are redeemed or paid from Sinking Fund Installments as scheduled, (b) that portion of the principal amount of all Outstanding Serial Obligations that are Parity Obligations or Subordinated Obligations, as applicable, maturing on each principal payment date during such period, including the Final Compounded Amount of any Capital Appreciation Obligations which are Serial Obligations that are Parity Obligations or Subordinated Obligations, as applicable, (c) that portion of the principal amount of all Outstanding Term Obligations that are Parity Obligations or Subordinated Obligations, as applicable, required to be redeemed or paid from Sinking Fund Installments becoming due during such period (together with the premiums, if any, thereon), including the Accreted Value of any Capital Appreciation Obligations which are Term Obligations that are Parity Obligations or Subordinated Obligations, as applicable, (d) amounts, if any, required to be deposited in the Debt Service Reserve Account or any other debt service reserve fund with respect to Parity Obligations or Subordinated Obligations, as applicable (other than Bonds), established under any Issuing Instrument.

"Debt Service Adjustments and Assumptions" means, for purposes of determining Maximum Annual Adjusted Combined Debt Service and for purposes of determining the amount of money to be set aside from the Special Fund and deposited in the Interest Account pursuant to the Indenture, the following adjustments and assumptions are to be made with respect to Combined Debt Service or Debt Service, as applicable:

(a) if any Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, constitute Tax-Exempt Variable Rate Indebtedness (except to the extent paragraph (e) applies), the interest rate on such Applicable Combined Obligations or Parity Obligations, as applicable, for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Applicable Combined Obligations or Parity Obligations, as applicable, during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Applicable Combined Obligations or Parity Obligations, as applicable, shall have been Outstanding;

(b) if any Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, constitute Variable Rate Indebtedness which is not Tax-Exempt (except to the extent paragraph (e) applies), the interest rate on such Applicable Combined Obligations or Parity Obligations, as applicable, for any period as to which such interest rate has not been established shall be assumed to be 110% of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation of Maximum Annual Adjusted Combined Debt Service or interest deposit determination, as applicable, is made or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the Authority;

(c) if the Additional Parity Obligations proposed to be issued shall be Tax-Exempt Variable Rate Indebtedness (except to the extent subsection (f) applies), then the interest rate on such Additional Parity Obligations shall be assumed to be 110% of the average TBMA Index during the calendar quarter preceding the calendar quarter in which the calculation of Maximum Annual Adjusted Combined Debt Service or interest deposit determination, as applicable, is made, or if that index is no longer published, seventy-five percent (75%) of the One Month USD LIBOR Rate, or if the One Month USD LIBOR Rate is not available, another similar rate or index selected by the Authority;

(d) if the Additional Parity Obligations proposed to be issued shall be Variable Rate Indebtedness which is not Tax-Exempt (except to the extent subsection (f) applies) then the interest rate on such Additional Parity Obligations shall be assumed to be 110% of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation of Maximum Annual Adjusted Combined Debt Service or interest deposit determination, as applicable, is made, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the Authority;

(e) if a Qualified Swap Agreement has been entered into in connection with any Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, which are not Hedged Bonds, the interest rate on such Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, for each Fiscal Year or portion thereof during which payments are to be exchanged by the parties under such Qualified Swap Agreement shall be determined for purposes of calculating Maximum Annual Adjusted Combined Debt Service and determining the interest deposit, as applicable, by adding: (1) the amount of Debt Service paid or to be paid by the Authority as interest on the Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, during such Fiscal Year or portion thereof (determined as provided in paragraph (a) or (b), as applicable, if such Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) paid or to be paid by the Authority under the Qualified Swap Agreement (after giving effect to payments made and received, and to be made and received, by the Authority under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Outstanding Applicable Combined Obligations or Parity Obligations, as applicable, constituting Variable Rate Indebtedness is assumed to bear interest;

(f) if a Qualified Swap Agreement has been entered into by the Authority with respect to any Additional Parity Obligations which are not Hedged. Bonds proposed to be issued, the interest on such proposed Additional Parity Obligations for each Fiscal Year or portion thereof during which payments are to be exchanged under the Qualified Swap Agreement shall be determined for purposes of calculating Maximum Adjusted Annual Debt Service and determining the interest deposit, as applicable, by adding: (1) the amount of Debt Service to be paid by the

Authority as interest on such Additional Parity Obligations during such Fiscal Year or portion thereof (determined as provided in paragraph (c) or (d), *as* applicable, if such Additional Parity Obligations are to constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) to be paid by the Authority under the Qualified Swap Agreement (after giving effect to payments to be made and received by the Authority under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Additional Parity Obligations which are to constitute Variable Rate Indebtedness shall be assumed to bear interest;

(g) if the Additional Parity Obligations proposed to be issued are Hedged Bonds, then, for purposes of determining Maximum Annual Adjusted Combined Debt Service and determining the interest deposit, as applicable, the interest on such proposed Additional Parity Obligations for each Fiscal Year or portion thereof shall be assumed to be equal to the Authority's fixed payments under the applicable Qualified Swap Agreement and

(h) if the Additional Parity Obligations proposed to be issued are Capped Bonds, then, for purposes of determining Maximum Annual Adjusted Combined Debt Service and determining the interest deposit, as applicable, the interest on such proposed Additional Parity Obligations for each Fiscal Year or portion thereof shall be assumed to be equal to the interest rate specified under the related Qualified Cap above which the counterparty under the Qualified Cap is obligated to pay to the Authority payments equal to the interest payable on the Capped Bonds above such specified interest rate.

"Debt Service Reserve Account" means the Debt Service Reserve Account, and any account thereof, established pursuant to the Indenture.

"Debt Service Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, or (b) the greatest amount of Bond Debt Service in any Bond Year during the period commencing with the Bond Year in which the determination is being made and terminating with the last Bond Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for all Bond Years during the period commencing with the Bond Year in which such calculation is made (or if appropriate, the first full Bond Year following the execution and delivery of any Bonds) and terminating with the last Bond Year in which any Bond Debt Service is due, divided by the number of such Bond Years, all as computed and determined by the Authority and specified in writing to the Trustee; provided, however, that in determining Bond Debt Service with respect to any Bonds or Series of Bonds that constitute Variable Rate Indebtedness, (A) with respect to Hedged Bonds, the interest on such Bonds shall be assumed to be equal to the Authority's fixed payments under the applicable Qualified Swap Agreement, and (B) with respect to other Bonds that constitute Variable Rate Indebtedness, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Bonds during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been Outstanding; provided, further, that, to the extent the Authority elects in a Supplemental Indenture to maintain a separate account for any Series of Bonds, the Debt Service Reserve Requirement with respect to such Series shall be as set forth in such Supplemental Indenture.

"DTC" means The Depository Trust Company, a limited purpose trust company organized



under the laws of the State of New York or its successors and assigns. References in the Indenture to DTC shall include any Nominee of DTC in whose name any Bond is registered.

"Electronic" means, with respect to notice, notice through telecopy, telegraph, telex, facsimile transmission, internet, e-mail, dedicated electronic link or other electronic means of communication capable of producing a written record.

"Escrow Agent" means the Trustee or a bank or trust company organized under the laws of any state of the United States, or a national banking association, appointed by the Authority to hold in trust moneys set aside for either: (i) the payment or redemption of, or interest installments on, a Bond or Bonds, or any portion thereof, deemed paid and defeased pursuant to the Indenture; or (ii) the payment of the principal, premium, if any, or interest on Crossover Refunding Bonds or the Parity Obligations to be refunded with the proceeds of the sale of such Crossover Refunding Bonds.

"Event of Bankruptcy" means any of the following with respect to any Person: (a) the commencement by such person of a voluntary case under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such person under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person's assets shall be appointed in any proceeding brought against the Person or such Person's assets; (e) assignment of assets by such person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

"Favorable Opinion of Bond Counsel" means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel to the effect that such action shall not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds or such portion thereof *as* shall be specified in the provisions of the Indenture or the Supplemental Indenture requiring such an opinion.

"Federal Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," *as* the same may be amended and supplemented, and any successor statute.

"Federal Securities" means obligations of or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America, including U.S. treasury obligations, all direct or fully guaranteed obligations, Farmers Home Administration, guaranteed Title XI financing, Government National Mortgage Association (GNMA) and State and Local Government Series.

"Fiduciary" means the Trustee for the Bonds appointed as provided in the Indenture.

"Final Compounded Amount" means the Accreted Value of any Capital Appreciation Obligation on its maturity date.

"First Supplemental Indenture" means the First Supplemental Indenture of Trust, dated as of September 1, 2005, between the Authority and the Trustee supplementing the Indenture.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next

succeeding June 30, or any other twelve-month period selected and designated *as* the official Fiscal Year of the Authority.

"Fitch" means Fitch, Inc. and any successor entity rating Parity Obligations at the request of the Authority.

"Generally Accepted Accounting Principles" means generally accepted accounting principles applied on a consistent basis set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants applicable to a government-owned utility applying all statements and interpretations issued by the Governmental Accounting Standards Board and statements and pronouncements of the Financial Accounting Standards Board which are not in conflict with the statements and interpretations issued by the Governmental Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

"Gross Wastewater Revenues" means, for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the ownership and operation of the Wastewater Enterprise or otherwise arising from the Wastewater Enterprise, including but not limited to investment earnings thereon.

"Gross Water Revenues" means, for any Bond Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the ownership and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to investment earnings thereon.

"Hedged Bonds" means Bonds issued under the Indenture as Variable Rate Indebtedness for which a Qualified Swap Agreement has been entered into under which all of the following apply: (a) the term of the Qualified Swap Agreement is coterminous with the maturity of the Hedged Bonds, (b) the initial notional amount of the Qualified Swap Agreement is equal to the initial principal amount of the Hedged Bonds and the notional amount of the Qualified Swap Agreement reduces at the same times and in the same amounts *as* the scheduled payment of principal (whether at maturity or *as* a result of mandatory sinking account redemption) of the Hedged Bonds, (c) the Authority's payment obligations under the Qualified Swap Agreement are based upon a fixed interest rate for the term thereof, and (d) the counterparty's payment obligations under the Qualified Swap Agreement are reasonably expected to be equivalent to the interest payments on the Hedged Bonds.

"Indenture" means, the Master Indenture, dated as of September 1, 2005, between the Authority and the Trustee as previously supplemented and amended, including as supplemented and amended by the Fifth Supplemental Indenture of Trust.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the Authority, and who, or each of whom:

- (1) is in fact independent and not under the domination of the Authority;
- (2) does not have any substantial interest, direct or indirect, with the Authority; and
- (3) is not connected with the Authority as a member, officer or employee of the

Authority, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority.

"Independent Financial Consultant" means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the Authority and who, or each of whom:

- (1) is in fact independent and not under the domination of the Authority;
- (2) does not have any substantial interest, direct or indirect, with the Authority; and
- (3) is not connected with the Authority as a member, officer or employee of the Authority, but who may be regularly retained to make annual or other reports to the Authority.

"Information Services" means any of the following services which has been designated in a certificate of the Authority delivered to the Trustee: Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Call Notification; Standard & Poor's Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; or such other services providing information with respect to called bonds as the Authority may designate in a certificate of the Authority delivered to the Trustee.

"Initial Amount" means the Accreted Value of a Capital Appreciation Obligation on its date of issuance and delivery to the original purchaser thereof.

"Interest Account" means the account by that name in the Special Fund established pursuant to the Indenture.

"Interest Payment Date" means, with respect to a Series of Bonds, each date on which interest on Bonds of such Series is scheduled to be paid as set forth in, or determined in accordance with, the Supplemental Indenture authorizing the issuance of such Series.

"Issuing Instrument" means any, indenture, trust agreement or other instrument or agreement under which Obligations are issued.

"Master Indenture" means the Indenture of Trust, dated *as* of September 1, 2005 between the Authority and the Trustee, as the provisions thereof may be modified or amended from time to time in accordance with the Indenture.

"Maximum Annual Adjusted Combined Debt Service" means, with respect to a certificate to be delivered in connection with Additional Parity Obligations pursuant to the Indenture, as of any date and with respect to the Applicable Combined Obligations, the maximum amount of Adjusted Combined Debt Service becoming due on the Applicable Combined Obligations in the then current or any future Fiscal Year, as adjusted as provided in this definition and calculated by the Authority or by a Consultant. For purposes of calculating Maximum Annual Adjusted Combined Debt Service, the determination of Combined Debt Service on the Applicable Combined Obligations coming due in each Fiscal Year shall be subject to the Debt Service Adjustments and Assumptions.

"Moody's" means Moody's Investors Service, Inc. and any successor entity rating Parity

Obligations at the request of the Authority.

"Net Payment" means with respect to a Qualified Swap Agreement, the net amount payable or receivable by the Authority in connection with each scheduled payment date (other than Termination Payments) under such Qualified Swap Agreement. For purposes of the calculations required in the Indenture, if a Net Payment is payable by the Authority, it shall be expressed as a positive number and if a Net Payment is receivable by the Authority, it shall be expressed as a negative number.

"Net Proceeds" means the proceeds from insurance or from actual or threatened condemnation or eminent domain actions with respect to the Water Enterprise or the Wastewater Enterprise, less any costs reasonably expended by the Authority to receive such proceeds.

"Net Wastewater Revenues" means, for any Bond Year, an amount equal to all of the Gross Wastewater Revenues received with respect to such Bond Year minus the amount required to pay all Wastewater Operation and Maintenance Costs becoming payable with respect to such Bond Year.

"Net Water Revenues" means, for any Bond Year, an amount equal to all of the Gross Water Revenues received with respect to such Bond Year minus the amount required to pay all Water Operation and Maintenance Costs becoming payable with respect to such Bond Year.

"Nominee" means the nominee of the Securities Depository for the Book-Entry Bonds in whose name such Bonds are to be registered. The initial Nominee shall be Cede & Co., as the nominee of DTC.

"Obligations" means (a) obligations with respect to borrowed money and includes bonds, notes or other evidences of indebtedness, installment purchase payments under any contract, and lease payments under any financing or capital lease (determined to be such in accordance with Generally Accepted Accounting Principles), which are payable from the Pledged Utility Revenues, (b) obligations to replenish any debt service reserve fund with respect to obligations of the Authority described in (a) above; (c) obligations secured by or payable from any of obligations of the Authority described in (a) above; (d) obligations payable from the Pledged Utility Revenues and entered into in connection with, relating to, or otherwise serving as a hedge with respect to, an obligation described in (a), (b) or (c) above under any Public Finance Contract; and (e) Credit Provider Reimbursement Obligations.

"One Month USD LIBOR Rate" means the British Banker's Association average of interbank offered rates in the London market for United States dollar deposits for a one month period as reported in the Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the Authority.

"Opinion of Bond Counsel" means a written opinion signed by Bond Counsel.

"Outstanding" when used as of any particular time with respect to Obligations, means, except as otherwise provided in the Indenture, all Obligations theretofore or thereupon being issued by the Authority, except (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions of the Issuing Instrument pursuant such Obligations were issued; (c) Obligations in lieu of or in substitution for which replacement Obligations have been issued; and (d) prior to the applicable Crossover Date, Refunding Parity Obligations which are Crossover Refunding Obligations.

"Parity Obligations" means Bonds and any Obligations which are payable from the Pledged Utility Revenues on a parity with the payment of the Bonds and which satisfy the applicable conditions of the Indenture, including without limitation Credit Provider Reimbursement Obligations and Net Payments due under Qualified Swap Agreements. Parity Obligations include the 2005 Bonds and the 2005 Swap (excluding any Termination Payments thereunder).

"Participants" means, with respect to a Securities Depository for Book-Entry Bonds, those participants listed in such Securities Depository's book-entry system as having an interest in such Bonds.

"Paying Agent" means, with respect to a Series of Bonds, the Trustee and any banking corporation, banking association or trust company designated as paying agent for such Series of Bonds pursuant to the Indenture, and its successor or successors appointed in the manner provided in the Indenture.

"Permitted Investments" means any of the following obligations if and to the extent that they are permissible investments of funds of the Authority as stated in its current investment policy (the Trustee may rely on the investment directions of the Authority that the investment is approved by the Authority's investment policy) and to the extent then permitted by law:

(a) Federal Securities;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

-Export-Import Bank

-Rural Economic Community Development Administration -

U.S. Maritime Administration

-Small Business Administration

-U.S. Department of Housing & Urban Development (PHAs) -

Federal Housing Administration

-Federal Financing Bank

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

-Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

-Obligations of the Resolution Funding Corporation

(REFCORP) -Senior debt obligations of the Federal

Home Loan Bank System

-Senior debt obligations of other Government Sponsored Agencies acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support

Agreement.

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-i" by Moody's and "A-I" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "P- 1" by Moody's and "A- 1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(g) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any Authority, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Federal Securities, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2IA" or higher by both Moody's and S&P;

(i) Investment agreements acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement (supported by appropriate opinions of counsel);

(j) Any state administered pool investment fund in which the Authority is statutorily permitted or required to invest will be deemed a permitted investment, including, but not limited to the Local Authority Investment Fund in the treasury of the State;

(k) California Asset Management Program (CAMP); and

(l) Other forms of investments (including repurchase agreements) acceptable to each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement.

For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and

As to any investment not specified above: the value thereof established by prior agreement among the Authority, the Trustee, and each Credit Provider whose acceptance is required by a Supplemental Indenture or a Credit Support Agreement.

"Person" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any authority or political subdivision thereof.

"Pledged Utility Revenues" means (a) the Net Wastewater Revenues plus the Net Water Revenues plus Purchased Securities Revenues, and (b) all receipts and payments made to the Authority pursuant to Public Finance Contracts entered into in connection with any Bonds.

"Principal Account" means the account by that name in the Special Fund established pursuant to the Indenture.

"Principal Office" means, with respect to: (i) the Trustee, the principal corporate trust office of the Trustee in Los Angeles, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted, or the principal corporate trust office of any successor Trustee; and (ii) a Paying Agent or a Credit Provider, the office designated as such in writing by such party to the Trustee.

"Project" means the financing of improvements to the Water Enterprise and the Wastewater Enterprise.

"Proportionate Share" means the percentage of the proceeds of a Series of Bonds allocated separately to the Wastewater Enterprise and the Water Enterprise, as specified in the Supplemental Indenture with respect to such Series of Bonds, being 51% to the Wastewater Enterprise and 49% to the Water Enterprise with respect to the 2005 Series A Bonds and 0% to the Wastewater Enterprise and 100% to the Water Enterprise with respect to the 2005 Series B Bonds.

"Public Finance Contract" means (i) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (ii) any contract to exchange cash flows or a series of payments, or (iii) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the Authority and a counterparty.

"Purchase Price" means: (i) with respect to Bonds of any Series, the purchase price set forth in the Supplemental Indenture authorizing the Bonds of such Series to be paid to the Owners of such Bonds when such Bonds are tendered for purchase or deemed tendered for purchase in accordance with the provisions of such Supplemental Indenture; and (ii) with respect to other Parity Obligations, the purchase price set forth in the Issuing Instrument authorizing such Parity Obligations to be paid to the owners of such Parity Obligations when such Parity Obligations are tendered or deemed tendered for purchase in accordance with the provisions of such Issuing Instrument.

"Purchased Securities" means the Adelanto Public Financing Authority Local Agency Third Subordinated Revenue Bonds, 1995 Series C and the Adelanto Public Financing Authority Local Agency Fourth Subordinated Revenue Bonds, 1995 Series D, transferred from the Water Authority to the Authority.

"Purchased Securities Revenues" means all amounts received, including principal and interest payments, with respect to the Purchased Securities.

"Qualified Cap" means a Public Finance Contract under which all of the following apply:

(a) the term of the Public Finance Contract is coterminous with the maturity of the Capped Bonds, (b) the initial notional amount of the Public Finance Contract is equal to the initial principal amount of the Capped Bonds and the notional amount of the Public Finance Contract reduces at the same times and in the same amounts as the scheduled payment of principal (whether at maturity or as a result of mandatory sinking account redemption) of the Capped Bonds, and (c) the counterparty's payment obligations under the Public Finance Contract are equal to the interest payable on the Capped Bonds above a specified interest rate.

"Qualified Swap Agreement" means a Public Finance Contract, the Authority's obligations to make Net Payments under which are payable from the Pledged Utility Revenues on a parity with the payment of other Parity Obligations and satisfying the conditions of the Indenture, intended to place Parity Obligations or the applicable investments on the interest rate, currency, cash flow or such other basis desired by the Authority.

"Rate Stabilization Requirement" means the amount of \$2,100,000.

"Rating Agency" means, as of any time and to the extent it is then providing or maintaining a rating on Parity Obligations at the request of the Authority, each of Moody's, Standard & Poor's or Fitch, or in the event that neither Moody's, Standard & Poor's or Fitch then maintains a rating on Parity Obligations at the request of the Authority, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the Authority.

"Rating Category" means (1) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (2) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

"Rating Confirmation" means written evidence from each Rating Agency then rating Outstanding Parity Obligations at the request of the Authority to the effect that, following the event which requires the Rating Confirmation, the then current rating for each Outstanding Parity Obligation shall not be lowered or withdrawn solely as a result of the occurrence of such



event.

"Record Date" means, with respect to an Interest Payment Date for a Series of Bonds, the date or dates specified as such in the Supplemental Indenture authorizing such Series of Bonds.

"Redemption Date" means, with respect to any Bonds to be redeemed in accordance with the Indenture and the Supplemental Indenture authorizing such Bonds, the redemption date set forth in notice of redemption of such Bonds given in accordance with the terms of the Indenture.

"Redemption Fund" means the Adelanto Public Utility Authority Revenue Bonds Redemption Fund established pursuant to the Indenture.

"Redemption Price" means, with respect to any redemption of a Bond prior to its maturity, the amount to be paid upon such redemption of the Bond as set forth in, or determined in accordance with, the Supplemental Indenture authorizing such Bond.

"Refunding Bonds" means Bonds issued in accordance with the terms and conditions of the Indenture for the purposes, and satisfying the conditions of the Indenture.

"Refunding Parity Obligations" means Parity Obligations, including Refunding Bonds, issued for the purposes set forth in the Indenture and satisfying the conditions set forth in the Indenture.

"Representation Letter" the letter or letters of representation from the Authority to, or other instrument or agreement with, a Securities Depository for Book-Entry Bonds, in which the Authority, among other things, makes certain representations to the Securities Depository with respect to the Book-Entry Bonds, the payment thereof and delivery of notices with respect thereto.

"Reserve Financial Guaranty" means a policy of municipal bond insurance or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category (without regard to qualifiers) by Standard & Poor's and Moody's and, if rated by A.M. Best & Company, also in the highest rating category (without regard to qualifiers) by AM. Best & Company.

"Reserve Financial Guaranty Provide?" means an issuer of a Reserve Financial Guaranty.

"Rule 15c2-12" means Rule 15c2-12 of the Securities and Exchange Commission adopted pursuant to the Securities Exchange Act of 1934, as amended, as the same may be amended and supplemented from time to time.

"Second Supplemental Indenture" means the Second Supplemental Indenture of Trust, dated as of September 1, 2005, between the Authority and the Trustee supplementing the Indenture.

"Securities Depository" means a trust company or other entity which provides a book-entry system for the registration of ownership interests of Participants in securities and which is acting as security depository for Book- Entry Bonds.

"Serial Obligations" means Obligations for which no Sinking Fund Installments

are established. "Serial Parity Obligations" means Serial Obligations which are

Parity Obligations.

"Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated in the Issuing Instrument pursuant to which such Obligations were issued as a separate issue or series of Obligations.

"Sinking Fund Account" means the account by that name in the Special Fund established pursuant to the Indenture.

"Sinking Fund Installment" means, with respect to any Term Parity Obligations, each amount so designated for such Term Parity Obligations in the Issuing Instrument authorizing the issuance of such Parity Obligations requiring payments by the Authority from the Pledged Utility Revenues to be applied to the retirement of such Parity Obligations on and prior to the stated maturity date thereof.

"Special Fund" means the Adelanto Public Utility Authority Revenue Bonds Special Fund established pursuant to the Indenture.

"Standard & Poor's" means Standard & Poor's Rating Services and any successor entity rating Parity Obligations at the request of the Authority.

"State" means the State of California.

"Subordinated Obligation" means any Obligation which is expressly made subordinate and junior in right of payment from the Pledged Utility Revenues to the payment of Parity Obligations and which complies with the provisions of the Indenture, including Termination Payments under the 2005 Swap.

"Supplemental Indenture" means any supplemental indenture supplementing or amending the Indenture as theretofore in effect, entered into by the Authority and the Trustee in accordance with the Indenture.

"Tax Certificate" means a certificate relating to the requirements of the Code signed on behalf of the Authority and delivered in connection with the issuance of a Series of Bonds.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Tax-Exempt Securities" means bonds, notes or other securities the interest on which is Tax-Exempt.

"TBMA Index" means The Bond Market Association Municipal Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, Tax-Exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by The Bond Market Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successors, then "TBMA Index" shall mean such other reasonably comparable index selected

by the Authority.

"Tender Indebtedness" means any Parity Obligations or portions of Parity Obligations, a feature of which is an option or obligation, on the part of the owners thereof under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the Authority, a fiscal agent, a paying agent, a tender agent or other agent for purchase and requiring that such Parity Obligations or portions thereof be purchased at the applicable Purchase Price if properly presented.

"Term Obligations" means Obligations which are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

"Term Parity Obligations" means Term Obligations which are Parity Obligations.

"Termination Payment" means with respect to a Qualified Swap Agreement, amounts payable by the Authority other than Net Payments under such Qualified Swap Agreement

"Trustee" means Union Bank of California, N.A., as trustee for the Bonds under the Indenture and any successor satisfying the requirements of the Indenture.

"Variable Rate Indebtedness" means any Obligation, the interest rate on which to the maturity thereof is not established at a rate which is not subject to fluctuation or subsequent adjustment, either at the time of issuance of such Obligation or some subsequent date.

"Wastewater Enterprise" means the entire wastewater collection and treatment system currently owned or operated by the Authority and all improvements thereto, including but not limited to all facilities, properties and improvements at any time owned or operated by the Authority for the wastewater collection and treatment service provided to residents thereby, whether within or without the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the Authority.

"Wastewater Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid for maintaining and operating the Wastewater Enterprise, including but not limited to (a) costs of wastewater collection and treatment services to be provided by the Wastewater Enterprise, (b) cost of electricity and other forms of energy supplied to the Wastewater Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Wastewater Enterprise, but in all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Wastewater Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Wastewater Purchase Agreement" means the Purchase Agreement dated as of November 1, 1996, by and between the Authority and the City, relating to the purchase of the Wastewater Enterprise by the Authority from the City, as amended from time to time.

"Wastewater Purchase Payments" means amounts payable by the Authority to the City pursuant to the Wastewater Purchase Agreement.

"Water Authority" means the Adelanto Water Authority, a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of November 15, 1995, by and between the Agency and the City.

"Water Enterprise" means the entire water treatment, production, storage and distribution system purchased by the Authority from the Water Authority pursuant to the Water Enterprise Purchase Agreement, and all improvements thereto, including but not limited to all facilities, properties and improvements at any time owned or operated by the Authority for the collection, treatment and supply of water to residents served thereby, whether within or without the City, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the Authority.

"Water Enterprise Purchase Agreement" means the Water Enterprise Purchase Agreement dated as of February 1, 2000, by and between the Authority and the Water Authority, relating to the purchase of the Water Enterprise by the Authority from the Water Authority, as amended from time to time.

"Water Operation and Maintenance Costs" means the reasonable and necessary costs and expenses paid for maintaining and operating the Water Enterprise, including but not limited to (a) costs of acquisition of water to be supplied by the Water Enterprise, (b) cost of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order and (d) the reasonable administrative costs of the Authority attributable to the operation and maintenance of the Water Enterprise, but *in* all cases excluding (i) debt service payable on obligations incurred by the Authority with respect to the Water Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

"Water Purchase Payments" means the amounts payable by the Authority to the City pursuant to the Water Enterprise Purchase Agreement.

"2000 Bonds" means, collectively, the Adelanto Public Utility Authority Variable Rate Revenue Bonds, 2000 Series A (Utility System Project); the Adelanto Public Utility Authority Variable Rate Revenue Bonds, 2000 Series B (Utility System Project); and the Adelanto Public Utility Authority Variable Rate Taxable Revenue Bonds, 2000 Series C (Utility System Project).

"2000 Bonds Indenture" means the Indenture of Trust dated as of February 1, 2000, by and between the Authority and the BNY Western Trust Company, as trustee, providing for the issuance of the 2000 Bonds.

"2005 Bonds" means the 2005 Series A Bonds and the 2005 Series B Bonds.

"2005 Series A Bonds" means the Bonds authorized by the First

Supplemental Indenture. "2005 Series B Bonds" means the Bonds authorized

by the Second Supplemental Indenture.

"2005 Swap" means the transactions entered into with respect to the 2005 Bonds pursuant to that certain ISDA Master Agreement, dated as of September 7, 2005, as supplemented by the Schedule thereto, and evidenced by the Confirmations numbered 138810, 138811 and 138813,

each dated September 7, 2005, and each between the Authority and Piper Jaffray Financial Products Inc., the Replacement Swap Undertaking, entered into as of September 7, 2005, among Piper Jaffray Financial Products Inc., the Authority and Morgan Stanley Capital Services Inc. and the replacement swap entered into pursuant thereto, and the Credit Support Annex, dated as of September 7, 2005, between the Authority and Morgan Stanley Capital Services Inc.

## THE INDENTURE

### Authorization of Bonds

The Indenture provides certain terms and conditions upon which Bonds of the Authority to be designated as "Adelanto Public Utility Authority Revenue Bonds," may be issued from time to time as authorized by Supplemental Indentures. The aggregate principal amount of Bonds which may be executed, authenticated and delivered under the Indenture is not limited except as may hereafter be provided in the Indenture or as may be limited by law.

The Bonds may be issued in one or more Series, and the designation thereof, in addition to the name "Adelanto Public Utility Authority Revenue Bonds," shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the Authority may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

#### *Bonds Constitute Limited Obligations*

The Bonds shall not constitute a charge against the general credit of the Authority but shall constitute and evidence limited obligations of the Authority payable *as* to principal, Redemption Price, if any, and interest solely from the Pledged Utility Revenues and the other funds pledged therefor under the Indenture and, with respect to any particular Series of Bonds, from such other sources as shall be specified in the Supplemental Indenture authorizing the issuance of such Series. The Purchase Price for the Bonds of any Series which are Tender Indebtedness shall be payable from such sources as are specified in the Supplemental Indenture authorizing the issuance of such Series. The provisions of the Indenture shall not preclude the payment or redemption of Bonds, at the election of the Authority, from any other legally available fluids.

The Bonds are not secured by a legal or equitable pledge of, or lien or charge upon, any property of the Authority or any of its income or receipts except the Pledged Utility Revenues pledged therefor pursuant to the Indenture which pledge is subject to the provisions of the Indenture permitting the application of the Pledged Utility Revenues for the purposes and on the terms and conditions set, forth therein. All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the Pledged Utility Revenues, which lien on, security interest in and pledge of the Pledged Utility Revenues shall be on a parity with any pledge of Pledged Utility Revenues securing Parity Obligations, including without limitation Credit Support Agreements for Parity Obligations and Qualified Swap Agreements, and the Pledged Utility Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds and for such Parity Obligations. The Bonds are not a debt of the City, the Agency, the State of California or any of its political subdivisions, and neither said City, said Agency, said State nor any of its political subdivisions is liable therefor, nor in any event shall the payment of the principal or Redemption Price of or interest on the Bonds constitute a debt, liability or obligation of any public agency (other than the limited obligation of the Authority *as* provided in the Indenture). The Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Authority nor any persons executing the Bonds are liable personally on the Bonds by reason of their issuance. No member, officer or employee of the Authority shall be individually or personally liable for the payment of the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertakings by the

Authority under the Indenture; but nothing contained in the Indenture shall relieve any member, officer or employee of the Authority from the performance of any official duty provided by law. The face of each Bond shall contain a legend to the effect set forth under this heading.

#### *Indenture to Constitute Contract*

In consideration of the purchase and acceptance of each Bond issued under the Indenture by those who shall own the same from time to time, the provisions of each Bond and the provisions of the Indenture applicable to such Bond, and unless otherwise provided in the Supplemental Indenture authorizing such Bond, the provisions of the State Constitution, the Bond Law and any general laws of the State applicable to such Bond, shall be deemed to be and shall constitute a contract between the Authority and the Owner of such Bond.

#### *General Provisions for Issuance of Bonds*

All (but not less than all) the Bonds of each Series shall be executed by the Authority for issuance under the Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the Authority or upon its order, but only upon the receipt by the Trustee of the following items (upon which the Trustee may conclusively rely in determining whether the conditions precedent for the issuance and authentication of such Series of Bonds have been satisfied):

- (l) An executed counterpart of the Indenture, as amended to the date of the initial delivery of such Series of Bonds, and an executed counterpart of the Supplemental Indenture authorizing the issuance of such Series of Bonds, which Supplemental Indenture shall specify: (i) the sources of payment for the Bonds of such Series other than the Pledged Utility Revenues, if any; (ii) the Series designation of such Bonds; (iii) the authorized principal amount of the Bonds of such Series; (iv) the purposes for which such Series of Bonds are being issued, which shall be one of the purposes specified in the Indenture; (v) the date or manner of determining the date of the Bonds of such Series; (vi) the maturity date or dates of the Bonds of such Series and the principal amount of the Bonds of such Series maturing on each such maturity date; (vii) which, if any, of the Bonds of such Series shall constitute Serial Obligations and which, if any, shall constitute Term Obligations; (viii) the interest rate or rates on the Bonds of such Series or the manner of determining such interest rate or rates; (ix) the Interest Payment Dates for the Bonds of such Series or the manner of establishing such Interest Payment Dates; (x) the Authorized Denominations of the Bonds of such Series; (xi) the Redemption Price or Prices, if any, and, subject to the Indenture, the redemption terms for the Bonds of such Series; (xii) the Sinking Fund Installments, if any, for the Bonds of such Series which constitute Term Obligations, provided that each Sinking Fund Installment, if any, shall fall upon an Interest Payment Date for the Bonds of such Series; (xiii) if any of the Bonds of such Series constitute Tender Indebtedness, the terms and conditions, including Purchase Price, for the exercise by the Owners or Beneficial Owners of such Bonds of the purchase and extension options granted with respect to such Bonds and the terms and conditions, including Purchase Price, upon which the Bonds of such Series shall be subject to mandatory tender for purchase; (xiv) if the Bonds of such Series are not to be Book-Entry Bonds, a statement to such effect; (xv) the application of the proceeds of the sale of such Series of Bonds including the amount, if any, to be deposited in the funds and accounts under the Indenture; (xvi) the forms of the Bonds of such Series and of

the certificate of authentication thereon; and (xvii) the appropriate funds and accounts, if any, relating to such Series of Bonds established under such Supplemental Indenture;

- (2) an Opinion of Bond Counsel, dated the date of the initial delivery of such Series of Bonds, to the effect that the Indenture, as amended to such date, as supplemented by the Supplemental Indenture authorizing the issuance of such Series of Bonds, constitutes the valid and binding obligations of the Authority;
- (3) With respect to any Additional Bonds other than the 2005 Bonds, the Trustee shall have received the certificate referred to in the Indenture, as applicable;
- (4) With respect to any Refunding Bonds which are not Crossover Refunding Obligations, the Trustee shall have received a copy of the Opinion of Bond Counsel required in the Indenture or with respect to Refunding Bonds constituting Crossover Refunding Obligations, the Accountant's Certificate and Crossover Escrow Instructions required by the Indenture as applicable; and
- (5) Such further documents, moneys and securities as are required by the applicable provisions of the Indenture or of the Supplemental Indenture authorizing the issuance of such Series of Bonds.

After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to the Indenture.

#### *Additional Bonds*

One or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for any purpose permitted by the Bond Law. Additional Bonds may be issued in a principal amount sufficient to pay such costs, including making of any deposits into the funds or accounts required by the provisions of the Indenture.

#### *Refunding Bonds*

One or more Series of Refunding Bonds may be issued, authenticated and delivered upon original issuance for the purpose of refunding all or any portion of the Outstanding Parity Obligations. Refunding Bonds may be issued in a principal amount sufficient to accomplish such refunding including providing amounts for the Costs of Issuance of such Refunding Bonds, and the making of any deposits into the funds and accounts required by the provisions of the Indenture.

Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by the Indenture and except as otherwise provided under this heading with respect to Refunding Bonds constituting Crossover Refunding Obligations) of an Opinion of Bond Counsel to the effect that the Parity Obligations (or the portion thereof) to be refunded are deemed paid pursuant to the Issuing Instrument authorizing such Parity Obligations. Such Opinion of Bond Counsel may rely upon an Accountant's Certificate *as* to the sufficiency of available funds to pay such Parity Obligations. The Trustee may conclusively rely on such Opinion of Bond Counsel in determining whether the conditions precedent for the issuance and authentication of such Series of Refunding Bonds have been satisfied.



A Series of Refunding Bonds which constitute Crossover Refunding Obligations shall be authenticated and delivered by the Trustee upon the receipt of the Trustee (in addition to the other documents required by the Indenture) of: (i) an Accountant's Certificate to the effect that the moneys scheduled to be available in the applicable Crossover Refunding Escrow are sufficient to pay the applicable Crossover Escrow Requirements when due; and (ii) a copy of the Crossover Escrow Instructions relating to such Series of Refunding Bonds and the Parity Obligations to be refunded.

The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Indenture authorizing such Series of Refunding Bonds.

#### *Conditions to Issuance of Parity Obligations*

Without regard to the second to last paragraph under this heading, the Authority may, at any time and from time to time, issue or enter into an obligation or commitment which is a Qualified Swap Agreement, the Net Payments under which shall constitute Parity Obligations, provided that on the date the Qualified Swap Agreement is executed: (i) the Qualified Swap Agreement shall relate to a principal amount of Outstanding Parity Obligations or investments held under an Issuing Instrument for Parity Obligations, in each case specified by an Authorized Representative; (ii) the notional amount of the Qualified Swap Agreement shall not exceed the principal amount of the related Parity Obligation or the amount of such investments, as applicable; and (iii) the Authority has received a Rating Confirmation from each Rating Agency with respect to such Qualified Swap Agreement.

The Authority may, at any time and from time to time, issue Refunding Parity Obligations provided that either: (i) the requirements set forth in the second to last paragraph under this heading are satisfied upon the issuance of such Refunding Parity Obligations and the application of the proceeds thereof or (ii) the Authority has provided to the Trustee a certificate showing that the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, such Refunding Parity Obligations and any unsubordinated loans, advances or indebtedness payable from Pledged Utility Revenues is not greater than the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, and any unsubordinated loans if such Refunding Bonds were not issued.

Without regard to the second to last paragraph under this heading, the Authority may issue the 2005 Bonds and may enter into Qualified Swap Agreements with respect to all or a portion of the 2005 Bonds.

Without regard to the second to last paragraph under this heading, the Authority may, at any time and from time to time, enter into Credit Support Agreements or otherwise become obligated for Credit Provider Reimbursement Obligations with respect to Parity Obligations.

The Authority may, at any time and from time to time, issue any Additional Parity Obligations, provided that, calculated in accordance with sound accounting principles, as shown by the books of the Authority for the most recent Fiscal Year for which audited financial statements are available, or for any more recent consecutive twelve (12) month period selected by the Authority, in either case verified by a certificate or opinion of an Independent Certified Public Accountant or an Independent Financial Consultant: (i) the Pledged Utility Revenues are at least equal to one hundred twenty-five percent (125%) of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including

the Parity Obligations then proposed to be issued; and (ii) the Pledged Utility Revenues (excluding connection fee charges) are at least equal to one hundred percent (100%) of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued.

Nothing contained in the Indenture shall limit the issuance of any bonds of the Authority payable from Pledged Utility Revenues and secured by a lien and charge on Pledged Utility Revenues if, after the issuance and delivery of such revenue bonds, none of the Parity Obligations theretofore issued under the Indenture or other Issuing Instrument will be Outstanding.

#### *Conditions of Issuance of Subordinated Obligations*

The Authority may, at any time or from time to time, issue Subordinated Obligations without satisfying the requirements of the Indenture for any purpose in connection with the Project, including, without limitation, the financing of costs of the Project (or for making reimbursements to the Authority for such costs theretofore paid by it) or the refunding of any Subordinated Obligations or Outstanding Parity Obligations (or portions thereof). Such Subordinated Obligations shall be payable out of amounts of the Pledged Utility Revenues as may from time to time be available therefor, provided that any such payment shall be, and shall be expressed to be, subordinate and junior in all respects to the payment of such Parity Obligations as may be Outstanding from time to time, including Parity Obligations issued after the issuance of such Subordinated Obligations.

The indenture or other instrument authorizing the issuance of Subordinated Obligations shall contain provisions (which shall be binding on all owners of such Subordinated Obligations) not more favorable to the owners of such Subordinated Obligations than the following:

- (1) In the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Authority or to its creditors, *as such*, or to its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Authority, whether or not involving insolvency or bankruptcy, the owners of all Outstanding Parity Obligations shall be entitled to receive payment in full in cash of all principal, interest and Net Payments on all such Parity Obligations before the owners of the Subordinated Obligations are entitled to receive any payment from the Pledged Utility Revenues with respect to the Subordinated Obligations, including Termination Payments.
- (2) In the event that any Subordinated Obligation is declared due and payable before its expressed maturity because of the occurrence of an event of default (under circumstances when the provisions of (1) above shall not be applicable), the owners of all Parity Obligations Outstanding at the time such Subordinated Obligation so becomes due and payable because of such event of default, shall be entitled to receive payment in full in cash of all principal, interest and Net Payments on all such Parity Obligations before the owners of such Subordinated Obligation are entitled to receive any accelerated payment from Pledged Utility Revenues with respect to such Subordinated Obligation. For purposes of this subdivision (2), a Termination Payment shall not be considered a declaration of amounts due and payable before expressed maturity even if declared due and payable because of the occurrence of an event of default.

- (3) If any default with respect to any Outstanding Parity Obligation shall have occurred and be continuing (under circumstances when the provisions of (1) above shall not be applicable), the owners of all Outstanding Parity Obligations shall be entitled to receive payment in full in cash of all principal and interest and other amounts payable on all such Parity Obligations as the same become due and payable in accordance with the provisions of the Issuing Instrument authorizing the issuance of such Parity Obligations before the owners of the Subordinated Obligations are entitled to receive, subject to the provisions of (5) below, any payment from the Pledged Utility Revenues with respect to the Subordinated Obligations.
- (4) No Bondowner or other owner of Outstanding Parity Obligations shall be prejudiced in his right to enforce subordination of the Subordinated Obligations by any act or failure to act on the part of the Authority or the Trustee.
- (5) The Subordinated Obligations may provide that the provisions (1), (2), (3) and (4) above are solely for the purpose of defining the relative rights of the Owners of the Bonds and the owners of all other Outstanding Parity Obligations on the one hand, and the owners of Subordinated Obligations on the other hand, and that nothing therein shall impair, as between the Authority and the owners of the Subordinated Obligations, the obligation of the Authority, which may be unconditional and absolute, to pay to the owners of such Subordinated Obligations the principal thereof and premium, if any, and interest thereon and Net Payments and Termination Payments payable thereunder in accordance with their terms, nor shall anything therein prevent the owners of the Subordinated Obligations from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights under (1), (2), (3) and (4) above of the Owners of Outstanding Bonds and the owners of other Outstanding Parity Obligations to receive payment from the Pledged Utility Revenues otherwise payable or deliverable to the owners of the Subordinated Obligations; and the Subordinated Obligations may provide that, insofar as a trustee, fiscal agent or paying agent for such Subordinated Obligations is concerned, the foregoing provisions shall not prevent the application by such trustee, fiscal agent or paying agent of any moneys deposited with such trustee, fiscal agent or paying agent for the purpose of the payment of or on account of the principal (and premium, if any) and interest on such Subordinated Obligations if such trustee, fiscal agent or paying agent did not have knowledge at the time of such application that such payment was prohibited by the foregoing provisions.

Any Subordinated Obligations may have such rank or priority with respect to any other Subordinated Obligations as may be provided in the indenture or other instrument, authorizing the issuance or incurrence, or securing of such Subordinated Obligations and may contain such other provisions as are not in conflict with the provisions of the Indenture.

#### *Credit Provider Bonds*

Subject only to the Indenture, Bonds which are Credit Provider Bonds shall have terms and conditions, including terms of maturity, payment, prepayment and interest rate, as shall be

specified in the applicable Credit Support Agreement.

*Limitation on Issuance of Debt on a Priority Basis*

The Authority covenants that so long as any Parity Obligations are Outstanding, the Authority shall not issue any debt which is on a priority basis to any Parity Obligations.

**Establishment of Funds and Application Thereof**

**Pledge of Pledged Utility Revenues.** Subject to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth in the Indenture, to secure the payment of all the Outstanding Bonds and Parity Obligations, including without limitation Credit Provider Bonds, and the interest payments becoming due thereon according to their tenor, purport and effect, and to secure the performance and observance of all of the covenants, agreements and conditions contained in the Outstanding Bonds, including without limitation Credit Provider Bonds, and the Indenture, the Authority irrevocably grants a lien on and a security interest in, and pledges, the Pledged Utility Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture, whether held by the Authority or the Trustee, to the Trustee for the benefit of the Owners of the Outstanding Bonds, including without limitation Credit Provider Bonds, and any Parity Obligations, including without limitation Credit Support Agreements for Parity Obligations and Qualified Swap Agreements. This lien on and security interest in and pledge of the Pledged Utility Revenues and such money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture shall constitute a first pledge of and charge and lien upon the Pledged Utility Revenues and such money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture, shall immediately attach and be effective, binding, and enforceable against the Authority, its successors, purchasers of any of the Pledged Utility Revenues or such money in the Special Fund or in the funds or accounts so specified and provided for in the Indenture, creditors, and all others asserting rights therein to the extent set forth in, and in accordance with, the Indenture, irrespective of whether those parties have notice of the lien on, security interest in and pledge of the Pledged Utility Revenues and such money in the Special Fund and in the funds or accounts so specified and provided for in the Indenture and without the need for any physical delivery, recordation, filing or further act. All Pledged Utility Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority *as* the agent of the Trustee and shall be paid by the Authority to the Trustee pursuant hereto.

*Funds.* To ensure the payment when due and payable, whether at maturity or upon redemption or upon acceleration, of the principal of, Redemption Price, if any, and interest on the Bonds and all Parity Obligations, the Indenture establishes the following funds and accounts, to be held and maintained by the Trustee and applied as provided in the Indenture for so long as any of the Bonds are Outstanding:

- (a) the Adelanto Public Utility Revenue Bonds Special Fund (the "Special Fund"), comprised of an Interest Account, a Principal Account, a Sinking Fund Account and a Debt Service Reserve Account; and
- (b) the Adelanto Public Utility Revenue Bonds Redemption Fund (the "Redemption Fund") and the Net Proceeds Account therein; and
- (c) the Adelanto Public Utility Revenue Bonds Rate Stabilization

Fund (the "Rate Stabilization Fund").

*Deposits.* (a) All moneys held by any Fiduciary under the Indenture may be placed on demand or time deposit, if and as directed by the Authority, provided that such deposits shall permit the moneys so held to be available for use at the time when reasonably expected to be needed. No Fiduciary shall be liable for any loss or depreciation in value resulting from any investment made pursuant to the Indenture. Any such deposit may be made in the commercial banking department of any Fiduciary or its affiliates which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the Authority and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when reasonably expected to be needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

(b) All moneys held under the Indenture by any Fiduciary shall be (1) either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or (B) continuously and fully secured by lodging with the Trustee or any Federal Reserve Bank, as custodian, as collateral security, such securities as are described in clauses (a) through (c), inclusive, of the definition of "Permitted Investments" in the Indenture having a market value (exclusive of accrued interest) not less than the amount of such moneys, or (2) held in such other manner as may then be required by applicable Federal or State of California laws and regulations and applicable state laws and regulations of the state in which such Fiduciary is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Fiduciaries to give security under this heading for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal amount or Redemption Price of, or interest on, any Bonds or to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

(c) All moneys deposited with a Fiduciary shall be credited to the particular Fund to which such moneys belong.

**Investment of Certain Funds,** Moneys held in the Special Fund shall be invested and reinvested by the Trustee to the fullest extent practicable in Permitted Investments which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds. Moneys held in the Debt Service Reserve Account shall be invested and reinvested by the Trustee to the fullest extent practicable in securities described in clauses (a), (b), (c), (d), (f) and (g) of the definition of "Permitted Investments" in the Indenture which mature, or which may be drawn upon, not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Account, but, except for investments which permit the Trustee to make withdrawals without penalty, at any time upon not more than two Business Days notice, to provide moneys for payments to be made from such Account, not later than five years from the time of such investment. The Trustee shall make all such investments of moneys held by it and shall sell or otherwise liquidate any such investment and take all actions necessary to draw funds under any such investment, including the giving of necessary notices of the drawing of any moneys under any investment, in each case in accordance with directions of an Authorized Representative, which directions shall be consistent with the Indenture and applicable law, and which directions can either be written or oral; provided that if such directions are oral they shall

be promptly confirmed in writing by such Authorized Representative. In the absence of any such written investment directions, the Trustee shall, unless otherwise provided in the Indenture, invest such moneys in the money market funds described in clause (f) of the definition of "Permitted Investments."

Except as otherwise provided in a Supplemental Indenture, interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments in the Funds created under the Indenture shall be paid into the Interest Account.

In making any investment in any Permitted Investments with moneys in any Fund established under the Indenture, any Fiduciary may combine such moneys with moneys in any other Fund but solely for the purposes of making such investment in such Investments and provided that any amount so combined shall be separately accounted for. The Trustee or its affiliate may act as principal or agent in the acquisition or disposition of investments.

Nothing in the Indenture shall prevent any Permitted Investments acquired as investments of moneys in any Fund from being issued or held in book-entry form on the Woks of the Department of the Treasury or the Federal Reserve System of the United States.

**Sale of Investments.** Obligations purchased as an investment of moneys in any Fund shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

Except as otherwise provided in the Indenture, the Trustee may sell at the best price reasonably obtainable, or present for redemption, any obligation purchased as an investment whenever it shall be directed by the Authority so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. Any obligation purchased as an investment may be credited on a pro-rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another, provided that such obligation is an appropriate Permitted Investment for the purposes of the Fund to which it is to be transferred. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

### **Covenants and Obligations of the Authority**

The Authority covenants with the Owners of the Outstanding Bonds and with each Credit Provider and each provider or owner of other Parity Obligations as set forth in the Indenture. Each of said covenants shall remain in full force and effect so long as any of the Bonds shall be Outstanding and unpaid, any Credit Support Instrument remains outstanding, and any Credit Provider Reimbursement Obligations remain unpaid.

**Compliance with Indenture.** The Authority shall punctually pay the Bonds and the other Parity Obligations in strict conformity with the terms of the Indenture and the Bonds and other Parity Obligations, and shall faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be observed and performed by it, and shall not fail to make any payment required by the Indenture for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of

any party to observe or perform any agreement, condition, covenant or term contained in any contract or agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with any such contract or agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of any party or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

**Against Encumbrances.** The Authority will not mortgage or otherwise encumber, pledge or place any charge upon any of the Pledged Utility Revenues, except as provided in the Indenture, and will not issue any bond, note, or other evidence of indebtedness payable from or secured by the Pledged Utility Revenues on a basis which is: (i) in any manner prior or superior to the lien on, pledge of and security interest in the Pledged Utility Revenues securing the Outstanding Bonds pursuant to the Indenture; (ii) except for Parity Obligations with respect to the Pledged Utility Revenues, in any manner on a parity with the lien on, pledge of and security interest in the Pledged Utility Revenues securing the Outstanding Bonds pursuant to the Indenture; or (iii) except for Subordinated Obligations, in any manner subordinate to the lien on, pledge of and security interest in the Pledged Utility Revenues securing the Outstanding Bonds pursuant to the Indenture.

**Extension or Funding of Claims for Interest.** In order to prevent any claims for interest after maturity, the Authority will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any Bonds or other Parity Obligations and will not, directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

**Payment of Claims.** The Authority will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Authority or upon the Pledged Utility Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds and other Parity Obligations; provided that nothing in the Indenture contained shall require the Authority to make any such payments so long as the Authority in good faith shall contest the validity of any such claims.

**Books and Accounts; Financial Statements.** The Authority will keep proper books of record and accounts, separate from all other records and accounts of the Authority, in which complete and correct entries shall be made of all transactions relating to Gross Wastewater Revenues, Gross Water Revenues, Purchased Securities Revenues and all funds and accounts established pursuant to the Indenture. The Authority shall establish and maintain separate bank account(s) for the deposit of all the Gross Wastewater Revenues and Gross Water Revenues. The Authority shall cause to be performed a component audit of the Wastewater Enterprise and the Water Enterprise within 180 days of the end of each Fiscal Year. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding and each provider or owner of other Parity Obligations or their respective representatives authorized in writing.

The Authority will prepare and file with the Trustee, the Credit Provider, if any, and, if requested, each provider or owner of Parity Obligations (other than Owners of Bonds), annually as soon as practicable, but in any event not later than the earlier of two hundred forty (240) days after the close of each Fiscal Year or within thirty (30) days of availability, so long as any Bonds or other Parity Obligations are Outstanding, an audited financial statement relating to the Pledged Utility Revenues and all other funds or accounts established pursuant to the Indenture for the preceding Fiscal Year prepared by an Independent Certified Public Accountant, showing the balances in each such fund as of the beginning of such Fiscal Year and all deposits in and withdrawals from each such fund during such Fiscal Year and the balances in each such fund as of the end of such Fiscal Year, which audited financial statement shall include a statement as to the manner and extent to which the Authority and the Trustee have complied with the provisions of the Indenture as it relates to such funds. The Trustee, at the expense of the Authority, will furnish a copy of such audited financial statement to any Owner upon written request. The Trustee shall provide such statements with regard to any funds held by the Trustee under the Indenture to the Authority as the Authority may reasonably require to comply with the terms of the Indenture. The Trustee shall have no duty to review any financial statements filed with it under the Indenture.

**Protection of Security and Rights of Owners.** The Authority will preserve and protect the security of the Bonds and other Parity Obligations and the rights of the Owners and providers or owners of other Parity Obligations, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Bonds by the Authority, such Bonds shall be incontestable by the Authority.

**Maintenance, Utilities, Taxes and Assessments.** All improvement, repair and maintenance of the Wastewater Enterprise and the Water Enterprise shall be the responsibility of the Authority, and the Authority shall pay for or otherwise arrange for the payment of all utility services supplied to the Wastewater Enterprise and the Water Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Wastewater Enterprise and Water Enterprise resulting from ordinary wear and tear.

The Authority shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority affecting the Wastewater Enterprise and the Water Enterprise or its interest or estate therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Authority shall be obligated to pay only such installments as are required to be paid so long as any Bonds and Parity Obligations remain Outstanding as and when the same become due.

The Authority may, at the Authority's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Trustee shall notify the Authority that, in its opinion, by nonpayment of any such items, the interest of the Owners of the Bonds under the Indenture will be materially adversely affected, in which event the Authority shall promptly pay such taxes, assessments or charges or provide the Trustee with full security against any loss which may result from nonpayment, in form satisfactory to the Trustee.

**Operation of Wastewater Enterprise and Water Enterprise.** The Authority covenants



and agrees to operate the Wastewater Enterprise and the Water Enterprise in an efficient and economical manner and to operate, maintain and preserve the Wastewater Enterprise and Water Enterprise in good repair and working order. The Authority covenants that, in order to fully preserve and protect the priority and security of the Bonds, the Authority shall pay from the Gross Wastewater Revenues or Gross Water Revenues, as appropriate, and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater Enterprise or Water Enterprise which, if unpaid, may become a lien or charge upon the Gross Wastewater Revenues or the Gross Water Revenues prior or superior to the lien granted under the Indenture, or which may otherwise impair the ability of the Authority to pay the Debt Service payments in accordance herewith.

**Budget and Appropriation of Debt Service Payments.** The Authority shall adopt and make all necessary budgets and appropriations of the Debt Service payments from the Net Wastewater Revenues and Net Water Revenues. In the event any Debt Service payment requires the adoption by the Authority of any supplemental budget or appropriation, the Authority shall promptly adopt the same. The covenants on the part of the Authority contained in the Indenture shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Authority to take such action and do such things *as* are required by law in the performance of the official duty of such officials to enable the Authority to carry out and perform the covenants and agreements in the Indenture.

**Public Liability and Property Damage Insurance.** The Authority shall maintain or cause to be maintained, but only in the event and to the extent available from reputable insurers at reasonable cost, a standard comprehensive general insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents, assignees and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Wastewater Enterprise and Water Enterprise. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Authority or the City, and may be maintained in whole or in part in the form of self-insurance by the Authority or the City, subject to the provisions of the Indenture or in the form of the participation by the Authority or the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

**Casualty Insurance; Net Proceeds.** The Authority shall procure and maintain, or cause to be procured and maintained, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Wastewater Enterprise and Water Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Authority and may be maintained in whole or in part in the form of self-insurance by the Authority, subject to the provisions of the Indenture, or in the form of the participation by the Authority in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater Enterprise or Water Enterprise shall be used to repair, rebuild or replace such

damaged or destroyed portion of the Wastewater Enterprise or the Water Enterprise, and to the extent not so applied or to the extent the Authority determines it is not economically feasible or in the best interests of the Authority to so repair, rebuild or replace such damaged or destroyed portion of the Wastewater Enterprise or Water Enterprise, shall be applied to redeem the Bonds and any Parity Obligations.

**Form of Policies.** The Authority shall pay or cause to be paid when due the premiums for all insurance policies required under the Indenture or by the Wastewater Purchase Agreement and the Water Enterprise Purchase Agreement. The Authority shall annually on or before December 1 deliver to the Trustee a certificate to the effect that the Authority *has* complied with the requirements of the Indenture. In the event that any insurance required pursuant to the Indenture shall be provided in the form of self-insurance, the Authority shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the Authority maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the Authority, the Authority shall not be obligated to make any payment with respect to any insured event except from Gross Wastewater Revenues or Gross Water Revenues or from such reserves.

**Eminent Domain.** Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise or Water Enterprise by the lawful exercise of eminent domain, at the election of the Authority (evidenced by a written certificate of the Authority) shall either (a) be used for the acquisition or construction of improvements and extension of the Wastewater Enterprise or Water Enterprise, or (b) be applied to redeem the Bonds and any Parity Obligations.

**Restriction on Sale of Wastewater Enterprise and Water Enterprise.** The Authority covenants that the Authority will not sell, lease, encumber or otherwise dispose of the Wastewater Enterprise or Water Enterprise, a substantial portion of the Wastewater Enterprise or Water Enterprise, or the Authority's rights to receive Gross Wastewater Revenues or Gross Water Revenues, or suffer the Wastewater Enterprise or Water Enterprise, a substantial portion of the Wastewater Enterprise or Water Enterprise, or the Authority's rights to receive Gross Wastewater Revenues or Gross Water Revenues to be sold, leased, encumbered or otherwise disposed of, unless the proceeds of such sale, lease, encumbrance or other disposal shall be adequate, and shall be used, to discharge the Indenture. For purposes of this covenant, a "substantial portion" of the Wastewater Enterprise or Water Enterprise shall consist of more than five percent (5%) of the book value of the Wastewater Enterprise or Water Enterprise. Nothing in this covenant shall be construed to restrict the sale by the Authority of less than a substantial portion of the Wastewater Enterprise or Water Enterprise, provided that such sale is determined by the Authority to be necessary or desirable for the improvement, expansion or repair of the Wastewater Enterprise or Water Enterprise, and the proceeds of such sale are used either to fund such improvement, expansion or repair of the Wastewater Enterprise or Water Enterprise, or to redeem a portion of the Bonds pursuant to the Indenture.

**Further Assurances.** The Authority shall adopt, make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds and providers or owners of other Parity Obligations of the rights and benefits provided in the Indenture.

**Tax Covenants.** The Authority covenants it shall not take any action, or fail to take any

action, if any such action or failure to take action would adversely affect the Tax-exempt status of interest on any Tax-Exempt Bond under Section 103 of the Code. Without limiting the generality of the foregoing, the Authority shall comply with the requirements of the Tax Certificate, if any, delivered in connection with the issuance of each Series of Tax-Exempt Bonds.

In the event that at any time the Authority is of the opinion that, in order to comply with its obligations under paragraph (a) under this heading, it is necessary or helpful to restrict or limit the yield on the investment of any moneys in any of the Funds held by the Trustee pursuant to the Indenture, the Authority shall so instruct the Trustee in writing, and cause the Trustee to take such action as may be necessary in accordance with such instructions.

(a) Notwithstanding any provisions of the Indenture, if the Authority shall provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under the Indenture or a Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Tax-Exempt Bonds under Section 103 of the Code, the Authority and the Trustee may conclusively rely on such opinion in complying with the requirements of the Indenture and of the applicable Tax Certificate, and the covenants under the Indenture shall be deemed to be modified to that extent.

(b) The covenants in the Indenture shall survive payment in full or discharge of the Tax-Exempt Bonds.

**Rates and Charges.** (a) Covenant Regarding Gross Wastewater Revenues. The Authority shall fix, prescribe, revise and collect rates, fees and charges for the Wastewater Enterprise as a whole for the services and improvements furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Wastewater Revenues which are sufficient to pay the following amounts in the following order of priority:

- (1) All Wastewater Operation and Maintenance Costs for the Wastewater Enterprise estimated by the Authority to become due and payable in such Fiscal Year;
- (2) The Proportionate Share of Debt Service payments as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;
- (3) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;
- (4) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund pursuant to the Indenture;
- (5) All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments; and

- (6) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Wastewater Revenues during such Fiscal Year, including repayments of loans from the Net Water Revenues pursuant to the Indenture.

(b) Covenant Regarding Gross Water Revenues. The Authority shall fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates and taking into consideration the Purchased Securities Revenues, to yield Gross Water Revenues which are sufficient to pay the following amounts in the following order of priority:

- (1) All Water Operation and Maintenance Costs for the Water Enterprise estimated by the Authority to become due and payable in such Fiscal Year;
- (2) The Proportionate Share of the Debt Service payments *as* they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;
- (3) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;
- (4) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund pursuant to the Indenture;
- (5) All amounts required by the Water Enterprise Purchase Agreement for payment of Water Purchase Payments; and
- (6) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Water Revenues during such Fiscal Year, including repayments of loans from Net Wastewater Revenues pursuant to Indenture.

(c) Covenant Regarding Net Wastewater Revenues and Net Water Revenues. In addition, the Authority shall fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Wastewater Enterprise and Water Enterprise during each Fiscal Year which, taking into account the Purchased Securities Revenues, are sufficient to yield combined Net Wastewater Revenues and Net Water Revenues, at least equal to one hundred twenty-five percent (125%) of the total Debt Service payments coming due and payable in such Fiscal Year.

### **Amendments to Indenture**

**Amendments Permitted.** (a) Subject to the provisions of subsection (d) under this heading, the provisions of the Indenture or of any Supplemental Indenture and the rights and obligations of the Authority and of the Owners of the Outstanding Bonds and of the Fiduciaries may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, with the written consent of each Credit

Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, when the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Bonds; provided that if such modification, amendment or supplement shall, by its terms, not take effect so long as any Bonds of any particular Series and maturity remain Outstanding, and, with respect to Bonds which are Tender Indebtedness if the conditions of subsection (d) under this heading are satisfied, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds for purposes of the Indenture. No such modification, amendment or supplement shall (1) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Bonds then Outstanding; or (2) modify the rights or obligations of any Fiduciary without the consent of such Fiduciary.

It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the entry into any Supplemental Indenture by the Authority and the Trustee for any of the purposes of the Indenture, the Authority shall cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to the Owners of all Outstanding Bonds (or the affected Outstanding Bonds) at their addresses appearing on the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by each Owner of an Outstanding Bond.

Whenever, at any time after the date of the mailing of notice of the proposed entry into a Supplemental Indenture pursuant to the Indenture, the Authority shall have received an instrument or instruments in writing executed in accordance with the Indenture by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, or if less than all of the Outstanding Bonds are affected, by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Bonds, which instrument or instruments shall refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and shall consent to such Supplemental Indenture in substantially the form referred to in such notice, thereupon, but not otherwise, the Authority and the Trustee may enter into such Supplemental Indenture in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

(b) The Indenture or any Supplemental Indenture may be supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the Authority and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement but without the consent of the Owner of any Bond, to provide for the issuance of a Series of Additional Bonds or a Series of Refunding Bonds in accordance with the terms and conditions of the Indenture, and establishing the terms and conditions thereof, including the rights of any Credit Provider for such Additional Bonds or Refunding Bonds, which may include permitting such Credit Provider to act for and on behalf of the Owners of such Additional Bonds or Refunding Bonds for any or

all purposes of the Indenture except that no such Credit Provider shall be authorized to extend the fixed maturity of any Bond, or reduce the principal amount thereof, or reduce the amount of any Sinking Fund Installment therefor, or extend the due date of any such Sinking Fund Installment, or reduce the rate of interest on any Bond or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; or except as otherwise provided with respect to a Bond constituting Tender Indebtedness in the Supplemental Indenture authorizing such Bond and subject to the satisfaction of the conditions of subsection (f) under this heading, reduce the Redemption Price due on the redemption of any Bond or change the date or dates when any Bond is subject to redemption.

(c) The Indenture and any Supplemental Indenture and the rights and obligations of the Authority, the Fiduciaries and the Owners of the Outstanding Bonds may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the Authority and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement but without the consent of any Owners of Bonds (but with the consent of any affected Fiduciary), so long *as* such modification, amendment or supplement shall not, materially, adversely affect the interests of the Owners of the Outstanding Bonds, including without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority contained in the Indenture or a Supplemental Indenture other covenants and agreements thereafter to be observed, to pledge, provide or assign any security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture or a Supplemental Indenture, or in regard to matters or questions arising under the Indenture or a Supplemental Indenture, as the Authority may deem necessary or desirable; or

(iii) to modify, amend or supplement the Indenture or a Supplemental Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, *as* amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute.

(d) Notwithstanding anything to the contrary in the Indenture, the provisions of the Indenture or any Supplemental Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in subsection (a) under this heading, without the consent of the Owners of Bonds constituting Tender Indebtedness if either (i) the effective date of such Supplemental Indenture is a date on which such Bonds are subject to mandatory tender for purchase pursuant to the Indenture or (ii) the notice described in the third paragraph of subsection (a) under this heading is given to Owners of such Bonds at least thirty (30) days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Bonds have the right to demand purchase of such Bonds pursuant to the Indenture.

(e) If the Supplemental Indenture authorizing the issuance of a Series of Bonds provides that a Credit Provider for all or any portion of the Bonds of such Series shall have the

right to consent to Supplemental Indentures which require the consent of the Owners of the Bonds of such Series pursuant to the Indenture, then for the purposes of sending notice of any proposed Supplemental Indenture and for determining whether the Owners of the requisite percentage of Bonds have consented to such Supplemental Indenture, but subject to the provisions of subsection (b) under this heading, references to the Owners of such Bonds shall be deemed to be to the applicable Credit Provider.

(f) For purposes of the provisions under this heading, it shall not be necessary that consents of the Owners of any particular percentage of Outstanding Bonds of any affected Series be obtained but it shall be sufficient for purposes of the provisions under this heading if the consent of the Owners of a majority in aggregate principal amount of the combination of affected Outstanding Bonds shall be obtained.

(g) Notwithstanding anything to the contrary contained in the Indenture if authorized by the Supplemental Indenture authorizing the issuance of a Bond constituting Tender Indebtedness, any premium due on the redemption of such Bond and the date or dates when such Bond is subject to redemption may be modified or amended as provided in such Supplemental Indenture if either: (i) the effective date of such modification or amendment is a date on which such Bond is subject to mandatory tender for purchase pursuant to such Supplemental Indenture; or (ii) notice of such modification or amendment has been mailed to the Owner of such Bond at the address set forth in the Bond Register at least thirty (30) days before the effective date of such modification or amendment and on or before such effective date, the Owner of such Bond has the right to demand purchase of such Bond pursuant to such Supplemental Indenture.

**Effect of Supplemental Indenture** Upon the Authority and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Fiduciaries and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes. Upon the Authority and the Trustee entering into any Supplemental Indenture pursuant to the Indenture, no Owner of any Bond shall have any right to object to the entry into such Supplemental Indenture by the Authority and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the Authority or the Trustee from entering into the same or to enjoin or restrain the Authority or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave his consent to such Supplemental Indenture.

**Bonds Owned by Authority.** For purposes of amendments to the Indenture, Bonds owned or held by or for the account of the Authority, or any funds of the Authority, shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the Indenture, and the Authority shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the Indenture as an Owner of Bonds. At the time of any consent or other action taken under the Indenture, the Authority shall furnish the Trustee a certificate of an Authorized Representative upon which the Trustee may rely, describing all Bonds so to be excluded.

**Notation on Bonds.** Bonds authenticated and delivered after the effective date of any Supplemental Indenture entered into by the Authority and the Trustee as in the Indenture provided may bear a notation by endorsement or otherwise in a form approved by the Authority as to such action, and in that case upon demand of the Owner of any Bond Outstanding on such effective date and presentation of the Bond for the purpose at the Principal Office of the Trustee or upon any transfer or exchange of any Bond Outstanding on such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action.

**Consent of Providers or Owners of Parity Obligations.** The Indenture may not be amended in a manner which materially affects the rights of a provider or owner of Parity Obligations (excluding the Owners of Bonds) under the Indenture without the prior written consent of such provider or owner of such Parity Obligations.

### **Concerning the Fiduciaries**

The Authority appoints the Trustee as a Paying Agent for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in the Indenture as an additional Paying Agent for the Bonds of one or more Series.

Each Paying Agent other than the Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing and delivering to the Authority and to the Trustee a written acceptance thereof.

**Resignation of Trustee.** The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than 60 days written notice to the Authority, each Credit Provider and each Reserve Financial Guaranty Provider, specifying the date when such resignation shall take effect; provided that no such resignation shall take effect until a successor shall have been appointed in accordance with the Indenture.

**Removal of Trustee.** The Trustee may be removed (1) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time when no Event of Default has occurred and is continuing and when no event has occurred which, with notice or the passage of time, would become an Event of Default which has not been cured, by an instrument in writing signed by an Authorized Representative and filed with the Trustee or (ii) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority or (iii) with the consent (to the extent required by a Supplemental Indenture,) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument in writing signed by an Authorized Representative and filed with the Trustee, for any breach of its fiduciary duties under the Indenture; provided that no such removal shall be effective until 30 days have lapsed from the filing of such instrument with the Trustee and until a successor shall have been appointed in accordance with the Indenture.

**Appointment of Successor Trustee; Financial Qualifications of Successor Trustee.** (a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of



the Trustee, or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Authority, with (to the extent required by a Supplemental Indenture) the consent of each Credit Provider and each Reserve Financial Guaranty Provider, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners of the Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Owners of the Bonds as aforesaid, the Authority, by a duly executed written instrument signed by an Authorized Representative shall forthwith appoint a Trustee to replace such resigning Trustee or to fill such vacancy until a successor Trustee shall be appointed by the Owners of the Bonds as authorized in the Indenture. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by the Trustee appointed by the Owners of the Bonds. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

(b) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of the Indenture within 45 days after the Trustee shall have given to the Authority written notice as provided in the Indenture or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, the Trustee (in the case of its resignation under the Indenture) or the Owner of any Bond (in any case) may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

(c) The Trustee appointed under the provisions of the Indenture or any successor to the Trustee shall be a bank or trust company organized under the laws of any state of the United States or national banking association, doing business and having its principal corporate trust office in New York, New York, or Chicago, Illinois, or Los Angeles, California, or San Francisco, California, duly authorized to exercise trust powers and subject to examination by federal or state authority. Each successor Trustee shall have capital stock and surplus aggregating at least \$75,000,000, or have all of its obligations under the Indenture guaranteed by a bank or trust company organized under the laws of the United States, or any state thereof, with a capital stock and surplus or net worth of \$75,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of the Indenture the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of

condition so published.

**Transfer of Rights and Property to Successor Trustee.** Any successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to its predecessor Trustee and the Authority an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, power, duties and obligations of such predecessor Trustee, with like effect *as if* originally named as Trustee; but the Trustee ceasing to act shall nevertheless, at the written request of the Authority, or of the successor Trustee, execute, acknowledge, deliver, file and record such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Indenture or covered by the pledge of the Indenture, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions in the Indenture set forth. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and) certainly vesting in and confirming to such successor Trustee any such lien, estates, rights, power and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Authority. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

**Merger or Consolidation.** Any company into which a Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, shall satisfy the applicable standards of a successor set forth in the Indenture, and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

**Resignation or Removal of Paying Agent and Appointment of Successor.** (a) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 60 days written notice to the Authority, the Trustee, each Credit Provider, each Reserve Financial Guaranty Provider and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized Representative. Any successor Paying Agent shall be appointed by the Authority with the approval of the Trustee (and each Credit Provider and each Reserve Financial Guaranty Provider required by a Supplemental Indenture) and shall be a commercial bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock and surplus aggregating at least \$25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of the Indenture the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

(b) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

## **Defeasance**

**Payment of Bonds.** If the Authority shall pay, or cause to be paid, or there shall otherwise be paid, to the Owners of all Bonds the principal amount or Redemption Price, if applicable, of the Bonds, and interest due or to become due on the Bonds, at the times and in the manner stipulated therein and in the Indenture, together with all other sums payable by the Authority under the Indenture, including all fees and expenses of the Trustee, then and in that case, subject to the provisions of subsection (b) under this heading, the Indenture, and the pledge of and lien on the Pledged Utility Revenues and all money in the Special Fund and in the funds or accounts so specified and provided for under the Indenture and all covenants, agreements and obligations of the Authority contained therein, shall cease and terminate and shall be completely discharged and satisfied and the Authority shall be released therefrom and the Trustee shall assign and transfer to or upon the order of the Authority all property (in excess of the amounts required for the foregoing) then held by the Trustee under the Indenture free and clear of any liens or encumbrances thereon pursuant to the Indenture and shall execute such documents as may be reasonably required by the Authority in this regard.

(a) Notwithstanding the termination, satisfaction and discharge of the Indenture or the satisfaction discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by the Authority of the covenants contained in the Indenture and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Authority, the Trustee and the Owners and the Trustee shall continue to be obligated to hold in trust any monies and investments then held by the Trustee for the payment of the principal or Redemption Price of, and interest on, the Bonds, to pay to the Owners, but only from the monies and investments so held by the Trustee, the principal or Redemption Price of, and interest on, the Bonds as and when such payment becomes due. Notwithstanding the satisfaction and discharge of the Indenture or the satisfaction discharge of the Indenture in respect of any Bonds, those provisions of the Indenture relating to the compensation of the Trustee shall remain in effect and shall be binding upon the Trustee and the Authority.

Prior to the defeasance of any Bonds bearing interest at a variable rate becoming effective under the Indenture, the Trustee shall have received a Rating Confirmation from each Rating Agency.

(b) Notwithstanding the termination, satisfaction and discharge of the Indenture with respect to any Bonds, so long as any other Parity Obligations remain Outstanding the Indenture shall remain in effect and shall be binding upon the Authority, the Trustee and the providers and owners of such Parity Obligations.

**Bonds Deemed Paid.** Bonds (or portions of Bonds) for the payment or redemption of which moneys shall have been set aside and shall be held in trust by an Escrow Agent (through

deposit pursuant to a deposit of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof, as applicable, shall be deemed to have been paid within the meaning and with the effect expressed in the Indenture. Any Outstanding Bond (or any portion thereof such that both the portion thereof which is deemed paid and the portion which is not deemed paid pursuant to the Indenture shall be in an Authorized Denomination) shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Indenture (except that certain obligations under the Indenture and the giving of the notices of the redemption of Bonds to be redeemed as provided in the Indenture shall continue) if (1) in case said Bond (or portion thereof) is to be redeemed on any date prior to maturity, the Authority shall have given the Trustee irrevocable instructions to give notice of redemption of such Bond (or portion thereof) on said date *as* provided in the Indenture, (2) there shall have been deposited with an Escrow Agent either Available Monies in an amount which shall be sufficient, or Federal Securities, the principal of and the interest on which when due shall provide Available Monies which, together with the moneys, if any, held by such Escrow Agent for such purpose, shall be sufficient, in each case as evidenced by an Accountant's Certificate, to pay when due the principal amount of, and any redemption premiums on, said Bond (or portion thereof) and interest due and to become due on said Bond (or portion thereof) on and prior to the redemption date or maturity date thereof, as the case may be, and (3) if such Bond (or portion thereof) is not to be paid or redeemed within 60 days of the date of the deposit required by (2) above, the Authority shall have given the Trustee, in form satisfactory to it, instructions to mail, as soon as practicable, by first class mail, postage prepaid, to the Owner of such Bond, at the last address, if any, appearing upon the Bond Register, a notice that the deposit required by (2) above has been made with an Escrow Agent and that said Bond (or the applicable portion thereof) is deemed to have been paid in accordance with the Indenture and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount of, and any redemption premiums on, said Bond. Any notice given pursuant to clause (3) of this paragraph with respect to Bonds which constitute less than all of the Outstanding Bonds of any Series and maturity shall specify the letter and number or other distinguishing mark of each such Bond. Any notice given pursuant to clause (3) of this paragraph with respect to less than the full principal amount of a Bond shall specify the principal amount of such Bond which shall be deemed paid pursuant to the Indenture and notify the Owner of such Bond that such Bond must be surrendered as provided in the Indenture. The receipt of any notice required by the Indenture shall not be a condition precedent to any Bond being deemed paid in accordance with the Indenture and the failure of any Owner to receive any such notice shall not affect the validity of the proceedings for the payment of Bonds in accordance with the Indenture.

Neither Federal Securities nor moneys deposited with an Escrow Agent pursuant to the Indenture, nor principal or interest payments on any such Federal Securities, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal amount of, and any redemption premiums on, said Bonds and the interest thereon; provided that any cash received from principal or interest payments on such Federal Securities deposited with an Escrow Agent, (A) to the extent such cash shall not be required at any time for such payment, as evidenced by an Accountant's Certificate, shall be paid over upon the written direction of an Authorized Representative, including a transfer to the Authority free and clear of any trust, lien, pledge or assignment securing said Bonds, and (B) to the extent such cash shall be required for such payment at a later date, shall, to the extent practicable, at the written direction of an Authorized Representative, be reinvested in Federal Securities maturing at times and in amounts, which together with the other funds to be available to the Escrow Agent for such purpose. shall

be sufficient to pay when due the principal amount of; and any redemption premiums on, said Bonds and the interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, *as* the case may be, as evidenced by an Accountant's Certificate.

Nothing in the Indenture shall prevent the Authority from substituting for the Federal Securities held for the payment or redemption of Bonds (or portions thereof) other Federal Securities which, together with the moneys held by the Escrow Agent for such purpose, as evidenced by an Accountant's Certificate, shall be sufficient to pay when due the principal amount of, and any redemption premiums on, the Bonds (or portions thereof) to be paid or redeemed, and the interest due on the Bonds (or portions thereof) to be paid or redeemed at the times established with the initial deposit of Federal Securities for such purpose provided that the Authority shall deliver to the Escrow Agent a Favorable Opinion of Bond Counsel with respect to such substitution.

**Defeasance of Portion of Bond.** If there shall be deemed paid pursuant to the Indenture less than all of the full principal amount of a Bond, the Authority shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner of such Bond, a new Bond or Bonds for the principal amount of the Bond so surrendered which is deemed paid pursuant to the Indenture and another new Bond or Bonds for the balance of the principal amount of the Bond so surrendered, in each case of like Series, maturity and other terms, and in any of the Authorized Denominations.

**Discharge of Liability on Bonds.** Upon the deposit with an Escrow Agent, in trust, at or before maturity or the applicable redemption date, of money or Federal Securities in the necessary amount (as provided in the Indenture) to pay or redeem Outstanding Bonds (or portions thereof), and to pay the interest thereto to such maturity or redemption date, as applicable, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for giving such notice), all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, except that the Authority shall remain liable for such payment but only from, and the Bondowners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date, as applicable) out of, the money and Federal Securities deposited with the Escrow Agent as aforesaid for their payment, subject, however, to the provisions of the Indenture; provided that no Bond which constitutes Tender Indebtedness shall be deemed to be paid within the meaning of the Indenture unless the Purchase Price of such Bond, if tendered for purchase in accordance with the Indenture, could be paid when due from such moneys or Federal Securities (as evidenced by an Accountant's Certificate) or a Credit Support Instrument is provided in connection with such Purchase Price.

## **Events of Default; Remedies**

**Events of Default.** Each of the following shall constitute an Event of Default under the Indenture:

(a) if default shall be made in the payment of the principal or Redemption Price of or Sinking Fund Installment for, or interest on, any Outstanding Bond or other Parity Obligations (excluding Termination Payments), when and *as* the same shall become due and payable, whether on an Interest Payment Date, at maturity, by call for redemption, or otherwise;

(b) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part in the indenture or in the Outstanding Bonds contained or in any other Issuing Instrument of other Parity Obligations or in the other Parity Obligations contained (excluding any covenants, agreements or conditions with respect to the payment of Termination Payments payable by the Authority), and such default shall continue for a period of 120 days after written notice thereof to the Authority by the Trustee or to the Authority and to the Trustee by the Owners of not less than 10% in principal amount of the Bonds Outstanding or to the Authority and to the Trustee by the trustee, or owner or holder of not less than 10% in principal amount of, the other Parity Obligations; provided, however, if such default is such that it can be corrected by the Authority but not within the applicable period specified above, it shall not constitute an Event of Default if corrective action is instituted by the Authority within thirty (30) days of the Authority's receipt of the notice of the default required by this paragraph and diligently pursued until the default is corrected; or

(c) an Event of Bankruptcy shall have occurred and be continuing with respect to the Authority.

**Accounting and Examination of Records After Default.** (a) The Authority covenants that if an Event of Default shall have happened and shall not have been remedied; the books of record and accounts of the Authority shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

(b) The Authority covenants that if an Event of Default shall have happened and shall not have been remedied, the Authority, upon demand of the Trustee, shall account, as if it were the trustee of an express trust, for all Pledged Utility Revenues and other moneys, securities and funds pledged or held under the Indenture for such period as shall be stated in such demand.

**Application of Pledged Utility Revenues and Other Moneys After Default.** (a) Notwithstanding anything to the contrary contained in the Indenture, the Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon the demand of the Trustee, shall cause to be paid over to the Trustee by the first Business Day of each month, all Pledged Utility Revenues with respect to the preceding month.

(b) During the continuance of an Event of Default, the Trustee shall apply all Pledged Utility Revenues received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture which are held by the Trustee pursuant and subject to the terms and conditions of the Indenture, as follows and in the following order of priority:

First: To the payment of the reasonable and proper fees, charges, expenses and liabilities of the Fiduciaries and the payment of the reasonable and proper charges, expenses and liabilities of the fiduciaries for Parity Obligations.

Second: To the payment of the principal and Redemption Price of and interest on the Outstanding Bonds, and the principal and redemption price of and interest on the other Outstanding Parity Obligations then due and payable; provided however, that in the event the amount of Pledged Utility Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Pledged Utility Revenues to the payment of the principal and redemption price of and interest on all Outstanding Parity Obligations then due and payable ratably (based on the respective amounts to be paid), without any discrimination on preferences.

Third: Subject to the provisions of the Indenture relating to conditions to issuance of subordinated obligations, to the payment of any Termination Payments due and payable under the Qualified Swap Agreements; provided however, that in the event the amount of Pledged Utility Revenues available to the Trustee is not sufficient to make all the payments required by this clause with respect to all Qualified Swap Agreements, the Trustee shall apply the available Pledged Utility Revenues to the payment of the Termination Payments then due and payable under all Qualified Swap Agreements ratably (based on the respective amounts to be paid), without any discrimination on preferences.

Fourth: To the transfer to the Debt Service Reserve Account for the Bonds and to each debt service reserve fund for other Outstanding Parity Obligations, the amount, if any, necessary so that the amount on deposit in the Debt Service Reserve Account shall equal the Debt Service Reserve Requirement and the amount in each debt service reserve fund for other Outstanding Parity Obligations shall equal the amount required to be on deposit in such debt service reserve fund under the applicable Issuing Instrument, provided that that in the event the amount of Pledged Utility Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Pledged Utility Revenues to the transfer to the Debt Service Reserve Account and each debt service reserve fund for other Outstanding Parity Obligations ratably (based on the respective amounts to be paid), without any discrimination on preferences.

Fifth: Subject to the provisions of the Indenture relating to conditions to issuance of subordinated obligations, to the payment of amounts due with respect to outstanding Subordinated Obligations (other than Termination Payments) in accordance with the provisions of the Issuing Instrument pursuant to which such Subordinated Obligations have been issued; provided that that in the event the amount of Pledged Utility Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Pledged Utility Revenues to the payments of amounts due with respect to all Subordinated Obligations ratably (based on the respective amounts to be paid), without any discrimination on preferences except as otherwise provided in the Issuing Instruments pursuant to which such Subordinated Obligations have been issued.

(c) If and whenever all overdue installments of interest on all Outstanding Bonds and Outstanding Parity Obligations, together with the reasonable and proper charges, expenses and liabilities of the Trustee and any other fiduciary for Parity Obligations, and all other sums payable for the account of the Authority under the Indenture, including the principal and Redemption Price of all Outstanding Bonds and Outstanding Parity Obligations and unpaid interest on all Outstanding Bonds and Outstanding Parity Obligations which shall then be payable, shall be paid for by the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture, the Outstanding Bonds and the Outstanding Parity Obligation shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over all unexpended Pledged Utility Revenues in the hands of the Trustee (except Pledged Utility Revenues deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Authority and the

Trustee shall be restored, respectively, to their former positions and rights under the Indenture. No such payment by the Trustee nor such restoration of the Authority and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

**Appointment of Receiver.** If an Event of Default shall happen and shall not have been remedied, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under the Indenture, the Trustee shall be entitled to make application for the appointment of a receiver or custodian of the Pledged Utility Revenues, pending such proceedings, with such power as the court making such appointment shall confer.

**Enforcement Proceedings.** (a) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may, with the consent of each Credit Provider whose consent *is* required by a Supplemental Indenture or a Credit Support Agreement, proceed, and upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Agreement, shall proceed, to protect and enforce its rights and the rights of the Owners of the Outstanding Bonds by a suit or suits in equity or at law, whether for damages or the specific performance of any covenant contained in the Indenture, to enforce the security interest in, pledge of and lien on the Pledged Utility Revenues granted pursuant to the Indenture, or in aid of the execution of any power granted in the Indenture or any remedy granted under applicable provisions of the laws of the State of California, or for an accounting by the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

(b) All rights of action under the Indenture may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust.

(c) Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default

(d) Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture, and such suits and proceedings *as* the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners of the Bonds.

(e) If the Trustee or any Owner or Owners of Outstanding Bonds have instituted any proceeding to enforce any right or remedy under the Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Owner or Owners, then and in every such case the Authority, the Trustee and the Owners



shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions under the Indenture, and thereafter all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

**Restriction on Owner's Action.** (a) Except as otherwise provided in paragraph (b) under this heading, no Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Indenture or by the applicable laws of the State of California or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Indenture, or to enforce any right under the Indenture, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the ratable benefit of all Owners of the Outstanding Bonds, subject only to the provisions of the Indenture.

(b) Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay on the respective due dates thereof and at the places therein expressed, but solely from the Pledged Utility Revenues and the other moneys pledged under the Indenture, the principal amount, or Redemption Price if applicable, of the Bonds, and the interest thereon, to the respective Owners thereof, or affect or impair the right, which is also absolute and unconditional, of any Owner to institute suit for the enforcement of any such payment.

**Remedies Not Exclusive.** No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute whether effective on or after the effective date of the Indenture. The assertion or employment of any right or remedy, under the Indenture or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

**Effect of Waiver and Other Circumstances.** (a) No delay or omission of the Trustee or any Owner of a Bond to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Owners of the Bonds.

(b) The Owners of not less than sixty percent in principal amount of the Bonds at the time

Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds, waive any Event of Default and its consequences. No such waiver shall extend to any subsequent or Event of Default or impair any right consequent thereon unless the provisions of this paragraph have been satisfied with respect to such subsequent Event of Default.

**Notice of Default.** The Trustee shall, within thirty (30) days after obtaining knowledge thereof, mail written notice of the occurrence of any Event of Default of which the Trustee has knowledge to each Credit Provider, each Reserve Financial Guaranty Provider and each Owner of Bonds then Outstanding at such Owner's address, if any, appearing in the Bond Register.

#### *Credit Providers*

Except as limited by the Indenture, a Supplemental Indenture authorizing a Series of Bonds may provide that any Credit Provider providing a Credit Support Instrument with respect to Bonds of such Series may exercise any right under the Indenture or the Supplemental Indenture authorizing the issuance of such Series of Bonds given to the Owners of the Bonds to which such Credit Support Instrument relates in lieu of such Owners.

All provisions under the Indenture or a Supplemental Indenture authorizing the exercise of rights by a Credit Provider with respect to Bonds of a Series, including without limitation actions relating to consents, approvals, directions, waivers, appointments and requests, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Provider were not mentioned therein (i) during any period during which there is a default by such Credit Provider under the applicable Credit Support Instrument or (ii) after the applicable Credit Support Instrument shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void by final non-appealable judgment of a court of competent jurisdiction, or after the Credit Support Instrument has been rescinded, repudiated or terminated (other than in accordance with its terms), or after a receiver, conservator or liquidator has been appointed for the Credit Provider; provided, however, that the payment of amounts due or that may become due (including without limitation all indemnity payments) to the Credit Provider or any other person identified under such Credit Provider's Credit Support Agreement pursuant to the terms of the Indenture, any Supplemental Indenture and/or such Credit Support Agreement shall continue in full force and effect. The foregoing shall not affect any other rights of a Credit Provider.

All provisions in the Indenture relating to the rights of a Credit Provider shall be of no force and effect if there is no Credit Support Instrument in effect and all amounts owing to the Credit Provider under the Credit Support Agreement have been paid.

#### *Reserve Financial Guaranty Providers*

All provisions under the Indenture or a Supplemental Indenture authorizing the exercise of rights by a Reserve Financial Guaranty Provider with respect to Bonds of a Series, including without limitation actions relating to consents, approvals, directions, waivers, appointments and requests, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read *as if* the Reserve Financial Guaranty Provider were not mentioned therein (i) during any period during which there is a default by such Reserve Financial Guaranty Provider under the applicable Reserve Financial Guaranty or (ii) after the applicable Reserve Financial Guaranty shall at any time for any reason cease to be valid and binding on the Reserve Financial Guaranty Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Reserve Financial Guaranty

has been rescinded, repudiated or terminated, or after a receiver, conservator or liquidator has been appointed for the Reserve Financial Guaranty Provider; provided, however, that the payment of amounts due (including without limitation all indemnity payments) to the Reserve Financial Guaranty Provider pursuant to the terms of the Indenture, any Supplemental Indenture, any Reserve Financial Guaranty shall continue in full force and effect. The foregoing shall not affect any other rights of a Reserve Financial Guaranty Provider.

All provisions in the Indenture relating to the rights of a Reserve Financial Guaranty Provider shall be of no force and effect if there is no Reserve Financial Guaranty Provider in effect issued by such Reserve Financial Guaranty Provider and all amounts owing to such Reserve Financial Guaranty Provider Credit Provider under the Reserve Financial Guaranty have been paid.

#### *No Recourse on Bonds*

Neither the members of the Authority nor the officers or employees of the Authority shall be individually liable on the Bonds or in respect of any undertakings by the Authority under the Indenture, any Supplemental Indenture or any Bond.

#### *Unclaimed Moneys*

Anything in the Indenture or any Supplemental Indenture to the contrary notwithstanding, any moneys held by the Trustee, an Escrow Agent or any Paying Agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates, tender for purchase or by call for redemption, if such moneys were held by the Trustee, an Escrow Agent or a Paying Agent at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee, an Escrow Agent or a Paying Agent after the date when such Bonds or the Purchase Price thereof became due and payable, shall, at the written request of an Authorized Representative be repaid by such Trustee, Escrow Agent or Paying Agent to the Authority, as its absolute property and free and clear of any trust, lien, pledge or assignment securing said Bonds, and such Trustee, Escrow Agent or Paying Agent shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee, the Escrow Agent or the Paying Agent, *as applicable*, shall, at the expense of the Authority, mail, postage prepaid to the Owners of such Bonds, at the last address, if any, appearing upon the Bond Register a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed shall be returned to the Authority.

#### *The Policy*

Any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer without the prior written consent of the Bond Insurer.

The Bond Insurer's consent shall be required, in addition to the consent of the Owners of the Bonds, when such consent is required for the following purposes: (i) execution and delivery of any Supplemental Indenture (except that no consent of the Bond Insurer shall be required with respect to the issuance of or the entering into additional Parity Obligations in accordance

with the terms and conditions of the Indenture), (ii) removal of the Trustee and selection and appointment of any successor Trustee, and (iii) initiation or approval of any action not described in (1) or (ii) above which requires the consent of the Owners of the Bonds.

To the extent the consent of a Credit Provider is provided for, or a Credit Provider is permitted to direct the remedies pursued by the Trustee contained, in the Indenture, the consent or direction, as appropriate, of the Bond Insurer shall be required or permitted in connection with the remedies pursued by the Trustee upon the occurrence of an Event of a Default under the Indenture, including, to the extent provided: (i) the right to accelerate the principal of the Bonds as described in the Indenture, and (ii) the right to annul any declaration of acceleration, and Bond Insurer shall also be entitled to approve all waivers of events of default.

To the extent the acceptance of a Credit Provider is provided for with respect to any investment listed in the definition of Permitted Investments as set forth in the Indenture, the acceptance of the Bond Insurer shall be required in connection with any investment in such Permitted Investment (provided that, such consent shall not be unreasonably withheld).

The Bond Insurer shall at all times be deemed the sole and exclusive Owner of the Outstanding Bonds for the purposes of all approvals, consents, waivers, institution of any action and the direction of all remedies; provided, however, that the Bond Insurer shall not be deemed to be the sole and exclusive Owner of the Outstanding Bonds with respect to any amendment or supplement to the Indenture which seeks to amend or supplement the Indenture to extend the maturity of or reduce the amount of interest on or principal of any Bond or otherwise alter or impair the obligation of the Authority to pay principal or interest at the time and place and at the rate and in the currency provided therein.

In the event of any reorganization or liquidation relating to the Authority, the Bond Insurer shall have the right to vote with respect to such reorganization or liquidation on behalf of all Owners of the Outstanding Bonds. To the extent permitted by law, any reorganization or liquidation plan with respect to the Authority must be acceptable to the Bond Insurer.

The Authority shall obtain the consent of the Bond Insurer prior to issuing or incurring any Variable Rate Indebtedness constituting Parity Obligations; provided, however, that the Authority may issue or incur such Variable Rate Indebtedness in accordance with the Indenture without the consent of the Bond Insurer if:

- (i) such Variable Rate Indebtedness constitutes Hedged Bonds, and
  - (1) (A) upon entering into the applicable Qualified Swap Agreement, the counter party to such Qualified Swap Agreement or the guarantor of such agreement or any replacement undertaking with respect thereto shall be rated at least "AA-" by S&P or "Aa3" by Moody's or have an equivalent rating determined by a nationally-recognized ratings service acceptable to the Bond Insurer or (B) if applicable, the Credit Provider providing any Credit Support Instrument or its guarantor shall be rated at least "AA-" by S&P or "Aa3" by Moody's or have an equivalent rating determined by a nationally-recognized ratings service acceptable to the Bond Insurer, and such Credit Support Instrument and any related Credit Support Agreement shall not contain any provision requiring an acceleration of such Hedged Bonds upon any default

under such Credit Support Instrument or related Credit Support Agreement;

(2) such Qualified Swap Agreement shall provide that if the counter party's rating is downgraded to "A" or below by S&P or "A2" or below by Moody's and the Authority's exposure to a potential early termination payment owed by the counter party to the Authority is \$5,000,000 or greater, the counter party's obligations to make such payment under such Qualified Swap Agreement shall be collateralized with Eligible Collateral;

(3) the failure of the Authority to pay any termination payments payable by the Authority under such Qualified Swap Agreement shall not be cross-defaulted with such Hedged Bonds; and

(4) any termination payments payable by the Authority under such Qualified Swap Agreement shall be subordinate and junior in right of payment from the Pledged Utility Revenues to the payment of Parity Obligations; or

(ii) such Variable Rate Indebtedness constitutes Capped Bonds, and

(1) upon entering into the applicable Qualified Cap, the counter party to the applicable Qualified Cap or its Credit Support Provider shall be rated at least "AA-" by S&P or "Aa3" by Moody's or have an equivalent rating determined by a nationally-recognized ratings service acceptable to the Bond Insurer, and

(2) such Qualified Cap shall provide that if the counter party's rating is downgraded to "A-" or below by S&P or "A3" or below by Moody's and the Authority's exposure to a potential early termination payment owed by the counter party to the Authority is \$5,000,000 or greater, the counter party's obligations to make such payment under such Qualified Cap shall be collateralized with Eligible Collateral.

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## SUMMARY OF FIFTH SUPPLEMENTAL INDENTURE OF TRUST

### DEFINITIONS AND AUTHORITY

Additional Definitions. The following terms shall, with respect to the 2014 Series A Bonds and for all purposes hereof, have the meanings set forth below:

“AMBAC Judgment” means United States District Court, Southern District of New York Case No. 1:01-cv-05087-JFK-HBP *Ambac Assurance Corporation v. Adelanto Public Utility Authority* Amended Final Judgment filed March 18, 2014.

“Authorized Denominations” means \$100,000 or any multiple of \$5,000 in excess of \$100,000.

“Average Annual Debt Service” means the total aggregate Debt Service for the entire period during which the Bonds are Outstanding divided by the number of Fiscal Years or portions thereof during which the Bonds are Outstanding.

“Bond Counsel” means Rutan & Tucker, LLP or any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Authorizing Law” means the authorizing bond procedures approved by the Board in Resolution No. 14-10, adopted by the legislative body of the Authority on November 12, 2014.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended from time to time, including, without limitation, Section 6596.

“Bonds” or “2014 Series A Bonds” means, collectively, the 2014 Series A Bonds and any Parity Obligations issued and at any time Outstanding.

“Bond Year” means the twelve-month period beginning on the anniversary of the Closing Date in each year and ending on the day prior to the anniversary date of the Closing Date in the following year except that (i) the first Bond Year shall begin on the Closing Date, and (ii) the last Bond Year may end on a redemption date prior to maturity of the 2014 Series A Bonds.

“Certificate of the Authority” means a certificate in writing signed by an Authorized Representative of the Authority.

"Charges" means fees, tolls, assessments, rates and charges prescribed by the Board for the services and facilities of the Utility System furnished by the Authority.

"Closing Date" means the date upon which there is an exchange of the 2014 Series A Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the Authority and dated the date of original execution and delivery of the 2014 Series A Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Depository" means (a) initially, DTC, and (b) any other Securities Depositories acting as Depository.

"Depository System Participant" means any participant in the Depository's book-entry system.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Authority and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

"First Supplemental Indenture" means the First Supplemental Indenture of Trust dated as of September 1, 2005, between the Authority and the Trustee supplementing the Master Indenture.

"Fourth Supplemental Indenture" means the Fourth Supplemental Indenture, dated as of November 1, 2009, between the Authority and the Trustee as supplementing the Master Indenture.

"Gross Revenues" means, collectively, Gross Wastewater Revenues and Gross Water Revenues.

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Utility System.



"Indenture" means the Master Indenture as supplemented by the Fifth Supplemental Indenture of Trust, as further supplemented and amended from time to time by further Supplemental Indentures.

"Interest Payment Date" means, with respect to the 2014 Series A Bonds, January 1 and July 1 in each year, beginning July 1, 2015, and with respect to any Parity Obligations, any date on which interest is due and payable thereon, and continuing so long as any Bonds or Parity Obligations remain Outstanding.

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the Bonds on such next succeeding Interest Payment Date.

"Master Indenture" means the Indenture of Trust, dated as of September 1, 2005, by and between the Authority and Union Bank of California, N.A., now known as MUFJG Union Bank, N.A.

"Maximum Annual Debt Service" means, as of the date of calculation, the maximum amount of Debt Service for the current or any future Fiscal Year.

"Original Purchaser" means, in the case of the 2014 Series A Bonds, Raymond James.

"Owner" or "Bond Owner" or "Bondowner", when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

"Parity Bonds" means the 2009 Series A Bonds and the 2014 Series A Bonds.

"Participating Underwriter" has the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Principal Installment" means with respect to any particular Principal Installment Date, an amount equal to the sum of (i) the aggregate principal amount of Outstanding Serial Bonds payable on such Principal Installment Date as determined by the applicable Parity Bonds Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all Outstanding Term Bonds payable on such Principal Installment Date as determined hereby and by the applicable Parity Bonds Instrument.

"Principal Payment Date" means the date on which Principal Payments are required to be made pursuant to Section 2.01.

"Project" means the financing of improvements to the Utility System and the AMBAC Judgment relating thereto.

"Project Costs" means, with respect to the Project, all costs of the acquisition, construction, installation and satisfaction thereof, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction, installation and payment of the Project;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;

(e) any sums required to reimburse the Authority for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project; and

(f) payment of the AMBAC Judgment; and.

(g) all Costs of Issuance and other financing costs incurred in connection with the acquisition, construction and installation of the Project.

“Proportionate Share” means the percentage of the proceeds of a Series of Bonds or any Parity Obligations allocated separately to the Wastewater Enterprise and the Water Enterprise, being 41% to the Wastewater Enterprise and 59% to the Water Enterprise with respect to the 2014 Series A Bonds.

“Rate Stabilization Requirement” means the amount of \$2,100,000.00.

“Request of the Authority” means a request in writing signed by an Authorized Representative of the Authority.

“Reserve Account” means the Account by that name established and held by the Trustee.

“Tax Regulations” means temporary and permanent regulations promulgated under the Code.

“Term Bonds” means, with respect to any 2014 Series A Bonds or any Parity Bonds, such 2014 Series A Bonds or Parity Bonds which are payable prior to their stated maturity by operation of Sinking Fund Installments.

“Trustee” means MUFG Union Bank, N.A. appointed by the Authority to act as trustee hereunder pursuant to Section 6.01, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in Section 6.01.

“Utility System” means collectively, the Wastewater Enterprise and the Water Enterprise.

“2005 Bonds” means the 2005 Series A Bonds and the 2005 Series B Bonds.

“2005 Series A Bonds” means the Bonds authorized by the First Supplemental Indenture.

“2005 Series B Bonds” means the Bonds authorized by the Second Supplemental Indenture.

“2014 Series A Bonds” shall mean the Adelanto Public Utility Authority Fixed Rate Revenue Bonds, 2014 Series A (Utility System Project), authorized by Article II hereof.

“2014 Series A Costs of Issuance Fund” shall mean the 2014 Series A Costs of Issuance Fund established pursuant to Section 3.03 hereof.

“2014 Water Project Fund” shall mean the 2014 Series A Water Project Fund established pursuant to Section 3.04 hereof.

“2014 Wastewater Project Fund” shall mean the 2014 Series A Wastewater Project Fund established pursuant to Section 3.05 hereof.

## AUTHORIZATION AND ISSUANCE OF 2014 SERIES A BONDS

Terms of 2014 Series A Bonds. The 2014 Series A Bonds authorized to be issued by the Authority under and subject to the Bond Law and the Bond Authorizing Law and the terms of the Master Indenture and this Indenture shall be designated the "Adelanto Public Utility Authority Fixed Rate Revenue Bonds, 2014 Series A (Utility System Improvement Project)", and shall be issued in the original principal amount of Fourteen Million One Hundred Thirty Thousand Dollars (\$14,130,000). The 2014 Series A Bonds constitute Parity Obligations pursuant to the Master Indenture, are issued on parity with the 2009 Series A Bonds, and have issued pursuant to Section 2.7 thereof.

Form of 2014 Series A Bonds The 2014 Series A Bonds, the Trustee's certificate of authentication, and the assignment to appear thereon, shall be substantially in the respective forms set forth in Exhibit A attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

Execution of 2014 Series A Bonds. The 2014 Series A Bonds shall be signed in the name and on behalf of the Authority with the manual or facsimile signatures of its Executive Director and attested by the manual or facsimile signature of its Secretary. The 2014 Series A Bonds shall then be delivered to the Trustee for authentication by it. In case any officer who shall have signed any of the 2014 Series A Bonds shall cease to be such officer before the 2014 Series A Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the Authority, such 2014 Series A Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though the individual who signed the same had continued to be such officer of the Authority. Also, any 2014 Series A Bond may be signed on behalf of the Authority by any individual who on the actual date of the execution of such 2014 Series A Bond shall be the proper officer although on the nominal date of such 2014 Series A Bond such individual shall not have been such officer.

Only such of the 2014 Series A Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the 2014 Series A Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

### Parity Obligations.

Conditions to Issuance of Parity Obligations. The Authority shall not issue Additional Bonds and other obligations, including "Qualified Swap Agreements" ("Parity Obligations") payable from Pledged Utility Revenues on a parity with the Parity Bonds, (the "Parity Bonds") unless the Authority complies with the conditions established by the Indenture, and each of the following:

(a) When calculated in accordance with sound accounting principles, as shown by the books of the Authority for the most recent Fiscal Year for which audited financial statements are

available, or for any more recent consecutive 12 month period selected by the Authority, in either case verified by a certificate or opinion of an Independent Certified Public Accountant or an Independent Financial Consultant:

(i) the Pledged Utility Revenues (excluding Purchased Securities Revenues) are at least equal to 125% of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Parity Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued; and

(ii) the Pledged Utility Revenues (excluding connection fee charges and excluding Purchased Securities Revenues) are at least equal to 100% of the amount of Maximum Annual Adjusted Combined Debt Service with respect to the Parity Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued.

(iii) the Net Wastewater Revenues are at least equal to 100% of the Wastewater Enterprise's allocable share of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations, including the Parity Obligations then proposed to be issued; and

(iv) the Net Water Revenues (excluding Purchased Securities Revenues) are at least equal to 100% of the Water Enterprise's allocable share of Maximum Annual Adjusted Combined Debt Service with respect to the Bonds and all Parity Obligations then proposed to be issued.

(b) If the Parity Obligations are Refunding Parity Obligations, either:

(i) the requirements set forth in paragraph (a) above must be satisfied upon the issuance of the proposed Refunding Parity Obligations and the application of the proceeds thereof or

(ii) the Authority must have provided to the Trustee a certificate showing that the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, the proposed Refunding Parity Obligations and any unsubordinated loans, advances or indebtedness payable from Pledged Utility Revenues is not greater than the Maximum Annual Adjusted Combined Debt Service on all then Outstanding Parity Obligations, and any unsubordinated loans if the proposed Refunding Bonds are not issued.

Nothing contained in the Master Indenture or the Indenture limits the issuance of any bonds of the Authority payable from Pledged Utility Revenues and secured by a lien and charge on Pledged Utility Revenues if, after the issuance and delivery of such revenue bonds, none of the Parity Obligations previously issued under the Indenture or other Issuing Instrument will be Outstanding.

## GENERAL TERMS AND PROVISIONS OF 2014 SERIES A BONDS

Issuance of 2014 Series A Bonds. Upon the execution and delivery of this Indenture, the Authority shall execute and deliver 2014 Series A Bonds in the aggregate principal amount of Fourteen Million One Hundred Thirty Thousand Dollars (\$14,130,000) to the Trustee for authentication and delivery to the Original Purchaser thereof upon the Request of the Authority.

Application of Proceeds of 2014 Series A Bonds. The proceeds of the sale in the amount of \$14,262,315.42 which is equal to the principal amount of the 2014 Series A Bonds of \$14,130,000, plus original issue premium in the amount of \$343,787.60 and less underwriter's discount in the amount of \$211,473.18, shall be applied simultaneously with the delivery of the 2014 Series A Bonds, and transfer from the 2009 Series A Water Project Fund, \$144.38 and from the 2009 Series A Wastewater Project Fund, \$46,884.14, as follows:

(a) There shall be deposited in the Debt Service Reserve Account of the Special Fund the sum of \$1,252,506.26, which shall equal the Debt Service Reserve Requirement calculated immediately after the authentication and delivery of the 2014 Series A Bonds;

(b) There shall be deposited from 2014 Series A Bond Proceeds in the 2014 Series A Costs of Issuance Fund the sum of \$299,081.40;

(c) \$7,767,756.28 shall be wire transferred to pay the AMBAC Judgment;

(d) There shall be deposited from 2014 Series A Bond Proceeds in the 2014 Series A Water Project Account the sum of \$4,522,000.00; and

(e) There shall be deposited from 2014 Series A Bond Proceeds in the 2014 Series A Wastewater Project Fund the sum of \$478,000.00;

### 2014 Series A Costs of Issuance Fund.

(a) The Trustee shall establish and maintain in trust a separate fund designated as the "2014 Series A Costs of Issuance Fund." Money deposited in said fund shall be used to pay Costs of Issuance with respect to the 2014 Series A Bonds as provided in this Section.

(b) The Trustee shall make payments from the 2014 Series A Costs of Issuance Fund, except payments and withdrawals pursuant to subsection (e) of this Section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the 2014 Series A Costs of Issuance Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Authorized Representative. Each such requisition shall state, in respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost to be paid and that such payment in the stated amount is a proper charge against the 2014 Series A Costs of Issuance Fund and that no part of such payment shall be applied to any item which has previously been paid as a Cost of Issuance of the 2014 Series A Bonds. The Trustee shall promptly issue its check to the Authority

or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer, interbank transfer or other method arrange to promptly make each payment required by such requisition. The Authority shall apply, or cause to be applied, all such moneys received from the 2014 Series A Costs of Issuance Fund to the payment of the Costs of Issuance of the 2014 Series A Bonds identified in the requisition relating to such moneys.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in such requisition and the Trustee shall have no duty or obligation to authenticate such payment instructions or authorization thereof.

(c) Upon receipt by the Trustee of a certificate of an Authorized Representative requesting the Trustee to close the 2014 Series A Costs of Issuance Fund or September 1, 2015; and after payment from the 2014 Series A Costs of Issuance Fund of all amounts included in requisitions submitted by the Authority pursuant to Section 3.03(b) hereof, the Trustee shall transfer any moneys remaining in the 2014 Series A Costs of Issuance Fund to such account or accounts in the Special Fund as directed by Authorized Representative. Upon such transfer the Trustee shall close the 2014 Series A Costs of Issuance Fund.

(d) Moneys held in the 2014 Series A Costs of Issuance Fund may be invested and reinvested to the fullest extent practicable at the written instructions of the Authority, in Permitted Investments. Any investment earnings on moneys on deposit in the 2014 Series A Costs of Issuance Fund shall be deposited in the 2014 Series A Costs of Issuance Fund and be used in the same manner as other amounts on deposit in the 2014 Series A Costs of Issuance Fund.

(e) Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the 2014 Series A Costs of Issuance Fund shall be applied to the payment of Bond debt service when due.

#### 2014 Series A Water Project Fund.

(a) The Trustee shall establish and maintain in trust a separate fund designated as the “2014 Series A Water Project Fund.” Money deposited in said fund shall be used to pay Project Costs related to the construction of improvements to the Water Enterprise.

(b) The Trustee shall make payments from the 2014 Series A Costs of Issuance Fund, except payments and withdrawals pursuant to subsection (e) of this Section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the 2014 Series A Costs of Issuance Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Authorized Representative. Each such requisition shall state, in respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost to be paid and that such payment in the stated amount is a proper charge against the 2014 Series A Costs of Issuance Fund and that no part of such payment shall be applied to any item which has previously been paid as a Cost of

Issuance of the 2014 Series A Bonds. The Trustee shall promptly issue its check to the Authority or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer, interbank transfer or other method arrange to promptly make each payment required by such requisition. The Authority shall apply, or cause to be applied, all such moneys received from the 2014 Series A Costs of Issuance Fund to the payment of the Costs of Issuance of the 2014 Series A Bonds identified in the requisition relating to such moneys.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

(c) Upon the earlier of receipt by the Trustee of a certificate of an Authorized Representative requesting the Trustee to close the 2014 Series A Water Project Fund; and after payment from the 2014 Series A Water Project Fund of all amounts included in requisitions submitted by the Authority pursuant to Section 3.04(b) hereof, the Trustee shall transfer any moneys remaining in the 2014 Series A Water Project Fund to such account or accounts in the Special Fund as directed by Authorized Representative. Upon such transfer the Trustee shall close the 2014 Series A Water Project Fund.

(d) Moneys held in the 2014 Series A Water Project Fund may be invested and reinvested to the fullest extent practicable at the written instructions of the Authority in Permitted Investments. Any investment earnings on moneys on deposit in the 2014 Series A Water Project Fund shall be deposited in the 2014 Series A Water Project Fund and be used in the same manner as other amounts on deposit in the 2014 Series A Water Project Fund. Until the 2014 Series A Water Project Fund is closed as provided in subsection (c) of this Section, interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments derived from proceeds of the 2014 Series A Bonds in the Interest Account created under the Indenture shall be paid into the 2014 Series A Water Project Fund.

(e) In the event of redemption of all of the 2014 Series A Bonds or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the 2014 Series A Water Project Fund shall be transferred to such account or accounts in the Special Fund as directed by an Authorized Representative.

#### 2014 Series A Wastewater Project Fund.

(a) The Trustee shall establish and maintain in trust a separate fund designated as the “2014 Series A Wastewater Project Fund.” Money deposited in said fund shall be used to pay Project Costs of the construction of improvements to the Water.

(b) The Trustee shall make payments from the 2014 Series A Wastewater Project Fund, except payments and withdrawals pursuant to subsection (e) of this Section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the 2014 Series A Wastewater Project Fund shall be made, there shall be filed with the Trustee a requisition therefor, signed by an Authorized Representative substantially in the form of Exhibit D hereto. Each such requisition shall state, in



respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost to be paid and that such payment in the stated amount is a proper charge against the 2014 Series A Wastewater Project Fund and that no part of such payment shall be applied to any item which has previously been paid as a Cost of the construction of improvements to the Water Enterprise. The Trustee shall promptly issue its check to the Authority or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer, interbank transfer or other method, arrange to promptly make each payment required by such requisition. The Authority shall apply, or cause to be applied, all such moneys received by it from the 2014 Series A Wastewater Project Fund to the payment of Project Costs identified in the requisition relating to such moneys. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in such requisition and the Trustee shall have no duty or obligation to authenticate such payment instructions or the authorization thereof.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof. All such payments shall be made by check or wire transfer in accordance with payment instructions contained in such requisition and the Trustee shall have no duty or obligation to authenticate such payment instructions or the authorization thereof.

(c) Upon the receipt by the Trustee of a Certificate of an Authorized Representative requesting the Trustee to close the 2014 Series A Wastewater Project Fund; and after payment from the 2014 Series A Wastewater Project Fund of all amounts included in requisitions submitted by the Authority pursuant to Section 3.05(b) hereof, the Trustee shall transfer any moneys remaining in the 2014 Series A Wastewater Project Fund to such account or accounts in the Special Fund as directed by Authorized Representative. Upon such transfer the Trustee shall close the 2014 Series A Wastewater Project Fund.

(d) Moneys held in the 2014 Series A Wastewater Project Fund may, subject to the 2014 Series A Tax Certificate, be invested and reinvested to the fullest extent practicable at the written instruction of the Authority in Permitted Investments. Any investment earnings on moneys on deposit in the 2014 Series A Wastewater Project Fund shall be deposited in the 2014 Series A Wastewater Project Fund and be used in the same manner as other amounts on deposit in the 2014 Series A Wastewater Project Fund. Until the 2014 Series A Wastewater Project Fund is closed as provided in subsection (c) of this Section, interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments derived from proceeds of the 2014 Series A Bonds in the Interest Account created under the Indenture shall be paid into the 2014 Series A Wastewater Project Fund.

(e) In the event of redemption of all of the 2014 Series A Bonds or an Event of Default which causes acceleration of the Bonds, any moneys then remaining in the 2014 Series A Wastewater Project Fund shall be transferred to such account or accounts in the Special Fund as directed by an Authorized Representative.

Funds and Accounts. The following accounts are established under the Indenture:

- Special Fund, consisting of an Interest Account, a Principal Account, a Sinking Fund Account and a Debt Service Reserve Account.
- Redemption Fund, including the Net Proceeds Account.
- Rate Stabilization Fund.

Deposit to Special Fund. On or before the Business Day immediately preceding the first Business Day of each month, the Authority is obligated to transfer to the Trustee for deposit in the Special Fund from Net Water Revenues and from Net Wastewater Revenues amounts required in Section 3.10, to the extent such funds are available. All Purchased Securities Revenues will be deposited directly upon receipt to the Special Fund and credited toward the Water Enterprise's Proportionate Share. The Authority is not obligated to transfer to the Trustee for deposit in the Special Fund an amount of Pledged Utility Revenues which, together with other available moneys in the Special Fund, exceeds the amounts required to be deposited in the Interest Account, the Principal Account, the Sinking Fund Account and the Debt Service Reserve Account in that fiscal year.

Loan from One Enterprise to the Other. To the extent Net Water Revenues are insufficient to pay the Water Enterprise's Proportionate Share of debt service on the 2014 Bonds and any Parity Obligations when due and payable, the Authority agrees to loan any available moneys from Net Wastewater Revenues to be repaid from Net Water Revenues when available.

To the extent Net Wastewater Revenues are insufficient to pay the Wastewater Enterprise's Proportionate Share of debt service on the Parity Bonds and any Parity Obligations when due and payable, the Authority agrees to loan any available moneys from Net Water Revenues to be repaid from Net Wastewater Revenues when available.

Deposit to Rate Stabilization Fund. On June 1 of each year, after making the deposits to the Special Fund described above, the Authority will transfer to the Trustee for deposit in the Rate Stabilization Fund from Net Water Revenues and Net Wastewater Revenues an amount, if any and not to exceed \$700,000 in any fiscal year, required to restore the balance in the Rate Stabilization Fund to the Rate Stabilization Requirement (\$2,100,000).

Flow of Funds. All moneys in the Special Fund will be set aside by the Trustee in the following respective accounts within the Special Fund, and will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture.

A. ***Interest Account.*** On or before the Business Day immediately preceding the first Business Day of each month, the Trustee will deposit in the Interest Account an amount equal to (A) the product of (i) one divided by the number of months remaining until the next succeeding Interest Payment Date times (ii) the amount which, together with the balance then on deposit in the Interest Account, is equal to the aggregate amount of the interest becoming due and payable on such Interest Payment Date and (B) any additional amounts necessary to provide sufficient funds to pay Net Payments (which are, generally, amounts payable with respect to a Qualified Swap Agreement) due from the Authority for the following month, to the extent funds are not otherwise available in the Interest Account.

In addition, the Trustee will deposit in the Interest Account all receipts and payments made to the Authority pursuant to Qualified Swap Agreements entered into in connection with any Parity Obligations and constituting Pledged Utility Revenues and which have been transferred to the Trustee.

In addition the Trustee will deposit in the Interest Account all receipts and payments made to the Authority pursuant to other Public Finance Contracts entered into in connection with any Bonds or other Parity Obligations and constituting Pledged Utility Revenues and which have been transferred to the Trustee.

Amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds and other Parity Obligations, including Net Payments as they become due and payable.

B. ***Principal Account.*** On or before the Business Day immediately preceding the First Business Day of each month, but in no event earlier than 12 months prior to the date on which a principal payment becomes due and payable, the Trustee will set aside from the Special Fund and deposit in the Principal Account an amount of money which, together with any money contained therein, is equal to 1/12<sup>th</sup> of the aggregate amount of the principal becoming due and payable on the Parity Bonds and all outstanding Parity Obligations that are Serial Obligations. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Parity Bonds and all outstanding Parity Obligations which are Serial Obligations as they become due and payable.

C. ***Sinking Fund Account.*** On or before the Business Day immediately preceding the First Business Day of each month, but in no event earlier than 12 months prior to the date on which a principal payment becomes due and payable, the Trustee will set aside from the Special Fund and deposit in the Sinking Fund Account an amount of money which, together with any money contained therein, is equal to 1/12<sup>th</sup> of the aggregate amount of Sinking Fund Installments becoming due and payable with respect to all outstanding Parity Obligations which are Term Obligations. All moneys in the Sinking Fund Account will be used by the Trustee to redeem the Parity Bonds and all outstanding Parity Obligations which are Term Obligations.

D. ***Debt Service Reserve Account.*** On or before the Business Day immediately preceding the First Business Day of each month, the Trustee will set aside from the Special Fund and deposit in the Debt Service Reserve Account an amount of money (or other authorized deposit of security) necessary to replenish the Debt Service Reserve Account to the Debt Service Reserve Requirement.

(1) ***General.*** The Authority is obligated to maintain an amount in the Debt Service Reserve Account equal to the Debt Service Reserve Requirement in cash or Permitted Investments.

(2) ***Use of Moneys in the Debt Service Reserve Account.*** In the event one or more Paying Agents have been appointed for the Parity Bonds and any Additional Bonds issued under the Indenture, moneys may be transferred by the Trustee to such Paying Agents from the appropriate account in the Special Fund for deposit into a special trust account to ensure the payment when due of the principal of, Redemption Price, if any, and interest on the 2014 Bonds, the Additional Bonds or on the other Parity Obligations.

E. ***Rate Stabilization Fund.*** The Indenture provides that moneys in the Rate Stabilization Fund are pledged to secure payment, to the extent Gross Wastewater Revenues, Gross Water Revenues and/or Purchased Securities Revenues are insufficient for such purposes, of the following amounts in the following order of priority:

- (a) all Wastewater Operation and Maintenance costs and Wastewater Operation and Maintenance Costs to become due and payable in the current fiscal year;
- (b) principal of and interest on the Outstanding Bonds and Parity Obligations becoming due and payable during the fiscal year, including sinking fund installments;
- (c) all other payments required for compliance with the Indenture and the legal documents pursuant to which any Parity Obligations were issued;
- (d) Water Purchase Payments and Wastewater Purchase Payments up to a maximum of \$1 million annually; provided, however, that no amounts will be transferred from the Rate Stabilization Fund for this purpose unless Pledged Utility Revenues plus Additional Revenues equal 125% of Debt Service in the current fiscal year;
- (e) all Termination Payments.

If for any reason the amount on deposit in the Rate Stabilization Fund is at any time less than the Rate Stabilization Requirement, the Authority will transfer on June 1 of each year to the Rate Stabilization Fund an amount, not to exceed \$700,000 in any fiscal year, required to restore the total funds on deposit in the Rate Stabilization Fund to not less than the Rate Stabilization Requirement, pro rata from Net Water Revenues and Net Wastewater Revenues based on the total percentage of Bonds Debt Service allocated to the Water Enterprise and the Wastewater Enterprise. The Trustee shall exhaust the Debt Service Reserve Account prior to any draw upon the Rate Stabilization Fund to pay principal and interest on the Parity Bonds and Parity Obligations.

#### Statements.

The Trustee shall furnish the Authority periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

## COVENANTS AND OBLIGATIONS OF THE AUTHORITY

### Rate Covenant.

The Authority makes three separate covenants in the Indenture with respect to the amount of rates and charges it will fix, prescribe, revise and collect.

A. ***Covenant Regarding Gross Wastewater Revenues.*** The Authority covenants to fix, prescribe, revise and collect rates, fees and charges for the Wastewater Enterprise as a whole for the services and improvements furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in estimates, to yield Gross Wastewater Revenues which are sufficient to pay the following amounts relating to the Parity Bonds in the following order of priority:

(i) All Wastewater Operation and Maintenance Costs estimated by the Authority to become due and payable in such Fiscal Year.

(ii) The Proportionate Share of Debt Service payments as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the 2009 Bonds and 2014 Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;

(iv) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund to the full amount of the Rate Stabilization Requirement;

(v) Scheduled Purchase Payments required by the Wastewater Purchase Agreement; and

(vi) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Wastewater Revenues during such Fiscal Year, including repayments of loans from the Net Water Revenues.

B. ***Covenant Regarding Gross Water Revenues.*** The Authority covenants to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements furnished by the Water Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates and specifically excluding the “Purchased Securities Revenues” relating to the Parity Bonds.

(i) All Water Operation and Maintenance Costs for the Water Enterprise estimated by the Authority to become due and payable in such Fiscal Year.

(ii) The Proportionate Share of Debt Service payments as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Debt Service payments are payable from the proceeds of the Bonds or from any other source of legally available funds of the Authority which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) The Proportionate Share of the amount, if any, required to restore the balance in the Debt Service Reserve Account to the full amount of the Debt Service Reserve Requirement;

(iv) The pro rata share of the amount, if any, required to restore the balance in the Rate Stabilization Fund to the full amount of the Rate Stabilization Requirement;

(v) Scheduled Purchase Payments required by the Water Purchase Agreement; and

(vi) All other payments required to meet any other obligations of the Authority which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Water Revenues during such Fiscal Year, including repayments of loans from the Net Water Revenues.

C. ***Covenant Regarding Net Wastewater Revenues and Net Water Revenues.*** The Authority covenants to fix, prescribe, revise and collect, or cause to be fixed, prescribed, revised and collected, rates, fees and charges for the services and improvements furnished by the Wastewater Enterprise and Water Enterprise during each Fiscal Year which, excluding the Purchased Securities Revenues, are sufficient to yield combined Net Wastewater Revenues and Net Water Revenues, at least equal to 125% of the total Debt Service payments coming due and payable in such Fiscal Year in relation to the Parity Bonds. The Authority's covenant described in this paragraph is subject to the Proportionate Share limitation, which means that an Enterprise is only responsible for paying the portion of the debt service on the 2014 Bonds and any Parity Obligation that is calculated as its Proportionate Share, and it is not responsible for paying the other Enterprise's Proportionate Share.

D. ***Non-Impairment.*** The Authority does hereby pledge to, and agrees with, the Owners of any 2014 Bonds that, except as permitted by the terms of the Indenture and this Fifth Supplemental Indenture, it will not take any action or enter into any agreement that limits, alters or impairs the pledge of Pledged Utility Revenues as contained in Section 5.1 of the Indenture or any of the rights or remedies of the Owners of the 2014 Bonds under the Indenture or this Fifth Supplemental Indenture.

E. ***Special Revenues.*** The Authority and the Owners of the 2014 Bonds hereby acknowledge that they intend for the Pledged Utility Revenues to constitute "special revenues" within the meaning of Chapter 9 of the United States Bankruptcy Code.

## MISCELLANEOUS

Indenture to Remain in Effect. Save and except as supplemented by this Fifth Supplemental Indenture, the Master Indenture shall remain in full force and effect.

Continuing Disclosure. The Authority hereby covenants and agrees to comply with the continuing disclosure requirements for the 2014 Series A Bonds, as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, on a semiannual basis. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the requirements of Rule 15c2-12 applicable to the 2014 Series A Bonds, as it may from time to time hereafter be amended or supplemented, or failure of the Authority to comply with any continuing disclosure agreement entered into in connection with the 2014 Series A Bonds shall not be considered an Event of Default and the Trustee shall have no right to accelerate amounts due hereunder as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the Outstanding 2014 Series A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations in this Section and such continuing disclosure agreement.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDING JUNE 30, 2013**

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

**FINANCIAL STATEMENTS**

**June 30, 2013**

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**(A Component Unit of the City of Adelanto, California)**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2013**

**TABLE OF CONTENTS**

Independent Auditor’s Report.....	1
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position .....	3
Statement of Activities.....	5
Fund Financial Statements	
Statement of Net Position – Proprietary Funds.....	6
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.....	8
Statement of Cash Flows – Proprietary Funds.....	9
Notes to Basic Financial Statements.....	10



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

## **PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
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## **INDEPENDENT AUDITOR'S REPORT**

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

### Report on the Financial Statement

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, as of and for the fiscal year ended June 30, 2013, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 Adelanto Public Utility Authority, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 13 of the notes to the financial statements, the Authority does not currently have an adequate cash balance to fulfill required settlement payments. This condition raises concern about the Authority's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, effective July 1, 2012, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 15, 2014

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF NET POSITION**  
**June 30, 2013**

<b>ASSETS</b>	<u>Business-type Activities</u>
<b>Current Assets:</b>	
Cash and investments	\$ 5,305,665
Receivables:	
Accounts, net	3,179,295
Interest	2,644
Inventories	<u>48,946</u>
Total Current Assets	<u>8,536,550</u>
<b>Restricted Assets:</b>	
Cash and investments with fiscal agents	<u>13,283,470</u>
Total Restricted Assets	<u>13,283,470</u>
<b>Capital Assets:</b>	
Capital assets not being depreciated	27,726,918
Capital assets being depreciated, net of accumulated depreciation	<u>42,872,349</u>
Total Capital Assets	<u>70,599,267</u>
<b>Other Assets:</b>	
Investment in Adelanto Public Financing Authority Bonds	13,905,492
Deferred bond issuance costs, net of accumulated amortization	1,271,478
Deferred loss on bond refunding, net of accumulated amortization	<u>6,827,484</u>
Total Other Assets	<u>22,004,454</u>
Total Assets	<u>\$ 114,423,741</u>

(Continued)

See accompanying notes to basic financial statements

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

**June 30, 2013**

**(Continued)**

<b>LIABILITIES</b>	<u>Business-type Activities</u>
<b>Current Liabilities:</b>	
Accounts payable	\$ 1,145,285
Accrued liabilities	44,492
Deposits payable	<u>487,061</u>
Total Current Liabilities	<u>1,676,838</u>
<b>Current Liabilities (payable from restricted assets):</b>	
Accrued interest payable	2,389,153
Current portion of long-term liabilities	<u>1,171,673</u>
Total Current Liabilities (payable from restricted assets)	<u>3,560,826</u>
<b>Long-Term Liabilities:</b>	
Accrued employee leave benefits	107,636
Advances from the City of Adelanto	4,342,105
Settlement payable	7,760,459
Bonds payable, non-current	<u>73,491,712</u>
Total Long-Term Liabilities	<u>85,701,912</u>
Total Liabilities	<u>90,939,576</u>
<b>NET POSITION</b>	
Net investment in capital assets	25,567,995
Unrestricted	<u>(2,083,830)</u>
Total Net Position	<u><u>\$ 23,484,165</u></u>

See accompanying notes to basic financial statements



**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2013**

<b><u>Business-type Activities</u></b>	<u>Expenses</u>	<u>Program Revenue</u> <u>Charges for</u> <u>Services</u>	<u>Net (Expense)</u> <u>Revenue and</u> <u>Change in</u> <u>Net Position</u>
<b>Expenses:</b>			
Wastewater activities	\$ (6,855,372)	\$ 6,342,275	\$ (513,097)
Water activities	(9,947,258)	7,928,494	(2,018,764)
Total	<u>\$ (16,802,630)</u>	<u>\$ 14,270,769</u>	<u>(2,531,861)</u>
<b>General Revenues and Transfers:</b>			
Use of money and property			1,356,426
Transfers to the City of Adelanto			<u>(1,452,383)</u>
Total General Revenues and Transfers			<u>(95,957)</u>
Change in Net Position			<u>(2,627,818)</u>
<b>Net Position - July 1, 2012</b>			3,040,877
<b>Prior Period Adjustments</b>			<u>23,071,106</u>
<b>Net Position - July 1, 2012 (restated)</b>			<u>26,111,983</u>
<b>Net Position - June 30, 2013</b>			<u>\$ 23,484,165</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF NET POSITION - PROPRIETARY FUNDS**  
**June 30, 2013**

<b><u>Assets</u></b>	<b><u>Adelanto Public Utility Authority</u></b>	<b><u>Adelanto Water Authority</u></b>	<b><u>Totals</u></b>
<b>Current Assets:</b>			
Cash and investments	\$ 2,839,466	\$ 2,466,199	\$ 5,305,665
Receivables:			
Accounts, net	1,429,667	1,749,628	3,179,295
Interest	430	2,214	2,644
Inventories		48,946	48,946
	<u>4,269,563</u>	<u>4,266,987</u>	<u>8,536,550</u>
Total Current Assets			
<b>Restricted Assets:</b>			
Cash and investments with fiscal agents	<u>3,885,573</u>	<u>9,397,897</u>	<u>13,283,470</u>
Total Restricted Assets	<u>3,885,573</u>	<u>9,397,897</u>	<u>13,283,470</u>
<b>Capital assets, net of accumulated depreciation</b>	<u>37,272,182</u>	<u>33,327,085</u>	<u>70,599,267</u>
<b>Other Assets:</b>			
Advances to other funds		12,286,116	12,286,116
Investment in Adelanto Public Financing Authority Bonds		13,905,492	13,905,492
Deferred bond issuance costs, net of accumulated amortization	521,305	750,173	1,271,478
Deferred loss on bond refunding, net of accumulated amortization	<u>2,799,268</u>	<u>4,028,216</u>	<u>6,827,484</u>
Total Other Assets	<u>3,320,573</u>	<u>30,969,997</u>	<u>34,290,570</u>
Total Assets	<u>\$ 48,747,891</u>	<u>\$ 77,961,966</u>	<u>\$ 126,709,857</u>

(Continued)

See accompanying notes to basic financial statements

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

June 30, 2013

(Continued)

	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
<b><u>Liabilities and Net Position</u></b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 487,020	\$ 658,265	\$ 1,145,285
Accrued liabilities		44,492	44,492
Deposits payable	94,326	392,735	487,061
	<u>581,346</u>	<u>1,095,492</u>	<u>1,676,838</u>
Total Current Liabilities			
<b>Current Liabilities: (payable from restricted assets):</b>			
Accrued interest payable	979,553	1,409,600	2,389,153
Current portion of long-term liabilities	480,386	691,287	1,171,673
	<u>1,459,939</u>	<u>2,100,887</u>	<u>3,560,826</u>
Total Current Liabilities (payable from restricted assets)			
<b>Long-Term Liabilities:</b>			
Advances from the Water Authority	12,286,116		12,286,116
Advances from the City of Adelanto	570,473	3,771,632	4,342,105
Accrued employee leave benefits		107,636	107,636
Settlement payable	3,181,788	4,578,671	7,760,459
Bonds payable, non-current	30,131,602	43,360,110	73,491,712
	<u>46,169,979</u>	<u>51,818,049</u>	<u>97,988,028</u>
Total Long-Term liabilities			
Total Liabilities	<u>48,211,264</u>	<u>55,014,428</u>	<u>103,225,692</u>
<b>Net Position:</b>			
Net investment in capital assets	11,547,458	14,020,537	25,567,995
Unrestricted	(11,010,831)	8,927,001	(2,083,830)
	<u>\$ 536,627</u>	<u>\$ 22,947,538</u>	<u>\$ 23,484,165</u>
Total Net Position			

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -**  
**PROPRIETARY FUNDS**  
**For The Fiscal Year Ended June 30, 2013**

	<b>Adelanto Public Utility Authority</b>	<b>Adelanto Water Authority</b>	<b>Totals</b>
<b>Operating Revenues:</b>			
Charges for services	\$ 6,342,275	\$ 7,928,494	\$ 14,270,769
Total Operating Revenues	<u>6,342,275</u>	<u>7,928,494</u>	<u>14,270,769</u>
<b>Operating Expenses:</b>			
Salaries and benefits		1,308,036	1,308,036
Contract services	1,056,698	133,912	1,190,610
Sewer operations	1,093,828		1,093,828
Water operations		1,152,334	1,152,334
Utilities	203,940	695,874	899,814
Administration	25,020	348,425	373,445
Depreciation	674,652	780,101	1,454,753
Total Operating Expenses	<u>3,054,138</u>	<u>4,418,682</u>	<u>7,472,820</u>
Operating Income	<u>3,288,137</u>	<u>3,509,812</u>	<u>6,797,949</u>
<b>Non-operating Revenues (Expenses):</b>			
Amortization expense	(132,249)	(190,309)	(322,558)
Interest expense and fiscal charges	(2,342,037)	(3,428,756)	(5,770,793)
Interest expense and fiscal charges related to settlement payable	(1,326,948)	(1,909,511)	(3,236,459)
Interest and investment revenue	78,862	1,277,564	1,356,426
Total Non-operating Revenues (Expenses)	<u>(3,722,372)</u>	<u>(4,251,012)</u>	<u>(7,973,384)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(434,235)	(741,200)	(1,175,435)
Transfers to the City of Adelanto	<u>(125,000)</u>	<u>(1,327,383)</u>	<u>(1,452,383)</u>
Change in Net Position	<u>(559,235)</u>	<u>(2,068,583)</u>	<u>(2,627,818)</u>
Net Position - July 1, 2012	(4,204,868)	7,245,745	3,040,877
Prior Period Adjustments	<u>5,300,730</u>	<u>17,770,376</u>	<u>23,071,106</u>
Net Position - July 1, 2012 restated	<u>1,095,862</u>	<u>25,016,121</u>	<u>26,111,983</u>
Net Position - June 30, 2013	<u>\$ 536,627</u>	<u>\$ 22,947,538</u>	<u>\$ 23,484,165</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, 2013**

	<b>Adelanto Public Utility Authority</b>	<b>Adelanto Water Authority</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 6,145,838	\$ 7,923,313	\$ 14,069,151
Payments to suppliers	(2,500,205)	(3,223,649)	(5,723,854)
Payments to employees		(1,317,539)	(1,317,539)
Net cash provided (used) by operating activities	<u>3,645,633</u>	<u>3,382,125</u>	<u>7,027,758</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers to the City of Adelanto	(125,000)	(1,538,079)	(1,663,079)
Payments received (paid) to/from other funds or the City	3,691,875	(6,033,025)	(2,341,150)
Net cash provided (used) in noncapital financing activities	<u>3,566,875</u>	<u>(7,571,104)</u>	<u>(4,004,229)</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(7,313,376)		(7,313,376)
Interest paid on long-term debt	(2,725,255)	(2,895,076)	(5,620,331)
Net cash provided (used) in capital and related financing activities	<u>(10,038,631)</u>	<u>(2,895,076)</u>	<u>(12,933,707)</u>
<b>Cash flows from investing activities:</b>			
Interest and investment revenue	79,267	1,278,578	1,357,845
Net cash provided by investing activities	<u>79,267</u>	<u>1,278,578</u>	<u>1,357,845</u>
Net increase (decrease) in cash and cash equivalents	(2,746,856)	(5,805,477)	(8,552,333)
Cash and cash equivalents, beginning of fiscal year	9,471,894	17,669,573	27,141,467
Cash and cash equivalents, end of fiscal year	<u>\$ 6,725,038</u>	<u>\$ 11,864,096</u>	<u>\$ 18,589,134</u>
<b>Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:</b>			
Reported on the Statement of Net Position:			
Cash and investments	\$ 2,839,466	\$ 2,466,199	\$ 5,305,665
Cash and investments with fiscal agents	3,885,573	9,397,897	13,283,470
<b>Cash and cash equivalents - June 30, 2013</b>	<u>\$ 6,725,039</u>	<u>\$ 11,864,096</u>	<u>\$ 18,589,135</u>
<b>Reconciliation of operating income to net cash provided by operations:</b>			
Operating income	\$ 3,288,137	\$ 3,509,812	\$ 6,797,949
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	674,652	780,101	1,454,753
Decrease (increase) in accounts receivable	(200,481)	(18,793)	(219,274)
Increase (decrease) in accounts payable	(120,719)	(893,104)	(1,013,823)
Increase (decrease) in accrued liabilities		(22,669)	(22,669)
Increase (decrease) in deposits payable	4,044	13,612	17,656
Increase (decrease) in accrued employee leave benefits		13,166	13,166
Total adjustments	<u>357,496</u>	<u>(127,687)</u>	<u>229,809</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,645,633</u>	<u>\$ 3,382,125</u>	<u>\$ 7,027,758</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

The financial statements of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, 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.

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 and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

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

The government-wide financial statements (ie, the statement of position 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 2009 Adelanto Public 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, 2013**

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

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

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

Receivables and payables, representing operating advances between the City and the Authority, have been classified as “advances from the City of Adelanto” or “advances to the City of Adelanto”, respectively, on the accompanying financial statements. Such activities have been eliminated on the statement of Net Position.

**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.

Capital assets are defined by the Authority as assets with an initial individual cost of \$5,000 (\$100,000 for infrastructure) or more and an estimated useful life in excess of one year. Additions to capital assets are carried at historical cost or, for donated capital assets, at appraised fair value on the date donated.

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

The Authority’s water rights that are listed under capital assets do not have a finite period of useful life to the Authority and so there is no expiration date for the Authority’s rights to the water.

**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, 2013**

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

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

**Bond Discounts/Issuance Costs/Deferred Losses on Refunding**

Bond discounts, issuance costs, and deferred losses on refunding, 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**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Adelanto (City) that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets units they are distributed to other units of state and local government. The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

**(f) New Accounting Pronouncements**

The Authority has implemented the following requirements of Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended June 30, 2013.

**Governmental Accounting Standards Board Statement No. 60**

For the fiscal year ended June 30, 2013, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements.” This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2013.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

**(f) New Accounting Pronouncements (Continued)**

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 61 “The Financial Reporting Entity: Omnibus —*an amendment of GASB Statements No. 14 and No. 34.*” This Statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to improve financial reporting for component units. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 62

For the fiscal year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 62 “Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989 FASB and AICPA Pronouncements.*” This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62, did not have an impact on the City’s financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 63

For the fiscal year ended June 30, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows or resources, deferred inflows of resources, and net position in a statement of financial position. This Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net positions, should be displayed. Implementation of the Statement and the impact of the City’s financial statements are explained in Note 11 – Net Position.

**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 \$ 10,293,797 at June 30, 2013.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

**(a) Water Operations (Continued)**

**Water System Purchase Note (Continued)**

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. Prior to January 26, 1998, management did not anticipate that any payment in excess of the minimum annual payments due on the note would 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, which at that time was scheduled for September 1, 2028. As per this agreement, the unpaid balance of this 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. In a subsequent amendment dated September 2005, the purchase agreement was amended and the interest rate was changed to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid. Additionally, an amendment dated November 2009 was issued that updates the terms of the agreement to reflect the issuance of the 2009 Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds and the issuance of the amendment dated November 2009 and replaces the 2009 Bond information in place of the 2005 Bond. Surplus revenues is defined as all of the net water revenues as of the second business day minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds.

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.

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 all of the net wastewater revenues as of the second business day of each month, minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds.

**(b) Wastewater Operations**

**Wastewater System Purchase Note**

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 originally 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 all of the net wastewater revenues as of the second business day of each month minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds. This note was originally subordinated to the 1996 Public Utility Bonds.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

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

**Wastewater System Purchase Note (Continued)**

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. Prior to January 26, 1998, management did not anticipate that any payment in excess of the annual payments due on the note would be made prior to the final repayment of the Public Utility Authority 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, which at that time was scheduled for November 1, 2026. As per this agreement, any unpaid balance at that time will accrue interest at 7.5%. In September 2005, the interest rate was amended to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid. Subsequently, an amendment dated November 2009 was issued that updates the terms of the agreement to reflect the issuance of the 2009 Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds and the issuance of the amendment dated November 2009 and replaces the 2009 Bond information in place of the 2005 Bond. The outstanding balance on the Wastewater System Purchase Note is \$6,431,169 at June 30, 2013.

**(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, 2013 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 5,305,665
Cash and investments with fiscal agents	13,283,470
Investment in Adelanto Public Financing Authority Bonds	<u>13,905,492</u>
Total cash and investments	<u><u>\$ 32,494,627</u></u>

Cash and investments as of June 30, 2013 consist of the following:

Petty cash	\$ 850
Deposits with financial institutions	949,484
Investments	<u>31,544,293</u>
Total cash and investments	<u><u>\$ 32,494,627</u></u>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**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	\$50 million
Local or Government 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	N/A	None	None
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) Investments 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, 2013**

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

**(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 to 60 Months	More Than 60 Months
State Investment Pool	\$ 4,355,331	\$ 4,355,331	\$ -	\$ -	\$ -
Held by Bond Trustees:					
Money Market Funds	9,003,376	9,003,376			
Investment Agreement	4,280,094			4,280,094	
Public Financing Authority Bonds*	13,905,492				13,905,492
	<u>\$ 31,544,293</u>	<u>\$ 13,358,707</u>	<u>\$ -</u>	<u>\$ 4,280,094</u>	<u>\$ 13,905,492</u>

\* The value of the bonds are stated at cost as no fair value is readily available.

**(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	\$ 4,355,331	N/A	\$ -	\$ -	\$ -	\$ -	\$ 4,355,331
Held by bond trustee:							
Money Market Funds	9,003,376	N/A		9,003,376			
Investment Agreements	4,280,094	N/A					4,280,094
Public Financing Authority Bonds	13,905,492	N/A					13,905,492
Total	<u>\$ 31,544,293</u>		<u>\$ -</u>	<u>\$ 9,003,376</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,540,917</u>



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**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>
IXIS Funding Corp Investment Agreements	Investment Contracts	\$ 4,280,094
Adelanto Public Financing Authority Bonds	Bonds	13,905,492

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, business type activities, and major funds) are as follows:

The Adelanto Public Utility Authority holds investments in IXIS Investment Contracts equal to \$1,754,839. The agreements mature on September 30, 2015 and pay interest of 4.360%.

The Adelanto Water Authority holds investments in IXIS Investment Contracts equal to \$2,525,255. The agreements mature on September 30, 2015 and pay interest of 4.360%.

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority bonds in the amount of \$13,905,492. This investment is in the 1995 Series C 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

**(g) Custodial Credit Risk (Continued)**

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, 2013, the 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	\$ 9,003,376
Investment Agreements	4,280,094

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

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**Note 4    Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustment</u>	<u>Balance June 30, 2013</u>
<u>Wastewater Activity:</u>					
Capital Assets, not being depreciated:					
Land	\$ 1,029,888	\$ 4,000	\$ -	\$ (227,188)	\$ 806,700
Construction in progress	16,877,030	7,300,183		(15,473,362)	8,703,851
Total Capital Assets, not being depreciated	<u>17,906,918</u>	<u>7,304,183</u>		<u>(15,700,550)</u>	<u>9,510,551</u>
Capital Assets, being depreciated:					
Buildings and improvements				10,821,344	10,821,344
Infrastructure	10,724,167			6,164,866	16,889,033
Machinery and equipment	369,490			5,394,715	5,764,205
Less - Accumulated depreciation	<u>(3,599,415)</u>	<u>(674,652)</u>		<u>(1,438,884)</u>	<u>(5,712,951)</u>
Total Capital Assets, being depreciated	<u>7,494,242</u>	<u>(674,652)</u>		<u>20,942,041</u>	<u>27,761,631</u>
Total Wastewater Capital Assets, net	<u>\$ 25,401,160</u>	<u>\$ 6,629,531</u>	<u>\$ -</u>	<u>\$ 5,241,491</u>	<u>\$ 37,272,182</u>

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustments</u>	<u>Balance June 30, 2013</u>
<u>Water Activity:</u>					
Capital Assets, not being depreciated:					
Land	\$ 792,056	\$ -	\$ -	\$ (690,456)	\$ 101,600
Water rights	3,124,799				3,124,799
Total Capital Assets, not being depreciated	<u>3,916,855</u>			<u>(690,456)</u>	<u>3,226,399</u>
Capital Assets, being depreciated:					
Buildings and improvements	130,128			9,822,670	9,952,798
Infrastructure	18,183,485			11,397,816	29,581,301
Machinery and equipment	16,774	9,194		2,684,919	2,710,887
Vehicles	483,999			(64,650)	419,349
Less - Accumulated depreciation	<u>(5,658,610)</u>	<u>(780,101)</u>		<u>(6,124,938)</u>	<u>(12,563,649)</u>
Total Capital Assets, being depreciated	<u>13,155,776</u>	<u>(770,907)</u>		<u>17,715,817</u>	<u>30,100,686</u>
Total Water Capital Assets, net	<u>\$ 17,072,631</u>	<u>\$ (770,907)</u>	<u>\$ -</u>	<u>\$ 17,025,361</u>	<u>\$ 33,327,085</u>



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**Note 4 Capital Assets (Continued)**

	Balance July 1, 2012	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2013
<u>Total Authority:</u>					
Capital assets, not being depreciated:					
Land	\$ 1,821,944	\$ 4,000	\$ -	\$ (917,644)	\$ 908,300
Water rights	3,124,799				3,124,799
Construction in progress	16,877,030	7,300,183		(15,473,362)	8,703,851
<b>Total Capital Assets, not being depreciated</b>	<b>21,823,773</b>	<b>7,304,183</b>		<b>(16,391,006)</b>	<b>12,736,950</b>
Capital Assets, being depreciated:					
Buildings and improvements	130,128			20,644,014	20,774,142
Infrastructure	28,907,652			17,562,682	46,470,334
Machinery and equipment	386,264	9,194		8,079,634	8,475,092
Vehicles	483,999			(64,650)	419,349
Less - Accumulated depreciation	(9,258,025)	(1,454,753)		(7,563,822)	(18,276,600)
<b>Total Capital Assets, being depreciated</b>	<b>20,650,018</b>	<b>(1,445,559)</b>		<b>38,657,858</b>	<b>57,862,317</b>
<b>Total Authority Capital Assets, net</b>	<b>\$ 42,473,791</b>	<b>\$ 5,858,624</b>	<b>\$ -</b>	<b>\$ 22,266,852</b>	<b>\$ 70,599,267</b>

Depreciation expense has been included by function in the Statement of Activities and Revenues, Expenses, and Changes in Net Position as follows:

Wastewater Activities	\$ 674,652
Water Activities	780,101

**Note 5 Long-Term Liabilities**

The following is a schedule of changes in long-term liabilities of the Authority for the fiscal year ended June 30, 2013:

	Balance July 1, 2012	Additions	Principal Payments	Balance June 30, 2013	Due within one year
Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A	\$ 76,825,000	\$ -	\$ (1,165,000)	\$ 75,660,000	\$ 1,210,000
Unamortized discount	(1,034,942)		38,327	(996,615)	(38,327)
Compensated Absences	94,470	41,183	(28,017)	107,636	
Settlement Payable	4,524,000	3,236,459		7,760,459	
Advances from the City of Adelanto	5,419,082		(1,076,977)	4,342,105	
<b>Total long-term debt</b>	<b>\$ 85,827,610</b>	<b>\$ 3,277,642</b>	<b>\$ (2,231,667)</b>	<b>\$ 86,873,585</b>	<b>\$ 1,171,673</b>

In regards to the 2005A and 2005B Bonds, the Authority entered into interest rate swap agreements pursuant to a master agreement, effective September 7, 2005. The swap provider was Piper Jaffray Financial Products Inc. Under the swap associated with the Series A Bonds, the Authority paid a fixed rate of 3.387% and received amounts based upon a variable rate (based on 63% of the One-Month London Interbank Offering Rate (LIBOR) plus 30 basis points). In regards to the 2005B Bonds, there were two separate swaps. The first swap's period started on September 7, 2005, through but excluding September 1, 2008. The Authority paid a fixed rate of 4.485% and received amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points). The second swap for the 2005 B Bonds began on September 1, 2008 and continued for the remaining life of the 2005B Bonds. The Authority paid a fixed rate of 3.447% and received amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points). The

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

payment obligations of the Authority under the 2005 SWAP (excluding Termination Payments thereunder) constituted Parity Obligations and the payments received by the Authority under the 2005 Swap were pledged to the payment of the 2005A Bonds and the 2005B Bonds. The payment obligations of the Authority under the 2005 Swap that constitute Termination Payments constitute Subordinate Obligations under the Indenture. Ambac Assurance Corporation issued a financial guaranty insurance policy in regards to the issuance of the 2005A and 2005B Bonds. Under the financial guaranty insurance, Ambac Assurance was to pay the Bank of New York (or any successor) the portion of the principal and interest on the Bonds that became due and remain unpaid. The insurance extended for the term of the Bonds and could not be canceled. Please see the disclosure under Commitments and Contingencies for additional information regarding the 2005A and 2005 B Bonds that were issued September 7, 2005.

On December 19, 2007, there was a reoffering of the 2005 Series A and B bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. Please see below for additional information for the reoffering of the 2005 Series A and B bonds.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued which refunded the 2005 A and B Bonds. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **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 was to be used to finance improvements to both the Water and Wastewater Systems.

After the fixed rate conversion date, the Bonds were 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 was 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 was \$700,000.

The Public Utility Authority was 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:

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

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

- 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.

In addition, the Public Utility Authority was required to fix, prescribe, revise, and collect rates, fees and charges for the services and improvements furnished by the wastewater enterprise and water enterprise during each fiscal year which are sufficient to yield combined net wastewater revenues and net water revenues at least equal to 125% of the total debt service payments (2005A and 2005B) coming due and payable in such fiscal year.

On December 19, 2007, there was a reoffering of the 2005 Series A bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. The auction rate for the Bonds were to be determined, in most cases, through the implementation of the auction procedures. The initial period for the 2005 Series A bonds was to be the period commencing on and including the reoffering date and ending on and including December 26, 2007, with interest payable for the initial period on December 27, 2007, and thereafter the auction period was to be a 7-day auction period with auctions generally conducted every Wednesday. The applicable auction rate was not to exceed the ARB maximum rate of 12% per annum.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued and refunded the 2005 A and 2005 B Bonds. The 2005 A and 2005 B Bonds were defeased and are no longer a debt of the Authority. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **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 was 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 were 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.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

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

- 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 was required to fix, prescribe, revise, and collect rates, fees and charges for the services and improvements furnished by the wastewater enterprise and water enterprise during each fiscal year which are sufficient to yield combined net wastewater revenues and net water revenues at least equal to 125% of the total debt service payments (2005A and 2005B) coming due and payable in such fiscal year.

On December 19, 2007, there was a reoffering of the 2005 Series B bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. The auction rate for the Bonds were to be determined, in most cases, through the implementation of the auction procedures. The initial period for the 2005 Series B bonds was to be the period commencing on and including the reoffering date and ending on and including December 26, 2007, with interest payable for the initial period on December 27, 2007, and thereafter the auction period shall be a 28-day auction period with auctions generally conducted every fourth Wednesday. The applicable auction rate will not exceed the ARB maximum rate of 12% per annum.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued and refunded the 2005 A and 2005 B Bonds. The 2005 A and 2005 B Bonds were defeased and are no longer a debt of the Authority. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A**

On or about December 22, 2009, the Adelanto Public Utility Authority issued \$76,825,000 Fixed Rate Refunding Revenue Bonds to provide funds to (i) refund the Authority's outstanding \$53,125,000 Variable Rate Refunding Revenue Bonds, 2005 Series A (Utility System Project) and its outstanding \$14,410,000 Taxable Variable Rate Refunding Bonds, 2005 Series B (Utility System Project), ii) finance certain capital improvements to the Authority's water treatment, production, storage and distribution system and its wastewater collection and treatment system and other related costs, iii) fund a debt service reserve fund for the 2009 Bonds, and iv) pay the costs of issuing the 2009 Bonds. The bonds are composed of serial and term bonds. The serial bonds have various maturity dates with the last maturity date being July 1, 2026. The interest rates range from 4.00% to 6.25%. There are also two term bonds with one term bond in the amount of \$14,800,000 (maturity date of July 1, 2031 and an interest rate of 6.625%), and the second term bond in the amount of \$36,885,000 (maturity date of July 1, 2039 and an interest rate of 6.750%).

The 2009 Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2005, as amended and supplemented including the Fourth Supplemental Indenture dated as of November 1, 2009 by and between the Authority and the Trustee. Interest on the 2009 Bonds are payable on January 1 and July 1 of each year, commencing on July 1, 2010.

The 2009 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of Pledged Utility Revenue and from certain other amounts on deposit in funds and accounts under the Indenture. Pledged Utility Revenues primarily consist of i) Net wastewater revenues and ii) net water revenues. In order to comply with applicable law, each of the Water and Wastewater Enterprises are obligated to pay only its proportionate share of the 2009 Bonds (59% for Water and 41% for Wastewater).

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

• **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A (Continued)**

The Authority has covenanted to fix, prescribe and collect fees, tolls, assessments, rates and charges for the Utility System in order to satisfy certain coverage requirements.

The 2009 Bonds maturing on or before July 1, 2019 are not subject to optional redemption prior to maturity. The 2009 Bonds maturing on or after July 1, 2020 are subject to redemption prior to their respective maturity dates, at the option of the Authority, as a whole, or in part, as determined by the Authority, on any date after July 1, 2019, from any source of available funds, at the principal amount of the 2009 Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

The 2009 Term Bonds are subject to redemption in part by lot, on July 1 in each year commencing July 1, 2027 from Sinking Fund Installments made by the Authority into the Debt Service Fund, at a redemption price equal to the principal amount to be redeemed, without premium, in the aggregate respective principal amounts and on July 1 in the respective years set forth in the following tables, or in lieu thereof may be purchased.

The Authority is obligated to maintain an amount in the debt service reserve account equal to the debt service reserve requirement which is equal to the lesser of (a) 10% of the initial offering price to the public of the Bonds, (b) the greatest amount of Bond Debt Service in any Bond Year during the period commencing with the Bond Year in which the determination is being made and terminating with the last Bond Year in which any Bond is due, or (c) 125% of the sum of the Bond Debt Service for all Bond Years during the period commencing with the Bond Year in which such calculation is made and terminating with the last Bond Year in which any Bond debt service is due, divided by the number of such Bond Years. The balance in the debt service reserve account as of June 30, 2013 is \$6,159,475.

The Rate Stabilization Fund is pledged to secure payment, to the extent Gross Wastewater Revenues, Gross Water Revenues and/or purchased securities revenues are insufficient for such purposes, the following amounts in the following order of priority:

1. All wastewater operation and maintenance costs and wastewater operation and maintenance costs to become due and payable in the current fiscal year,
2. Principal of and interest on the outstanding bonds and parity obligations becoming due and payable during the fiscal year, including sinking fund installments,
3. All other payments required for compliance with the indenture and the legal documents pursuant to which any parity obligations were issued,
4. Water purchase payments and wastewater purchase payments up to a maximum of \$1 million annually; provided, however, that no amounts will be transferred from the Rate Stabilization Fund for this purpose unless pledged utility revenues plus additional revenues equal 125% of debt service in the current fiscal year,
5. Any termination payments.

The Rate Stabilization requirement is \$2,100,000 and is equal to the amount currently in the Rate Stabilization Account as of June 30, 2013. As of June 30, 2013, the amount due on the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A is \$75,660,000.



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

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

- **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A (Continued)**

**Debt Service Requirements**

This schedule illustrates the debt service requirements for bonds outstanding as of June 30, 2013:

<b>Fiscal year</b>	<b>Fixed Rate Refunding Revenue Bonds 2009 Series A</b>
2014	\$ 5,964,106
2015	5,964,706
2016	5,966,563
2017	5,964,245
2018	5,963,745
2019-2023	29,835,760
2024-2028	29,826,513
2029-2033	29,828,423
2034-2038	29,827,933
2039-2040	11,931,295
	<hr/> 161,073,289
Less amount representing interest	<hr/> 85,413,289
Balance outstanding	<hr/> <hr/> \$ 75,660,000

- **Defeasance of Debt**

At June 30, 2013, the 1995, 1998, 2000, and 2005 debt amounts have been paid in full. There are no outstanding debt balances related to these issues.

- **Settlement Payable**

On June 1, 2009, Ambac Assurance Corporation filed a lawsuit against the Authority in a federal district court in the Southern District of New York and is seeking \$4,524,000 in damages plus interest and fees, costs and other expenses incurred by Ambac relating to or resulting from the alleged breach of the Authority of the Swap Agreement. On or about September 2005, the Authority issued \$70,635,000 of variable rate refunding revenue bonds (2005 A and 2005 B-Utility System Project). In order to hedge the risk from the Bonds, the Authority also entered into an interest rate swap agreement with Piper Jaffray Financial Products Incorporated (Piper). Ambac issued a surety bond for the swap agreement. The surety bond stated that if the Authority did not make certain payments pursuant to the swap agreement, Ambac would make those payments. On November 5, 2008, Moody's Investors Service downgraded Ambac's credit rating. The swap agreement provided that it could be terminated early upon the occurrence of certain events and when such early termination occurs, Piper shall be paid a "termination payment" to compensate it for the termination. The downgrade of Ambac's credit rating eventually led Piper on June 1, 2009, to terminate the swap agreement and demanded \$4,524,000 from the Authority as a termination payment. Ambac, as surety per the surety bond, paid Piper the \$4,524,000 on June 3, 2009. The United States District Court, Southern District of New York has ruled against the Authority, awarding Ambac Assurance Corporation the \$4,524,000 termination payment plus interest and fees. The total settlement payable including interest and fees is estimated to be \$7,760,459. As of October 15, 2014, no payment schedule has been determined.

- **Compensated Absences**

As of the fiscal year ended June 30, 2013, the total accrued employee leave benefits for the Authority were \$107,636.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**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.

The Authority participates in the City's pension plan, California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Please refer to the City's basic financial statements as of June 30, 2013, for detailed information regarding the pension plan.

**Note 7**      **Other Post Employment Benefits**

The City provides postretirement medical insurance benefits for all employees who have worked for the City for a period of ten years and are at least 50 years of age when they separate from the service of the City, and who were employed by the City on July 1, 2004. This coverage includes medical insurance coverage only, for the life of the employee only. Employees hired after July 1, 2004 are not entitled to the retiree medical insurance benefits. Please refer to the City's basic financial statements as of June 30, 2013, for detailed information regarding the other post employment benefits.

**Note 8**      **Proposition 218**

Proposition 218, which was approved by the voters in November 1996, will regulate the Authority's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

**Note 9**      **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.

**Litigation**

**California Regional Water Quality Control Board, Lahontan Region, Cease and Desist Order:**

On December 23, 2010, the California Regional Water Quality Control Board, Lahontan Region (Board), issued a proposed Cease and Desist Order (CDO) pertaining to the Authority's wastewater treatment plant. The proposed CDO was revised on January 13, 2011. In summation, the proposed CDO alleged that the Authority was in violation of its permit and previous Board orders due to: 1) the average Biological Oxygen Demand (BOD) levels; 2) the average daily volume of flow to the plant; 3) the maintenance of freeboard levels in the percolation ponds; and 4) unauthorized discharges from the plant either based on the construction of certain trenches or due to a major storm event on December 23, 2010, that led to the discharge of treated effluent from Percolation Pond No. 4-S. The Board sought a connection ban that would have prevented additional connections and discharges to the plant. Such a ban would have

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**Note 9**     **Commitments and Contingencies (Continued)**

**Litigation (Continued)**

California Regional Water Quality Control Board, Lahontan Region, Cease and Desist Order (Continued):

devastating impacts to the City and Authority because it would in essence eliminate further development in the City until such ban was lifted. The Authority strenuously opposed the proposed CDO and connection ban. The City Attorney's office argued that the connection ban was not warranted pursuant to Title 23 of the California Code of Regulations section 2244. On March 10, 2011, an administrative trial was conducted before the Board. The Board decided to adopt the proposed CDO but removed the connection ban from the CDO. At the hearing on May 11, 2011, it was ordered that the APUA 1) must complete construction of Pond 5 no later than May 31, 2011, 2) complete its restoring Percolation Pond No. 4 no later than October 2011, 4) complete implementation of its accepted Wastewater Disposal Facilities Work Plan to provide adequate disposal capacity for all wastewater flows, including those diverted to VVWRA, and maintain compliance with freeboard requirement. The Board stated that it will consider adoption of a restriction on additional discharges no later than its November 2011 meeting and it preserves its ability to issue a connection ban at a future meeting, to have the connection ban apply back to May 11, 2011.

Adelanto Public Utility Authority v. E.J. De La Rosa & Co., Inc.:

In November 2011, Adelanto filed an arbitration under the auspices of the Financial Industry Regulatory Authority (FINRA) against E.J. De La Rosa & Co., Inc. regarding Adelanto's conversion of its debt in December 2007 to Auction Rate Securities ("ARS"). Currently, that case is pending in arbitration, and a final hearing is expected between May and July of this year. Adelanto is claiming in excess of \$10,000,000 in damages, based on the excess interest it paid on its ARS, the cost of refinancing, and the cost of terminating an interest rate swap associated with the ARS. At this time, the likelihood of a favorable resolution or award is hard to predict.

**Note 10**     **Advances To/From Other Funds**

The Adelanto Public Utility Authority owes the Adelanto Water Authority the net amount of \$12,286,116. These amounts have been eliminated on the Statement of Net Position. These amounts are shown as advances to/advances from Water Authority/Public Utility Authority on the Statement of Net Position – Proprietary Funds. The Adelanto Water Authority and Adelanto Public Utility Authority owe the net amount of \$4,342,105 to the City of Adelanto which was used to fund the ongoing operations of the Adelanto Water Authority and Adelanto Public Utility Authority. This amount is shown on the Long-Term Liabilities portion of the Statement of Net Position.

**Note 11**     **Net Position**

GASB Statement No. 63 requires that the difference between assets and liabilities be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is those net position 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 position consists of net position that do not meet the definition of net investment in capital assets, or restricted net position.



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2013**

**Note 12**    **Prior Period Adjustment**

Prior period adjustments of \$59,239 in the Wastewater Fund and \$745,015 in the Water Fund were made due to overstatements of accounts payable in the prior fiscal year.

Prior period adjustments of \$5,241,491 in Wastewater Fund and \$17,025,361 in the Water Fund were made due to a capital asset valuation assessment performed by a 3<sup>rd</sup> party for the City of Adelanto.

**Note 13**    **Going Concern**

The Authority does not currently have the financial resources to pay the settlement agreement in the estimated amount of \$7,760,459 to Ambac Assurance Corporation as a result of the litigation detailed in Note 5 of these financial statements. The Authority is currently making attempts to secure financing and other revenue sources (please see litigations in Note 9) to be able to provide funds to make the settlement payment. Based on this information, the Authority may not be able to continue as a going concern. The Management of the Authority is currently attempting to secure financing to address the payment of the settlement.

**Note 14**    **Subsequent Events**

In preparing the accompanying financial statements, the Authority's management has reviewed all known events that have occurred after June 30, 2013, and through October 15, 2014, the date when this financial statement was available to be issued, for inclusion in the financial statement and footnotes.

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## APPENDIX C

### FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

**\$14,130,000**

**ADELANTO PUBLIC UTILITY AUTHORITY  
Fixed Rate Revenue Bonds, 2014 Series A  
(Utility System Project)**

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by the Adelanto Public Utility Authority (the “Authority”) in connection with the execution and delivery of the bonds captioned above (the “Bonds”). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of September 1, 2005 (the “Master Indenture”), as amended and supplemented, including as supplemented by a Fifth Supplemental Indenture of Trust, dated as of November 1, 2014 (the “Fifth Supplemental Indenture; together with the Master Indenture, the “Indenture”) by and between the Authority and MUFG Union Bank, N.A., as trustee.

The Authority covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Authority’s fiscal year (currently March 31 based on the Authority’s fiscal year end of June 30).

“*Dissemination Agent*” means Applied Best Practices, LLC, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority in connection with the issuance of the Bonds.

*“Participating Underwriter”* means Raymond James & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

*“Rule”* means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

### Section 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2015, with the report for the 2013-14 fiscal year (provided however, that the Annual Report for fiscal year 2013-14 may consist of the Official Statement and the Authority’s audited financial statements for fiscal year 2013-14), provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Authority) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Authority’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder.

(b) If the Authority does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Authority shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Authority’s Annual Report shall contain or incorporate by reference the following:

(a) The Authority’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority’s audited financial

statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Authority for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) a schedule of Sewer Service Charges, Sewer Availability Rates and Sewer Connection Fees in effect as of the close of the preceding fiscal year, in substantially the form in which such rates, charges and fees were described in the Official Statement;

(ii) information in the form of Table Nos. 4, 5, 13, 19, 20 and 26;

(iii) the Wastewater Enterprise's revenues and expenses for the most recently-completed fiscal year in the form of Table No. 14 in the Official Statement;

(iv) total Net Wastewater Revenues received by the Authority during the preceding fiscal year and the amount by which such Net Wastewater Revenues provide coverage for the payments of debt service payable from Net Wastewater Revenues, in substantially the form of Table No. 15 in the Official Statement; and

(v) a schedule of Water Service Charges, Water Connection Fees, Water Acquisition Fees and Water Availability Charges in effect as of the close of the preceding fiscal year, in substantially the form in which such rates, charges and fees were described in the Official Statement;

(vi) the Water Enterprise's revenues and expenses for the most recently-completed fiscal year in the form of Table No. 26 in the Official Statement;

(vii) total Net Water Revenues received by the Authority during the preceding fiscal year and the amount by which such Net Water Revenues provide coverage for the payments of debt service payable from Net Water Revenues, in substantially the form of Table No. 27 in the Official Statement; and

(viii) a description of any additional indebtedness incurred during the most recently-completed fiscal year which is payable from Pledged Utility Revenues on a parity with the Bonds.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Authority shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and

Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, or shall cause the Dissemination Agent (if not the Authority ) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Authority acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier “material” with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Authority shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event’s occurrence is material for purposes of U.S. federal securities law. Whenever the Authority obtains knowledge of the occurrence of any of these Listed Events, the Authority will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Authority will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Authority’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Authority. Any Dissemination Agent may resign by providing 30 days’ written notice to the Authority.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Authority fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the



event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Authority hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bond holders or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: December 30, 2014

ADELANTO PUBLIC UTILITY AUTHORITY

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Adelanto Public Utility Authority  
Name of Issue: \$14,130,000 Adelanto Public Utility Authority Fixed Rate Revenue Bonds 2014 Series A (Utility System Project)  
Date of Issuance: December 30, 2014

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust, dated as of September 1, 2005 (the "Master Indenture"), as amended and supplemented, including as supplemented by a Fifth Supplemental Indenture of Trust, dated as of December 1, 2014. The Authority anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

\_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

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## APPENDIX D

### GENERAL INFORMATION ABOUT THE CITY OF ADELANTO

*Information contained in this Appendix D is presented as general background data. The 2014 Bonds are payable solely from Pledged Utility Revenues and other sources as described in this Official Statement. See "SECURITY FOR THE 2014 Bonds" for a description of the security for the 2014 Bonds.*

#### General

The City, incorporated in 1970, is located near US Highway 395, in the California Mojave Desert, 35 miles (56km) north of the City of San Bernardino via Interstate 15. Highway 395, "The Three Flags Highway," provides a direct link between Baja California and Canada. Interstate 15 provides a route north to Nevada and south to the metropolitan Los Angeles and San Diego area. El Mirage Dry Lake, located west of Adelanto, has been used for filming movies and television commercials, and is popular for racing off-road vehicles and land yachts.

The cool prevailing winds from the southwest provide a nearly smog free environment throughout the year. Average temperatures range from a minimum of 30 degrees Fahrenheit in January to a maximum of 96 degrees Fahrenheit in August. Average annual rainfall is 5.5 inches occurring primarily during the winter months with some additional accumulation from summer thunderstorms.

#### Population

Population figures for the City, the County and the State for the last five years are shown in the following table.

#### CITY OF ADELANTO, SAN BERNARDINO COUNTY AND STATE OF CALIFORNIA POPULATION ESTIMATES AS OF JANUARY 1; 2010 THROUGH 2014

Year (as of January 1)	City of Adelanto	San Bernardino County	California
2010	31,875	2,033,141	37,223,900
2011	31,671	2,052,397	37,510,766
2012	31,002	2,059,694	37,668,804
2013	31,172	2,068,610	37,984,138
2014	32,511	2,085,669	38,340,074

*Source: California State Department of Finance Population Estimates for Cities, Counties, and State*

#### Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other than labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and

welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2009 through 2013.

**CITY OF ADELANTO, SAN BERNARDINO COUNTY,  
STATE OF CALIFORNIA AND THE UNITED STATES  
EFFECTIVE BUYING INCOME**

Year	Area	Total Effective Buying Income (000s' Omitted)	Median Household Effective Buying Income
2009	City of Adelanto	\$338,923	\$38,124
	San Bernardino County	34,899,738	45,690
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Adelanto	306,133	34,472
	San Bernardino County	32,115,644	43,018
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Adelanto	309,710	34,506
	San Bernardino County	32,969,928	42,818
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Adelanto	327,253	35,012
	San Bernardino County	34,251,993	43,741
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Adelanto	316,978	34,201
	San Bernardino County	33,477,908	43,034
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

*Source: State of California Department of Finance, Demographic Research Unit.*

## Employment

The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 8.7 percent in August 2014, down from a revised 9.3 percent in July 2014, and below the year-ago estimate of 10.5 percent. This compares with an unadjusted unemployment rate of 7.4 percent for California and 6.3 percent for the nation during the same period. The unemployment rate was 9.2 percent in Riverside County, and 8.2 percent in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry for San Bernardino County. Figures do not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

**SAN BERNARDINO COUNTY  
ANNUAL AVERAGE CIVILIAN LABOR FORCE,  
EMPLOYMENT AND UNEMPLOYMENT BY INDUSTRY  
(March 2013 Benchmark)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Civilian Labor Force <sup>(1)</sup>	858,900	862,500	857,800	862,200	865,100
Employment	747,800	740,400	743,300	759,800	778,100
Unemployment	111,100	122,100	114,500	102,500	87,000
Unemployment Rate	12.9%	14.2%	13.4%	11.9%	10.1%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	2,500	2,600	2,500	2,500	2,200
Mining and Logging	600	600	600	800	900
Construction	27,600	24,300	25,000	26,400	26,900
Manufacturing	49,700	47,200	46,500	47,300	47,700
Trade, Transportation & Utilities	154,700	153,700	154,800	165,100	171,000
Wholesale Trade	30,200	29,600	29,300	31,400	33,600
Retail Trade	77,400	77,000	76,900	80,700	82,800
Transportation, Warehousing & Utilities	47,100	47,200	48,500	53,000	54,600
Information	5,600	3,800	4,500	5,200	5,100
Financial Activities	21,900	21,700	21,400	21,600	22,000
Professional & Business Services	71,500	73,100	73,600	73,300	75,200
Educational & Health Services	86,700	86,200	86,800	91,100	99,000
Leisure & Hospitality	55,100	55,100	55,200	57,000	60,400
Other Services	19,300	19,900	20,300	20,800	20,700
Federal Government	13,700	15,100	14,200	13,800	13,500
State Government	13,900	13,400	13,100	12,500	12,000
Local Government	98,300	96,700	86,000	86,200	88,300
Total, All Industries <sup>(3)</sup>	621,000	613,500	604,300	623,500	644,800

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Largest Employers

The County's economy has always had a strong agricultural base, though industry has been developing rapidly in recent years. Over 700 manufacturing firms are located in the County producing items including many steel products; materials made from concrete and glass; canned foods; paper goods and commercial and scientific equipment.

The following table sets forth the top twenty employers located in the County:

**SAN BERNARDINO COUNTY  
LARGEST EMPLOYERS (LISTED ALPHABETICALLY)  
As of September 2014**

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Arrowhead Regional Medical Ctr	Colton	Hospitals
Beaver Medical Clinic Inc	Redlands	Physicians & Surgeons
Big Bear Mountain Resorts	Big Bear Lake	Resorts
BNSF Railway Co	San Bernardino	Railroads
California State-San Brnrn	San Bernardino	Schools-Universities & Colleges Academic
Colton Joint Unified Sch Dist	Colton	Schools
Comm Hospital-San Bernardino	San Bernardino	Hospitals
Desert Valley Hospital	Victorville	Hospitals
Environmental Systems Research	Redlands	Computer-Software Developers
FedEx Ground	Bloomington	Delivery Service
Kaiser Permanente Medical Care	Fontana	Hospitals
Loma Linda University Children	Loma Linda	Hospitals
Loma Linda University Med Ctr	Loma Linda	Hospitals
Mountain High Ski Resort	Wrightwood	Skiing Centers & Resorts
Ontario Intl Airport-Ont	Ontario	Airports
Redlands Community Hospital	Redlands	Hospitals
San Antonio Community Hospital	Upland	Hospitals
San Bernardino Cnty Schl Supt	San Bernardino	Schools
San Bernardino County Sheriff	San Bernardino	County Government-General Offices
San Manuel Indian Bingo/Casino	Highland	Casinos
Snow Summit Mountain Resort	Big Bear Lake	Skiing Centers & Resorts
Snowline Joint Unified School	Phelan	Schools
Transportation Department	San Bernardino	State Government-Transportation Programs
VA Medical Ctr-Loma Linda	Loma Linda	Hospitals
YRC Freight	Bloomington	Trucking

*Source: State of California Employment Development Department; America's Labor Market Information System (ALMIS) Employer Database, 2014 2<sup>nd</sup> Edition.*



**CITY OF ADELANTO  
LARGEST EMPLOYERS  
As of November 2014**

Company Name	Employees
Adelanto School District	869
General Atomics	250
Northwest Pipes	173
Commercial Wood Products	85
Molded Fiber Glass	85

*Source: City of Adelanto*

**Commercial Activity**

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 and after is not comparable to that of prior years. A summary of historic taxable sales within the City and County during the past five years in which data is available is shown in the following tables. Data is not yet available for calendar year 2013.

During the two quarters of calendar year 2013, total taxable transactions in the City were reported to be \$51,864,000, a 5.91% increase over the total taxable transactions of \$48,969,000 that were reported in the City during the first two quarters of calendar year 2012. A summary of historic taxable sales within the City during the past five years for which data is available is shown in the following table.

**CITY OF ADELANTO  
TAXABLE TRANSACTIONS  
(FIGURES IN THOUSANDS)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	108	\$39,274	252	\$126,676
2009 <sup>(1)</sup>	133	37,292	246	117,271
2010 <sup>(1)</sup>	134	38,223	246	96,761
2011 <sup>(1)</sup>	146	42,053	254	106,004
2012 <sup>(1)</sup>	172	45,518	281	102,129

(1) Not comparable to prior years. "Retail" category now includes "Food Services."

*Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).*

During the first two quarters of calendar year 2013, total taxable transactions in the County were reported to be \$14,977,732, a 4.88% increase over the total taxable transactions of \$14,280,244 that were reported in the County during the first two quarters of calendar year 2012. A summary of historic taxable sales within the County during the past five years is shown in the following table.

**SAN BERNARDINO COUNTY  
TAXABLE TRANSACTIONS  
(FIGURES IN THOUSANDS)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	25,076	\$19,065,789	48,994	\$27,777,703
2009 <sup>(1)</sup>	31,676	16,330,138	45,062	23,652,433
2010 <sup>(1)</sup>	34,068	17,308,880	47,562	24,687,862
2011 <sup>(1)</sup>	34,140	18,736,053	47,791	27,322,980
2012 <sup>(1)</sup>	35,095	19,980,937	48,936	29,531,921

(1) Not comparable to prior years. "Retail" category now includes "Food Services."

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

**Construction**

In addition to annual building permit valuations, the numbers of permits for new dwelling units issued each year for the City and the County from 2004 through 2008 are shown in the following tables.

**CITY OF ADELANTO  
Building Permit Valuations (valuations in thousands)  
For Years 2004 through 2008**

	2009	2010	2011	2012	2013
<b>Permit Valuation</b>					
New Single-family	\$8,010.4	\$12,576.0	\$9,143.6	\$3,577.1	\$15,940.9
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/ Additions	346.0	351.0	526.0	146.8	27.0
<b>Total Residential</b>	8,356.4	12,927.0	9,669.6	\$3,723.9	15,967.9
New Commercial	1,100.0	0.0	0.0	3,352.7	150.7
New Industrial	1,164.1	0.0	0.0	0.0	0.0
New Other	200.0	82.0	0.0	0.0	129.0
Com. Alterations/ Additions	1,011.3	46.0	3,274.0	146.0	53.0
<b>Total Nonresidential</b>	3,475.4	128	3,274.0	3,498.7	332.7
<b>New Dwelling Units</b>					
Single Family	31	54	24	14	58
Multiple Family	0	0	0	0	0
<b>Total</b>	31	54	24	14	58

Source: Construction Industry Research Board, Building Permit Summary.

**SAN BERNARDINO COUNTY**  
**Building Permit Valuations (valuations in thousands)**  
**For Years 2009 through 2013**

<b>Permit Valuation</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Single-family	\$279,993.7	\$233,404.1	\$232,698.4	\$283,202.7	\$450,790.1
New Multi-family	96,741.5	61,080.8	49,011.4	135,503.3	157,932.1
Res. Alterations/ Additions	<u>62,858.9</u>	<u>62,731.0</u>	<u>26,296.4</u>	<u>61,998.1</u>	<u>57,443.7</u>
<b>Total Residential</b>	439,594.1	357,215.9	308,006.2	480,704.1	666,165.9
New Commercial	70,373.4	39,380.8	19,091.5	201,220.8	202,969.6
New Industrial	34,028.5	21,853.6	34,364.4	152,047.5	335,338.5
New Other	72,127.6	62,614.4	1,673.8	5,095.8	44,334.1
Com. Alterations/ Additions	<u>156,292.0</u>	<u>129,150.1</u>	<u>19,875.6</u>	<u>219,113.4</u>	<u>192,784.8</u>
<b>Total Nonresidential</b>	332,821.5	252,998.9	75,005.3	577,477.5	775,427.0
<b>New Dwelling Units</b>					
Single Family	1,441	1,198	1,075	1,214	1,874
Multiple Family	<u>1,054</u>	<u>649</u>	<u>409</u>	<u>596</u>	<u>1,439</u>
<b>Total</b>	2,495	1,847	1,484	1,810	3,313

*Source: Construction Industry Research Board, Building Permit Summary.*

## Transportation

The City is located on US Highway 395, in the California High Desert, 35 miles (56km) north of San Bernardino via Interstate 15. Highway 395, the "Three Flags Highway," provides a direct link between Baja California and Canada. Caltrans reports that an average of 15,000 vehicles travel through the City daily on Highway 395. Interstate 15 provides a route north to Nevada and south to the metropolitan Los Angeles and San Diego areas.

Los Angeles International Airport is approximately 80 mile and Ontario International Airport is approximately 47 miles from the City. Apple Valley Airport, with 727-load capacity, is approximately 15 miles east of the City. George Air Force, located approximately 5 miles southeast of the site, is presently in transition to a civilian facility and is capable of handling up to a C-5A.

Union Pacific, Burlington & Santa Fe, AMTRAK and the Southern Pacific Railroads serve the area. Keystone Trucking and Consolidated Freightways have terminals in the City. Yellow Freight System's terminal is in Lenwood, approximately 28 miles (45km) north on Interstate Highway 15.

## Education

Primary education in the City is principally provided by the Adelanto Elementary School District, which had enrollment of 9,769 students for 2013-14. Secondary education is principally provided by the Victor Valley Union High School District, which had enrollment of 14,200 students for 2013-14. Six public school districts serve the immediate area. Numerous private schools are also available. The Apple Valley School District is home to the nationally recognized Science and Technology Center. Victor Valley Community College located in nearby and several colleges and universities are within commuting distance and are easily accessible by car.

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**APPENDIX E**  
**FORM OF BOND COUNSEL OPINION**

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December \_\_\_\_, 2014

Adelanto Public Utility Authority  
Adelanto, California

Re: Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds, 2014  
Series A (Utility System Project)

Members of the Authority:

We have examined (i) a record of proceedings relating to the issuance by the Adelanto Public Utility Authority (the "Authority") of the above-captioned bonds (the "2014 Bonds"); (ii) the Master Indenture of Trust, dated as of September 1, 2005 by and between the Authority and Union Bank, N.A., as trustee, as supplemented by a Fifth Supplemental Indenture of Trust, dated as of November 1, 2014 (the "Fifth Supplemental Indenture")(collectively, the "Indenture"); and (iii) supplemental documents furnished to us, certificates and documents from public officials and others, and such other matters of law as we have deemed necessary for the purpose of this opinion. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

The 2014 Bonds are issued under and pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4(commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended from time to time, including, without limitation, Section 6596, and other laws amendatory thereof and supplemental thereto, and the Indenture. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Indenture.

From such examination, we are of the opinion that under existing law:

1. The Authority has the right and power to enter into the Indenture. The Indenture has been duly and lawfully authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect in accordance with its terms and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of the Pledged Utility Revenues and certain funds established by the Indenture, including the investments, if any, thereof; subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. We express no opinion as to the validity, enforceability, or otherwise in regard to Section 4.03 of the Fifth Supplemental Indenture.

2. The 2014 Bonds are valid and binding special obligations of the Authority, payable solely from Pledged Utility Revenues and certain other funds as provided in the Indenture.

3. Interest on the 2014 Bonds is exempt from State of California personal income taxes.

4. Assuming compliance with the covenants described below, interest on the 2014 Bonds is excluded from gross income for Federal income tax purposes. The 2014 Bonds are not "specified private activity bonds" within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code") and, therefore, the interest on the 2014 Series A Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on 2014 Series A Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the 2014 Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2014 Bonds to be included in gross income retroactive to the date of issue of the 2014 Bonds. The Authority has covenanted to satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain the exclusion of the interest on the 2014 Series A Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. We express no opinion as to any 2014 Bond, or the interest thereon, if any change occurs or action is or omitted upon the advice or approval of any counsel other than ourselves.

Except as stated in the foregoing paragraphs numbered 3 and 4 and the paragraph immediately following paragraph 4, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the 2014 Bonds.

The opinions expressed in the paragraphs numbered 1 and 2 hereof are qualified to the extent that the enforceability of the Indenture and the 2014 Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization or other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the



limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all agreements and covenants contained in the Indenture. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement for the 2014 Bonds, or other offering material, relating to such 2014 Bonds and no opinion is expressed herein with respect thereto.

Very truly yours,

RUTAN & TUCKER, LLP

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## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and

dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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**APPENDIX G**

**AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDING JUNE 30, 2014**

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

**FINANCIAL STATEMENTS**

**June 30, 2014**

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**(A Component Unit of the City of Adelanto, California)**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2014**

**TABLE OF CONTENTS**

Independent Auditor's Report.....	1
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position.....	3
Statement of Activities.....	5
Fund Financial Statements	
Statement of Net Position – Proprietary Funds .....	6
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	8
Statement of Cash Flows – Proprietary Funds .....	9
Notes to Basic Financial Statements .....	10



# MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statement

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, as of and for the fiscal year ended June 30, 2014, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### 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 Adelanto Public Utility Authority, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

### *Going Concern*

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 13 of the notes to the financial statements, the Authority does not currently have an adequate cash balance to fulfill required settlement payments. This condition raises concern about the Authority's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### *Change in Accounting Principles*

As discussed in Note 1 to the basic financial statements effective July 1, 2013, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, "*Items Previously Reported as Assets and Liabilities.*", Statement No. 66, "*Technical Correction – 2012.*", Statement No. 67, "*Financial Reporting for Pension Plans.*", and Statement No. 70, "*Accounting and Financial Reporting for Non-exchange Financial Guarantees.*". Our opinion is not modified with respect to these matters.

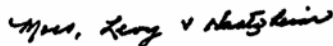
### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

### Other Matters

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



Moss, Levy & Hartzheim, LLP  
Culver City, California  
November 25, 2014

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

June 30, 2014

ASSETS	Business-type Activities
<b>Current Assets:</b>	
Cash and investments	\$ 6,066,107
Receivables:	
Accounts, net	3,145,040
Interest	2,408
Prepaid expenses	<u>138,673</u>
Total Current Assets	<u>9,352,228</u>
<b>Restricted Assets:</b>	
Cash and investments with fiscal agents	<u>12,252,470</u>
Total Restricted Assets	<u>12,252,470</u>
<b>Capital Assets:</b>	
Capital assets not being depreciated	4,033,099
Capital assets being depreciated, net of accumulated depreciation	<u>56,374,498</u>
Total Capital Assets	<u>60,407,597</u>
<b>Other Assets:</b>	
Investment in Adelanto Public Financing Authority Bonds	13,905,492
Deferred loss on bond refunding, net of accumulated amortization	<u>6,504,927</u>
Total Other Assets	<u>20,410,419</u>
Total Assets	<u>\$ 102,422,714</u>

(Continued)

See accompanying notes to basic financial statements

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

**June 30, 2014**  
**(Continued)**

<b>LIABILITIES</b>	<u>Business-type Activities</u>
<b>Current Liabilities:</b>	
Accounts payable	\$ 809,127
Accrued liabilities	2,301
Deposits payable	<u>603,759</u>
Total Current Liabilities	<u>1,415,187</u>
<b>Current Liabilities (payable from restricted assets):</b>	
Accrued interest payable	2,364,953
Current portion of long-term liabilities	<u>1,221,673</u>
Total Current Liabilities (payable from restricted assets)	<u>3,586,626</u>
<b>Long-Term Liabilities:</b>	
Accrued employee leave benefits	7,721
Advances from the City of Adelanto	1,612,424
Settlement payable	7,760,459
Bonds payable, non-current	<u>72,270,038</u>
Total Long-Term Liabilities	<u>81,650,642</u>
Total Liabilities	<u>86,652,455</u>
<b>NET POSITION</b>	
Net investment in capital assets	14,295,521
Unrestricted	<u>1,474,738</u>
Total Net Position	<u>\$ 15,770,259</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2014**

<b><u>Business-type Activities</u></b>	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
<b>Expenses:</b>			
Wastewater activities	\$ (5,262,849)	\$ 7,085,525	\$ 1,822,676
Water activities	(8,570,531)	8,657,957	87,426
Total	<u>\$ (13,833,380)</u>	<u>\$ 15,743,482</u>	<u>1,910,102</u>
 <b>General Revenues and Transfers:</b>			
Use of money and property			1,632,680
Transfers to the City of Adelanto			<u>(1,330,258)</u>
Total General Revenues and Transfers			<u>302,422</u>
Change in Net Position			<u>2,212,524</u>
<b>Net Position - July 1, 2013</b>			23,484,165
<b>Prior Period Adjustments</b>			<u>(9,926,430)</u>
<b>Net Position - July 1, 2013 (restated)</b>			<u>13,557,735</u>
<b>Net Position - June 30, 2014</b>			<u>\$ 15,770,259</u>

See accompanying notes to basic financial statements

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

June 30, 2014

<u>Assets</u>	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
<b>Current Assets:</b>			
Cash and investments	\$ 2,575,336	\$ 3,490,771	\$ 6,066,107
Receivables:			
Accounts, net	1,394,358	1,750,682	3,145,040
Interest	392	2,016	2,408
Prepaid expenses	51,268	87,405	138,673
	<u>4,021,354</u>	<u>5,330,874</u>	<u>9,352,228</u>
<b>Restricted Assets:</b>			
Cash and investments with fiscal agents	<u>3,266,776</u>	<u>8,985,694</u>	<u>12,252,470</u>
	<u>3,266,776</u>	<u>8,985,694</u>	<u>12,252,470</u>
<b>Capital assets, net of accumulated depreciation</b>			
	<u>27,893,679</u>	<u>32,513,918</u>	<u>60,407,597</u>
<b>Other Assets:</b>			
Advances to other funds		12,286,116	12,286,116
Advances to the City of Adelanto	2,239,765		2,239,765
Investment in Adelanto Public Financing Authority Bonds		13,905,492	13,905,492
Deferred loss on bond refunding, net of accumulated amortization	<u>2,667,020</u>	<u>3,837,907</u>	<u>6,504,927</u>
	<u>4,906,785</u>	<u>30,029,515</u>	<u>34,936,300</u>
	<u>\$ 40,088,594</u>	<u>\$ 76,860,001</u>	<u>\$ 116,948,595</u>

(Continued)

See accompanying notes to basic financial statements



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

June 30, 2014

(Continued)

<b><u>Liabilities and Net Position</u></b>	<b><u>Adelanto Public Utility Authority</u></b>	<b><u>Adelanto Water Authority</u></b>	<b><u>Totals</u></b>
<b>Current Liabilities:</b>			
Accounts payable	\$ 85,818	\$ 723,309	\$ 809,127
Accrued liabilities		2,301	2,301
Deposits payable	154,431	449,328	603,759
Total Current Liabilities	<u>240,249</u>	<u>1,174,938</u>	<u>1,415,187</u>
<b>Current Liabilities:</b>			
<b>(payable from restricted assets):</b>			
Accrued interest payable	969,631	1,395,322	2,364,953
Current portion of long-term liabilities	500,886	720,787	1,221,673
Total Current Liabilities (payable from restricted assets)	<u>1,470,517</u>	<u>2,116,109</u>	<u>3,586,626</u>
<b>Long-Term Liabilities:</b>			
Advances from the Water Authority	12,286,116		12,286,116
Advances from the City of Adelanto		3,852,189	3,852,189
Accrued employee leave benefits		7,721	7,721
Settlement payable	3,181,788	4,578,671	7,760,459
Bonds payable, non-current	29,630,715	42,639,323	72,270,038
Total Long-Term liabilities	<u>45,098,619</u>	<u>51,077,904</u>	<u>96,176,523</u>
Total Liabilities	<u>46,809,385</u>	<u>54,368,951</u>	<u>101,178,336</u>
<b>Net Position:</b>			
Net investment in capital assets	1,529,740	12,765,781	14,295,521
Unrestricted	(8,250,531)	9,725,269	1,474,738
Total Net Position	<u>\$ (6,720,791)</u>	<u>\$ 22,491,050</u>	<u>\$ 15,770,259</u>

See accompanying notes to basic financial statements

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

**For The Fiscal Year Ended June 30, 2014**

	<b>Adelanto Public Utility Authority</b>	<b>Adelanto Water Authority</b>	<b>Totals</b>
<b>Operating Revenues:</b>			
Service charges	\$ 6,045,044	\$ 6,830,579	\$ 12,875,623
Availability charges	364,793	596,124	960,917
Acquisition fees		368,619	368,619
Connection fees	326,212	131,318	457,530
Other revenue	270,966	611,991	882,957
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	7,007,015	8,538,631	15,545,646
	<hr/>	<hr/>	<hr/>
<b>Operating Expenses:</b>			
Salaries and benefits	36,418	733,515	769,933
Contract services	140,118	62,400	202,518
Sewer operations	1,556,229		1,556,229
Water operations		2,529,495	2,529,495
Utilities	220,897	630,108	851,005
Administration	176,470	348,373	524,843
Depreciation	674,653	679,202	1,353,855
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	2,804,785	4,983,093	7,787,878
	<hr/>	<hr/>	<hr/>
Operating Income	4,202,230	3,555,538	7,757,768
	<hr/>	<hr/>	<hr/>
<b>Non-operating Revenues (Expenses):</b>			
Amortization expense	(132,249)	(190,309)	(322,558)
Interest expense and fiscal charges	(2,325,815)	(3,327,565)	(5,653,380)
Loss on sale of capital assets		(69,564)	(69,564)
Interest and investment revenue	234,276	1,596,240	1,830,516
	<hr/>	<hr/>	<hr/>
Total Non-operating Revenues (Expenses)	(2,223,788)	(1,991,198)	(4,214,986)
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,978,442	1,564,340	3,542,782
	<hr/>	<hr/>	<hr/>
Transfers in from City of Adelanto	94,247	94,247	188,494
Transfers to the City of Adelanto	(125,000)	(1,393,752)	(1,518,752)
	<hr/>	<hr/>	<hr/>
Change in Net Position	1,947,689	264,835	2,212,524
	<hr/>	<hr/>	<hr/>
Net Position - July 1, 2013	536,627	22,947,538	23,484,165
	<hr/>	<hr/>	<hr/>
Prior Period Adjustments	(9,205,107)	(721,323)	(9,926,430)
	<hr/>	<hr/>	<hr/>
Net Position - July 1, 2013 restated	(8,668,480)	22,226,215	13,557,735
	<hr/>	<hr/>	<hr/>
Net Position - June 30, 2014	<u>\$ (6,720,791)</u>	<u>\$ 22,491,050</u>	<u>\$ 15,770,259</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, 2014

	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
<b>Cash flows from operating activities:</b>			
Receipts from customers and users	\$ 7,180,939	\$ 8,713,496	\$ 15,894,435
Payments to suppliers	(2,546,184)	(3,543,791)	(6,089,975)
Payments to employees	(36,418)	(875,621)	(912,039)
Net cash provided (used) by operating activities	<u>4,598,337</u>	<u>4,294,084</u>	<u>8,892,421</u>
<b>Cash flows from noncapital financing activities:</b>			
Transfers to the City of Adelanto	(125,000)	(1,299,505)	(1,424,505)
Payments received (paid) to/from other funds or the City	(2,810,238)	80,557	(2,729,681)
Net cash provided (used) in noncapital financing activities	<u>(2,840,991)</u>	<u>(1,218,948)</u>	<u>(4,059,939)</u>
<b>Cash flows from capital and related financing activities:</b>			
Proceeds from sale of capital assets		64,401	64,401
Principal payments on long-term debt	(496,100)	(713,900)	(1,210,000)
Interest paid on long-term debt	(2,299,976)	(3,290,380)	(5,590,356)
Net cash provided (used) in capital and related financing activities	<u>(2,796,076)</u>	<u>(3,939,879)</u>	<u>(6,735,955)</u>
<b>Cash flows from investing activities:</b>			
Interest and investment revenue	155,804	1,477,112	1,632,916
Net cash provided by investing activities	<u>155,804</u>	<u>1,477,112</u>	<u>1,632,916</u>
Net increase (decrease) in cash and cash equivalents	(882,926)	612,369	(270,557)
Cash and cash equivalents, beginning of fiscal year	<u>6,725,039</u>	<u>11,864,096</u>	<u>18,589,135</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 5,842,113</u>	<u>\$ 12,476,465</u>	<u>\$ 18,318,578</u>
<b>Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:</b>			
Reported on the Statement of Net Position:			
Cash and investments	\$ 2,575,336	\$ 3,490,771	\$ 6,066,107
Cash and investments with fiscal agents	3,266,776	8,985,694	12,252,470
<b>Cash and cash equivalents - June 30, 2014</b>	<u>\$ 5,842,112</u>	<u>\$ 12,476,465</u>	<u>\$ 18,318,577</u>
<b>Reconciliation of operating income to net cash provided by operations:</b>			
Operating income	<u>\$ 4,280,740</u>	<u>\$ 3,674,864</u>	<u>\$ 7,955,604</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	674,653	679,202	1,353,855
Decrease (increase) in accounts receivable	35,309	(1,054)	34,255
Decrease (increase) in prepaid expenses	(51,268)	(87,405)	(138,673)
Decrease (increase) in inventory		48,946	48,946
Increase (decrease) in accounts payable	(401,202)	65,044	(336,158)
Increase (decrease) in accrued liabilities		(42,191)	(42,191)
Increase (decrease) in deposits payable	60,105	56,593	116,698
Increase (decrease) in accrued employee leave benefits		(99,915)	(99,915)
Total adjustments	<u>317,597</u>	<u>619,220</u>	<u>936,817</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,598,337</u>	<u>\$ 4,294,084</u>	<u>\$ 8,892,421</u>

See accompanying notes to basic financial statements

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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

The financial statements of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, 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.

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 and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, 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.

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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

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

The government-wide financial statements (ie, the statement of position 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 2009 Adelanto Public 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, 2014**

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

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

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

Receivables and payables, representing operating advances between the City and the Authority, have been classified as “advances from the City of Adelanto” or “advances to the City of Adelanto”, respectively, on the accompanying financial statements. Such activities have been eliminated on the statement of Net Position.

**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.

Capital assets are defined by the Authority as assets with an initial individual cost of \$5,000 (\$100,000 for infrastructure) or more and an estimated useful life in excess of one year. Additions to capital assets are carried at historical cost or, for donated capital assets, at appraised fair value on the date donated.

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

The Authority’s water rights that are listed under capital assets do not have a finite period of useful life to the Authority and so there is no expiration date for the Authority’s rights to the water.

**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, 2014**

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

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

**Bond Discounts/Issuance Costs/Deferred Losses on Refunding**

Bond discounts, issuance costs, and deferred losses on refunding, 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**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Adelanto (City) that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets units they are distributed to other units of state and local government. The City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

**(f) New Accounting Pronouncements**

The Authority has implemented the following requirements of Governmental Accounting Standards Board (GASB) Statements during the fiscal year ended June 30, 2014.

**Governmental Accounting Standards Board Statement No. 65**

For the fiscal year June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 65, “Items Previously Reported as Assets and Liabilities.” This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2014. Implementation of the GASB Statement No. 65, did not have an impact on the Authority’s financial statements for the fiscal year ended June 30, 2014.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

**(f) New Accounting Pronouncements (Continued)**

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction – 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended June 30, 2014, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the Authority's financial statements for the fiscal year ended June 30, 2014.

**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 \$8,900,045 at June 30, 2014.



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

**(a) Water Operations (Continued)**

**Water System Purchase Note (Continued)**

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. Prior to January 26, 1998, management did not anticipate that any payment in excess of the minimum annual payments due on the note would 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, which at that time was scheduled for September 1, 2028. As per this agreement, the unpaid balance of this 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. In a subsequent amendment dated September 2005, the purchase agreement was amended and the interest rate was changed to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid. Additionally, an amendment dated November 2009 was issued that updates the terms of the agreement to reflect the issuance of the 2009 Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds and the issuance of the amendment dated November 2009 and replaces the 2009 Bond information in place of the 2005 Bond. Surplus revenues is defined as all of the net water revenues as of the second business day minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds.

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.

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 all of the net wastewater revenues as of the second business day of each month, minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds.

**(b) Wastewater Operations**

**Wastewater System Purchase Note**

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 originally 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 all of the net wastewater revenues as of the second business day of each month minus the amount required to pay debt service on or before the business day immediately preceding the first business day of each month on the 2009 Bonds. This note was originally subordinated to the 1996 Public Utility Bonds.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

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

**Wastewater System Purchase Note (Continued)**

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. Prior to January 26, 1998, management did not anticipate that any payment in excess of the annual payments due on the note would be made prior to the final repayment of the Public Utility Authority 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, which at that time was scheduled for November 1, 2026. As per this agreement, any unpaid balance at that time will accrue interest at 7.5%. In September 2005, the interest rate was amended to accrue on the unpaid balance at the rate of 5.0% per annum, from the date of delivery of the 2005 Bonds, to the date on which the full balance has been paid. Subsequently, an amendment dated November 2009 was issued that updates the terms of the agreement to reflect the issuance of the 2009 Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds and the issuance of the amendment dated November 2009 and replaces the 2009 Bond information in place of the 2005 Bond. The outstanding balance on the Wastewater System Purchase Note is \$6,431,169 at June 30, 2014.

**(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, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	\$ 6,066,107
Cash and investments with fiscal agents	12,252,470
Investment in Adelanto Public Financing Authority Bonds	<u>13,905,492</u>
Total cash and investments	<u><u>\$ 32,224,069</u></u>

Cash and investments as of June 30, 2014 consist of the following:

Petty cash	\$ 850
Deposits with financial institutions	1,699,173
Investments	<u>30,524,046</u>
Total cash and investments	<u><u>\$ 32,224,069</u></u>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$50 million
Local or Government 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	N/A	None	None
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)      Investments 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.

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

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

**(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 to 60 Months	More Than 60 Months
State Investment Pool	\$ 4,366,085	\$ 4,366,085	\$ -	\$ -	\$ -
Held by Bond Trustees:					
Money Market Funds	7,972,375	7,972,375			
Investment Agreement	4,280,094			4,280,094	
Public Financing Authority Bonds*	13,905,492				13,905,492
	<u>\$ 30,524,046</u>	<u>\$ 12,338,460</u>	<u>\$ -</u>	<u>\$ 4,280,094</u>	<u>\$ 13,905,492</u>

\* The value of the bonds are stated at cost as no fair value is readily available.

**(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	\$ 4,366,085	N/A	\$ -	\$ -	\$ -	\$ -	\$ 4,366,085
Held by bond trustee:							
Money Market Funds	7,972,375	N/A		7,972,375			
Investment Agreements	4,280,094	N/A					4,280,094
Public Financing Authority Bonds	13,905,492	N/A					13,905,492
Total	<u>\$ 30,524,046</u>		<u>\$ -</u>	<u>\$ 7,972,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,551,671</u>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**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>
IXIS Funding Corp Investment Agreements	Investment Contracts	\$ 4,280,094
Adelanto Public Financing Authority Bonds	Bonds	13,905,492

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, business type activities, and major funds) are as follows:

The Adelanto Public Utility Authority holds investments in IXIS Investment Contracts equal to \$1,754,839. The agreements mature on September 30, 2015 and pay interest of 4.360%.

The Adelanto Water Authority holds investments in IXIS Investment Contracts equal to \$2,525,255. The agreements mature on September 30, 2015 and pay interest of 4.360%.

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority bonds in the amount of \$13,905,492. This investment is in the 1995 Series C 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, 2014, the 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	\$ 7,972,375
Investment Agreements	4,280,094

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

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

**Note 4**    **Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustment</u>	<u>Balance June 30, 2014</u>
<u>Wastewater Activity:</u>					
Capital Assets, not being depreciated:					
Land	\$ 806,700	\$ -	\$ -	\$ -	\$ 806,700
Construction in progress	8,703,851			(8,703,851)	
Total Capital Assets, not being depreciated	<u>9,510,551</u>			<u>(8,703,851)</u>	<u>806,700</u>
Capital Assets, being depreciated:					
Buildings and improvements	10,821,344				10,821,344
Infrastructure	16,889,033				16,889,033
Machinery and equipment	5,764,205				5,764,205
Less - Accumulated depreciation	<u>(5,712,950)</u>	<u>(674,653)</u>			<u>(6,387,603)</u>
Total Capital Assets, being depreciated	<u>27,761,632</u>	<u>(674,653)</u>			<u>27,086,979</u>
Total Wastewater Capital Assets, net	<u>\$ 37,272,183</u>	<u>\$ (674,653)</u>	<u>\$ -</u>	<u>\$ (8,703,851)</u>	<u>\$ 27,893,679</u>

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Prior Period Adjustments</u>	<u>Balance June 30, 2014</u>
<u>Water Activity:</u>					
Capital Assets, not being depreciated:					
Land	\$ 101,600	\$ -	\$ -	\$ -	\$ 101,600
Water rights	3,124,799				3,124,799
Total Capital Assets, not being depreciated	<u>3,226,399</u>				<u>3,226,399</u>
Capital Assets, being depreciated:					
Buildings and improvements	9,952,798				9,952,798
Infrastructure	29,581,301				29,581,301
Machinery and equipment	2,710,887				2,710,887
Vehicles	419,349		285,050		134,299
Less - Accumulated depreciation	<u>(12,563,650)</u>	<u>(679,202)</u>	<u>(151,086)</u>		<u>(13,091,766)</u>
Total Capital Assets, being depreciated	<u>30,100,685</u>	<u>(679,202)</u>	<u>133,964</u>		<u>29,287,519</u>
Total Water Capital Assets, net	<u>\$ 33,327,084</u>	<u>\$ (679,202)</u>	<u>\$ 133,964</u>	<u>\$ -</u>	<u>\$ 32,513,918</u>

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**Note 4 Capital Assets (Continued)**

	Balance July 1, 2013	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2014
<u>Total Authority:</u>					
Capital assets, not being depreciated:					
Land	\$ 908,300	\$ -	\$ -	\$ -	\$ 908,300
Water rights	3,124,799				3,124,799
Construction in progress	8,703,851			(8,703,851)	
Total Capital Assets, not being depreciated	<u>12,736,950</u>			<u>(8,703,851)</u>	<u>4,033,099</u>
Capital Assets, being depreciated:					
Buildings and improvements	20,774,142				20,774,142
Infrastructure	46,470,334				46,470,334
Machinery and equipment	8,475,092				8,475,092
Vehicles	419,349		285,050		134,299
Less - Accumulated depreciation	<u>(18,276,600)</u>	<u>(1,353,855)</u>	<u>(151,086)</u>		<u>(19,479,369)</u>
Total Capital Assets, being depreciated	<u>57,862,317</u>	<u>(1,353,855)</u>	<u>133,964</u>		<u>56,374,498</u>
Total Authority Capital Assets, net	<u>\$ 70,599,267</u>	<u>\$ (1,353,855)</u>	<u>\$ 133,964</u>	<u>\$ (8,703,851)</u>	<u>\$ 60,407,597</u>

Depreciation expense has been included by function in the Statement of Activities and Revenues, Expenses, and Changes in Net Position as follows:

Wastewater Activities	\$ 674,653
Water Activities	679,202

**Note 5 Long-Term Liabilities**

The following is a schedule of changes in long-term liabilities of the Authority for the fiscal year ended June 30, 2014:

	Balance July 1, 2013	Additions	Principal Payments	Balance June 30, 2014	Due within one year
Adelanto Public Utility Authority Fixed Rate					
Refunding Revenue Bonds 2009 Series A	\$ 75,660,000	\$ -	\$ (1,210,000)	\$ 74,450,000	\$ 1,260,000
Unamortized discount	(996,615)		38,327	(958,288)	(38,327)
Compensated Absences	107,636	1,263	(101,178)	7,721	
Settlement Payable	7,760,459			7,760,459	
Advances from the City of Adelanto	4,342,105		(2,729,681)	1,612,424	
Total long-term debt	<u>\$ 86,873,585</u>	<u>\$ 1,263</u>	<u>\$ (4,002,532)</u>	<u>\$ 82,872,316</u>	<u>\$ 1,221,673</u>

In regards to the 2005A and 2005B Bonds, the Authority entered into interest rate swap agreements pursuant to a master agreement, effective September 7, 2005. The swap provider was Piper Jaffray Financial Products Inc. Under the swap associated with the Series A Bonds, the Authority paid a fixed rate of 3.387% and received amounts based upon a variable rate (based on 63% of the One-Month London Interbank Offering Rate (LIBOR) plus 30 basis points). In regards to the 2005B Bonds, there were two separate swaps. The first swap's period started on September 7, 2005, through but excluding September 1, 2008. The Authority paid a fixed rate of 4.485% and received amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points). The second swap for the 2005 B Bonds began on September 1, 2008 and continued for the remaining life of the 2005B Bonds. The Authority paid a fixed rate of 3.447% and received amounts based upon a variable rate (based on 63% of LIBOR plus 30 basis points).

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

The payment obligations of the Authority under the 2005 SWAP (excluding Termination Payments thereunder) constituted Parity Obligations and the payments received by the Authority under the 2005 Swap were pledged to the payment of the 2005A Bonds and the 2005B Bonds. The payment obligations of the Authority under the 2005 Swap that constitute Termination Payments constitute Subordinate Obligations under the Indenture. Ambac Assurance Corporation issued a financial guaranty insurance policy in regards to the issuance of the 2005A and 2005B Bonds. Under the financial guaranty insurance, Ambac Assurance was to pay the Bank of New York (or any successor) the portion of the principal and interest on the Bonds that became due and remain unpaid. The insurance extended for the term of the Bonds and could not be canceled. Please see the disclosure under Commitments and Contingencies for additional information regarding the 2005A and 2005 B Bonds that were issued September 7, 2005.

On December 19, 2007, there was a reoffering of the 2005 Series A and B bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. Please see below for additional information for the reoffering of the 2005 Series A and B bonds.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued which refunded the 2005 A and B Bonds. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **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 was to be used to finance improvements to both the Water and Wastewater Systems.

After the fixed rate conversion date, the Bonds were 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 was 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 was \$700,000.

The Public Utility Authority was 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:



**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

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

- 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.

In addition, the Public Utility Authority was required to fix, prescribe, revise, and collect rates, fees and charges for the services and improvements furnished by the wastewater enterprise and water enterprise during each fiscal year which are sufficient to yield combined net wastewater revenues and net water revenues at least equal to 125% of the total debt service payments (2005A and 2005B) coming due and payable in such fiscal year.

On December 19, 2007, there was a reoffering of the 2005 Series A bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. The auction rate for the Bonds were to be determined, in most cases, through the implementation of the auction procedures. The initial period for the 2005 Series A bonds was to be the period commencing on and including the reoffering date and ending on and including December 26, 2007, with interest payable for the initial period on December 27, 2007, and thereafter the auction period was to be a 7-day auction period with auctions generally conducted every Wednesday. The applicable auction rate was not to exceed the ARB maximum rate of 12% per annum.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued and refunded the 2005 A and 2005 B Bonds. The 2005 A and 2005 B Bonds were defeased and are no longer a debt of the Authority. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **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 was 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 were 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.

**ADELANTO PUBLIC UTILITY AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2014**

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

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

- 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 was required to fix, prescribe, revise, and collect rates, fees and charges for the services and improvements furnished by the wastewater enterprise and water enterprise during each fiscal year which are sufficient to yield combined net wastewater revenues and net water revenues at least equal to 125% of the total debt service payments (2005A and 2005B) coming due and payable in such fiscal year.

On December 19, 2007, there was a reoffering of the 2005 Series B bonds. The bonds were reoffered and delivered as auction rate bonds (ARB), in the principal amount set on September 7, 2005. The auction rate for the Bonds were to be determined, in most cases, through the implementation of the auction procedures. The initial period for the 2005 Series B bonds was to be the period commencing on and including the reoffering date and ending on and including December 26, 2007, with interest payable for the initial period on December 27, 2007, and thereafter the auction period shall be a 28-day auction period with auctions generally conducted every fourth Wednesday. The applicable auction rate will not exceed the ARB maximum rate of 12% per annum.

On December 22, 2009, the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A were issued and refunded the 2005 A and 2005 B Bonds. The 2005 A and 2005 B Bonds were defeased and are no longer a debt of the Authority. Please see the note for the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A for additional information.

• **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A**

On or about December 22, 2009, the Adelanto Public Utility Authority issued \$76,825,000 Fixed Rate Refunding Revenue Bonds to provide funds to (i) refund the Authority's outstanding \$53,125,000 Variable Rate Refunding Revenue Bonds, 2005 Series A (Utility System Project) and its outstanding \$14,410,000 Taxable Variable Rate Refunding Bonds, 2005 Series B (Utility System Project), ii) finance certain capital improvements to the Authority's water treatment, production, storage and distribution system and its wastewater collection and treatment system and other related costs, iii) fund a debt service reserve fund for the 2009 Bonds, and iv) pay the costs of issuing the 2009 Bonds. The bonds are composed of serial and term bonds. The serial bonds have various maturity dates with the last maturity date being July 1, 2026. The interest rates range from 4.00% to 6.25%. There are also two term bonds with one term bond in the amount of \$14,800,000 (maturity date of July 1, 2031 and an interest rate of 6.625%), and the second term bond in the amount of \$36,885,000 (maturity date of July 1, 2039 and an interest rate of 6.750%).

The 2009 Bonds are being issued pursuant to an Indenture of Trust, dated as of September 1, 2005, as amended and supplemented including the Fourth Supplemental Indenture dated as of November 1, 2009 by and between the Authority and the Trustee. Interest on the 2009 Bonds are payable on January 1 and July 1 of each year, commencing on July 1, 2010.

The 2009 Bonds are special obligations of the Authority, payable solely from and secured by a pledge of Pledged Utility Revenue and from certain other amounts on deposit in funds and accounts under the Indenture. Pledged Utility Revenues primarily consist of i) Net wastewater revenues and ii) net water revenues. In order to comply with applicable law, each of the Water and Wastewater Enterprises are obligated to pay only its proportionate share of the 2009 Bonds (59% for Water and 41% for Wastewater).

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

- **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A (Continued)**

The Authority has covenanted to fix, prescribe and collect fees, tolls, assessments, rates and charges for the Utility System in order to satisfy certain coverage requirements.

The 2009 Bonds maturing on or before July 1, 2019 are not subject to optional redemption prior to maturity. The 2009 Bonds maturing on or after July 1, 2020 are subject to redemption prior to their respective maturity dates, at the option of the Authority, as a whole, or in part, as determined by the Authority, on any date after July 1, 2019, from any source of available funds, at the principal amount of the 2009 Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

The 2009 Term Bonds are subject to redemption in part by lot, on July 1 in each year commencing July 1, 2027 from Sinking Fund Installments made by the Authority into the Debt Service Fund, at a redemption price equal to the principal amount to be redeemed, without premium, in the aggregate respective principal amounts and on July 1 in the respective years set forth in the following tables, or in lieu thereof may be purchased.

The Authority is obligated to maintain an amount in the debt service reserve account equal to the debt service reserve requirement which is equal to the lesser of (a) 10% of the initial offering price to the public of the Bonds, (b) the greatest amount of Bond Debt Service in any Bond Year during the period commencing with the Bond Year in which the determination is being made and terminating with the last Bond Year in which any Bond is due, or (c) 125% of the sum of the Bond Debt Service for all Bond Years during the period commencing with the Bond Year in which such calculation is made and terminating with the last Bond Year in which any Bond debt service is due, divided by the number of such Bond Years. The balance in the debt service reserve account as of June 30, 2013 is \$6,159,475.

The Rate Stabilization Fund is pledged to secure payment, to the extent Gross Wastewater Revenues, Gross Water Revenues and/or purchased securities revenues are insufficient for such purposes, the following amounts in the following order of priority:

1. All wastewater operation and maintenance costs and wastewater operation and maintenance costs to become due and payable in the current fiscal year,
2. Principal of and interest on the outstanding bonds and parity obligations becoming due and payable during the fiscal year, including sinking fund installments,
3. All other payments required for compliance with the indenture and the legal documents pursuant to which any parity obligations were issued,
4. Water purchase payments and wastewater purchase payments up to a maximum of \$1 million annually; provided, however, that no amounts will be transferred from the Rate Stabilization Fund for this purpose unless pledged utility revenues plus additional revenues equal 125% of debt service in the current fiscal year,
5. Any termination payments.

The Rate Stabilization requirement is \$2,100,000 and is equal to the amount currently in the Rate Stabilization Account as of June 30, 2014. As of June 30, 2014, the amount due on the Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A is \$74,450,000.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

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

- **Adelanto Public Utility Authority Fixed Rate Refunding Revenue Bonds 2009 Series A (Continued)**

**Debt Service Requirements**

This schedule illustrates the debt service requirements for bonds outstanding as of June 30, 2014:

<u>Fiscal year</u>	<u>Fixed Rate Refunding Revenue Bonds 2009 Series A</u>
2015	\$ 5,964,106
2016	5,964,706
2017	5,966,563
2018	5,964,245
2019	5,963,745
2020-2024	29,835,760
2025-2029	29,826,513
2030-2034	29,828,423
2035-2039	29,827,933
2040	5,964,106
	<hr/> 155,106,100
Less amount representing interest	<hr/> 80,656,100
Balance outstanding	<hr/> <hr/> \$ 74,450,000

- **Defeasance of Debt**

At June 30, 2013, the 1995, 1998, 2000, and 2005 debt amounts have been paid in full. There are no outstanding debt balances related to these issues.

- **Settlement Payable**

On June 1, 2009, Ambac Assurance Corporation filed a lawsuit against the Authority in a federal district court in the Southern District of New York and is seeking \$4,524,000 in damages plus interest and fees, costs and other expenses incurred by Ambac relating to or resulting from the alleged breach of the Authority of the Swap Agreement. On or about September 2005, the Authority issued \$70,635,000 of variable rate refunding revenue bonds (2005 A and 2005 B-Utility System Project). In order to hedge the risk from the Bonds, the Authority also entered into an interest rate swap agreement with Piper Jaffray Financial Products Incorporated (Piper). Ambac issued a surety bond for the swap agreement. The surety bond stated that if the Authority did not make certain payments pursuant to the swap agreement, Ambac would make those payments. On November 5, 2008, Moody's Investors Service downgraded Ambac's credit rating. The swap agreement provided that it could be terminated early upon the occurrence of certain events and when such early termination occurs, Piper shall be paid a "termination payment" to compensate it for the termination. The downgrade of Ambac's credit rating eventually led Piper on June 1, 2009, to terminate the swap agreement and demanded \$4,524,000 from the Authority as a termination payment. Ambac, as surety per the surety bond, paid Piper the \$4,524,000 on June 3, 2009. The United States District Court, Southern District of New York has ruled against the Authority, awarding Ambac Assurance Corporation the \$4,524,000 termination payment plus interest and fees. The total settlement payable including interest and fees is estimated to be \$7,760,459. As of November 25, 2014, no payment schedule has been determined.

- **Compensated Absences**

As of the fiscal year ended June 30, 2014, the total accrued employee leave benefits for the Authority were \$7,721 due to the Authority outsourcing almost all staff to contractors.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**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.

The Authority participates in the City's pension plan, California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Please refer to the City's basic financial statements as of June 30, 2013, for detailed information regarding the pension plan.

**Note 7**      **Other Post Employment Benefits**

The City provides postretirement medical insurance benefits for all employees who have worked for the City for a period of ten years and are at least 50 years of age when they separate from the service of the City, and who were employed by the City on July 1, 2004. This coverage includes medical insurance coverage only, for the life of the employee only. Employees hired after July 1, 2004 are not entitled to the retiree medical insurance benefits. Please refer to the City's basic financial statements as of June 30, 2013, for detailed information regarding the other post employment benefits.

**Note 8**      **Proposition 218**

Proposition 218, which was approved by the voters in November 1996, will regulate the Authority's ability to impose, increase, and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future years by the voters.

**Note 9**      **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.

**Litigation**

**California Regional Water Quality Control Board, Lahontan Region, Cease and Desist Order:**

On December 23, 2010, the California Regional Water Quality Control Board, Lahontan Region (Board), issued a proposed Cease and Desist Order (CDO) pertaining to the Authority's wastewater treatment plant. The proposed CDO was revised on January 13, 2011. In summation, the proposed CDO alleged that the Authority was in violation of its permit and previous Board orders due to: 1) the average Biological Oxygen Demand (BOD) levels; 2) the average daily volume of flow to the plant; 3) the maintenance of freeboard levels in the percolation ponds; and 4) unauthorized discharges from the plant either based on the construction of certain trenches or due to a major storm event on December 23, 2010, that led to the discharge of treated effluent from Percolation Pond No. 4-S. The Board sought a connection ban that would have prevented additional connections and discharges to the plant.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**Note 9**      **Commitments and Contingencies (Continued)**

**Litigation (Continued)**

**California Regional Water Quality Control Board, Lahontan Region, Cease and Desist Order (Continued):**

On March 10, 2011, an administrative trial was conducted before the Board. The Board decided to adopt the proposed CDO but removed the connection ban from the CDO. At the hearing on May 11, 2011, it was ordered that the APUA 1) must complete construction of Pond 5 no later than May 31, 2011, 2) complete its restoring Percolation Pond No. 4 no later than October 2011, 3) complete and submit to the Board carious reports and work plans; and 4) comply with its Waste Discharge Requirements (“WDRs”). The Revised CDO is No. R6V-2011-15A1. On October 12, 2011, the Board held a follow up hearing on the status of the Authority’s progress in fulfilling the Board’s requirements and once again declined to impose a connection ban, noted the Authority’s progress, and directed that the Authority keep moving forward to satisfy all requirements of the CDO.

The Authority worked with Board staff to satisfy all Board and CDO requirements. Furthermore, pursuant to the Authority’s contract with PERC Water Corporation, the Authority completed the WWTP expansion in the autumn of 2013. In July 2013, the Board approved a Revised WDR for the WWTP that covered the expanded and completed WWTP operations. On January 9, 2014, the Board adopted Board Order No. R6V-2014-0004 which rescinded CDO No. R6V-2007-24 and R6V-2011-15A1. On March 5, 2014, the Board rescinded Cleanup and Abatement Order No. R6V-2010-0054 after verifying that the operational changes and facility upgrades at the WWTP satisfied applicable requirements. Currently all matters are resolved with the Board.

**Adelanto Public Utility Authority v. E.J. De La Rosa & Co., Inc.:**

In November 2011, Adelanto filed an arbitration under the auspices of the Financial Industry Regulatory Authority (FINRA) against E.J. De La Rosa & Co., Inc. regarding Adelanto’s conversion of its debt in December 2007 to Auction Rate Securities (“ARS”). See *Adelanto Public Utility Authority v. E.J. De La Rosa & Co., Inc.* FINRA No.11-04464. The parties resolved the matter in December of 2013.

**Note 10**      **Advances To/From Other Funds**

The Adelanto Public Utility Authority owes the Adelanto Water Authority the net amount of \$12,286,116. These amounts have been eliminated on the Statement of Net Position. These amounts are shown as advances to/advances from Water Authority/Public Utility Authority on the Statement of Net Position – Proprietary Funds. The Adelanto Water Authority and Adelanto Public Utility Authority owe the net amount of \$1,612,424 Authority and Adelanto Public Utility Authority. This amount is shown on the Long-Term Liabilities portion of the Statement of Net Position.

**Note 11**      **Net Position**

GASB Statement No. 63 requires that the difference between assets and liabilities be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is those net position 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 position consists of net position that do not meet the definition of net investment in capital assets, or restricted net position.

**ADELANTO PUBLIC UTILITY AUTHORITY**

**Notes to Basic Financial Statements**

**June 30, 2014**

**Note 12**    **Prior Period Adjustment**

Prior period adjustments of (\$501,256) in the Wastewater Fund and (\$721,323) in the Water Fund were made due to the fact that cost of issuance is not considered to be a deferred outflow of resources in accordance with GASB No.65.

Prior period adjustment of (\$8,703,851) in the Wastewater Fund was made due to an fixed asset actuarial performed in the prior fiscal year that had recognized items as assets prior to their completion while the work in progress was not adjusted.

**Note 13**    **Going Concern**

The Authority does not currently have the financial resources to pay the settlement agreement in the estimated amount of \$7,760,459 to Ambac Assurance Corporation as a result of the litigation detailed in Note 5 of these financial statements. The Authority is currently making attempts to secure financing and other revenue sources (please see litigations in Note 9) to be able to provide funds to make the settlement payment. Based on this information, the Authority may not be able to continue as a going concern. The Management of the Authority is currently attempting to secure financing to address the payment of the settlement.

**Note 14**    **Management's Review of Subsequent Events**

In preparing the accompanying financial statements, the Authority's management has reviewed all known events that have occurred after June 30, 2014, and through November 25, 2014, the date when this financial statement was available to be issued, for inclusion in the financial statement and footnotes.

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