

**SUPPLEMENT TO PRELIMINARY OFFICIAL STATEMENT
DATED DECEMBER 3, 2014**

\$13,500,000^{*}
Adelanto Public Utility Authority
Fixed Rate Revenue Bonds, 2014 Series A
(Utility System Project)

This Supplement to Preliminary Official Statement supplements the Preliminary Official Statement dated December 3, 2014 for the above-captioned 2014 Bonds for the following purposes:

(i) To amend and restate Appendix A to the Preliminary Official Statement; the amended and restated Appendix A adds a summary of the Master Indenture.

(ii) To attach as a new Appendix G the Authority's audited financial statements for fiscal year 2013-14, which are available in final form as of December 15, 2014.

(iii) To reflect the Authority's audited financial statements for fiscal year 2013-14 in the body of the Preliminary Official Statement.

(iv) To replace the Tables No. 1, 12, 14, 15, 23, 26 and 27 that appear in the Preliminary Official Statement with the corresponding tables in this Supplement to Preliminary Official Statement. Numbers that are bolded and underlined in these tables are numbers that are different than the unaudited numbers in the Preliminary Official Statement. Most notably, the ending balance of the Wastewater Enterprise is approximately \$9,000,000 less than shown in the Preliminary Official Statement due to prior period adjustments. The fiscal year 2013-14 balance is reduced because the fiscal year 2012-13 ending balance was incorrect. Prior to fiscal year 2013-14, the Authority was not compliant with GASB 34 and did not commission an actuarial study of its assets done previously. In fiscal year 2013-14, an actuarial study was completed, which revealed that an ongoing \$8,000,000 project related to the wastewater treatment plant had been accounted for twice. The ending balance reflected in the fiscal year 2013-14 audit for the Wastewater Enterprise complies with GASB 34.

(v) To summarize a November 25, 2014 "Management Report and Auditor's Communication Letter" by the Authority's auditor, Moss, Levy & Hartzheim LLP, in which the auditor reported that it identified certain deficiencies in internal control that it considers to be material weaknesses.[†] All of these recommendations, which are primarily

^{*} Preliminary; subject to change.

[†] 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."

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 its 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..

(vi) To highlight the fact that 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, as discussed in the section of the Preliminary Official Statement entitled "THE FINANCING PLAN - Payment of Judgment," a portion of the proceeds of the 2014 Bonds will be used to pay the Judgment, including interest, in the amount of \$7,767,603.22.

This Supplement is dated December 16, 2014.

Set forth below are amended and restated Tables No. 1, 12 14, 15, 23, 26 and 27:

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

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

(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. 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.

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

	<u>2009-10⁽¹⁾</u>	<u>2010-11⁽¹⁾</u>	<u>2011-12⁽¹⁾</u>	<u>2012-13⁽¹⁾</u>	<u>2013-14⁽¹⁾</u>
Operating Revenues					
Sewer Service Charges ⁽²⁾	\$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 ⁽³⁾	581,056	98,602	326,212
Other Revenue	-	-	-	913 ⁽⁴⁾	270,966
Total Operating Revenues	\$4,353,331	\$6,863,085	\$6,103,692	\$6,342,275	\$7,007,015
Operating Expenses					
Personnel & Contract Services	\$1,247,790	\$1,406,078	\$1,618,812	\$1,056,698	\$176,536 ⁽⁵⁾
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
Total Operating Costs	\$2,532,882	\$3,127,339	\$3,590,562	\$3,054,138	\$2,804,785
Net Wastewater Revenues	\$1,820,449	\$3,735,746	\$2,513,130	\$3,288,137	\$4,202,230
Non-Operating Revenues (Expenses)					
Interest Revenue	\$83,058	\$80,529	\$80,359	\$78,862	\$78,510
Interest Expense & Fiscal Charges ⁽⁶⁾	(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) ⁽⁷⁾	(1,326,948) ⁽⁷⁾	155,766⁽⁸⁾
Total Non-Operating Revenues (Expenses)	\$(3,035,203)	\$(2,412,459)	\$(4,259,618)	\$(3,722,372)	\$(2,223,788)
Net Wastewater Results	\$(1,214,754)	\$1,323,288	\$(1,745,488)	\$ (434,234)	\$1,978,442
Transfer from the City⁽⁹⁾	-	-	-	-	\$94,247
Transfer to the City	(125,000)	(125,000)	(125,000)	(125,000)	(125,000)
Change in Net Assets	(1,339,754)	\$1,198,287	\$(1,871,488)	\$(559,234)	1,947,689
Beginning Balance	\$(2,916,560)	\$(3,531,667)	\$(2,333,380)	\$(4,204,868)	\$536,627
Prior Period Adjustments	724,647	-	-	5,300,730	(9,205,107)
Beginning Balance (Restated)⁽¹⁰⁾	(2,191,913)	-	-	1,095,862	(8,668,480)
Ending Balance	\$(3,531,667)	\$(2,333,379)	\$(4,204,868)	\$536,628	\$(6,720,791)

(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.

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

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

(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.

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

Fiscal Year	Water Connection Fee Revenue	Water Acquisition Fee Revenue
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.

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

	<u>2009-10⁽¹⁾</u>	<u>2010-11⁽¹⁾</u>	<u>2011-12⁽¹⁾</u>	<u>2012-13⁽¹⁾</u>	<u>2013-14⁽¹⁾</u>
Operating Water Revenues					
Water Service Charges ⁽²⁾	\$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
Total Operating Revenues	\$5,362,604	\$6,992,631	\$7,697,852	\$7,928,494	\$8,538,631
Operating Expenses					
Personnel	\$1,126,357	\$1,129,576	\$1,343,971	\$1,308,036	\$733,515 ⁽³⁾
Contract Services	102,803	186,449	174,585	133,912	62,400 ⁽³⁾
Operating Costs	1,187,659	1,723,459	1,210,494	1,152,334	2,529,495⁽³⁾
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
Total Operating Costs	\$3,700,621	\$4,279,135	\$4,067,691	\$4,418,681	\$4,983,093
Net Water Revenues	\$1,661,983	\$2,713,496	\$3,630,161	\$3,509,813	\$3,555,538
Non-Operating Revenues (Expenses)					
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) ⁽⁴⁾	(1,909,511) ⁽⁴⁾	320,551^(b)
Total Non-Operating Revenues (Expenses)	\$(3,521,003)	\$(3,770,748)	\$(5,210,398)	\$(4,251,012)	\$(1,991,198)
Net Water Results	\$(1,859,020)	\$(1,057,252)	\$(1,580,237)	\$(741,200)	\$1,564,340
Transfer from the City⁽⁶⁾	-	-	-	-	94,247
Transfers to the City⁽⁷⁾	(4,165,691)	-	(1,053,478)	(1,327,383)	(1,393,752)
Change in Net Assets	(6,024,711)	(1,057,252)	(2,633,715)	(2,068,583)	264,835
Beginning Balance	\$17,910,384	\$10,936,712	\$9,879,460	\$7,245,745	\$22,947,538
Prior Period Adjustments⁽⁸⁾	(948,961)	-	-	17,770,376⁽⁹⁾	(721,323)
Beginning Balance (Restated)	16,961,423	-	-	25,016,121	22,226,215
Ending Balance	\$10,936,712	\$9,879,460	\$7,245,745	\$22,947,538	\$22,491,050

(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 the total Water Purchase Payments. In fiscal years 2007-08 and 2008-09, the "Transfers out to City" represent only the principal component of the 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.

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

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

(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.

END OF SUPPLEMENT

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 (i) 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:

"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. ____, adopted by the legislative body of the Authority on November 12, 2014.

"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 MUFG Union Bank of California, N.A., now known as MUFG 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 a legal judgment relating thereto.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, 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 any judgment relating to the Project or financing of the Project or any prior Project.

(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 Refunding 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 _____ Million _____ Thousand Dollars (\$_____). 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.

(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 _____ Million _____ Hundred Thousand Dollars (\$ _____) 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 \$ _____, which is equal to the principal amount of the 2014 Series A Bonds of \$ _____ less original issue discount in the amount of \$ _____ and less underwriter's discount in the amount of \$ _____, shall be applied simultaneously with the delivery of the 2014 Series A Bonds, as follows:

(a) There shall be deposited in the Debt Service Reserve Account of the Special Fund the sum of \$ _____ 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 \$ _____;

(c) There shall be deposited from 2014 Series A Bond Proceeds in the 2014 Series A Water Project Account the sum of \$ _____;

(d) There shall be deposited from 2014 Series A Bond Proceeds in the 2014 Series A Wastewater Project Fund the sum of \$ _____.

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 and a Proportionate Share of the Judgment as provided in this Section.

(b) The Trustee shall make payments from the 2014 Series A Water 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 Water 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 Water 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 Water Project Fund to the payment of 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.

(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 Costs of the construction of improvements to the Water Enterprise and a Proportionate Share of the Judgment as provided in this Section.

(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 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 1/12th 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 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 1/12th 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 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.

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.

APPENDIX G

**AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2014**

**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

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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.

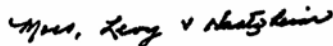
Other Reporting Required by Government Auditing Standards

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
Current Assets:	
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>
Restricted Assets:	
Cash and investments with fiscal agents	<u>12,252,470</u>
Total Restricted Assets	<u>12,252,470</u>
Capital Assets:	
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>
Other Assets:	
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)

LIABILITIES	<u>Business-type Activities</u>
Current Liabilities:	
Accounts payable	\$ 809,127
Accrued liabilities	2,301
Deposits payable	<u>603,759</u>
Total Current Liabilities	<u>1,415,187</u>
Current Liabilities (payable from restricted assets):	
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>
Long-Term Liabilities:	
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>
NET POSITION	
Net investment in capital assets	14,295,521
Unrestricted	<u>1,474,738</u>
Total Net Position	<u><u>\$ 15,770,259</u></u>

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

<u>Business-type Activities</u>	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Change in Net Position</u>
Expenses:			
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>
 General Revenues and Transfers:			
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>
Net Position - July 1, 2013			23,484,165
Prior Period Adjustments			<u>(9,926,430)</u>
Net Position - July 1, 2013 (restated)			<u>13,557,735</u>
Net Position - June 30, 2014			<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>
Current Assets:			
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
 Total Current Assets	 <u>4,021,354</u>	 <u>5,330,874</u>	 <u>9,352,228</u>
Restricted Assets:			
Cash and investments with fiscal agents	<u>3,266,776</u>	<u>8,985,694</u>	<u>12,252,470</u>
 Total Restricted Assets	 <u>3,266,776</u>	 <u>8,985,694</u>	 <u>12,252,470</u>
Capital assets, net of accumulated depreciation	<u>27,893,679</u>	<u>32,513,918</u>	<u>60,407,597</u>
Other Assets:			
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>
 Total Other Assets	 <u>4,906,785</u>	 <u>30,029,515</u>	 <u>34,936,300</u>
 Total Assets	 <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)

<u>Liabilities and Net Position</u>	<u>Adelanto Public Utility Authority</u>	<u>Adelanto Water Authority</u>	<u>Totals</u>
Current Liabilities:			
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>
Current Liabilities:			
(payable from restricted assets):			
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>
Long-Term Liabilities:			
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>
Net Position:			
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

	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
Operating Revenues:			
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
Operating Expenses:			
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
Operating Income	<hr/>	<hr/>	<hr/>
	4,202,230	3,555,538	7,757,768
Non-operating Revenues (Expenses):			
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)
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,978,442	1,564,340	3,542,782
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
Net Position - July 1, 2013	536,627	22,947,538	23,484,165
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>
Cash flows from operating activities:			
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>
Cash flows from noncapital financing activities:			
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>
Cash flows from capital and related financing activities:			
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>
Cash flows from investing activities:			
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>
Reconciliation of cash and cash equivalents to amounts reported on the statement of net position:			
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
Cash and cash equivalents - June 30, 2014	<u>\$ 5,842,112</u>	<u>\$ 12,476,465</u>	<u>\$ 18,318,577</u>
Reconciliation of operating income to net cash provided by operations:			
Operating income	\$ 4,280,740	\$ 3,674,864	\$ 7,955,604
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:

	Balance July 1, 2013	Additions	Deletions	Prior Period Adjustment	Balance June 30, 2014
<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	9,510,551			(8,703,851)	806,700
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	(5,712,950)	(674,653)			(6,387,603)
Total Capital Assets, being depreciated	27,761,632	(674,653)			27,086,979
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>

	Balance July 1, 2013	Additions	Deletions	Prior Period Adjustments	Balance June 30, 2014
<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	3,226,399				3,226,399
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	(12,563,650)	(679,202)	(151,086)		(13,091,766)
Total Capital Assets, being depreciated	30,100,685	(679,202)	133,964		29,287,519
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
Total Authority:					
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	12,736,950			(8,703,851)	4,033,099
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	(18,276,600)	(1,353,855)	(151,086)		(19,479,369)
Total Capital Assets, being depreciated	57,862,317	(1,353,855)	133,964		56,374,498
Total Authority Capital Assets, net	\$ 70,599,267	\$ (1,353,855)	\$ 133,964	\$ (8,703,851)	\$ 60,407,597

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	\$ 86,873,585	\$ 1,263	\$ (4,002,532)	\$ 82,872,316	\$ 1,221,673

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:

Fiscal year	Fixed Rate Refunding Revenue Bonds 2009 Series A
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
	155,106,100
Less amount representing interest	80,656,100
Balance outstanding	\$ 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.