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

FINANCIAL STATEMENTS

June 30, 2007

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ADELANTO PUBLIC UTILITY AUTHORITY
(A Component Unit of the City of Adelanto, California)
BASIC FINANCIAL STATEMENTS
June 30, 2007

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 24

MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and each major fund of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, California (City), as of and for the fiscal year ended June 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Authority as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
December 29, 2008

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ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS

June 30, 2007

ASSETS	Business-type Activities
Current Assets:	
Cash and investments	$ 24,702,194
Receivables:	
Accounts, net	1,278,338
Interest	97,825
Inventories	60,252
Due from City of Adelanto	414,421
Total Current Assets	26,553,030
Restricted Assets:	
Cash and investments with fiscal agents	26,916,009
Total Restricted Assets	26,916,009
Capital Assets:	
Capital assets not being depreciated	5,894,387
Capital assets being depreciated, net of accumulated depreciation	19,134,752
Total Capital Assets	25,029,139
Other Assets:	
Investment in Adelanto Public Financing Authority Bonds	17,491,948
Deferred bond issuance costs, net of accumulated amortization	2,058,396
Deferred loss on bond refunding, net of accumulated amortization	6,699,315
Total Other Assets	26,249,659
Total Assets	$ 104,747,837

(Continued)

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2007
(Continued)

LIABILITIES	Business-type Activities
Current Liabilities:	
Accounts payable	$ 762,607
Accrued liabilities	116,196
Deposits payable	736,584
Total Current Liabilities	1,615,387
Current Liabilities (payable from restricted assets):	
Accrued interest payable	214,291
Total Current Liabilities (payable from restricted assets)	214,291
Long-Term Liabilities:	
Accrued employee leave benefits	26,805
Bonds payable, non-current	70,635,000
Total Long-Term Liabilities	70,661,805
Total Liabilities	72,491,483
NET ASSETS	
Net Assets:	
Invested in capital assets, net of related debt	(14,943,983)
Restricted for debt service	4,797,551
Unrestricted	42,402,786
Total Net Assets	$ 32,256,354

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

Business-type Activities

	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Expenses:			
Public utility activities	$ (4,398,475)	$ 2,490,810	$ (1,907,665)
Water activities	(3,744,388)	8,007,276	4,262,888
Total	$ (8,142,863)	$ 10,498,086	2,355,223
General Revenues:			
Use of money and property			1,616,922
Transfers to the City of Adelanto			(3,600,000)
Total General Revenues and Transfers			(1,983,078)
Change in Net Assets			372,145
Net Assets - July 1, 2006			31,884,209
Net Assets - June 30, 2007			$ 32,256,354

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

Assets	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
Current Assets:			
Cash and investments	$ 10,532,226	$ 14,169,968	$ 24,702,194
Receivables:			
Accounts, net	445,357	832,981	1,278,338
Interest	8,378	89,447	97,825
Inventories		60,252	60,252
Due from City of Adelanto		414,421	414,421
Total Current Assets	10,985,961	15,567,069	26,553,030
Restricted Assets:			
Cash and investments with fiscal agents	26,916,009		26,916,009
Total Restricted Assets	26,916,009		26,916,009
Capital assets, net of accumulated depreciation	9,349,854	15,679,285	25,029,139
Other Assets:			
Due from Water Authority	16,293,377		16,293,377
Investment in Adelanto Public Financing Authority Bonds		17,491,948	17,491,948
Deferred bond issuance costs, net of accumulated amortization	2,058,396		2,058,396
Deferred loss on bond refunding, net of accumulated amortization	6,699,315		6,699,315
Total Other Assets	25,051,088	17,491,948	42,543,036
Total Assets	$ 72,302,912	$ 48,738,302	$ 121,041,214

(Continued)

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007
(Continued)

	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	$ 117,341	$ 645,266	$ 762,607
Accrued liabilities	101,395	14,801	116,196
Deposits payable	75,572	661,012	736,584
Total Current Liabilities	294,308	1,321,079	1,615,387
Current Liabilities:			
(payable from restricted assets):			
Accrued interest payable	214,291		214,291
Total Current Liabilities (payable from restricted assets)	214,291		214,291
Long-Term Liabilities:			
Due to Public Utility Authority		16,293,377	16,293,377
Accrued employee leave benefits		26,805	26,805
Bonds payable, non-current	70,635,000		70,635,000
Total Long-Term liabilities	70,635,000	16,320,182	86,955,182
Total Liabilities	71,143,599	17,641,261	88,784,860
Net Assets:			
Invested in capital assets, net of related debt	(30,623,268)	15,679,285	(14,943,983)
Restricted for debt service	4,797,551		4,797,551
Unrestricted	26,985,030	15,417,756	42,402,786
Total Net Assets	$ 1,159,313	$ 31,097,041	$ 32,256,354

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For The Fiscal Year Ended June 30, 2007

	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
Operating Revenues:			
Charges for services	$ 2,490,810	$ 6,513,469	$ 9,004,279
Other revenue		1,493,807	1,493,807
Total Operating Revenues	2,490,810	8,007,276	10,498,086
Operating Expenses:			
Salaries and benefits		723,876	723,876
Contract services	707,285	302,565	1,009,850
Sewer operations	243,910		243,910
Water operations		672,173	672,173
Utilities	207,855	1,686,155	1,894,010
Administration	19,759	25,160	44,919
Depreciation	251,432	280,754	532,186
Total Operating Expenses	1,430,241	3,690,683	5,120,924
Operating Income	1,060,569	4,316,593	5,377,162
Nonoperating Revenues (Expenses):			
Amortization expense	(320,404)		(320,404)
Interest expense and fiscal charges	(2,647,830)	(53,705)	(2,701,535)
Interest revenue	1,197,331	419,591	1,616,922
Total Nonoperating Revenues (Expenses)	(1,770,903)	365,886	(1,405,017)
Net income (loss) before transfers	(710,334)	4,682,479	3,972,145
Transfers in	800,000		800,000
Transfers out		(800,000)	(800,000)
Transfers to City of Adelanto		(3,600,000)	(3,600,000)
Change in Net Assets	89,666	282,479	372,145
Net Assets - July 1, 2006	1,069,647	30,814,562	31,884,209
Net Assets - June 30, 2007	$ 1,159,313	$31,097,041	$32,256,354

See accompanying notes to basic financial statements

ADELANTO PUBLIC UTILITY AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Adelanto Public Utility Authority	Adelanto Water Authority	Totals
Cash flows from operating activities:			
Receipts from customers and users	$ 2,578,964	$ 8,327,775	$ 10,906,739
Payments to suppliers	(1,106,038)	(2,126,471)	(3,232,509)
Payments to employees		(707,345)	(707,345)
Net cash provided (used) by operating activities	1,472,926	5,493,959	6,966,885
Cash flows from noncapital financing activities:			
Transfer to the City of Adelanto		(3,600,000)	(3,600,000)
Payments received (paid) to/(from) other funds or City	1,589,949	(1,898,237)	(308,288)
Transfers in (out)	800,000	(800,000)	
Net cash provided (used) in noncapital financing activities	2,389,949	(6,298,237)	(3,908,288)
Cash flows from capital and related financing activities:			
Purchase of capital assets		(699,599)	(699,599)
Interest paid on long-term debt	(2,650,970)	(53,705)	(2,704,675)
Net cash provided (used) in capital and related financing activities	(2,650,970)	(753,304)	(3,404,274)
Cash flows from investing activities:			
Principal repayment on bond investment		982,850	982,850
Interest on investments	1,195,863	403,909	1,599,772
Net cash provided (used) by investing activities	1,195,863	1,386,759	2,582,622
Net increase (decrease) in cash and cash equivalents	2,407,768	(170,823)	2,236,945
Cash and cash equivalents, beginning of fiscal year	35,040,467	14,340,791	49,381,258
Cash and cash equivalents, end of fiscal year	$ 37,448,235	$ 14,169,968	$ 51,618,203
Reconciliation of cash and cash equivalents to amounts reported on the statement of net assets:			
Reported on the Statement of Net Assets:			
Cash and investments	$ 10,532,226	$ 14,169,968	$ 24,702,194
Cash and investments with fiscal agents	26,916,009		26,916,009
Cash and cash equivalents - June 30, 2007	$ 37,448,235	$ 14,169,968	$ 51,618,203
Reconciliation of operating income to net cash provided by operations:			
Operating income	$ 1,060,569	$ 4,316,593	$ 5,377,162
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	251,432	280,754	532,186
Decrease (increase) in accounts receivable	72,670	130,188	202,858
Increase (decrease) in accounts payable	43,801	559,582	603,383
Increase (decrease) in accrued liabilities	28,970	4,124	33,094
Increase (decrease) in deposits payable	15,484	190,311	205,795
Increase (decrease) in accrued employee leave benefits		12,407	12,407
Total adjustments	412,357	1,177,366	1,589,723
Net Cash Provided by Operating Activities	$ 1,472,926	$ 5,493,959	$ 6,966,885

See accompanying notes to basic financial statements

Note 1 Organization and Summary of Significant Accounting Policies

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

The significant accounting policies of the Authority are described below.

(a) Reporting Entity

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

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

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

(b) Fund Accounting

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

(c) Basis of Accounting

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

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

(c) Basis of Accounting (Continued)

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

(d) Government-wide and Fund Financial Statements

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

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

The Authority reports the following major funds:

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

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

(e) Other Accounting Policies

Cash and Investments

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

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

Investments with Bond Trustee

In accordance with terms of the bond indenture related to the 2005 Utility Authority Bonds, reserve and other funds are invested with the Bond Trustee. The Bond Trustee invests these funds in accordance with the terms of the bond indenture; accordingly, such funds are invested primarily in U.S. government and government agency securities and money market funds, which invest in such securities. Such investments are stated at fair value.

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

(e) Other Accounting Policies (Continued)

Due to/from the City of Adelanto

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

Capital Assets

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

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

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

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

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

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

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

(e) Other Accounting Policies (Continued)

Bond Discounts/Issuance Costs/Deferred Loss on Refundings

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

Other

The Public Utility Authority accrues for all capital appreciation/depreciation due and adds/subtracts such amounts to the account balance under the financial statements caption, "Investment in Adelanto Public Financing Authority Bonds," in the accompanying financial statements. In this regard, the Public Utility Authority has accrued $982,850 of capital depreciation during the fiscal year ended June 30, 2007. The Public Utility Authority records its investment in Adelanto Public Financing Authority Bonds at fair value at June 30, 2007.

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

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

During fiscal year 1996, the Agency and the County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinated to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed, up to $100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds, but senior to the Series D Bonds. During the fiscal year ended June 30, 2007, the County loaned the Agency its share of incremental property taxes aggregating approximately $1,891,595, and the balance outstanding was $12,370,635.

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

Note 2 Purchase of Operations (Continued)

(a) Water Operations (Continued)

Water System Purchase Note (Continued)

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 $24,562,413 at June 30, 2007. Management expects that no payments of amounts in excess of the minimum annual payment will be made until final repayment of the Water Authority Bonds in 2028.

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

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

(b) Wastewater Operations

Wastewater System Purchase Note

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

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

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

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. Accordingly, on January 26, 1998, the governing Board of the Authority and the City Council agreed to amend the purchase note on a retroactive basis to eliminate any accrual of interest payable to the City until such time as all outstanding bonds are repaid, presently scheduled for November 1, 2026. Any unpaid balance at that time will accrue interest at 7.5%. The outstanding balance on the Wastewater System Purchase Note is $6,431,169 at June 30, 2007.

(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, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	$ 24,702,194
Cash and investments with fiscal agents	26,916,009
Investment in Adelanto Public Financing Authority Bonds	17,491,948
Total cash and investments	$ 69,110,151

Cash and investments as of June 30, 2007 consist of the following:

Petty cash	$ 700
Deposits with financial institutions	17,184,943
Investments	51,924,508
Total cash and investments	$ 69,110,151

(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,

Note 3 Cash and Investments (Continued)

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

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	$40 million
Local Agency Bonds	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	$100,000
Certificates of Deposit	1 year	None	$100,000
Bankers Acceptances			
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Public Financing Authority Bonds	N/A	None	None

(b) Investment Authorized by Debt Agreements

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

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

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the

Note 3 Cash and Investments (Continued)

(c) Disclosures Relating to Interest Rate Risk (Continued)

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:

		Remaining maturity (in Months)			
Investment Type	Totals	12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool	$ 7,516,551	$ 7,516,551	$ -	$ -	$ -
Held by Bond Trustees:					
Money Market Funds	3,589,836	3,589,836			
Investment Agreements	23,326,173	19,045,996			4,280,177
Bonds	17,491,948				17,491,948
	$ 51,924,508	$30,152,383	$ -	$ -	$ 21,772,125

(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.

				Rating as of Fiscal Year End			
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
State Investment Pool	$ 7,516,551	N/A	$ -	$ -	$ -	$ -	$ 7,516,551
Held by bond trustee:							
Money Market Funds	3,589,836	N/A		3,589,836			
Investment Agreements	23,326,173	N/A			23,326,173		
Bonds	17,491,948	N/A					17,491,948
Total	$ 51,924,508		$ -	$ 3,589,836	$ 23,326,173	$ -	$ 25,008,499

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:

Issuer	Investment Type	Reported Amount
IXIS Investment Agreements	Investment Contracts	$ 23,326,173
Adelanto Public Financing Authority Bonds	Bonds	17,491,948

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

The Adelanto Public Utility Authority holds investments in IXIS Investment Contracts equal to $23,326,173. The agreements mature on January 2, 2008 and September 30, 2015 and pay interest of 4.060% and 4.360%.

The Adelanto Water Authority holds investments (including amounts held by bond trustees) in Public Financing Authority bonds in the amount of $17,491,948. These bonds are $14,045,208 in 1995 Series C Bonds and $3,446,740 in 1995 Series D Bonds.

(g) Custodial Credit Risk

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

As of June 30, 2007, 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:

Investment Type	Reported Amount
Money market funds	$ 3,589,836
Investment Agreements	23,326,173

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

Note 4 Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Wastewater Activity:				
Capital Assets, not being depreciated:				
Land	$ 363,040	$ -	$ -	$ 363,040
Construction in progress	235,412			235,412
Total Capital Assets, not being depreciated	598,452			598,452
Capital Assets, being depreciated:				
Fields and grounds	7,105,847			7,105,847
Machinery and equipment	369,490			369,490
Pipelines	3,618,320			3,618,320
Less - Accumulated depreciation	(2,090,823)	(251,432)		(2,342,255)
Total Capital Assets, being depreciated	9,002,834	(251,432)		8,751,402
Total Wastewater Capital Assets, net	$ 9,601,286	$ (251,432)	$ -	$ 9,349,854
Water Activity:				
Capital Assets, not being depreciated:				
Land	$ 792,056	$ -	$ -	$ 792,056
Water rights	3,124,799			3,124,799
Construction in progress	679,481	699,599		1,379,080
Total Capital Assets, not being depreciated	4,596,336	699,599		5,295,935
Capital Assets, being depreciated:				
Wells and pump stations	4,669,378			4,669,378
Reservoirs	387,863			387,863
Machinery and equipment	16,774			16,774
Pipelines	8,935,541			8,935,541
Vehicles	138,656			138,656
Less - Accumulated depreciation	(3,484,108)	(280,754)		(3,764,862)
Total Capital Assets, being depreciated	10,664,104	(280,754)		10,383,350
Total Water Capital Assets, net	$ 15,260,440	$ 418,845	$ -	$ 15,679,285

Note 4 Capital Assets (Continued)

Capital asset activity for the fiscal year ended June 30, 2007 was as follows (Continued):

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Total Authority:				
Capital assets, not being depreciated:				
Land	$ 1,155,096	$ -	$ -	$ 1,155,096
Water rights	3,124,799			3,124,799
Construction in progress	914,893	699,599		1,614,492
Total Capital Assets, not being depreciated	5,194,788	699,599		5,894,387
Capital Assets, being depreciated:				
Fields and grounds	7,105,847			7,105,847
Wells and pump stations	4,669,378			4,669,378
Reservoirs	387,863			387,863
Machinery and equipment	386,264			386,264
Pipelines	12,553,861			12,553,861
Vehicles	138,656			138,656
Less - Accumulated depreciation	(5,574,931)	(532,186)		(6,107,117)
Total Capital Assets, being depreciated	19,666,938	(532,186)		19,134,752
Total Authority Capital Assets, net	$ 24,861,726	$ 167,413	$ -	$25,029,139

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

Public Utility Activities	$ 251,432
Water Activities	$ 280,754

Note 5 Long-Term Debt

The following is a schedule of changes in long-term debt of the Authority for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions/ accretions	Principal payments	Balance June 30, 2007	Due in 1 year
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series A	$ 55,615,000	$ -	$ -	$ 55,615,000	$ -
Adelanto Public Utility Authority Refunding Revenue Bonds, 2005 Series B	15,020,000			15,020,000	
Total long-term debt	$ 70,635,000	$ -	$ -	$ 70,635,000	$ -

Note 5 Long-Term Debt (Continued)

A description of individual long-term obligations outstanding at June 30, 2007 is as follows:

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

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

Net proceeds of approximately $30.9 million (after payment of a $436,578 underwriter's discount, $1,254,983 in issuance costs, and $3,308,384 to a reserve fund) plus an additional $817,710 of 2000 Series A and B debt service reserve fund monies were used to purchase state and local government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Series A and B Revenue Bonds. As a result, the 2000 Series A and B Revenue Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying financial statements.

The remaining amount of $20.5 million is to be used to finance improvements to both the Water and Wastewater Systems.

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

The Public Utility Authority is required to create and maintain a separate Rate Stabilization Fund to be held by the Trustee. The minimum rate stabilization requirement for the 2005 Bonds Series A and B is $700,000. As of June 30, 2007, the total balance in the Rate Stabilization Fund was $731,665 and is included in restricted cash and investments.

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

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year.
- The 2005 Series A Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year.
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund.
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payments required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

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

Note 5 Long-Term Debt (Continued)

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

The outstanding balance on the 2005 Series A Revenue Bonds at June 30, 2007 was $55,615,000.

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

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

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

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

- All wastewater operation and maintenance costs estimated by the Authority to become due and payable in such fiscal year.
- The 2005 Series B Public Utility Authority Revenue Bonds debt service payments as they become due and payable during such fiscal year.
- All amounts, if any, required to restore the balance in the Rate Stabilization Fund.
- All amounts required by the Wastewater Purchase Agreement for payment of Wastewater Purchase Payments.
- All other payment required to meet any other obligations of the Public Utility Authority which are payable from gross revenues during such fiscal year.

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

The outstanding balance on the 2005 Series B Revenue Bonds at June 30, 2007 was $15,020,000.

Note 5 Long-Term Debt (Continued)

- **Debt Service Requirements**

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

Fiscal year	Utility Bonds Series A	Utility Bonds Series B	Total
2008	$ 2,013,263	$ 791,554	$ 2,804,817
2009	3,233,263	1,091,554	4,324,817
2010	3,239,099	1,085,744	4,324,843
2011	3,238,125	1,084,407	4,322,532
2012	3,240,522	1,082,279	4,322,801
2013-2017	16,233,224	5,361,818	21,595,042
2018-2022	16,297,689	5,274,515	21,572,204
2023-2027	16,374,160	5,175,720	21,549,880
2028-2032	16,465,192	5,046,703	21,511,895
2033-2035	9,928,026	2,955,634	12,883,660
	90,262,563	28,949,927	119,212,490
Less amount representing interest	34,647,563	13,929,928	48,577,491
Balance outstanding	$ 55,615,000	$ 15,020,000	$ 70,635,000

- **Defeasance of Debt**

At June 30, 2007, the principal amount of defeased debt still outstanding was as follows:

1995	Series A Revenue Bonds	$ 25,325,000
1998	Series A Revenue Bonds	3,095,000
	Total	$ 28,420,000

- **Compensated Absences**

As of the fiscal year ended June 30, 2007, the total non-current portion of accrued employee leave benefits for the Authority was $26,805.

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. Refer to the City's basic financial statements as of June 30, 2007, for detailed information regarding the pension plan.

Note 7 Commitments and Contingencies

General Litigation

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

Note 8 Due To/From Other Funds

The Adelanto Water Authority owes the Adelanto Public Utility Authority a net amount of $16,293,337. These amounts have been eliminated on the Statement of Net Assets. The City of Adelanto owes the Adelanto Water Authority $414,421. These amounts are shown as due to/due from City of Adelanto on the Statement of Net Assets – Proprietary Funds.

Note 9 Net Assets

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

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

MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the business-type activities and each major fund of the Adelanto Public Utility Authority (Authority), a component unit of the City of Adelanto, California (City), as of and for the fiscal year ended June 30, 2007, which collectively comprise the Authority's financial statements, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
December 29, 2008