

MOULTON NIGUEL WATER DISTRICT
Laguna Niguel, California

Audited Financial Statements

Fiscal Year ended June 30, 2007

(This page intentionally left blank)

MOULTON NIGUEL WATER DISTRICT

Basic Financial Statements

Fiscal Year ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statement of Net Assets.....	8
Statement of Revenues, Expenses and Changes in Net Assets.....	10
Statement of Cash Flows	11
Statement of Fiduciary Net Assets – Fiduciary Fund	13
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund	14
Notes to the Basic Financial Statements	15



Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Board of Directors
Moulton Niguel Water District
Laguna Niguel, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Moulton Niguel Water District ("District") as of and for the year ended June 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Moulton Niguel Water District as of June 30, 2007, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Mayer Hoffman McCann P.C.

Irvine, California
January 23, 2008

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Moulton Niguel Water District ("District") provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the basic financial statements and notes to the financial statements, which follow this section.

Overview of the Basic Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information that they provide. The District's financial statements include four components:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

The *Statement of Net Assets* is intended to disclose the financial position of the District at a specific point in time, i.e. June 30, 2007. It reflects the District's assets, liabilities with the difference between the two reported as net assets (equity). Assets and liabilities are listed in order of their estimated liquidity. Therefore, cash and other unrestricted assets readily convertible to cash are listed first.

The *Statement of Revenues, Expenses and Changes in Net Assets* is intended to disclose the results of operations over a period of time, the fiscal year ended June 30, 2007. This statement reflects revenues earned (whether collected or not), and expenses incurred (whether paid or not) during the year and can be used to determine whether the District has recovered all of its projected costs through usage charges and other service related charges. The net earnings (losses) of the District flows into the net assets of the District as reflected on the Statement of Net Assets.

The *Statement of Cash Flows* presents information regarding the District's cash receipts and cash payments for the period categorized according to whether they stem from operating activities, non-capital financing activities, capital and related financing activities or investing activities. From this statement the reader can obtain comparative information on the sources and uses of the District's cash.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are integral part of the financial statements.

Financial Highlights

- The beginning net assets for the District at July 1, 2006, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, have been restated to account for the change in recording the Allen-McCulloch Pipeline receivable and payable and the Investment in SOCWA.

- A Fiduciary Fund has been set up to record the activities of the District's self-administered deferred contribution plan.
- The District's total net assets increased by 3.67% from prior year. (*Statement of Net Assets*)

Financial Analysis of the District

This discussion and analysis are intended to service as an introduction to the District's basic financial statements. One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* can be used to answer this question.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The government-wide financial statements, as shown in the *Statement of Revenues, Expenses and Changes in Net Assets*, distinguish functions of the District that are principally supported by user fees and charges that are intended to recover all or a significant portion of their costs (business-type activities) and taxes and intergovernmental revenues (governmental activities). The business-type activities of the District include providing water and collecting, treating and recycling wastewater to the communities of Aliso Viejo, Laguna Niguel, Laguna Hills, Mission Viejo and Dana Point.

Fund financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, used fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of the District can be divided into two categories: proprietary fund and fiduciary fund.

Proprietary funds. The District maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government wide financial statements because the resources of those funds are not available to support the District's activities. The accounting used for fiduciary funds is much like that used for proprietary funds. The District maintains one fiduciary fund related to the segregation of assets for the employee deferred compensation plan.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$363,582,386 at the close of June 30, 2007.

District's Net Assets				
	June 30, 2007	June 30, 2006	Dollar Change	Percent Change
Current and Other Assets	135,253,605	133,554,311	1,699,294	1.27%
Capital Assets	361,206,238	363,783,701	(2,577,463)	-0.71%
Total Assets	496,459,843	497,338,012	(878,169)	-0.18%
Long-term Liabilities				
Outstanding	117,038,604	128,174,462	(11,135,858)	-8.69%
Other Liabilities	15,838,853	18,436,627	(2,597,774)	-14.09%
Total Liabilities	132,877,457	146,611,089	(13,733,632)	-9.37%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	245,841,042	225,344,272	20,496,770	9.10%
Restricted	3,928,653	12,816,747	(8,888,094)	-69.35%
Unrestricted	113,812,691	112,565,904	1,246,787	1.11%
Total Net Assets	363,582,386	350,726,923	12,855,463	3.67%

- A portion of the District's unrestricted net assets (\$25,375,432) represents resources that are subject to internal restrictions (designated) on how they may be used. The remaining balance of unrestricted net assets (\$88,437,259) may be used to meet the District's ongoing obligations to constituents and creditors.
- At the end of the current fiscal year, the District is able to report a positive balance in net assets. The same situation held true for the prior fiscal year.
- There was a decrease of \$8,888,094 in restricted net assets representing a 69% decline from prior year. This is primarily due to the restatement of reserve amounts for the General Obligation Bonds and Certificates of Participation.
- The District's Net Assets increased 3.67% from prior year. Factors affecting the increase include an increase in investments at market value from prior year, approximately \$10 million. The beginning Net Assets have been restated to account for the change in recording the receivable and payable attributed to the Allen-McCulloch Pipeline and the Investment in SOCWA. Lastly, it is required that assets related to the employee deferred compensation plan be held in a trust for the exclusive benefit of the participants and their beneficiaries and therefore is not recorded as an asset for the District. This represents a decrease in net assets from prior year of approximately \$3.2M.

Management's Discussion & Analysis
For the Year Ended June 30, 2007

The Statement of Revenues, Expenses and Changes in Net Assets provides an explanation as to the nature and sources of the changes on the Statement of Net Assets.

Statement of Revenues, Expenses and Changes in Fund Net Assets

	June 30, 2007	June 30, 2006
Operating Revenue		
Water Charges	25,831,145	21,815,831
Sanitation Charges	11,515,601	10,281,592
Other	604,746	283,062
Total Operating Revenue	37,951,492	32,380,485
Operating Expense		
Cost of Water Sold	18,183,889	15,834,121
Energy & Pumping Costs	2,440,584	2,106,881
Water Transmission & Distribution	2,707,991	2,547,423
Water & Sewage Treatment	7,367,708	7,506,433
Salaries & Benefits	6,888,238	6,454,039
General and Administrative	2,744,081	2,452,198
Engineering	680,998	599,758
Vehicles & Equipment	524,745	515,898
Customer Service	285,213	225,071
Depreciation	13,602,765	12,585,747
Other ¹		(754,590)
Total Operating Expenses	55,426,212	50,072,977
Operating Income (Loss)	(17,474,720)	(17,692,492)
Non-Operating Revenue (Expenses)		
Interest Income	5,670,571	4,680,923
Property taxes and assessments	26,370,628	19,293,391
Interest on Long Term Debt	(5,474,668)	(5,232,106)
Lease Income	1,115,941	1,040,136
Nonoperating and Prior Years Income (Expenses)	(80,023)	(26,539)
Unrealized Gain (Loss) on Investments	919,075	(4,200,599)
Total Non-Operating Revenue (Expenses)	28,521,524	15,555,206
Income (Loss) Before Contributions	11,046,804	(2,137,286)
Adjustment: Related to AMP Pipeline & Investment in SOCWA ²		(20,999,818)
Capital Contributions,		
Connection Fees	932,325	642,770
Donated Facilities	876,334	2,099,826
Total Capital Contributions	1,808,659	2,742,596
CHANGE IN NET ASSETS	12,855,463	(20,394,508)
Net Assets - Beginning of Year²	350,726,923	371,121,431
Net Assets - End of Year²	363,582,386	350,726,923

¹ Other - Related to AMP Pipeline Lease (\$815,820) and Prior Years Refunds & Adjustments \$61,230

² Net Assets at 06/30/2006 were restated to reflect revenues/expenses related to the Allen-McCulloch Pipeline and Investment in SOCWA (see Note 12)

- The District's overall operating revenues increased by 17.2% or \$5,571,007 from the prior year.
- Additional sales, generated increased revenues from water charges by 18.41% or \$4,015,314 of which approximately \$586,416 was accredited to the 2005 rate increase and \$3,428,898 was attributable to volumetric increases in sales; revenues from sanitation

Management's Discussion & Analysis
For the Year Ended June 30, 2007

charges increased by 12% or \$1,234,009 comprising of \$933,565 accredited to volumetric increases in sales and \$300,444 attributed to the 2005 rate increase.

- Other operating revenue, which comprises of meter sales, plan check & inspection, tag fees and other fees related to the operations of the District, increased 113.64% or \$321,684.
- Property Tax revenue increased 37% or \$7,077,237 from prior year.
- Unrealized gains/losses in the District's investment portfolio amounted to an overall gain of \$5,119,674. At June 30, 2006, the District had an unrealized loss of \$4,200,599. At June 30, 2007, the District had an unrealized gain of \$919,075.

Capital Assets

	2007	2006
Non-Depreciable Assets:		
Land	1,091,910	1,091,910
Construction in Progress	8,669,543	10,071,400
Total Non-Depreciable Assets	9,761,453	11,163,310
Depreciable Assets:		
Water Systems	528,249,925	516,444,169
Buildings	5,273,526	5,237,806
Automobiles & Equipment	12,097,511	11,514,828
Total Depreciable Assets	545,623,962	533,196,803
Less: Accumulated Depreciation	(194,179,177)	(180,576,412)
Net Depreciable Assets	351,444,785	352,620,391
Total Capital Assets, Net	361,206,238	363,783,701

As of June 30, 2007, the District invested \$361 million in capital assets net of \$194.1 million of accumulated depreciation. This represents a net decrease in capital assets of \$2.5 million over the prior year due to a reduction in construction in progress and an increase in depreciation expense. Please review Note 5 of the Notes to the Basic Financial Statements for additional information.

Debt Administration

	2007	2006	Dollar Change
Bonds Payable	48,522,489	51,400,248	(2,877,759)
Certificates of Participation	30,670,234	32,135,234	(1,465,000)
Loans Payable	45,691,949	48,423,261	(2,731,312)
Compensated absences	1,267,268	1,185,320	81,948
Total Long-Term Debt	126,151,940	133,144,063	(6,992,123)

During the year, the District's long-term debt decreased 5%, which is direct reduction in the principal payment of long-term debt. Additional information on long-term debt is presented in Note 6 of the Notes to the Basic Financial Statements.

Future Economic Factors

- Slight growth is expected in the District's service area with the District built to 98% capacity.
- All of the District's water supply is purchased from the Municipal Water District of Orange County, which in turn purchases its water supply from Metropolitan Water District of Southern California, who delivers water to the region from Northern California via State Water Project and from the Colorado River via the Colorado River Aqueduct. Water from both sources is purified and tested at the Diemer Filtration Plant in Yorba Linda to make sure it meets federal drinking water standards. Then it is piped to MNWD, and then to you.
- The District projects wholesale water rates to increase by 6% in 2008 followed by a 12% and 9% increase respectively in the following fiscal years.
- An increase in water purchases for the fiscal year was primarily due to the on-going drought conditions faced by the District.
- The District is joining Santa Margarita Water District in constructing the Upper Chiquita Reservoir situated near Oso Parkway and the 241 Toll way. It is expected to be operational in the summer of 2010. Costs associated with the project may be funded through a bond issuance.
- The District, along with a majority of the South Orange County agencies, is participating in the design and construction of the emergency intertie to the Irvine Ranch Water District's distribution system. This project is to be completed in 2010.
- The District has material ownership in South Orange County Waste Water Authority (SOCWA) and along with other water districts, continues to participate in financing the design and construction of projects supported by SOCWA.
- GASB Statement 45 was issued to provide more complete, reliable and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide post-employment benefits other than pensions (OPEB) as part of the compensation for services rendered by their employees. The District is required to implement an accounting structure for these costs and obligations on its financial statements by June 30, 2009.
- The 2007-2008 budget does not reflect any water or sewer rate changes.

Contacting the District's Financial Management

This financial report is designed to provide our Board, customers, investors, employees and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Moulton Niguel Water District's Finance Department at 27500 La Paz Road, Laguna Niguel, California 92677, (949) 831-2500.

(This page intentionally left blank)

MOULTON NIGUEL WATER DISTRICT

Statement of Net Assets

June 30, 2007

ASSETS

CURRENT ASSETS

Cash and investments (note 2)	\$ 112,036,118
Cash and investments with fiscal agent (note 2)	9,519,476
Accounts receivables:	
Water and sanitation charges	4,170,600
Taxes and acreage assessments	513,099
Other accounts receivable	876,221
Interest receivable	1,807,087
Current portion of AMP receivable (note 3)	301,775
Inventory	1,581,867
Prepaid expenses	271,146
Other assets	<u>395,600</u>
TOTAL CURRENT ASSETS	<u>131,472,989</u>

NONCURRENT ASSETS

Retrofit contracts receivable	887,035
AMP receivable (note 3)	2,893,581
Capital assets, net of accumulated depreciation (note 5)	351,444,785
Capital assets not being depreciated (note 5):	
Land	1,091,910
Construction in progress	<u>8,669,543</u>
TOTAL NONCURRENT ASSETS	<u>364,986,854</u>
TOTAL ASSETS	<u>496,459,843</u>

(Continued)

See Notes to the Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Net Assets

(Continued)

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 5,107,480
Interest payable	1,618,037
Current portion of long-term liabilities (note 6):	
Compensated absences	1,267,268
Bonds payable	3,515,000
Certificates of participation	1,505,000
Loans payable	<u>2,826,068</u>
TOTAL CURRENT LIABILITIES	<u>15,838,853</u>

LONG-TERM LIABILITIES

Long-term debt (note 6):	
Bonds payable	45,007,489
Certificates of participation	29,165,234
Loans payable	<u>42,865,881</u>
TOTAL LONG-TERM LIABILITIES	<u>117,038,604</u>
TOTAL LIABILITIES	<u>132,877,457</u>

NET ASSETS (note 11)

Invested in capital assets, net of related debt	245,841,042
Restricted for capital projects	3,928,653
Unrestricted, designated	25,375,432
Unrestricted, undesignated	<u>88,437,259</u>
TOTAL NET ASSETS	<u>363,582,386</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 496,459,843</u>

See Notes to the Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year ended June 30, 2007

OPERATING REVENUES:	
Water charges	\$ 25,831,145
Sanitation charges	11,515,601
Other	604,746
TOTAL OPERATING REVENUES	<u>37,951,492</u>
OPERATING EXPENSES:	
Sources of supply:	
Water purchases	18,183,889
Meter purchases	58,334
Utilities	1,988,694
Pumping water	393,556
Water and sewage treatment	7,367,708
Water transmission and distribution	2,707,991
Customer service	285,213
Salaries and benefits	6,888,238
General and administrative	2,744,081
Engineering	680,998
Vehicles and equipment	524,745
Depreciation	13,602,765
TOTAL OPERATING EXPENSES	<u>55,426,212</u>
OPERATING INCOME (LOSS)	<u>(17,474,720)</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	5,670,571
Unrealized gain (loss) on investments	919,075
Increase in equity of SOCWA	-
Property tax revenue and acreage assessments	26,370,628
Interest on long-term debt	(5,474,668)
Lease income	1,115,941
Other nonoperating revenues (expenses)	(80,023)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>28,521,524</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	11,046,804
CAPITAL CONTRIBUTIONS:	
Developer donated capital facilities	876,334
Connection fees	932,325
CHANGE IN NET ASSETS	12,855,463
NET ASSETS - BEGINNING OF YEAR, as restated (note 12)	<u>350,726,923</u>
NET ASSETS - END OF YEAR	<u>\$ 363,582,386</u>

See Notes to the Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Cash Flows

Fiscal Year ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 38,509,149
Cash paid to suppliers	(34,836,466)
Cash paid to employees	<u>(6,678,939)</u>

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES (3,006,256)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Cash received from property taxes and acreage assessments	<u>26,470,080</u>
---	-------------------

NET CASH PROVIDED BY (USED FOR) NONCAPITAL
FINANCING ACTIVITIES 26,470,080

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(10,148,968)
Repayment of notes receivable	924,992
Capital contributions	932,325
Principal payments on long-term debt	(10,821,753)
Interest payments on long-term debt	<u>(5,537,907)</u>

NET CASH PROVIDED BY (USED FOR) CAPITAL
AND RELATED FINANCING ACTIVITIES (24,651,311)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment earnings received	5,439,930
Proceeds from sales and maturities of investments	60,766,285
Purchase of investments	<u>(59,712,800)</u>

NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES 6,493,415

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 5,305,928

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 17,112,150

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 22,418,078

(Continued)

See Notes to Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Cash Flows

(Continued)

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENT OF NET ASSETS:**

Cash and investments	\$ 112,036,118
Cash and investments with fiscal agent	<u>9,519,476</u>
Total cash and investments	121,555,594
Less non-cash equivalents	<u>(99,137,516)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,418,078</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED BY / (USED FOR) OPERATING ACTIVITIES:**

Operating income (loss)	\$ (17,474,720)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	13,602,765
Other nonoperating revenue	1,035,918
Change in assets and liabilities:	
(Increase) decrease in accounts receivable, water and sanitation	(711,043)
(Increase) decrease in accounts receivable, other	168,221
(Increase) decrease in inventory	(173,888)
(Increase) decrease in prepaid expenses	(11,375)
(Increase) decrease in contracts receivable	64,561
Increase (decrease) in accounts payable	411,357
Increase (decrease) in compensated absences	<u>81,948</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (3,006,256)</u>

SUPPLEMENTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Unrealized gain (loss) on investments	\$ 919,075
Developer donated capital facilities	876,334

See Notes to Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Fund

June 30, 2007

Moulton Niguel
457 Retirement Plan

ASSETS

Cash and investments (note 2)	\$ 3,222,620
TOTAL ASSETS	\$ 3,222,620

LIABILITIES AND NET ASSETS

LIABILITIES

TOTAL LIABILITIES	\$ -
-------------------	------

NET ASSETS

Held in trust for pension benefits	<u>3,222,620</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>3,222,620</u>

See Notes to the Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT
Statement of Changes in Fiduciary Net Assets

Fiscal Year ended June 30, 2007

	<u>Moulton Niguel</u> <u>457 Retirement Plan</u>
ADDITIONS	
Contributions:	
Plan members	\$ 260,026
Investment income	<u>146,952</u>
TOTAL ADDITIONS	<u>406,978</u>
DEDUCTIONS	
Withdrawals to alternative plan	37,935
Refunds of contributions	<u>815,796</u>
TOTAL DEDUCTIONS	<u>853,731</u>
CHANGES IN NET ASSETS	(446,753)
NET ASSETS - BEGINNING OF YEAR, as restated (note 12)	<u>3,669,373</u>
NET ASSETS - END OF YEAR	<u>\$ 3,222,620</u>

See Notes to Basic Financial Statements.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
Fiscal Year ended June 30, 2007

(1) Summary of Significant Accounting Policies

Reporting Entity

Moulton Niguel Water District ("District") was organized on November 16, 1960 under the California Water Code. The District provides water and collects, treats and recycles wastewater to the communities of Aliso Viejo, Laguna Niguel, Laguna Hills, Mission Viejo and Dana Point. The District is governed by a seven-member Board of Directors.

Blended Component Unit

The District's financial reporting includes the Moulton Niguel Water District Public Facilities Corporation ("Corporation"). The District's Board of Directors has oversight responsibility for the Corporation. The oversight responsibility is determined on the Board's governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Separate financial statements for the Corporation are not issued.

Basis of Accounting

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The District applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water and sanitation charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Pension Trust Fund

The pension trust fund accounts for the activities of the 457 plan, which accumulates resources for pension benefit payments to qualified employees.

Property Taxes

The District is authorized to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations, subject to certain limitations in the Water Code, the Revenue and Taxation Code and the California Constitution. A portion of the taxes is levied to meet the District's debt service requirements on its general obligation bonds.

Property taxes are levied annually by the District's Board of Directors as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments, which are due by December 10 and April 10. The taxes levied are billed and collected by the County of Orange and are remitted to the District throughout the year.

Inventory and Prepaid Expenses

Inventory consists of meters, meter components and operating supplies. Inventory is stated at the lower of cost (first-in, first-out method) or market.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least five years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Water and sewer systems	10 to 30 years
Buildings	40 years
Automobiles and equipment	3 to 10 years

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation benefits up to certain limits. Employees are eligible to be compensated in cash for accrued vacation to a maximum of 10 days provided that they have used at least 5 days of vacation during the fiscal year. Sick leave hours accrue at the rate of one day per month. Upon termination or retirement, the District pays 100% vacation leave and at the discretion of the General Manager up to 100% of sick leave.

All accumulated vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Investments

Investments are reported in the accompanying Statements of Net Assets at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *unrealized gain (loss) on investments* reported for that fiscal year. *Investment income* includes interest earnings and any gains or losses realized upon the liquidation or sale of investments.

Unamortized Bond Costs

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Assets as follows at June 30, 2007:

Statement of Net Assets:	
Cash and investments	\$112,036,118
Cash and investments with fiscal agent	9,519,476
Statement of Fiduciary Net Assets:	
Cash and investments	<u>3,222,620</u>
Total cash and investments	<u>\$124,778,214</u>

Cash and investments held by the District at June 30, 2007 consisted of the following:

Cash:	
Cash on hand	\$ 800
Deposits with financial institution	536,733
Investments:	
State treasurer's investment pool	11,774,219
US treasury notes	16,066,910
Federal agency securities	61,207,801
Commercial paper	1,462,156
Medium term notes	21,862,805
Money market funds	<u>11,866,790</u>
Total investments	<u>124,240,681</u>
Total cash and investments	<u>\$124,778,214</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code and the District's investment policy. The table also identifies certain provisions of the California Government Code (or the District's investment policy, if more restrictive) that address interest rate 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 District, rather than the general provisions of the California Government Code or the District's investment policy.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

Investment Types <u>Authorized by State Law</u>	Authorized By Investment <u>Policy</u>	*Maximum <u>Maturity</u>	*Maximum Percentage <u>Of Portfolio</u>	*Maximum Investment <u>In One Issuer</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	10 years	None	None
U.S. Agency Securities	Yes	10 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	10%	None
Reverse Repurchase Agreements	Yes	92 days	10%	None
Medium-Term Notes	Yes	5 years	30%	5%
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	\$40 million
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Government Obligations	None	None	None
Federal Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Municipal Obligations	None	None	None
Money Market Mutual Funds	120 days	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund	None	None	None

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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 District 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 District'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 District's investments by maturity:

<u>Investment Type</u>		<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>37 to 60 Months</u>	<u>More Than 60 Months</u>
State investment pool	\$ 11,774,219	11,774,219	-	-	-
US treasury notes	16,066,910	-	8,146,876	6,087,722	1,832,313
Federal agency securities	61,207,801	-	8,300,501	44,129,800	8,777,500
Commercial paper	1,462,156	1,462,156	-	-	-
Medium term notes	21,862,805	4,137,735	10,796,599	6,928,471	-
Money market funds	2,347,314	2,347,314	-	-	-
Held by fiscal agent:					
Money market funds	<u>9,519,476</u>	<u>9,519,476</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$124,240,681</u>	<u>29,240,900</u>	<u>27,243,976</u>	<u>57,145,993</u>	<u>10,609,813</u>

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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 District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>			
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
State investment pool	\$ 11,774,219	N/A	-	-	-	11,774,219
US treasury notes*	16,066,910	N/A	-	-	-	-
Federal agency securities	61,207,801	N/A	61,207,801	-	-	-
Commercial paper	1,462,156	A	-	-	1,462,156	-
Medium term notes	21,862,805	A	1,674,683	7,756,481	12,431,641	-
Money market funds	2,347,314	A	-	-	2,347,314	-
Held by fiscal agent:						
Money market funds	<u>9,519,476</u>	A	<u>-</u>	<u>-</u>	<u>9,519,476</u>	<u>-</u>
Total	<u>\$124,240,681</u>		<u>62,882,484</u>	<u>7,756,481</u>	<u>13,893,797</u>	<u>11,774,219</u>

* Exempt from disclosure

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FHLB	Federal agency securities	\$ 12,685,190
FNMA	Federal agency securities	20,623,451
FHLMC	Federal agency securities	24,964,785

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(2) Cash and Investments, (Continued)

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 District'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 market 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 Entity deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

State Treasurer's Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

(3) Allen-McCulloch Pipeline (AMP)

For several years prior to fiscal 1995, the District was a part owner and participant in a 27-mile pipeline through which it has received a portion of its water capacity from Metropolitan Water District (MWD). During fiscal 1995, the District and the other participants sold the pipeline to MWD.

In accordance with the sale agreement, the District will receive a total of \$16,294,804 over 37 years representing the District's ownership of approximately 13.6% of the pipeline project. In addition to the initial cash payment, the District has received \$13,099,448 in payments under the agreement of which \$925,538 was received for the year ended June 30, 2007. The District's receivable at June 30, 2007 is \$3,195,356.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(3) Allen-McCulloch Pipeline (AMP), (Continued)

The sales agreement further provides for the District to continue to have rights to the flow capacity from MWD, but MWD is not obligated to deliver an actual flow or quantity of water. The agreement also provides for MWD to forfeit ownership of the pipeline to the former owners (including the District) should it not make all required future payments.

(4) Investment in South Orange County Waste Water Authority (SOCWA)

The South East Regional Reclamation Authority (SERRA) and the Aliso Water Management Agency (AWMA) were agencies established to design and construct certain sewage collection, disposal, and wastewater treatment projects. The District along with other water districts participated in financing the design and construction through a percentage ownership in many of the agencies' projects. On July 1, 2001, SERRA and AWMA merged together into South Orange County Waste Water Authority (SOCWA).

Construction deposits made to SOCWA by the District for construction have been recorded as capital assets (see note 5). Such construction has not been capitalized and depreciated in SOCWA. Some of the projects relate to the construction of the SERRA Wastewater Treatment Plant and the AWMA Joint Regional Treatment Plant. Moulton Niguel Water District participates in the joint cost of operations of these projects. The District also makes advance deposits for the budgeted costs of operation and maintenance for activities carried on directly with SOCWA.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(5) Capital Assets

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

	<u>Balance at June 30, 2006</u> *	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>
Water systems	\$516,444,169	11,805,756	-	528,249,925
Buildings	5,237,806	38,720	-	5,276,526
Automobiles and equipment	<u>11,514,828</u>	<u>582,683</u>	<u>-</u>	<u>12,097,511</u>
Total cost of depreciable assets	<u>533,196,803</u>	<u>12,427,159</u>	<u>-</u>	<u>545,623,962</u>
Less accumulated depreciation:				
Water systems	(171,548,933)	(12,752,355)	-	(184,301,288)
Buildings	(1,493,668)	(165,118)	-	(1,658,786)
Automobiles and equipment	<u>(7,533,811)</u>	<u>(685,292)</u>	<u>-</u>	<u>(8,219,103)</u>
Total accumulated depreciation	<u>(180,576,412)</u>	<u>(13,602,765)</u>	<u>-</u>	<u>(194,179,177)</u>
Net depreciable assets	352,620,391	(1,175,606)	-	351,444,785
Capital assets not depreciated:				
Land	1,091,910	-	-	1,091,910
Construction in progress	<u>10,071,400</u>	<u>13,221,835</u>	<u>(14,623,692)</u>	<u>8,669,543</u>
Capital assets, net	<u>\$363,783,701</u>	<u>12,046,229</u>	<u>(14,623,692)</u>	<u>361,206,238</u>

* The balance at June 30, 2006 has been restated to include the SOCWA capital assets in the amount of \$12,906,213 for the Plant 3A that was previously reported as 'Investment in SOCWA'.

Depreciation expense for the year ended June 30, 2007 was \$13,602,765.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(6) Long-Term Liabilities

Long-Term liabilities for the year ended June 30, 2007 are as follows:

	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2007</u>	<u>Due Within One Year</u>
Bonds payable:					
2003 GOB Refunding Bond	\$ 56,410,000	-	(3,330,000)	53,080,000	3,515,000
Less deferred charges	<u>(5,009,752)</u>	<u>-</u>	<u>452,241</u>	<u>(4,557,511)</u>	<u>-</u>
Total bonds payable	<u>51,400,248</u>	<u>-</u>	<u>(2,877,759)</u>	<u>48,522,489</u>	<u>3,515,000</u>
Certificates of Participation:					
1993 COP's	9,755,234	-	-	9,755,234	-
2003 COP's	<u>22,380,000</u>	<u>-</u>	<u>(1,465,000)</u>	<u>20,915,000</u>	<u>1,505,000</u>
Total certificates	<u>32,135,234</u>	<u>-</u>	<u>(1,465,000)</u>	<u>30,670,234</u>	<u>1,505,000</u>
Loans payable:					
CIEDB	2,462,462	-	(123,102)	2,339,360	126,673
DWR	2,578,859	-	(234,646)	2,344,213	250,687
SRF	26,281,202	-	(1,536,956)	24,744,246	1,564,106
SWRCB	177,738	-	(74,608)	103,130	77,602
Water Reuse	10,915,000	-	(350,000)	10,565,000	360,000
Allen-McCulloch Pipeline*	<u>6,008,000</u>	<u>-</u>	<u>(412,000)</u>	<u>5,596,000</u>	<u>447,000</u>
Total loans payable	48,423,261	-	(2,731,312)	45,691,949	2,826,068
Compensated absences	<u>1,185,320</u>	<u>1,460,668</u>	<u>(1,378,720)</u>	<u>1,267,268</u>	<u>1,267,268</u>
Total long-term liabilities	<u>\$133,144,063</u>	<u>1,460,668</u>	<u>(8,452,791)</u>	<u>126,151,940</u>	<u>9,113,336</u>

* The June 30, 2006 balance has been restated. See footnote 12 for additional information.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(6) Long-Term Liabilities, (Continued)

2003 GOB Refunding Bonds

On June 1, 2003, the District issued Bonds in the amount of \$62,975,000 to refund the 1993 Consolidated Refunding Bonds that were originally issued to fund capital projects. As a result, the 1993 Bonds are considered defeased and the liability has been removed from the financial statements.

The 2003 Bonds consist of \$62,975,000 of serial bonds. The serial bonds accrue interest at rates between 2% and 5% and mature between September 1, 2004 and September 1, 2019. Interest is payable on September 1 and March 1 of each year.

1993 Certificate of Participation

On November 1, 1993, the District issued Certificates of Participation in the amount of \$45,075,234 to provide funding for certain water, reclaimed water, and sewer facilities. In August, 2003, \$39,105,000 of the Certificates were advance refunded by the issuance of the 2003 Refunding Certificates of Participation. The remaining Certificates mature between September 1, 2003 and September 1, 2017. The Certificates accrue interest at rates between 3% and 4.8%.

2003 Refunding Certificates of Participation

On August 1, 2003, the District issued Certificates of Participation in the amount of \$25,145,000 to advance refund a portion of the 1993 Certificates of Participation. As a result, a portion of the 1993 Certificates are considered to be defeased and a portion of the liability has been removed from the financial statements.

The 2003 Certificates consist of \$25,145,000 of serial certificates. The serial certificates accrue interest at rates between 3% and 5% and mature between September 1, 2004 and September 1, 2023. Interest is payable on September 1 and March 1 of each year.

The required reserve for the Certificates is \$2,500,063. At June 30, 2007, the reserve is \$2,500,063.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(6) Long-Term Liabilities, (Continued)

Loans Payable

California Infrastructure and Economic Development Bank (CIEDB)

The District obtained a loan for \$2,931,700 from the California Infrastructure and Economic Development Bank to finance certain capital projects. The loan accrues interest at 2.73%. Principal and interest payments are due annually through March 1, 2022.

Department of Water Resources Loan (DWR)

The District entered obtained a loan for \$4,821,611 from the Department of Water Resources to finance certain capital projects. The loan accrues interest at a rate of 2.5%. Principal and interest payments are due annually through September 30, 2009.

State Revolving Fund Loans (SRF)

The District obtained three State Revolving Fund loans totaling \$36,053,400 with the State Water Control Board to finance certain capital projects. The loans accrue interest at rates ranging from 1.727% to 1.811%. Principal and interest payments are due annually through October 16, 2017.

State Water Resources Control Board Loan (SWRCB)

The District entered obtained loan for \$1,020,700 from the State Water Resources Control Board to finance certain capital projects in Improvement District 1. The loan accrues interest at a rate of 4.0128%. Principal and interest payments are due annually through December 22, 2007.

Water Reuse Finance Authority Loan (Water Reuse)

The District obtained a loan for \$12,515,000 from the Water Reuse Finance Authority for the Aliso Creek Emergency Sewer Project. Principal payments are due annually through April 1, 2028.

Allen-McCulloch Pipeline

The District participated in a debt issuance with other participants for the construction of the Allen-McCulloch Pipeline. The District's portion of the original outstanding debt was \$11,440,000. The debt accrues interest at a rate of 5.8%. Principal and interest on the debt is payable semi-annually through July, 2016.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(6) Long-Term Liabilities, (Continued)

The annual requirements to amortize outstanding long-term liabilities of the District excluding amortizations of deferred charges at June 30, 2007 are as follows:

<u>June 30</u>	<u>Bonds Payable</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,515,000	2,261,825	1,505,000	1,323,700
2009	3,800,000	2,135,238	1,570,000	1,262,200
2010	4,025,000	1,997,175	705,916	2,149,884
2011	4,340,000	1,819,813	1,299,318	3,181,483
2012	4,645,000	1,634,306	-	1,230,800
2013-2017	28,250,000	4,739,325	8,995,000	5,223,800
2018-2022	4,505,000	348,625	11,275,000	2,061,800
2023-2024	-	-	5,320,000	68,125
Total	<u>\$53,080,000</u>	<u>14,936,306</u>	<u>30,670,234</u>	<u>16,501,791</u>

<u>June 30</u>	<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$2,826,068	926,426
2009	2,771,405	865,753
2010	2,848,308	806,909
2011	2,930,817	745,284
2012	3,023,946	680,574
2013-2017	16,241,228	2,192,547
2018-2022	10,163,929	502,951
2023-2027	4,244,087	20,508
2028	642,161	-
Total	<u>\$45,691,949</u>	<u>6,740,952</u>

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(7) Deferred Compensation Plan

The District has a 457 deferred compensation plan. The plan is available to all full-time employees and Directors. All eligible employees may defer receipt of a portion of their salary until future years. The employees are not liable for income taxes on amounts deferred until the funds are withdrawn. Participants can choose to invest their funds either with a third party administrator, Nationwide Retirement Solutions, Inc., or in the Moulton Niguel Water District investment pool. Assets with Nationwide Retirement Solutions in the amount of \$3,135,392 at June 30, 2007 are held in trust for the exclusive benefit of the participants and their beneficiaries, and are therefore not reported in the financial statements of the District. Asset invested in the Moulton Niguel Water District investment pool in the amount of \$3,222,620 at June 30, 2007 are reported in a fiduciary trust fund in the accompanying financial statements because of the administrative responsibilities of the District. During the year ended June 30, 2007, the District contributed \$291,846 to employee accounts under the 457 plan.

(8) Retirement Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), a multiple-employer cost sharing public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Contributions

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. Benefit provisions and all other requirements are established by the Board of Directors.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate indicated for the period is 11.924% of payroll for the miscellaneous plan. The District's covered payroll for PERS was \$6,760,887 for the year ended June 30, 2007. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(8) Retirement Plan, (Continued)

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Costs</u>			<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
	<u>Employee Contribution</u>	<u>Employer Contribution</u>	<u>Total</u>		
6/30/07	\$424,002	727,972	1,151,974	100%	-0-
6/30/06	389,383	580,026	969,409	100%	-0-
6/30/05	375,146	90,091	465,237	100%	-0-

(9) Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The District is a participant in the Association of California Water Agencies – Joint Powers Insurance Agency (ACWA-JPIA) for the purpose of providing multiple lines of insurance coverage. The District maintains the following types of insurance coverage with ACWA-JPIA: liability insurance, general and auto, property insurance, and workers compensation. The District had a \$50,000 retrospective allocation point (self-insured retention) per claim for general and automobile liability for the years ended June 30, 2007. The total coverage limit was \$50,000,000 at June 30, 2007. The property insurance program provided for up to \$50,000,000 in coverage, which included boiler and machinery coverage and had a \$25,000 retrospective allocation point per claim.

Workers compensation coverage was also provided by ACWA-JPIA for the District for claims associated with employee injuries and employers liability. The District maintained a \$50,000 retrospective allocation point (self-insured retention) per claim with limits of coverage provided by ACWA-JPIA per statutory requirements of the State of California.

The amount of settlements did not exceed insurance coverage for the past three years for all JPIA coverages.

Litigation

The District is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations or liquidity of the District.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(10) Commitments and Contingencies

Other Post Employment Benefits

The District plans to implement GASB Statement No. 45, related to other post-employment benefits (OPEB) beginning in fiscal year 2007-08. The District has performed an actuarial valuation in June 2006. The valuation determined that the liability for District-paid retiree benefits is \$5,464,117 as of July 1, 2006. The District is funding the benefits on a pay as you go basis. When the District implements the new accounting standard in fiscal year 2007-2008, the District will be required to record a liability for the difference between the amount actually paid during the year for other post-employment benefits and the annual required contribution as determined by a revised June 30, 2008 actuarial valuation. Formal disclosure requirements pursuant to GASB 45 will be provided in the 2007-08 financial statements.

Construction Projects

The following material construction commitments existed at June 30, 2007:

<u>Project Name</u>	<u>Cumulative Expenditures as of June 30, 2007</u>	<u>Remaining Commitments</u>
Upper Chiquita Reservoir	\$ 23,236	15,976,764
Baker Pipeline Regional Treatment Facility	26,181	10,973,819
Irvine Ranch Water District Emergency Interconnection to JTM	377,569	10,922,431
Replacement of Digital Lines with Wireless Network	57,429	1,442,571

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(11) Net Assets

Net assets at June 30, 2007 consisted of the following:

Invested in capital assets, net of related debt:	
Capital assets, net	\$ 361,206,238
Less:	
Outstanding debt issued to construct capital assets	(124,884,672)
Add back portion of debt associated with unspent bond proceeds	<u>9,519,476</u>
Total invested in capital assets, net of related debt	<u>245,841,042</u>
Restricted net assets:	
Restricted by enabling legislation for capital projects:	
Unspent connection fees	<u>3,928,653</u>
Unrestricted net assets:	
Designated for rate stabilization	7,421,285
Designated for replacement and refurbishment	16,869,656
Designated for self insurance reserves	1,084,491
Designated for diemer intertie fund	6,283,911
Designated for water supply reliability	5,110,606
Designated for planning and construction	26,665,746
Unrestricted, undesignated	<u>50,376,995</u>
Total net assets	<u>\$ 363,582,386</u>

Capital Projects

Per SB 1760, the District established a separate reserve to account for connection fees collected on or after January 1, 1999. All interest earned in this fund is added to the total investments. All expenditures incurred by this fund must be used for the capital facilities for which the connection fees were collected.

Rate Stabilization

The Rate Stabilization reserves were established to provide funds to be used specifically for stabilizing potential fluctuation in the water service rates of the District that may result in the future due to changing wholesale water rates charged by the Metropolitan Water District of Southern California (MWDSC) and passed through to the District by the Metropolitan Water District of Orange County (MWDOC).

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(11) Net Assets, (Continued)

Replacement & Refurbishment

The Replacement & Refurbishment reserves were established to replace existing assets, refurbish or materially extend the useful life of existing assets and upgrade assets provided certain conditions are met. The asset value must be \$5,000 or more and have a useful life of at least 3 years. The reserves are replenished annually with a \$4.5 million dollar transfer from the General Fund.

Self Insurance

The District maintains a Self Insurance reserve to provide for expenses incurred to the District for the deductible amounts on insurance claims under \$50,000 for repairs to facilities by outside contractors and expense related to the State Unemployment Insurance for unemployment claims made against the District.

Water Supply Reliability Fund

The Water Supply Reliability reserves were created to provide funding for certain projects that will extend the District's ability to provide water to its customers during planned Metropolitan Water District seven-day shutdowns. The projects will also provide water during unplanned emergency shutdowns of the District's water conveyance system. The reserves were initially seeded with a \$5 million dollar transfer from the Planning and Construction Fund.

Planning and Construction Reserves

Planning and Construction reserves were established to conform to requirements for federal and state grant programs to provide for the establishment of the Capital Replacement Fund. The reserves are increased by revenue from tax revenues equal to the appropriation limit, federal and state P.L. 660 funds and clean water grants if and when received. Designated (budgeted) construction and planning expenditures decrease the reserves. The Board of Directors authorizes unforeseen capital expenditures from this fund.

MOULTON NIGUEL WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

(12) Restatement of Net Assets

The beginning net assets for the District, as reported in the Statement of Revenues, Expenses and Changes in Net Assets, have been restated to account for the change in recording of the Allen-McCulloch Pipeline receivable and payable and the Investment in SOCWA. The following summarizes the effects of the restatement to the beginning net assets as of July 1, 2006:

Net assets at June 30, 2006, as previously reported	\$371,726,741
To adjust net assets at June 30, 2006 to reflect the receivable and payable related to the Allen-McCulloch Pipeline	2,452,541
To eliminate Investment in SOCWA that was already recorded as a Capital asset at June 30, 2006	(18,629,969)
To reflect prior year refund receivable from SOCWA that was not recorded at June 30, 2006	983,461
To adjust Plant 3A to its net book value at June 30, 2006	<u>(5,805,851)</u>
Net assets at June 30, 2006, as restated	<u>\$350,726,923</u>

The beginning net assets for the District, as reported in the Statement of Changes in Fiduciary Net Assets, have been restated to account for the Districts self-administered deferred contribution plan. The following summarizes the effects of the restatement to the beginning net assets as of July 1, 2006:

Net assets at June 30, 2006, as previously reported	\$ -
To record the June 30, 2006 cash and investments on hand to fund the deferred contribution plan	<u>3,669,373</u>
Net assets at June 30, 2006, as restated	<u>\$3,669,373</u>