



**NOTICE AND CALL OF ANNUAL MEETING
OF THE BOARD OF DIRECTORS'
MOULTON NIGUEL WATER DISTRICT
PUBLIC FACILITIES CORPORATION
27500 La Paz Road, Laguna Niguel
December 18, 2014
5:30 PM
Approximate Meeting Time: Half Hour**

NOTICE IS HEREBY GIVEN that an Annual Meeting of the Board of Directors' of the Moulton Niguel Water District ("MNWD") Public Facilities Corporation has been called by the Chairman of the Board of Directors' to be held on December 18, 2014, at 5:30 PM, at MNWD's Administrative Offices located at the address above. The following business will be transacted and is the Agenda for this annual meeting:

1. CALL MEETING TO ORDER
2. APPROVE THE MINUTES OF THE DECEMBER 19, 2013 PUBLIC FACILITIES CORPORATION BOARD OF DIRECTORS' MEETING
3. PUBLIC COMMENTS
Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. "Request To Be Heard" forms are available at the entrance to the Board Room. Comments are limited to five minutes unless further time is granted by the Presiding Officer. Submit form to the Recording Secretary prior to the beginning of the meeting.

Those wishing to address the Board of Directors on any item listed on the Agenda should submit a "Request To Be Heard" form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.

ACTION ITEMS

4. **MNWD PUBLIC FACILITIES CORPORATION AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2014**

It is recommended that the Board of Directors receive and file the financial statements and authorize the General Manager or designee to retain an auditor to examine the financial statements for the Corporation for fiscal year ending June 30, 2015.

INFORMATION ITEMS

5. **Late Items (Appropriate Findings to be Made)**
 - a. Need to take immediate action; and
 - b. Need for action came to District's attention after Agenda Posting. [Requires 2/3 vote (5 members) or unanimous vote if less than 2/3 are present]

ADJOURNMENT

The Board of Directors' Meeting Room is wheelchair accessible. If you require any special disability related accommodations (i.e., access to an amplified sound system, etc.), please contact the Moulton Niguel Water District Secretary's office at (949) 831-2500 at least seventy-two (72) hours prior to the scheduled meeting. This agenda can be obtained in alternate format upon written request to the Moulton Niguel Water District Secretary at least seventy-two (72) hours prior to the scheduled meeting.

Agenda exhibits and other writings that are disclosable public records distributed to all, or a majority of, the members of the Moulton Niguel Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection at the District Office, 27500 La Paz Road, Laguna Niguel, CA ("District Office"). If such writings are distributed to members of the Board less than twenty-four (24) hours prior to the meeting, they will be available in the reception area of the District Office at the same time as they are distributed except that, if such writings are distributed immediately prior to, or during the meeting, they will be available in the Board meeting room and on the District website at www.mnwd.com.



**MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF DIRECTORS OF THE
MOULTON NIGUEL WATER DISTRICT
PUBLIC FACILITIES CORPORATION**

December 19, 2013

A Special Meeting of the Board of Directors of the Moulton Niguel Water District was held at the District offices, 27500 La Paz Road, Laguna Niguel, California, at 5:30 PM on December 19, 2013. There were present and participating:

DIRECTORS

Donald Froelich	President
Larry McKenney	Vice President
Brian Probolsky	Director
Scott Colton	Director
Richard Fiore	Director
Gary Kurtz	Director
Larry Lizotte	Director

Also present and participating were:

STAFF MEMBERS, LEGAL COUNSEL, AND MEMBERS OF THE PUBLIC

Joone Lopez	General Manager
Matt Collings	Assistant General Manager
Marc Serna	Director of Engineering & Operations
Gina Hillary	Director of Human Resources
Kelly Winsor	Assistant to the General Manager
Pat Giannone	Bowie, Arneson, Wiles & Giannone
Paige Gulck	Board Secretary
Bob Gokoo	Attorney
Michael Bell	Consultant
Eva Plajzer	MNWD
Ruby Yuen	MNWD

1. CALL MEETING TO ORDER

The meeting was called to order by Donald Froelich at 6:39 p.m.

#2.

2. PUBLIC COMMENTS
None

3. MINUTE APPROVAL:

MOTION DULY MADE BY LARRY MCKENNEY AND SECONDED BY BRIAN PROBOLSKY, MINUTES OF THE DECEMBER 20, 2012 SPECIAL ANNUAL MEETING WERE APPROVED WITH A MINOR EDIT TO THE DIRECTORS SECTION.

PRESENTATION ITEMS

None

DISCUSSION ITEMS

4. 2012-13 ANNUAL FINANCIAL STATEMENTS: AUTHORIZATION FOR 2013-14 AUDIT

It is recommended the Board of Directors receive and file the financial statements for the Corporation for fiscal year ending June 30, 2013, pursuant to California Corporation Code Section 6321.

It is recommended the Board of Directors authorize the District General Manager or designee to hire an auditor to examine the financial statements for the Corporation for fiscal year ending June 30, 2014 pursuant to California Corporation Code Section 6321.

MOTION DULY MADE BY LARRY MCKENNEY AND SECONDED BY GARY KURTZ, THE BOARD OF DIRECTORS APPROVED ITEM 4 AS PRESENTED.

INFORMATION ITEMS

None

ADJOURNMENT

The meeting was adjourned at 6:42 p.m.

Respectfully submitted,

Paige Gulck
Board Secretary



Moulton Niguel Water District

STAFF REPORT

TO: Board of Directors **MEETING DATE:** December 18, 2014

FROM: Ruth Zintzun, Finance Manager

SUBJECT: MNWD Public Facilities Corporation Audited Financial Statements
for Fiscal Year Ended June 30, 2014

DIVISION: District-wide

SUMMARY:

Issue: Review the MNWD Public Facilities Corporation Audited Financial Statements for Fiscal Year Ended June 30, 2014.

Recommendation: It is recommended that the Board of Directors receive and file the financial statements and authorize the General Manager or designee to retain an auditor to examine the financial statements for the Corporation for fiscal year ending June 30, 2015.

Fiscal Impact: No fiscal impact to the District.

BACKGROUND:

The Moulton Niguel Water District Public Facilities Corporation (the "Corporation") was incorporated as a California Nonprofit Public Facilities Corporation on October 12, 1993, and has received exempt-from-tax status from the Internal Revenue Service and California Franchise Tax Board. The Corporation was formed to provide public facility financial assistance to the District in financing public facilities and improvements necessary to provide water and sewer service to existing and future customers within the District.

DISCUSSION:

The Corporation prepares its financial statements to record any debt issued through the Corporation utilizing Certificates of Participation ("COP"). Currently, the District has several outstanding COPs including the 2003 Refunding Bonds, 2010 Refunding Bonds, and 2009 Build America Bonds. The Corporation's financial activities in the attached financial statements include interest expense of \$5.3M and principal payments on the outstanding bonds of \$1.7M.

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PFC Audited Financial Statements for FY 2013-14
December 18, 2014
Page 2 of 2

It is also recommended that the Board of Directors authorize the General Manager or designee to retain an auditor to examine the financial statements for the Corporation for fiscal year ending June 30, 2015.

Attachments: PFC Audited Financial Statements for Fiscal Year Ended June 30, 2014

DRAFT

**MOULTON NIGUEL WATER DISTRICT
PUBLIC FACILITIES CORPORATION**

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2014**

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MOULTON NIGUEL WATER DISTRICT
PUBLIC FACILITIES CORPORATION

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2014

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

FOR THE YEAR ENDED
JUNE 30, 2014

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DRAFT

INDEPENDENT AUDITORS' REPORT

Board of Directors
Moulton Niguel Water District
Laguna Niguel, California

Report on Financial Statements

We have audited the accompanying financial statements of the Moulton Niguel Water District Public Facilities Corporation, a nonprofit entity, (the Corporation) (a component unit of the Moulton Niguel Water District) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Board of Directors
Moulton Niguel Water District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Moulton Niguel Water District Public Facilities Corporation as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated [REDACTED], 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Corporation's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea, California
[REDACTED], 2014

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MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

**STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Assets:

Current:

Accrued Interest Receivable from Moulton Niguel Water District	\$ 1,705,325
Installment Receivable from Moulton Niguel Water District, Current (Note 2 & 3)	1,969,814
Total Current Assets	<u>3,675,139</u>

Noncurrent:

Installment Receivable from Moulton Niguel Water District, Noncurrent (Note 2 & 3)	80,228,643
Total Noncurrent Assets	<u>80,228,643</u>

Total Assets	<u><u>\$ 83,903,782</u></u>
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Liabilities:

Current:

Accrued Interest Payable	\$ 1,705,325
Certificates of Participation Payable, Current (Note 2)	1,969,814
Total Current Liabilities	<u>3,675,139</u>

Long-Term Liabilities

2003 Certificates of Participation Payable, Noncurrent (Note 2)	14,520,000
2010 Certificates of Participation Payable, Noncurrent (Note 2)	5,708,643
2009 Certificates of Participation Payable, Noncurrent (Note 3)	60,000,000
Total Long-Term Liabilities	<u>80,228,643</u>

Total Liabilities	<u>83,903,782</u>
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Net Position:

Total Net Position	<u>-</u>
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Total Liabilities and Net Position	<u><u>\$ 83,903,782</u></u>
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MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 YEAR ENDED FOR THE YEAR ENDED JUNE 30, 2014

Revenues:

Interest Income - Installment Sale Receivable \$ 5,254,817

Total Revenues 5,254,817

Expenses:

Interest Expense - Certificates of Participation Payable 5,254,817

Total Expenses 5,254,817

Changes in Net Position -

Net Position:

Beginning of Fiscal Year -

End of Fiscal Year \$ -

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MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

STATEMENT OF CASH FLOWS
YEAR ENDED FOR THE YEAR ENDED JUNE 30, 2014

Reconciliation of Net Income to Net Cash Provided**by Operating Activities**

Net Income	\$ -
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Cash Flows from Capital**and Related Financing Activities:**

Interest Paid on Certificates of Participation	(5,254,817)
Principal Paid on Certificates of Participation	<u>(1,740,000)</u>

Net Cash Provided (Used) by**Capital and Related Financing Activities**

(6,994,817)

Cash Flows from Investing Activities:

Interest received on installment sale agreement	5,254,817
Repayment of installment agreement	<u>1,740,000</u>

Net Cash Provided by**Investing Activities**

6,994,817

Net Increase (Decrease) in Cash

-

Cash at Beginning of Year

<u>-</u>

Cash at End of Year

\$ -

Non-Cash Investing and Financing Activities:

Amortization of bond premium	\$ 127,407
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MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

Note 1: Reporting Entity and Summary of Significant Accounting Policies

The Moulton Niguel Water District Public Facilities Corporation (the "Corporation") was incorporated as a California Nonprofit Public Facilities Corporation on October 12, 1993 and has received exempt-from-tax status from the Internal Revenue Service and California Franchise Tax Board. The Corporation was formed to provide public facility financial assistance to the Moulton Niguel Water District (the "Water District") in financing public facilities and improvements ("Improvements") necessary to provide water service to existing and future customers within the Water District.

The accounting policies of the Corporation conform to generally accepted accounting principles. The following is a summary of the more significant policies.

a. Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Note 2: 2003 Refunding Certificates of Participation & 2010 Refunding Certificates of Participation

On August 1, 2003, the Corporation sold \$25,145,000 of 2003 Refunding Certificates of Participation (2003 Refunding COP) to refund a portion of its 1993 Certificates of Participation (1993 COPs), to fund a debt service reserve fund and pay for delivery costs related to the COPs. There will remain under the 1993 Indenture \$12,625,000 aggregate principle amount of Moulton Niguel Water District 1993 Certificates of Participation (the "Remaining 1993 Certificates").

On November 1, 2010, the Corporation sold \$8,965,000 of the 2010 Refunding Certificates of Participation (2010 COPs) to refund the remaining portion of the 1993 COPs, to refinance the 1993 Installment Payments and 1993 Certificates; to fund a debt service reserve fund for the Certificates; and pay certain costs of executing and delivering the Certificates.

The interest for the 2003 Refunding COP will be calculated from August 1, 2003 at rates ranging from 3%-5% payable semi-annually on March 1 and September 1 of each year commencing March 1, 2004 and ending on the date of maturity or prepayment, whichever is earlier.

The interest for the 2010 Refunding COP will be calculated from November 1, 2010 at rates ranging from 2%-4% payable semi-annually on March 1 and September 1 of each year commencing March 1, 2011 and ending on the date of maturity or prepayment, whichever is earlier.

a. Optional Prepayment

The COPs for the 2003 Refunding maturing on or before September 1, 2013 are not subject to optional prepayment prior to maturity. The Certificates maturing on or after September 1, 2018 are subject to prepayment prior to maturity on or after September 1, 2018, in whole or in part (but no in a total prepayment amount of less than \$5,000) on any date from the Water District's exercise of its option to prepay Installment Payments at a price equal to the principal amount thereof, plus accrued interest thereon to the date of prepayment, without premium. The selection of Certificates for prepayment

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**
JUNE 30, 2014

Note 2: 2003 Refunding Certificates of Participation & 2010 Refunding Certificates of Participation (Continued)

from any maturity shall be made at the discretion of the Water District and by lot within the same maturity, if less than all Certificates of a maturity are to be prepaid.

The 2010 Refunding COPs are not subject to optional prepayment prior to their maturity.

b. Reserve Fund

The Reserve Fund is established under the Trust Indenture and will be funded from proceeds of the Certificates in an equal amount to the Reserve Requirement. Monies in the Reserve Fund are to be used for the payment of Installment Payments to the extent amounts in the Installment Payment Fund are insufficient therefore. To the extent the monies in the Reserve Fund exceed the Reserve Requirement; such excess amount will be transferred annually to the Installment Payment Fund. Any money remaining in the Reserve Fund after all of the principal and interest due with respect to the Certificates has been paid will be transferred to the Water District.

The term "Reserve Requirement" is defined in the Trust Indenture to mean, as of any date of calculation, the lesser of (a) 10% of the outstanding principal amount of the Certificates, less original issue discount, if any, (b) Maximum Annual Debt Service on the Certificates, or (c) 125% of Average Annual Debt Service on the Certificates.

As of June 30, 2014, the Reserve Requirement for the 2003 Refunding COPs is \$2,463,156. At June 30, 2014, the Water District has \$2,545,330 in the reserve account.

As of June 30, 2014, the Reserve Requirement for the 2010 Refunding COPs is \$727,500. At June 30, 2014, the Water District has \$896,088 in the reserve account.

c. Continuing Disclosure Covenant

The Water District covenants and agrees that it shall comply with and carry out all of its obligations under the Continuing Disclosure Agreement (CDA). Notwithstanding any other provision of the Trust Indenture, failure of the Water District to comply with its obligation under the CDA shall not be considered an event of Default under the Trust Indenture, and the sole remedy, in the event of any failure of the Water District to comply with the CDA, shall be an action to compel performance thereof.

Installment payments are secured by a first pledge; charge and lien first on tax revenue and second to the extent tax revenues are insufficient to pay all required amounts, on net revenues, in amounts sufficient to pay installment payments as they become due and payable by Moulton Niguel Water District.

The certificates for the 2003 Refunding COP are being executed and delivered pursuant to a trust indenture by and among Moulton Niguel Water District, the Corporation, and US Bank Nation Association, Los Angeles, California as Trustee, Registrar and Paying Agent (the "Trustee") dated as of August 1, 2003 (the "Trust Indenture").

The certificates for the 2010 Refunding COP are being executed and delivered pursuant to the provisions of a Trust Indenture, dated November 1, 2010, among the Water District, the Corporation, and US Bank National Association, as trustee.

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 2: 2003 Refunding Certificates of Participation & 2010 Refunding Certificates of Participation (Continued)

Funds held by the Trustee are recorded as asset, income, and expense in the books and on the financial statements of the Water District.

The annual requirements to repay the 2003 and 2010 Certificates of Participation as of June 30, 2014, are as follows:

2003 Refunding Certificates of Participation

Year Ending June 30	Principal	Interest	Total
2015	\$ -	\$ 726,000	\$ 726,000
2016	-	726,000	726,000
2017	-	726,000	726,000
2018	-	726,000	726,000
2019	2,135,000	672,625	2,807,625
2020-2024	12,385,000	1,608,625	13,993,625
Totals	<u>\$ 14,520,000</u>	<u>\$ 5,185,250</u>	<u>\$ 19,705,250</u>

2010 Refunding Certificates of Participation

Year Ending June 30	Principal	Interest	Total
2015	\$ 1,715,000	\$ 256,700	\$ 1,971,700
2016	1,780,000	186,800	1,966,800
2017	1,855,000	114,100	1,969,100
2018	1,925,000	38,500	1,963,500
Totals	<u>\$ 7,275,000</u>	<u>\$ 596,100</u>	<u>\$ 7,871,100</u>

Note 3: 2009 Certificates of Participation (Build America Bonds)

On December 22, 2009, the Corporation sold \$60,000,000 of Certificates of Deposit (COP) federal taxable Build America Bonds. The COPs were secured by an installment sale agreement between the Water District and the Corporation. The COPs are being issued to finance the acquisition of capacity rights related to the Water District's water and recycled water systems through contributions to the costs of constructing regional facilities owned by other public agencies.

The COPs have been executed and delivered in denominations of \$5,000 principal amount or integral multiples thereof. Interest will accrue from the date of delivery and is payable semiannually on March 1 and September 1 of each year commencing on March 1, 2010, at rates from 5.982% to 6.332%, and ending on the date of maturity or prepayment, whichever is earlier. Principal will be payable on September 1 of each year commencing September 1, 2025, and ending on date of maturity or prepayment, whichever is earlier.

a. Optional Prepayment

The COPs maturing on or after September 1, 2020 are subject to prepayment at the option of the Water District in whole or in part in integral multiples of \$5,000 on any date

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 3: 2009 Certificates of Participation (Build America Bonds) (Continued)

on or after September 1, 2019 at a prepayment price equal to the principal amount to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, from any source of funds, including, but not limited to, the prepayment of the principal component of the Installment Payments.

b. Reserve Fund

The Reserve Fund is established under the Trust Indenture and will be funded from proceeds of the Certificates in an amount equal to the Reserve Requirement. Monies in the Reserve Fund are to be used for the payment of Installment Payments to the extent amounts in the Installment Payment Fund are insufficient therefore. To the extent that monies in the Reserve Fund exceed the Reserve Requirement, such excess amount will be transferred annually to the Installment Payment Fund. Any money remaining in the Reserve Fund after all of the principal and interest due with respect to the Certificates has been paid will be transferred to the Water District.

The term "Reserve Requirement" is defined in the Trust Indenture to mean, as of any date of calculation, the least of (a) 10% of the principal amount of the Certificates, less original issue discount, if any, (b) Maximum Annual Debt Service on the Certificates, or (c) 125% of Average Annual Debt Service on the Certificates.

As of June 30, 2014, the Reserve Requirement for the 2009 COPs is \$6,000,000. At June 30, 2014, the Water District has \$6,121,284 in the reserve account.

c. Mandatory Sinking Fund Prepayment

The COPs maturing on September 1, 2029 and September 1, 2039 are also subject to mandatory sinking fund prepayment on September 1 of each year on or after September 1, 2027 and September 1, 2030, respectively, by lot, in integral multiples of \$5,000, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment, from the principal component of the Installment Payments to be paid by the Water District pursuant to the Installment Sale Agreement with respect to each such prepayment date as follows:

\$9,395,000 Certificates Maturing September 1, 2029

<u>Year (September 1)</u>	<u>Principal Amount of Certificates to be Prepaid</u>
2027	\$ 2,995,000
2028	3,130,000
2029 (maturity)	3,270,000

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**Note 3: 2009 Certificates of Participation (Build America Bonds) (Continued)****\$42,340,000 Certificates Maturing September 1, 2039**

<u>Year (September 1)</u>	<u>Principal Amount of Certificates to be Prepaid</u>
2030	\$ 3,425,000
2031	3,580,000
2032	3,750,000
2033	3,920,000
2034	4,105,000
2035	4,295,000
2036	4,495,000
2037	4,700,000
2038	4,920,000
2039 (maturity)	5,150,000

In the event that the Trustee prepays the COPs maturing on September 1, 2029 or September 1, 2039 in part but not in whole pursuant to a prepayment prescribed in "Optional Prepayment," the amount of the COPs to be prepaid on each prepayment dated identified above will be modified at the written direction of the Water District to correspond to the modified principal component of the Installment Payment due on such prepayment date.

d. Extraordinary Optional Payment

Prior to September 1, 2009, the COPs are also subject to prepayment prior to their stated maturity dates, at the option of the Water District, on any date, in whole or in part upon the occurrence of an Extraordinary Event (as defined below), at a prepayment price equal to the greater of (i) the issue price (but not less than 100% of the principal amount) of the COPs to be prepaid; or (ii) the sum of the present value of the remaining scheduled payments of principal to the maturity date of the COPs to be prepaid plus the present value of the remaining scheduled payments of interest to the next optional prepayment date of the COPs to be prepaid, not including any portion of those payments of interest accrued and unpaid as of the date on which the COPs are to be prepaid, discounted to the date on which the COPs are to be prepaid on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points, in each case, accrued interest represented by such COPs to be prepaid to the date of prepayment.

e. Tax Covenants

The Water District hereby irrevocably elects to apply the provisions of the Section 54AA(d) of the Code to the Installment Sale Agreement and the Certificates and intends that the Installment Sales Agreement and the Certificates be treated as Build America Bonds ("BABs"). In addition, the Water District hereby irrevocably elects to treat the Installment Sales Agreement and the Certificates as "Qualified Bonds" within the meaning of Section 54AA(d) of the Code such that the Installment Sale Agreement and the Certificates will be eligible for direct payment by the federal government of a refundable credit equal to 35 percent (35%) of interest payable with respect to the Installment Sale Agreement and the Certificates (the "Refundable Credit Payment"). The Water District will, within the 45-day period beginning on the date that is 90 days before the next interest payment date with respect to the Installment Sale Agreement and the

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 3: 2009 Certificates of Participation (Build America Bonds) (Continued)

Certificates file Form 8038-CP or any successor form designated by the federal government, requesting payment of the Refundable Credit Payment with respect to the next interest payment with respect to the Certificates. The Refundable Credit Payment is recorded as Intergovernmental Revenue on the part of the Water District.

f. Summary

Pursuant to the Installment Sale Agreement, the Water District covenants agree that the payment of the Installment Payments and Parity Debt Service is secured by a first pledge, charge and lien upon, first, the Tax Revenues and, second, Net Revenues, and Tax Revenues and/or Net Revenues sufficient to pay the Installment Payments and Parity Debt Service as they become due and payable are pledged by the Water District for the purpose of securing payment of the Installment Payments and Parity Debt Service. The Tax Revenues and Net Revenues constitute a trust fund for the security and payment of the Prior Parity Obligations, any Additional Obligations and the Installment Payments.

The COPs are being executed and delivered pursuant to a trust indenture by and among Moulton Niguel Water District, the Corporation, and US National Association, Los Angeles, California as Trustee, Registrar and Paying Agent (the "Trustee") dated as of December 1, 2009. Funds held by the Trustee are recorded as assets, income and expense in the books and on the financial statements of the Water District. Detailed information regarding the issuance of these COPs can be found in the Official Statement for the 2009 COP.

The annual requirements to repay the Certificates of Participation as of June 30, 2014, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ -	\$ 4,098,976	\$ 4,098,976
2016	-	4,098,976	4,098,976
2017	-	4,098,976	4,098,976
2018	-	4,098,976	4,098,976
2019	-	4,098,976	4,098,976
2020-2024	-	20,494,879	20,494,879
2025-2029	14,390,000	18,322,229	32,712,229
2030-2034	17,945,000	12,878,488	30,823,488
2035-2039	22,515,000	5,859,853	28,374,853
2040-2044	5,150,000	179,478	5,329,478
Totals	<u>\$ 60,000,000</u>	<u>\$ 78,229,807</u>	<u>\$ 138,229,807</u>

MOULTON NIGUEL WATER DISTRICT PUBLIC FACILITIES CORPORATION

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Note 4: Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2014 are as follows:

	<u>Balance at</u> <u>July 1, 2013</u>	<u>Adjustments*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
2003 COPs	\$ 16,210,000	\$ -	\$ -	\$ (1,690,000)	\$ 14,520,000	\$ -
2009 COPs	60,000,000	-	-	-	60,000,000	-
2010 COPs	7,325,000	-	-	(50,000)	7,275,000	1,715,000
Unamortized Premium	-	530,864	-	(127,407)	403,457	127,407
Total						
Certificates	<u>\$ 83,535,000</u>	<u>\$ 530,864</u>	<u>\$ -</u>	<u>\$ (1,867,407)</u>	<u>\$ 82,198,457</u>	<u>\$ 1,842,407</u>

* An adjustment was made for \$530,864 to reflect the unamortized bond premium associated with the 2010 Refunding Certificates of Participation.

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INDEPENDENT AUDITORS' 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*

To the Board of Directors
Moulton Niguel Water District Public Facilities Corporation
Laguna Niguel, California

We have audited, in accordance with the 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, the financial statements of the Moulton Niguel Water District Public Facilities Corporation, a nonprofit entity, (the Corporation) (a component unit of the Moulton Niguel Water District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated [REDACTED], 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Corporation's financial statements are free from 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



To the Board of Directors
Moulton Niguel Water District Public Facilities Corporation
Laguna Niguel, California

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lance, Soll & Lingham, LLP

Brea, California
 , 2014