



MOULTON NIGUEL WATER DISTRICT

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

**27500 La Paz Road
Laguna Niguel, California 92677
www.mnwd.com**

MOULTON NIGUEL WATER DISTRICT

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012

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December 19, 2012

**Members of the Board of Directors
Moulton Niguel Water District**

We are pleased to present the Moulton Niguel Water District's (District) Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2012. This report was prepared by the Controller in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of certified public accountants.

The CAFR provides an assessment of the District's financial condition, informs readers about District services, provides information about capital improvement projects, discusses current issues and provides financial and demographic trend information. Responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the information and data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operations of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District.

The District's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ending June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified ("clean") opinion that the District's financial statements for the fiscal year ending June 30, 2012, were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Management Discussion & Analysis (MD&A) includes a narrative introduction, overview, and analysis to provide a better understanding of the accompanying financial statements. The MD&A immediately follows this section.

Profile of Moulton Niguel Water District

Authority, Services and Customers

The District was formed on November 16, 1960 under the provisions of the California Water District Law, Division 13, of the Water Code of the State of California, commencing with Section 34000. The District was formed for the purposes of providing a water supply to the Moulton Niguel service area. In 1963, the California Water District Act was amended, allowing California water districts to provide wastewater and water reclamation services. On July 1, 1964, the District began operation and management of wastewater services previously provided by Orange County Sanitation District No. 12. The District is authorized to acquire, control, store, treat, reclaim, recapture and salvage any water (including sewage) for the beneficial use of the District and its inhabitants. The District's water and wastewater customers include retail customers (e.g. residential and commercial) located in incorporated areas within the District's service area.

The District is also authorized to levy and collect taxes; to fix, revise, and collect rates or other charges for the delivery of water and collection of sewer, use of facilities or property, or provisions for service. The District may also issue bonds, borrow money, and incur indebtedness.

a public agency at:

27500 La Paz Road, Laguna Niguel, CA 92677-3489

Mailing Address: P.O. Box 30203, Laguna Niguel, CA 92607-0203

949/831-2500

**Members of the Board of Directors for Moulton Niguel Water District
December 19, 2012**

Governance

The District is a Special Water District established in November 1960, under provisions of the California Water District Law. It is governed by a seven-member Board of Directors who is publicly elected by registered voters within the District's service area for staggered four-year terms. Each Director represents a geographical division based upon comparable populations which is determined by the District and approved by the Registrar of Voters.

Policy-making and legislative authority are vested with the Board of Directors. The Board of Directors has the authority to set rates and charges for water, recycled water, and sewer services. The Board of Directors is responsible for, among other things, adopting resolutions, adopting the budget, appointing committees and hiring the General Manager. The General Manager is responsible for carrying out the policies of the Board of Directors, for overseeing the day-to-day operations of the District, and for appointing the heads of the various divisions (e.g. Finance and Engineering & Operations).

The District's vision is to "lead the way, work together, and provide excellence in service". The District is a community oriented agency dedicated to serving its customers and the environment with reliable, economical, high quality water and sewer service. It achieves its mission by providing a high level of customer value and satisfaction, attracting, developing, and retaining a progressive and skillful workforce, promoting a safe work environment, and utilizing its resources wisely. The Board of Directors has adopted strategic goals and encourages a set of values and behaviors that promotes and supports the District's vision and mission.

Service Area

The District's service area, located in south Orange County, California, encompasses approximately 37 square miles and includes the City of Laguna Niguel, virtually all of Aliso Viejo, portions of the cities of Laguna Hills, Mission Viejo and Dana Point. The combined population of the cities' is approximately 247,000. The District serves approximately 67% or 165,000 of this population. The District has 54,362 water accounts and 50,994 sewer accounts. Elevation within the District ranges from 230 to 904 feet above sea level. Climate is typical of the coastal plains of southern California, with temperatures mild and relatively uniform. The assessed valuation of the District has grown to \$14.6 billion as of June 30, 2011.

Water Supply and Services

The District imports all of its domestic water from the Metropolitan Water District of Southern California (MET) through its member agency, the Municipal Water District of Orange County (MWDOC), a wholesale importer of water from MET. The District is a member agency of MWDOC and, as such, is entitled to receive water from available sources of MET. MET's sources of water primarily include water imported from the Colorado River and from the State Water Project. All District water is treated at the Diemer Filtration Plant in Yorba Linda, California and delivered through three major transmission facilities, the South County Pipeline (SCP), East Orange County Feeder #2 (EOCF#2), and the Allen-McColloch Pipeline (AMP).

California has experienced drier than normal seasons for many years for both rainfall and snow pack. In addition, court rulings to protect fish in the Delta region of northern California have decreased water supplies from the State Water Project system. As a result of these factors, reservoir levels throughout the State were extremely low and therefore forced the State to declare a state-wide drought emergency on February 27, 2009. In November 2009, the District implemented Level 2 of the Water Alert plan from the Water Conservation Program, which requires customers to eliminate all water waste by adhering to efficiency measures and imposes penalties for excessive water run-off. Level 2 of the Water Alert plan was suspended in April 2011.

Members of the Board of Directors for Moulton Niguel Water District December 19, 2012

The District operates and maintains over 700 miles of domestic water distribution pipelines. In addition, the District has 26 steel and 2 pre-stressed concrete operational storage reservoirs for a total potable water storage capacity within the District of approximately 70 million gallons. The District owns capacity in several adjoining water agencies' reservoirs and pipelines, such as El Toro Water District R-6 reservoir, the Santa Margarita Water District Upper Chiquita Reservoir, the Joint Transmission Main (a joint powers agreement between the District and other water agencies), Eastern Transmission Main jointly owned by the District and the City of San Juan Capistrano, the South County Pipeline which conveys water from the AMP to several south county water agencies, and the Irvine Ranch Interconnection jointly owned with Irvine Ranch Water District. The District also operates 30 pump stations to pump water from lower pressure zones to the higher pressure zones and 20 pressure reducing stations and flow control facilities to convey water from high to low zones.

Sewer Services

The District maintains approximately 537 miles of sewer pipelines. The District's wastewater system has 19 lift stations that pump wastewater over the ridge lines to the various treatment plants for disposal or recycling. The District jointly owns the South Orange County Wastewater Authority (SOCWA), a joint powers agency comprised of ten governmental agencies, which owns and operates four regional treatment plants and two ocean outfalls. The District's cost to maintain SOCWA is approximately 46% of the O&M costs and a pro-rata share of the capital costs based on the type of project.

Recycled Water Supply and Services

It is the policy of the District to promote the use of recycled water to provide for the conservation and reuse of all water resources and to utilize this resource for any approved purpose to the maximum extent possible under the laws of the State of California. The District has constructed approximately 148 miles of recycled water distribution pipelines with five pre-stressed concrete and six steel storage reservoirs to service the recycled water system. In addition, it owns capacity rights in the Upper Oso recycled water reservoir owned by Santa Margarita Water District. The District operates 13 recycled-water pump stations. The District has 4 Advanced Wastewater Treatment (AWT) facilities providing recycled water to landscaped areas in the District. The projected annual demand of the recycled water system will be approximately 6,400 acre feet per year over the next few years. The District's recycled water program meets 20% of current water demands.

Factors Affecting Financial Conditions

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The District is located in South Orange County, where the current economic environment and local indicators point to slightly more stability. Many other areas of California are more negatively impacted by the current recessionary environment. There are four major land uses in the District: (1) residential (single-family and multiple-family); (2) commercial (retail and light industrial); (3) schools; and (4) recreation areas (parks, golf courses, etc.) Residential development is the predominant land use throughout the District. The highest concentration of commercial use is in the City of Mission Viejo which includes the Shops at Mission Viejo, an affluent shopping mall and in the City of Aliso Viejo which includes the Pacific Park Business Center. The highest concentration of schools (students) is in the cities of Mission Viejo and Aliso Viejo, which includes Mission Viejo High School, Capistrano Valley High School, Saddleback Community College, Aliso-Niguel High School and Soka University. The highest concentration of recreation areas is in Laguna Niguel and Aliso Viejo, where each has a major golf course and numerous community parks. The District is approaching a "built-out" status at 98%. Future growth will primarily occur on a redevelopment basis of existing property and land.

**Members of the Board of Directors for Moulton Niguel Water District
December 19, 2012**

Budget Process

The Board of Directors biennially adopts an operating budget prior to the new fiscal year commencing on July 1st. On the alternate year, the Board reviews the adopted two-year budget and amends it as necessary. On an annual basis, the Board adopts a capital budget. The development of the biennial operating budget and the annual capital budget are guided by the Long Range Plan. The operating and capital budgets serve as the foundation for the District's financial planning and control of District operations and accountability for the District's enterprise functions. The District reports its water, wastewater, and recycled services in a single enterprise fund. On a quarterly basis, a budget comparison report is submitted to the Board of Directors to provide a year-to-date comparison of the revenues and expenditures against the adopted budget.

Ten-Year Cash Flow

The District's financial plan includes a ten-year cash flow model which was recently updated and presented to the Board. This financial model allows the District to run various scenarios to help plan for Capital Improvement Project funding options, Debt Service coverage requirements and determining future rate adjustments to help insure that the District is covering the full cost of operations and maintenance.

Long-term financial planning

The District's financial plan includes the establishment of reserve funds in accordance with the District's Reserve Policy. Reserve funds are set aside to ensure the continued orderly operation of the District's water and wastewater systems, the highest level of services to its customers, and the continued stability of the District's rate structure.

The District publishes a Long Range Plan (LRP) which provides a ten year forecast of the District's needs for water use and demand, capital improvement projects, water supply reliability projects, and replacement and refurbishment projects. The LRP is updated every two years. As a part of the LRP, the District includes planning for water supply reliability projects. The District established a water supply reliability fund to participate in projects to ensure continued water supply to customers in the District for planned water supply shutdowns and emergencies. The Metropolitan Water District (MET) of Southern California has established a policy that its member agencies should be capable of meeting demand requirements during a seven-day shutdown of MET's treatment and/or imported water supply system at any time of the year. In addition, the District has adopted a resolution to develop adequate capacity and supply sources to sustain average potable water demands for at least a 31-day supply outage assuming a reasonable factor for demand curtailment. The 31-day capacity protects against a major outage of MET's Diemer Water Filtration Plant and a major outage of the Allen-McColloch Pipeline.

Debt Issuances and Credit Rating

The District refunded the remaining portion of the 93 Certificates of Participation (COP) to take advantage of lower interest rates. Due to the District's affluent service area, strong financial performance with good debt service coverage, very strong liquidity position, and a very manageable capital improvements plan the District received a 'AAA Stable' rating in May 2010 from both Fitch Ratings and Standard & Poor's rating agencies for all of its COP issuances. On October 31, 2012 Fitch Ratings reaffirmed the District's 'AAA' rating.

Internal Controls

Management of the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from

**Members of the Board of Directors for Moulton Niguel Water District
December 19, 2012**

material misstatement. The most recent audits have not uncovered any weaknesses in internal controls that would cause concern. However, recommendations for improvement are always welcome and are implemented when feasible.

Major Initiatives

Water, Sewer and Recycled Water Operations

On July 1, 2011, the District adopted a new methodology for calculating water rates called the Water Budget Based Rate Structure (WBBRS). Challenged with limited water resources in our region, this new rate structure encourages water use efficiency by providing each customer with a personalized amount of water – a water budget – designed to meet their specific indoor and outdoor watering needs. Residential water budgets are formulated using two criteria, indoor use and outdoor use. Several factors comprise the indoor and outdoor use budgets. Businesses use water in a different manner from homes, so their budgets would be calculated based on a three-year rolling average of each commercial customer's monthly use. Additional information regarding the factors that contribute to the WBBRS methodology can be found on the District's website at www.mnwd.com.

Faced with dramatically rising wholesale water costs and the need to maintain water and sewer reliability, the District implemented rate adjustments that would help recover some of the costs associated with these costs. On June 1, 2011, the District implemented the third water and sewer rate increase in 20 years. A combination of drought conditions and court rulings has greatly reduced our region's water supplies, leading the MET through our regional water wholesaler MWDOC, to increase the amount it charges the District for water. The District experienced a 5% increase in the wholesale cost of water for fiscal year 2011-2012 and is anticipating a 5% increase in fiscal year 2012-2013.

In addition to offsetting the District's increased water purchase costs, the rate increase is also designed to provide revenue for:

- Ongoing repair, refurbishment, and replacement of water and sewer infrastructure
- New infrastructure to improve our overall system reliability and to increase our capacity to serve during times of emergency
- Debt obligations arising from the need to raise funds for water supply reliability projects and capital improvement projects that are needed to construct infrastructure, provide water reliability, and prepare for emergencies.

Through the District's conservative fiscal policy, it has managed rising costs for several years. The District's increased usage of recycled water helps mitigate our reliance on imported water. In addition, the District funds a portion of its cost of water and infrastructure refurbishment to its customers through the receipt of property tax revenue and other revenue sources. A recommendation was made last year by a State legislative committee to revise the property tax allocation formulas to take local property tax funding control away from special districts. No action was taken by the State, but this important matter will continue to be monitored by staff since it will have significant impacts to District's finances and future rates.

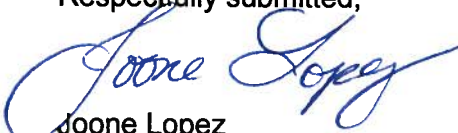
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Moulton Niguel Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

We would like to express our appreciation to all members of the Finance department who assisted and contributed to the preparation of this report. In addition, we would like to thank staff in Customer Service, Engineering and Operations for their contributions to this report. Credit also must be given to the Board of Directors for their unfailing support in maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



Joone Lopez
General Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Moulton Niguel Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danson

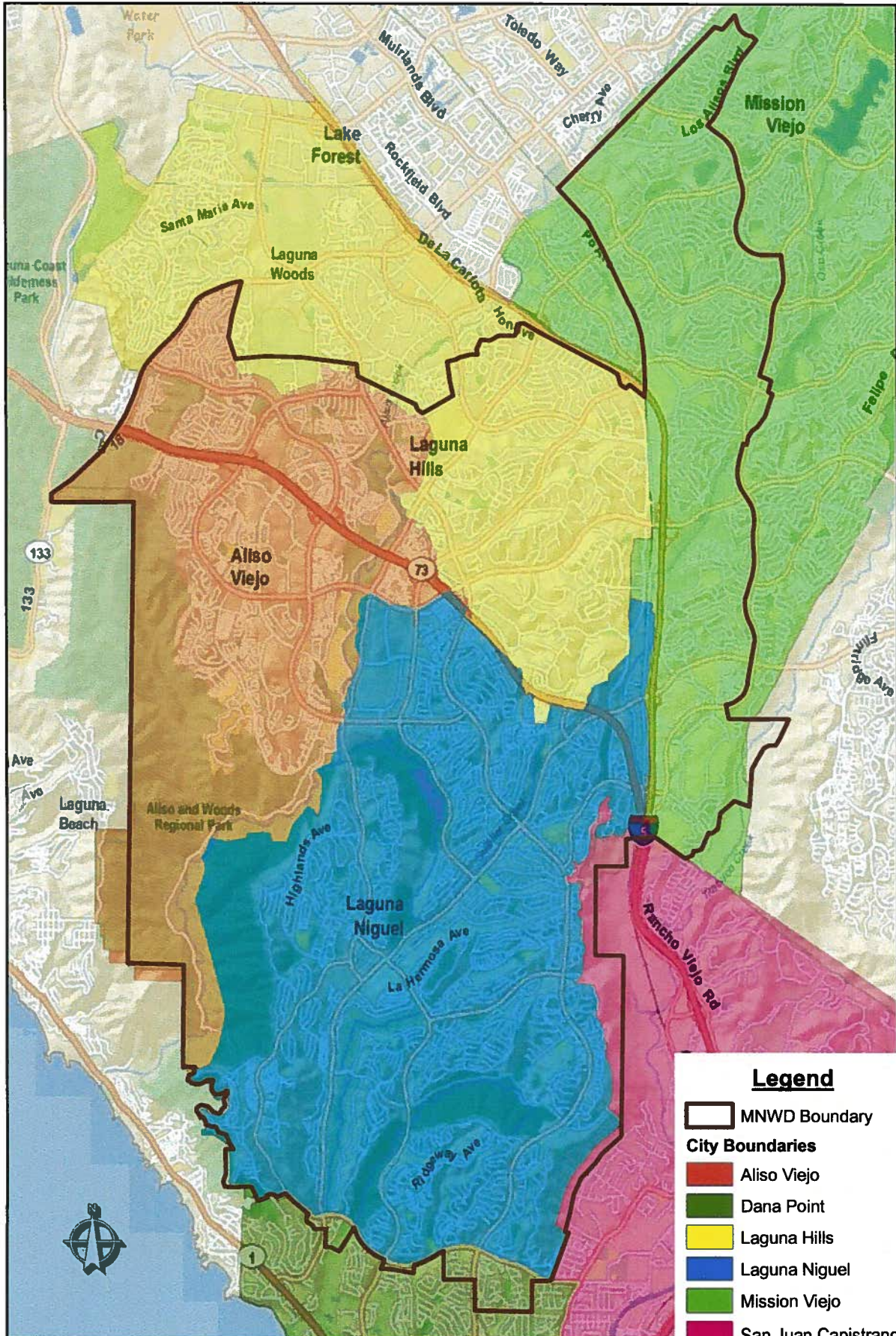
President

Jeffrey R. Emer

Executive Director

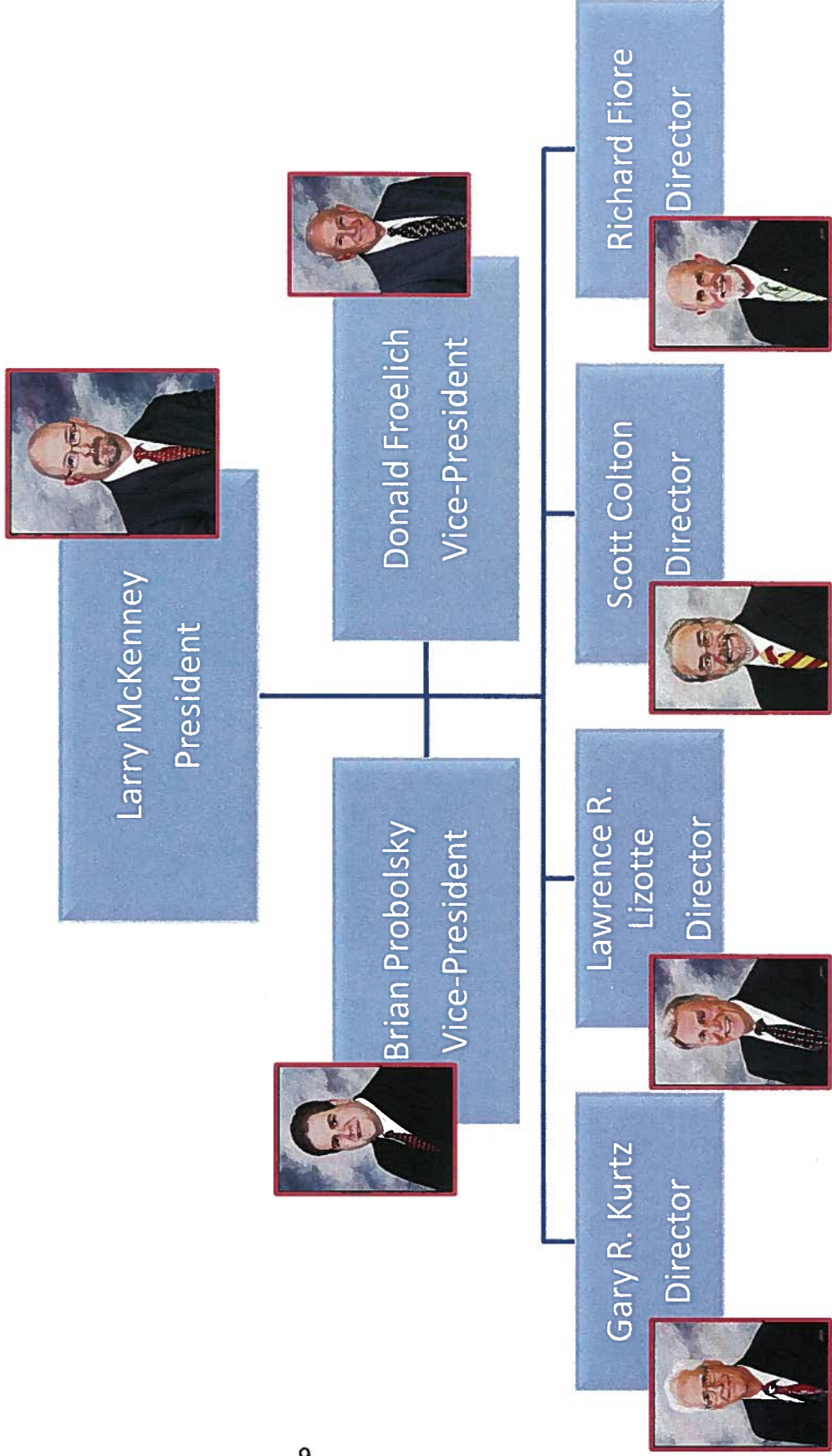


MNWD Boundary Map w/ Cities Served



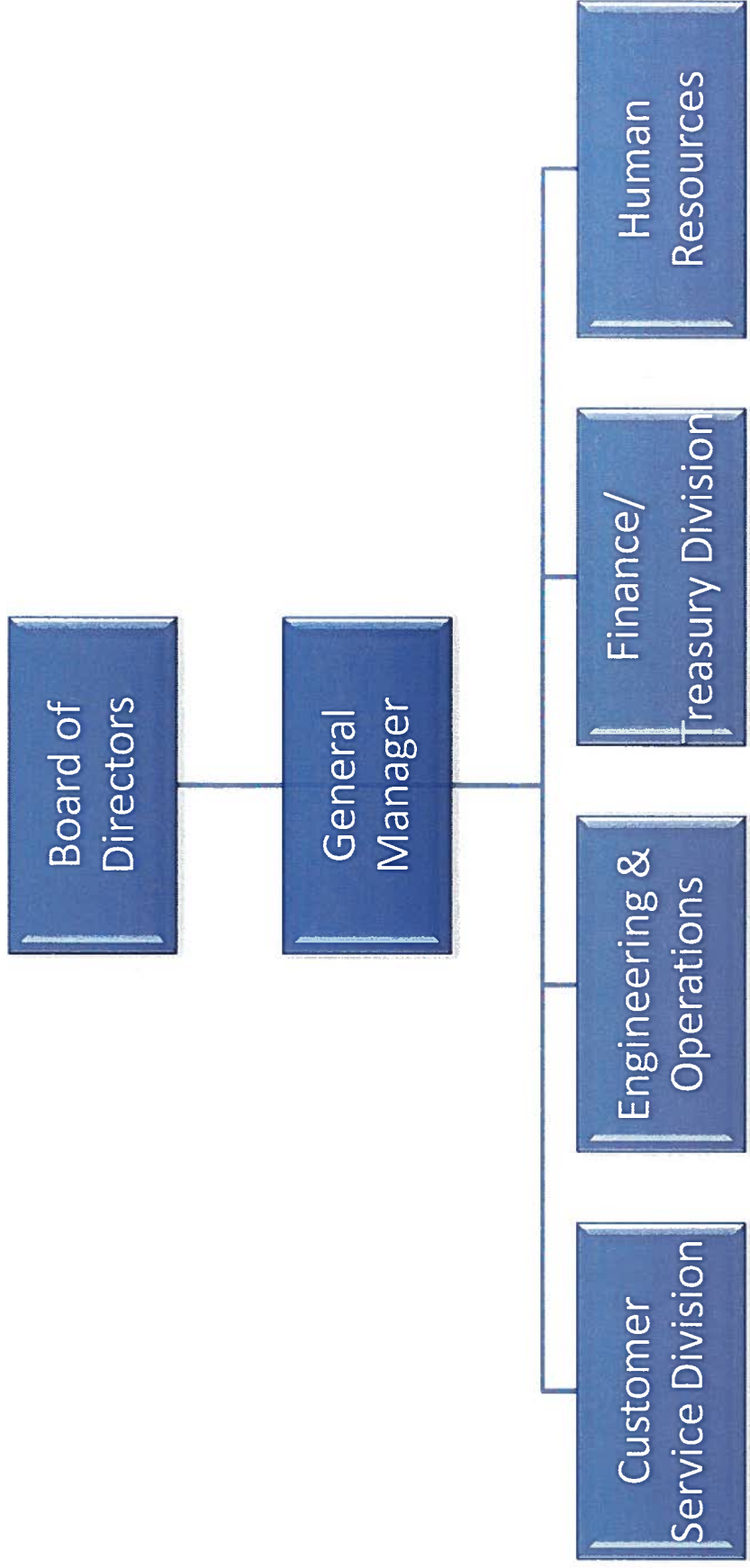
Moulton Niguel Water District

Board of Directors



Moulton Niguel Water District

Organization Chart





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Board of Directors
Moulton Niguel Water District
Laguna Niguel, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Moulton Niguel Water District (District), as of and for the year ended June 30, 2012, as listed in the table of contents. These basic financial statements are the responsibility of the management of the Moulton Niguel Water District. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Moulton Niguel Water District for the year ended June 30, 2011 and, in our report dated December 2, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Moulton Niguel Water District, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, of the Moulton Niguel Water District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
Moulton Niguel Water District
Laguna Niguel, California
Page Two

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Moulton Niguel Water District's basic financial statements. The supplementary budget comparison and revenue schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued a report dated December 11, 2012 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
December 11, 2012

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

FINANCIAL HIGHLIGHTS

Moulton Niguel Water District (MNWD or District) receives its drinking water from the Municipal Water District of Orange County (MWDOC), which serves as a wholesaler for the Metropolitan Water District of Southern California (MET). MET imports its water from northern California and the Colorado River. The State of California has endured drought conditions for several years and as a result, supplies are depleting in MET's water reservoirs. Replacing lost water and securing supplies for the District's residents has increased the cost of water. The District implemented a 16.2% rate adjustment in June 2011. In July 2011, the District implemented a water budget based rate structure which provides water usage allocations to each residential customer based on individual property characteristics and current weather conditions. This structure allows customers to become part of the solution as we work together to conserve our region's limited water resources.

The major financial highlights for the fiscal year are provided below:

- Net assets increased \$12 million or 3.05% from prior year.
- During the year more than \$13 million was invested in water and sewer infrastructure.
- Total income is \$12 million, which includes all operating and non-operating expenditures and revenues.
- Operating expenses were \$17 million greater than operating revenues, resulting in a continuing historical operating loss.
- The District implemented a water budget based rate structure, which encourages water conservation by setting a price on adequate water to each customer for both indoor and outdoor use at the lowest rates.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

MNWD's basic financial statements are in conformity with Generally Accepted Accounting Principles (GAAP) and include the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. Readers should evaluate the basic financial statements with the accompanying Notes. The Notes to the Financial Statements are an integral part of the basic financial statements and provide useful explanations and detailed information on the basic financial statements. Management's Discussion and Analysis precedes the basic financial statements to provide required supplementary information to the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The *Statement of Net Assets* states the financial position of the District at June 30, 2012. This statement includes District assets and liabilities, with the difference between the two reported as net assets. The list of assets and liabilities are in order of their liquidity. Therefore, assets readily convertible to cash, such as cash and investments, appear first.

The *Statement of Revenues, Expenses and Changes in Net Assets* accounts for the annual results of operations. This statement shows the current year's revenue, expenses, capital contributions, and also calculates the change in net assets. The sum of the prior year's net asset balance and the

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

current year's change in net assets equals the ending net assets balance. The same ending net assets balance appears on the *Statement of Net Assets*. Over time, changes in net assets serve as a key indicator of the District's financial position.

Both the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* are shown using the accrual basis of accounting. This means revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

By contrast, the *Statement of Cash Flows* presents information on changes in cash and cash equivalents during the year. The statement categorizes changes by operating activities, non-capital financing activities, capital and related financing activities and investing activities. From this statement the reader can obtain information on the sources and uses of MNWD cash.

In addition to the basic financial statements, the District presents Fiduciary Fund financial statements. The Fiduciary Fund financial statements report assets, liabilities and changes in net assets for certain investments that are in trust with the District for the Internal Revenue Code Section 457 deferred compensation program. Fiduciary funds are not reflected in the basic financial statements because the trust funds are not available to support District activities.

DISTRICT FINANCIAL ANALYSIS

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District's balance sheet activities. Measuring the change in the District's net assets, the difference between assets and liabilities, is one way to measure financial health or financial position.

Statement of Net Assets

Our analysis begins with the District's Statements of Net Assets as presented below:

Condensed Statement of Net Assets				
(in thousands)				
	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Current and Noncurrent Assets	\$179,944	\$174,874	\$ 5,070	2.90%
Capital Assets	<u>373,802</u>	<u>373,882</u>	<u>(80)</u>	(0.02)%
Total Assets	<u>\$553,746</u>	<u>\$548,756</u>	<u>\$ 4,990</u>	.91%
Current Liabilities	\$ 19,829	\$ 18,167	\$ 1,662	9.15%
Long-term Liabilities	<u>127,592</u>	<u>136,276</u>	<u>(8,684)</u>	(6.37)%
Total Liabilities	<u>\$147,421</u>	<u>\$154,443</u>	<u>\$(7,022)</u>	(4.55)%
Invested in Capital Assets, Net of Related Debt	\$272,170	\$267,962	\$ 4,208	1.57%
Restricted for capital projects	326	313	13	4.15%

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

Unrestricted net assets	<u>133,829</u>	<u>126,038</u>	<u>7,791</u>	6.18%
Total Net Assets	<u>\$406,325</u>	<u>\$394,313</u>	<u>\$ 12,012</u>	3.05%

Net Assets increased \$12 million or 3.05% from the prior year. The table above shows that the majority of the change in Total Net Assets occurred in current and noncurrent assets, investment in capital assets and unrestricted net assets. This increase is the result of an increase in revenues and in turn an increase in available cash. A reduction in long term liabilities is attributed to the repayment of the principal portion of outstanding debt. More information related to the changes in capital assets can be found below.

Revenues

	Condensed Total Revenues			
	(in thousands)			
	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Dollar Change	Percent Change
Operating Revenues:				
Water charges	\$ 28,866	\$ 22,520	\$ 6,346	28.18 %
Sanitation charges	16,826	14,449	2,377	16.45 %
Recycled charges	4,530	4,340	190	4.38 %
Other	<u>429</u>	<u>444</u>	<u>(15)</u>	(3.38) %
Total Operating Revenues	<u>50,651</u>	<u>41,753</u>	<u>8,898</u>	21.31 %
Non-operating Revenues:				
Property taxes	21,142	21,347	(205)	(.96) %
GOB Assessment	6,079	5,904	175	2.96 %
Investments	6,271	4,010	2,261	56.38 %
Cellular lease income	1,562	1,498	64	4.27 %
Intergovernmental revenue	1,435	1,435	-	0.00 %
Other	<u>123</u>	<u>46</u>	<u>77</u>	167.39 %
Total Non-operating Revenues	<u>36,612</u>	<u>34,240</u>	<u>2,372</u>	6.93 %
Capital contributions	<u>70</u>	<u>297</u>	<u>(227)</u>	(76.42) %
Total Revenues	<u>\$ 87,333</u>	<u>\$ 76,290</u>	<u>\$ 11,043</u>	14.48 %

MNWD finances operations through user charges, property tax receipts and other income. Total operating revenue was up \$8.9 million from the prior year. This increase is a result of the last 16.2% rate increase for both water and sewer implemented in June 2011 and incentive money received as a result of customer's exceeding their water budget allocation. This incentive money is designated for water efficiency programs, including a rebate program implemented this year. The District received additional investment revenue due to the recognition of unrealized gains for the fiscal year. (Last year the financial statement had recognition of unrealized losses.) The increase on other operating revenues includes the sales of scrap, fire flow & environmental discharge fees. Lastly, the decrease in capital contributions resulted from less housing development in the District's service area since the District is almost built out.

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

Expenses

	Condensed Total Expenses (in thousands)			
	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Expenses:				
Water purchases	\$ 22,749	\$ 20,854	\$ 1,895	9.09 %
Meters	55	56	(1)	(1.79) %
Utilities	1,601	1,178	423	35.91 %
Sewage treatment & pumping	8,691	9,008	(317)	(3.52) %
Water transmission & distribution	4,187	3,752	435	11.59 %
General, administrative & other	14,864	13,442	1,422	10.58 %
Depreciation	<u>15,566</u>	<u>15,163</u>	<u>403</u>	2.66 %
Total Operating Expense	<u>67,713</u>	<u>63,453</u>	<u>4,260</u>	6.71 %
Non-operating Expenses:				
Interest on Long-term Debt	7,608	7,898	(290)	(3.67) %
Other	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
Total Non-operating Expense	<u>7,608</u>	<u>7,898</u>	<u>(290)</u>	(3.67) %
Total Expenses	<u>\$ 75,321</u>	<u>\$ 71,351</u>	<u>\$ 3,970</u>	5.56 %

Total operating expenses increased due to additional costs related to water purchases from MET, which passed on a 7.5% increase in January of 2011 & 2012. Other general operational expense costs which increased included insurance, member agency O&M, and a slight increase in additional staffing. This last year the District implemented its own water efficiency rebate program and the costs related to program are reflected in G&A expenses.

Changes in Net Assets

	Condensed Changes in Net Assets (in thousands)			
	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Beginning net assets	\$ 394,313	\$ 389,373	\$ 4,940	1.27 %
Income (loss) before capital contributions	11,942	4,642	7,300	157.26 %
Grant funding	-	21	(21)	(100.00) %
Donated facilities	70	94	(24)	(25.53) %
Connection fees	<u>-</u>	<u>183</u>	<u>(183)</u>	(100.00) %
Change in net assets	<u>12,012</u>	<u>4,940</u>	<u>7,072</u>	143.16 %
Ending net assets	<u>\$ 406,325</u>	<u>\$ 394,313</u>	<u>\$ 12,012</u>	3.05 %

Income before capital contributions is \$11.9 million for 2011-2012. The District uses the income it

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

receives to pay for normal operating and maintenance costs along with self-funding most capital projects and repaying capital project debt related to water reliability projects. The decrease in grant funding is due fewer grant opportunities being available to the District. A continued decrease in donated facilities and connection fees is due to District's approaching "built out" status and only small parcels of land are available for development.

Capital Assets

Condensed Capital Assets				
(in thousands)				
	Fiscal Year	Fiscal Year	Dollar	Percent
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
Net Depreciable Assets:				
Water systems	\$ 329,278	\$ 335,561	\$ (6,283)	(1.87) %
Capacity rights – limited	7,719	7,995	(276)	(3.45) %
Buildings	3,218	3,402	(184)	(5.41) %
Equipment and automobiles	2,951	3,449	(498)	(14.44) %
Non-Depreciable Assets:				
Land	1,092	1,092	-	0.00 %
Capacity rights – unlimited	19,972	-	19,972	100.00%
Construction in progress	<u>9,572</u>	<u>22,383</u>	<u>(12,811)</u>	(57.24)%
Capital assets, net	<u>\$ 373,802</u>	<u>\$ 373,882</u>	<u>\$ (80)</u>	(0.02) %

The District's net capital assets decreased slightly during 2011-2012. The District has capital outlays made both by the District itself and also as part of two different joint power authorities. The most significant capital asset addition is the acquisition of capacity rights for the Upper Chiquita Reservoir that became operational November 2011. The financial statements recognize about \$20 million in capacity rights for the project. This project is one of three major Water Supply Reliability Projects in which the goal of these projects is to increase the number of days that MNWD can serve its customers during a planned or emergency water supply outage from MET. MNWD is partnering with neighboring water districts on several of these projects. The remaining project to be completed is the Baker Pipeline Water Treatment Facility which is currently under design. The District has issued COPs to finance these reliability projects. The District also added \$7.9 million in several water systems projects.

A significant decrease in Construction in Progress is attributable to the completion of ongoing projects in the planning and construction fund and replacement and refurbishment fund. Please see Note 5 in the Notes to the Basic Financial Statements for additional capital asset information.

MOULTON NIGUEL WATER DISTRICT
Management's Discussion & Analysis
Fiscal Year Ended June 30, 2012

Debt Administration

Condensed Disclosure of Long-term Liabilities
(in thousands)

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Dollar <u>Change</u>	Percent <u>Change</u>
Certificates of Participation (COP)	\$ 83,652	\$ 85,355	\$ (1,703)	(2.00) %
General Obligation Bonds (GOB)	26,626	31,330	(4,704)	(15.01) %
Loans	<u>17,190</u>	<u>19,336</u>	<u>(2,146)</u>	(11.10) %
Total	<u>\$ 127,468</u>	<u>\$ 136,021</u>	<u>\$ (8,553)</u>	(6.29) %

The District's long-term liability at year-end is \$128 million in COPs, GOBs, and loans. In 2009-2010, the District issued \$60 million of Certificates of Participation federally taxable "Build America Bonds" to finance its Water Supply Reliability projects. The District has received "AAA" rating by Fitch rating agency for the Certificates Of Participation. The General Obligation Bonds are a voter approved assessment specifically for the residents that live within certain service areas of the District. Annual principal payments in all debt service accounts during the year reduce the outstanding balance. See Note 6 in the Notes to the Basic Financial Statements for detail on long-term debt.

CONTACTING THE DISTRICT

This financial report is designed to provide the District's elected officials, customers, investors, employees, and creditors with an assessment of the District's financial condition and an accounting of the public's money. An electronic copy of the CAFR can be found on the District's website, www.mnwd.com. If you have questions about this report or need additional financial information please contact the Director of Finance at Moulton Niguel Water District at (949) 831-2500.

MOULTON NIGUEL WATER DISTRICT

Statement of Net Assets

June 30, 2012

(With comparative totals for June 30, 2011)

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and investments (Note 2)	\$ 27,268,750	\$ 16,068,029
Accounts receivables:		
Water and sanitation charges	5,625,851	4,423,855
Taxes and acreage assessments	356,263	271,963
Other accounts receivable	178,479	155,945
Interest receivable	867,435	896,987
Current portion of AMP receivable (Note 3)	209,057	206,846
Inventory	1,817,164	1,601,499
Prepaid expenses	265,926	306,426
Other assets	395,600	395,600
TOTAL CURRENT ASSETS	<u>36,984,525</u>	<u>24,327,150</u>
NONCURRENT ASSETS		
Cash and Investments (Note 2)	\$ 106,216,890	105,825,753
Restricted cash and investments with fiscal agent (Note 2)	29,602,825	38,433,233
Bond Issuance Costs	1,273,578	1,423,323
Retrofit loans receivable (Note 3)	689,884	715,664
AMP receivable (Note 3)	866,853	1,075,910
Net pension asset (CalPERS sidefund payoff) (Note 9)	3,336,166	3,073,359
Capital assets, net of accumulated depreciation (Note 5)	343,165,474	350,406,227
Capital assets not being depreciated (Note 5):		
Land	1,091,910	1,091,910
Capacity rights - infinite	19,972,448	-
Construction in progress	9,572,378	22,383,367
TOTAL NONCURRENT ASSETS	<u>515,788,406</u>	<u>524,428,746</u>
TOTAL ASSETS	<u>\$ 552,772,931</u>	<u>\$ 548,755,896</u>

See the Notes to the Financial Statements.

(Continued)

MOULTON NIGUEL WATER DISTRICT

**Statement of Net Assets
(Continued)**

June 30, 2012

(With comparative totals for June 30, 2011)

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable	\$ 7,150,941	\$ 6,490,149
Interest payable	2,518,765	2,621,406
Net OPEB liability (Note 10)	709,867	-
Compensated absences (Note 6)	871,469	723,270
Current portion of long-term debt (Note 6):		
Bonds payable	4,980,000	4,645,000
Loans Payable	2,137,410	2,096,573
Certificates of participation	<u>1,680,000</u>	<u>1,590,000</u>
TOTAL CURRENT LIABILITIES	<u>20,048,452</u>	<u>18,166,398</u>
LONG-TERM LIABILITIES		
Compensated absences (Note 6)	155,516	255,467
Long-term debt (Note 6):		
Bonds payable	26,625,528	31,329,655
Loans payable	17,198,820	19,336,207
Certificates of participation	<u>83,652,336</u>	<u>85,355,046</u>
TOTAL LONG-TERM LIABILITIES	<u>127,632,200</u>	<u>136,276,375</u>
TOTAL LIABILITIES	<u>147,680,652</u>	<u>154,442,773</u>
NET ASSETS		
Invested in capital assets, net of related debt	272,169,901	267,962,257
Restricted for capital projects (Note 14)	326,175	312,742
Unrestricted net assets (Note 15)	<u>132,596,203</u>	<u>126,038,124</u>
TOTAL NET ASSETS	<u>405,092,279</u>	<u>394,313,123</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 552,772,931</u>	<u>\$ 548,755,896</u>

See the Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year ended June 30, 2012
(With comparative totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Water charges	\$ 28,866,153	\$ 22,520,065
Recycled charges	4,530,175	4,340,197
Sanitation charges	16,826,066	14,448,835
Other	429,064	444,346
TOTAL OPERATING REVENUES	<u>50,651,458</u>	<u>41,753,443</u>
OPERATING EXPENSES:		
Sources of supply:		
Water purchases	22,749,070	20,854,048
Meter purchases	55,281	56,334
Utilities	1,601,327	1,178,156
Pumping water	444,278	419,633
Sewage treatment	9,219,956	8,588,172
Water transmission and distribution	4,186,565	3,752,224
Customer service	300,176	311,483
General, administrative, and other	14,205,203	12,463,681
CalPERS Sidefund Amortization	43,600	40,464
Post Retirement Medical Benefits (OPEB)	574,185	626,022
Depreciation	15,566,287	15,162,538
TOTAL OPERATING EXPENSES	<u>68,945,928</u>	<u>63,452,755</u>
OPERATING INCOME (LOSS)	<u>(18,294,470)</u>	<u>(21,699,312)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	5,765,176	3,414,584
Investment income - restricted	505,826	595,315
Property tax revenue and acreage assessments	21,141,700	21,346,797
General obligation bond assessments	6,079,446	5,903,962
Interest on long-term debt	(7,608,336)	(7,897,888)
Intergovernmental revenue	1,434,642	1,434,642
Cellular Lease income	1,562,383	1,498,290
Other nonoperating revenues (expenses)	122,789	46,018
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>29,003,626</u>	<u>26,341,720</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	10,709,156	4,642,408
CAPITAL CONTRIBUTIONS:		
Grant funding	-	20,530
Developer donated capital facilities	70,000	94,332
Connection fees	-	182,491
CHANGE IN NET ASSETS	10,779,156	4,939,761
NET ASSETS - BEGINNING OF YEAR	<u>394,313,123</u>	<u>389,373,362</u>
NET ASSETS - END OF YEAR	<u>\$ 405,092,279</u>	<u>\$ 394,313,123</u>

See Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Cash Flows

Fiscal Year ended June 30, 2012

(With comparative totals for June 30, 2011)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 51,112,280	\$ 43,133,862
Cash paid to suppliers	(41,115,786)	(40,305,555)
Cash paid to employees	<u>(11,283,100)</u>	<u>(10,839,436)</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(1,286,606)</u>	<u>(8,011,129)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from property taxes	<u>21,079,806</u>	<u>21,441,463</u>
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>21,079,806</u>	<u>21,441,463</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(15,416,992)	(17,405,863)
Cash received from general obligation bonds assessments	6,056,860	5,926,384
Repayment of notes receivable	232,626	240,601
Capital contributions	-	203,021
Principal payments on long-term debt	(8,078,386)	(16,953,653)
Issuance of long-term debt	-	9,105,046
Interest payments on long-term debt	<u>(6,126,590)</u>	<u>(6,122,370)</u>
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(23,332,482)</u>	<u>(25,006,834)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings received	6,300,554	4,092,846
Proceeds from sales and maturities of investments	63,359,628	67,476,154
Purchase of investments	<u>(54,920,179)</u>	<u>(55,801,915)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>14,740,003</u>	<u>15,767,085</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,200,721	4,190,585
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,068,029</u>	<u>11,877,444</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 27,268,750</u>	<u>\$ 16,068,029</u>

See Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Statement of Cash Flows

(Continued)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY / (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (18,294,470)	\$ (21,699,311)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	15,566,287	15,162,538
Other nonoperating revenue	1,685,172	1,544,308
Change in assets and liabilities:		
(Increase) decrease in accounts receivable, water and sanitation	(1,201,996)	(577,963)
(Increase) decrease in accounts receivable, other	(22,534)	414,074
(Increase) decrease in inventory	(215,665)	(140,709)
(Increase) decrease in prepaid expenses	40,500	16,165
(Increase) decrease in CalPERS prepaid	(262,807)	40,464
Increase (decrease) in accounts payable	660,792	(2,806,304)
Increase (decrease) in OPEB liability	709,867	-
Increase (decrease) in compensated absences	48,248	35,609
	<u>\$ (1,286,606)</u>	<u>\$ (8,011,129)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
SUPPLEMENTAL NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Unrealized gain (loss) on investments	\$ 1,448,206	\$ (1,127,538)
Developer donated capital facilities	70,000	94,332

See Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT

**Statement of Fiduciary Net Assets
Fiduciary Fund**

June 30, 2012

(With comparative totals for June 30, 2011)

	Moulton Niguel <u>457 Retirement Plan</u>	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Cash and investments	\$ -	\$ 4,099,460
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 4,099,460</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
TOTAL LIABILITIES	\$ -	\$ -
NET ASSETS		
Held in trust for pension benefits	<u>-</u>	<u>4,099,460</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ -</u>	<u>\$ 4,099,460</u>

See Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiscal Year ended June 30, 2012
(With comparative totals for June 30, 2011)

	Moulton Niguel 457 Retirement Plan	
	2012	2011
ADDITIONS		
Contributions:		
Plan members	\$ 127,813	\$ 222,734
Plan-to-Plan transfer (in)	189,257	29,936
Investment income	91,839	140,560
TOTAL ADDITIONS	408,909	393,230
DEDUCTIONS		
Distribution to participants	225,264	171,705
Plan-to-Plan transfer	4,283,105	43,320
TOTAL DEDUCTIONS	4,508,369	215,025
CHANGES IN NET ASSETS	(4,099,460)	178,205
NET ASSETS - BEGINNING OF YEAR	4,099,460	3,921,255
NET ASSETS - END OF YEAR	\$ -	\$ 4,099,460

See Notes to the Financial Statements.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(1) Summary of Significant Accounting Policies

The accounting principles of the Moulton Niguel Water District (District or MNWD) conform to generally accepted accounting principles applicable to governmental-type organizations. The following is a summary of the District's significant accounting policies:

Reporting Entity

The District was established on November 16, 1960 under the provisions of the California Water District Law, Division 13 of the 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.

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Board of Directors. Management has determined that the District is a single enterprise fund reporting unit for financial reporting purposes by applying the criteria set forth in the Statement of Governmental Accounting Standards No. 14, The Financial Reporting Entity. This criteria requires the reporting entity to have a separate elected governing body, that it be a legal separate entity, and fiscally independent.

Basis of Accounting

The District reports its activities as an enterprise fund. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. 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. The District utilizes the modified accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The District applies all applicable Governmental Accounting Standard Board (GASB) pronouncements in accounting and reporting for proprietary operations. In addition, the District follows Financial Accounting Standard Board *Statements and Interpretations, Accounting Principles, Board Opinions, and Accounting Research Bulletins* issued before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* 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, recycled 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 non-operating revenues and expenses.

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.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

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

Fiduciary Trust Fund

The fiduciary trust fund accounts for the assets of the 457 deferred compensation plan that were managed by firm personnel. Fund assets are held in trust for plan participants and their beneficiaries. During the year ended June 30, 2012, all assets of this plan were transferred to a third party administrator.

MNWD Public Facilities Corporation

The MNWD Public Facilities Corporation ("Corporation") was incorporated as a California Non-profit Public Facilities Corporation on October 12, 1993, and has received tax exempt status from the Internal Revenue Service and California Franchise Tax Board. The Corporation was formed for the purpose of providing financing through the issuance of certificates of participation to construct District infrastructure necessary to provide water, wastewater, and recycled water services to existing and future customers with the District. Members of the Board of Directors of the District act as the Corporation's governing board and exert significant influence over its operations. Separate financial statements are prepared for the Corporation.

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 are 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 valued at cost on a first-in, first-out method.

Certain payments to vendors, primarily related to services, reflect costs applicable to future accounting periods and are initially recorded as prepaid expenses and expensed through the lifetime of the agreement providing that the total cost of the agreement exceeds \$12,000.

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 three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are expensed.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

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

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

Water and sewer systems	10 to 75 years
Capacity rights – limited	10 to 99 years
Buildings	5 to 40 years
Automobiles and equipment	3 to 10 years

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 120 hours or may transfer up to 80 hours into their deferred compensation plan provided that they have used at least 40 hours of vacation hours during the fiscal year. Sick leave hours accrue at a rate of one day per month. Upon termination or retirement, the District pays 100% vacation leave and, based on a years of service schedule, 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 held by fiscal agent (excluding money market funds) are classified as long term assets regardless of the maturity date. These investments are typically held as a covenant for long term debt service and, therefore, continually re-invested and held until the maturity of the debt service obligation.

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.

Investment income includes interest earnings, changes in fair value (unrealized gains) and realized gains or losses 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 included as part of the interest expense and amortized over the term of the related debt.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

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

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.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

(2) Cash and Investments

Cash and Investments are classified in the accompanying Statements of Net Assets as follows at June 30, 2012:

Statement of Net Assets:	
Cash and investments – current	\$ 27,268,750
Cash and investments – noncurrent	106,216,890
Cash and investments with fiscal agent	<u>29,602,825</u>
Total cash and investments	<u>\$ 163,088,465</u>

Cash and investments held by the District at June 30, 2012 consisted of the following:

Cash:	
Cash on hand	\$ 800
Deposits with financial institutions	<u>548,874</u>
Total cash	<u>549,674</u>
Investments:	
State treasurer's investment pool	14,892,489
US treasury notes	23,929,268
Federal agency securities	68,202,200
Medium term notes	26,528,358
Certificates of deposit	7,527,378
Money market funds	<u>21,459,098</u>
Total investments	<u>162,538,791</u>
Total cash and investments	<u>\$ 163,088,465</u>

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(2) Cash and Investments, (continued)

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

The following table 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.

Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment In One Issuer
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	2 years	30%	None
Repurchase Agreements	Yes	1 year	10%	None
Reverse Repurchase Agreements	Yes	90 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	\$50 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 trustees 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.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(2) Cash and Investments, (continued)

<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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk attributable to changes in market interest rates that will adversely affect the fair value of an investment. Generally, investments with longer maturities have greater sensitivity to fair value when market interest rates fluctuate. 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 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>Total</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	\$ 14,892,489	\$ 14,892,489	\$ -	\$ -	\$ -
US Treasury Notes	21,732,845	2,462,795	2,878,614	7,775,462	8,615,974
Federal Agency Securities	62,443,164	2,024,680	12,763,576	17,511,928	30,142,980
Medium Term Notes	26,528,358	-	22,734,737	3,793,621	-
Commercial Paper	5,248,542	5,248,542	-	-	-
Money Market Funds	2,090,570	2,090,570	-	-	-
Held by Fiscal Agent:					
US Treasury Notes	2,196,423	703,223	1,493,200	-	-
Federal Agency Securities	5,759,036	1,447,642	4,311,394	-	-
Certificate of Deposits	2,278,836	2,278,836	-	-	-
Money Market Funds	<u>19,368,528</u>	<u>19,368,528</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 162,538,791</u>	<u>\$ 50,517,305</u>	<u>\$ 44,181,521</u>	<u>\$ 29,081,011</u>	<u>\$ 38,758,954</u>

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(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. The following table shows the minimum rating required by (where applicable) the California Government Code, the District's investment policy or debt agreements and the actual rating from Moody's as of year-end for each investment type.

<u>Investment Type</u>	<u>Total</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	\$14,892,489	N/A	\$ -	\$ -	\$ -	\$ 14,892,489
US Treasury Notes	21,732,845	N/A	21,732,845	-	-	-
Federal Agency Securities	62,443,164	A	60,041,428	2,401,736	-	-
Medium Term Notes	26,528,358	A	-	10,508,585	16,019,773	-
Money Market Funds	2,090,570	AAA	2,090,570	-	-	-
Commercial Paper	5,248,542	A	2,399,448	-	2,849,094	-
Held by Fiscal Agent:						
US Treasury Notes	2,196,423	A	2,196,423	-	-	-
Federal Agency Securities	5,759,036	A	5,759,036	-	-	-
Certificate of Deposits	2,278,836	A	-	2,278,836	-	-
Money Market Funds	<u>19,368,528</u>	AAA	<u>19,368,528</u>	-	-	-
Total	<u>\$162,538,791</u>		<u>\$113,588,278</u>	<u>\$15,189,157</u>	<u>\$18,868,867</u>	<u>\$ 14,892,489</u>

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>
Federal Home Loan Bank	Federal agency securities	\$ 18,506,185
Federal National Mortgage Assoc.	Federal agency securities	13,426,565
Federal Home Loan Mortgage Corp.	Federal agency securities	15,588,256
Federal Farm Credit Bank	Federal agency securities	9,978,653
Tennessee Valley Authority	Federal agency securities	10,512,214

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

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(2) Cash and Investments, (continued)

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 limits custodial credit risk by requiring that financial institutions 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. For investments, the District's portfolio is held in safekeeping in the District's name by a third party bank trust department, acting as agent for the District, under the terms of a custody agreement.

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.

Investment Earnings

The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments and as a result, realized gains and losses of the current period include unrealized amounts from prior periods.

Investment earnings consist of the following for the year ended June 30, 2012:

Interest Income	\$ 4,311,775
Realized and Unrealized Gains	<u>1,959,227</u>
Total	<u>\$ 6,271,002</u>

(3) Other Receivables

Allen-McCulloch Pipeline (AMP)

Before fiscal year 1995, the District was a part owner and participant in the 27-mile AMP used by MET to deliver potable water to the participants. In fiscal year 1995, the participants sold the AMP to MET. Under the sale agreement the District will receive \$16,158,563 over 37 years. This represents an approximate 13.6% ownership of AMP. During the year, the District received \$206,846 leaving the year end AMP receivable of \$1,075,910. The sale agreement also provides for the District to continue to have AMP flow capacity rights, but MET has no obligation to deliver an actual quantity of water.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(3) Other Receivables, (continued)

Retrofit Loans

In November 1996, the Board adopted Resolution 96-26 which allowed for qualifying non-profit entities and public agency applicants to obtain a loan through the District to finance the cost for on-site recycled water retrofits of the applicant's irrigation system. The program offers incentive to customers who would otherwise have difficulties financing the cost of the recycled water retrofits. The District has approximately 45 loans outstanding totaling \$689,884 which includes both principal and interest. The re-payment of the loan agreement is structured based on a volumetric consumption amount of recycled water at \$0.25 a billing unit per month. Since re-payment is based on usage, it is difficult to provide a structured repayment schedule. On average, the District receives approximately \$35,000 a year towards the principal and interest portion of the loan. The majority of the loans (32) are re-paid within 11 years with the balance of the loans to be repaid within 20+ years from the date of the agreement.

(4) Operating Leases

The District leases a portion of its facilities for cellular tower antennas sites. Lessees purchase and install the wireless equipment. These leases are non-cancelable for a period of 10 years with inception dates ranging from 2000 to the present. Generally the leases are renewable for one 5 year period. The lease agreement allows for a 3% annual CPI increase to the lease payments. At the lease termination, lessees must remove all equipment and restore the site to its original state. The total cellular lease revenue for the fiscal year was \$1,562,383. Future minimum lease payments are as follows:

Fiscal Year Ended June 30:

2013	\$ 1,609,254
2014	1,657,532
2015	1,707,258
2016	1,758,476
2017	<u>1,811,230</u>
Total	<u>\$ 8,543,750</u>

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(5) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>
Capital Assets				
Water systems	\$564,843,417	\$ 7,964,060	\$ -	\$572,807,477
Capacity rights - limited	8,279,403	-	-	8,279,403
Capacity rights - infinite	-	19,972,448	-	19,972,448
Buildings	5,681,901	-	-	5,681,901
Automobiles and equipment	<u>10,042,978</u>	<u>361,473</u>	<u>(189,545)</u>	<u>10,214,906</u>
Total cost of depreciable assets	<u>588,847,699</u>	<u>28,297,981</u>	<u>(189,545)</u>	<u>616,956,135</u>
Less accumulated depreciation:				
Water systems	(229,282,669)	(14,246,295)	-	(243,528,964)
Capacity rights - limited	(284,283)	(275,667)	-	(559,950)
Buildings	(2,280,096)	(184,112)	-	(2,464,208)
Automobiles and equipment	<u>(6,594,423)</u>	<u>(860,213)</u>	<u>189,545</u>	<u>(7,265,091)</u>
Total accumulated depreciation	<u>(238,441,471)</u>	<u>(15,566,287)</u>	<u>189,545</u>	<u>(253,818,213)</u>
Net depreciable assets	350,406,228	12,731,694	-	363,137,922
Capital assets not depreciated:				
Land	1,091,910	-	-	1,091,910
Construction in progress	<u>22,383,367</u>	<u>15,416,991</u>	<u>(28,227,980)</u>	<u>9,572,378</u>
Capital assets, net	<u>\$ 373,881,505</u>	<u>\$28,148,685</u>	<u>\$(28,227,980)</u>	<u>\$ 373,802,210</u>

Depreciation expense for the year ended June 30, 2012 was \$15,566,287

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(6) Long-Term Liabilities

Long-Term liabilities for the year ended June 30, 2012 are as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Bonds Payable:					
2003 GOB Refunding Bonds	\$37,400,000	\$ -	\$(4,645,000)	\$32,755,000	\$4,980,000
Less: Gain (Loss) on Refunding	<u>(1,425,345)</u>	<u>-</u>	<u>275,873</u>	<u>(1,149,472)</u>	<u>-</u>
Total Bonds Payable	<u>35,974,655</u>	<u>-</u>	<u>(4,369,127)</u>	<u>31,605,528</u>	<u>4,980,000</u>
Certificates of Participation:					
2003 COPs	17,840,000	-	-	17,840,000	1,630,000
2009 COPs	60,000,000	-	-	60,000,000	-
2010 COPs (93 COPs Refunding)	8,965,000	-	(1,590,000)	7,375,000	50,000
Add: Premium on 2010 COPs	785,679	-	(127,408)	658,271	-
Less: Gain (Loss) on Refunding	<u>(645,633)</u>	<u>-</u>	<u>104,698</u>	<u>(540,935)</u>	<u>-</u>
Total Certificates	<u>86,945,046</u>	<u>-</u>	<u>(1,612,710)</u>	<u>85,332,336</u>	<u>1,680,000</u>
Loans Payable:					
CIEDB	1,810,184	-	(142,030)	1,668,154	146,153
Dept. of Water Resources	1,302,527	-	(276,924)	1,025,603	284,024
State Revolving Fund	<u>18,320,070</u>	<u>-</u>	<u>(1,677,597)</u>	<u>16,642,473</u>	<u>1,707,233</u>
Total Loans Payable	<u>21,432,781</u>	<u>-</u>	<u>(2,096,551)</u>	<u>19,336,230</u>	<u>2,137,410</u>
Compensated Absences:					
Vacation Pay	410,434	578,496	(565,919)	423,011	359,559
Sick Pay	<u>568,304</u>	<u>300,279</u>	<u>(524,068)</u>	<u>344,515</u>	<u>292,838</u>
Total Compensated Absences	<u>978,738</u>	<u>878,775</u>	<u>(1,089,987)</u>	<u>767,526</u>	<u>652,397</u>
Total Long-Term Liabilities	<u>\$145,331,220</u>	<u>\$ 878,775</u>	<u>\$(9,168,375)</u>	<u>\$137,041,620</u>	<u>\$8,798,062</u>

2003 Consolidated Refunding (General Obligation) Bonds

The 2003 Bonds consist of \$62,975,000 of serial general obligation bonds. This issuance refunded the 1993 Consolidated Refunding Bonds that were originally issued to fund capital projects in the service areas of the District. A voter approved tax assessment is levied each year to pay the debt service on these 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.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(6) Long-Term Liabilities, (continued)

2003 Refunding Certificates of Participation (COP)

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. They will remain under the 1993 Indenture \$12,625,000 aggregate principal amount of Moulton Niguel Water District 1993 Certificates of Participation (the "Remaining 1993 Certificates"). The serial certificates accrue interest at rates between 3% and 5%, interest is payable on March 1 and September 1 of each year. Principal is repaid annually on September 1, from 2004 and 2008, and then in 2012 and 2013, and finally between 2018 and 2023.

The 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 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 District to comply with the CDA, shall be an action to compel performance thereof.

The Moulton Niguel Water District Public Facilities Corporation is in compliance with covenants of the COPs as of June 30, 2012.

As of June 30, 2012, the Reserve Requirement for the 2003 Refunding COPs is \$2,496,899. At June 30, 2012, the District has \$2,460,997 in the reserve account.

2009 Certificates of Participation (COP)

In December 2009, the District issued \$60,000,000 of Certificates of Participation federally taxable "Build America Bonds" to construct projects that provide greater water supply reliability for the distribution of potable and recycled water. The District has adopted a resolution which states the intention to develop adequate capacity to sustain at least a 31-day average potable water supply outage and be able to sustain a 7-day interruption in Metropolitan Water District deliveries. The COPs received an AA+ stable rating from Fitch rating agency and Standard & Poor's rating agency. Fitch later upgraded its rating to an AAA stable. The serial certificates accrue interest at rates between 5.9% and 6.3%, interest is payable on March 1 and September 1 of each year. The true interest cost (TIC) is 4.49%. This rate reflects the interest cost net of the subsidy. Under Section 54AA(g)(2) of the Tax Code, the District is eligible for a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Certificates. The subsidy, when received, is recorded as intergovernmental revenue. Principal is repaid annually on September 1 from 2024 through 2039. The COPs were issued as a level debt service with the District's other outstanding debt. Level debt service reduces large fluctuations in annual debt obligations by delaying the payment of the principal portion until other debt service principal portions are paid.

As of June 30, 2012, the Reserve Requirement for the 2009 COPs is \$6,000,000. At June 30, 2012, the District has \$6,096,655 in the reserve account.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(6) Long-Term Liabilities, (continued)

2010 Refunding Certificates of Participation (COP)

On November 1, 2010, the Corporation sold \$8,965,000 of the 2010 Refunding Certificates of Participation (2010 Refunding 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 2010 Refunding COP will be calculated from November 1, 2010 at rates from 2%-4% payable semi-annually on March 1 and September 1 of each year commencing March 1, 2011 and end on the date of maturity or prepayment, whichever is earlier.

As of June 30, 2012, the Reserve Requirement for the 2010 Refunding COPs is \$737,500. At June 30, 2012, the District has \$896,590 in the reserve account.

Loans Payable

California Infrastructure and Economic Development Bank (CIEDB)

The District obtained two loans from the California Infrastructure and Economic Development Bank to finance the construction of certain capital projects related to water and sewer infrastructure. The loan obtained for the construction of water infrastructure in the amount of \$1,700,000 accrues interest at 2.73%. The loan was obtained for the on-site sodium hypochlorite generation-reservoir management system, phase II - installation of ClorTec chlorination tank recirculation systems, which include on-site sodium hypochlorite generation and ammonia injection units on 16 reservoirs at 14 sites in the District service area. The loan obtained for the construction of sewer infrastructure in the amount of \$1,111,340 accrues interest at 3.17%. Both loans are due March 1, 2022. Principal is repaid annually on March 1 and interest payments are due semi-annually on March 1 and September 1.

Department of Water Resources Loan (DWR)

The District obtained a loan for \$4,821,611, due October 1, 2015, from the Department of Water Resources to fund projects for a multi-zone reclaimed water distribution system for non-potable uses (i.e. irrigation of parks, golf course greenbelts, etc.) pursuant to Chapter 4.7 of Part 6 of Division 6 of the California Water Code. The project will replace existing potable water with reclaimed water that meets Title 22, Division 4, Article 4, California Code of Regulation requirements for water quality. The loan accrues interest at a rate of 2.5%. Principal and interest payments of \$153,927 are due semi-annually on April 1 and October 1.

State Revolving Fund Loans (SRF)

The District obtained three State Revolving Fund loans totaling \$36,053,400 with the State Water Resources Control Board. They were used to finance the Phase III Revised Expansion Project, consisting of expanding MNWD's reclamation system to serve an additional 500 irrigated landscape sites with 4,502 acre-feet per year of reclaimed water and Phase 4 Expansion of the Reclaimed Water Distribution System. The loans accrue interest at rates ranging from 1.727% to 1.811%. Principal and interest payments are due annually through October 16, 2017.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(6) Long-Term Liabilities, (continued)

Compensated Absences

It is the policy of the District to permit employees to accumulate earned but unused vacation and sick leave benefits. Vested or accumulated vacation and sick leave are reported as noncurrent liabilities on the statement of net assets.

Vacation accrual schedules vary depending on length of employment and begin on date of employment. Maximum vacation accruals may not exceed more than 200% of an employee's annual vacation accrual. In June of each year, employees are eligible to receive compensation for unused vacation leave, not to exceed compensation equivalent to 120 hours, upon meeting certain criteria. All regular full-time employees are eligible to accrue 96 hours of sick leave a year from the date of employment. In December of each year, employees who have accumulated more than 176 hours of sick leave are eligible to receive compensation equal to 75% of the hours over 176 hours.

The long-term obligations of the District, excluding amortizations of deferred charges, at June 30, 2012 are as follows:

Long Term Debt Schedule

<u>June 30</u>	<u>Bonds Payable</u>		<u>Certificates of Participation</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 4,980,000	\$1,437,600	\$ 1,680,000	\$4,391,476	\$2,137,410	\$ 366,226
2014	5,235,000	1,231,700	1,740,000	4,390,476	2,178,909	324,727
2015	5,585,000	987,375	1,715,000	4,355,676	2,221,293	282,343
2016	6,000,000	697,750	1,780,000	4,285,776	2,110,605	239,104
2017	6,450,000	386,500	1,855,000	4,213,076	1,994,998	200,784
2018-2022	4,505,000	348,625	11,125,000	20,533,379	7,528,929	502,951
2023-2027	-	-	13,585,000	19,753,448	1,164,065	20,508
2028-2032	-	-	16,400,000	15,248,197	-	-
2033-2037	-	-	20,565,000	8,860,787	-	-
2038-2042	-	-	14,770,000	1,575,569	-	-
Total	<u>\$ 32,755,000</u>	<u>\$5,089,550</u>	<u>\$85,215,000</u>	<u>\$87,607,860</u>	<u>\$19,336,209</u>	<u>\$1,936,643</u>

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(7) Rate Covenants

The District is required by certain debt documents to collect revenues which will be at least sufficient to yield net revenues equal to 125% of debt service payable during the fiscal year. The following demonstrates the District's compliance with the rate covenants for the year ended June 30, 2012:

<i>Debt Service Coverage</i>		
Operating Revenues:		
Water sales and service charges	\$ 33,396,329	
Sewer service charges	16,826,066	
Meter sales & other	428,663	
Total Operating Revenues	<u>50,651,058</u>	
Non-Operating Revenues:		
Connection fees	400	
Cellular lease income	1,562,383	
Investment income	4,285,839	
Intergovernmental revenue	1,434,642	
Other income (expense)	122,791	
Total Non-Operating Revenues	<u>7,406,055</u>	
Total Revenues	<u>58,057,113</u>	(A)
Operations & Maintenance Expenses:		
Source of supply	26,609,477	
Pumping water	444,278	
Sewage treatment	9,219,956	
Water transmission & distribution	4,186,565	
Customer service	300,176	
General, administrative, & other	14,816,985	
Total Operations & Maintenance Expenses	<u>55,577,437</u>	(B)
Net Revenues	2,479,676	(A-B)
Property Tax Revenues	<u>21,141,700</u>	
Sum of Net & Tax Revenues	<u>23,621,376</u>	(C)
Debt Service On Parity Obligations		
2003 COP	858,800	
2009 COP	4,098,976	
2010 Refunding COP	1,898,900	
Governmental loans	2,503,636	
Total Debt Reserve Requirements	<u>53,503</u>	
Total Existing Parity Obligations	<u>9,413,815</u>	(D)
Calculated Debt Service Coverage Percentage	251 %	(C/D)

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(8) Deferred Compensation Plan

The District has a 457 Deferred Compensation Plan. The Plan is available to all full-time employees and Board members. Participants 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. During the year ended June 30, 2012, plan assets managed by the District (as part of the MNWD investment pool) were transferred to a third party administrator. At June 30, 2012, assets in trust with Nationwide Retirement Solutions total \$4,099,460 and assets with the MNWD investment pool total \$0.

(9) Retirement Plans

Defined Benefit Pension Plan

The District contracts with California Public Employees Retirement System (CalPERS) to provide employees with a specified package of benefits upon retirement. CalPERS is a cost sharing multiple-employer defined benefit pension plan. CalPERS provides retirement and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. State statute establishes CalPERS member and employer contribution rates, benefit provisions, minimum funding and all other requirements. The District's Board of Directors has authority over MNWD participation in CalPERS, plan amendments and the choice of plan options within CalPERS. The District's current plan is referred to as the 2% @ 55 defined benefit plan, where a qualified employee may receive an annual retirement benefit equal to 2% of their final year compensation times the number of years of service at age 55. The CalPERS annual financial report may be obtained from their website at www.calpers.ca.gov.

The District funds these benefits according to actuarially determined contribution rates for both the employee and employer. To mitigate the costs of rising employer contribution rates the District implemented a two-tier system for employees based on hiring dates. Employees hired after June 28, 2009 were considered to be Tier 2 employees. Tier 1 employees were asked to contribute a percentage of the CalPERS member contributions and Tier 2 employees were required to contribute the entire percentage of the member contribution rate. For this fiscal year, Tier 1 employees contributed .7% of their annual covered salary and the District contributed 6.3% of the annual covered salary on the employees' behalf. Tier 2 employees contributed the entire 7% of the CalPERS member contribution rate. The District did not contribute any funds on their behalf. Contributions on behalf of Tier 1 employees were \$256,915 for the year ended June 30, 2012. The required employer contribution rate for Tier 1 employees for the year ended June 30, 2012 was 12.146% of employees' covered payroll. The required employer contribution rate for Tier 2 employees for the year ended June 30, 2012 was 11.208% of employees' covered payroll. The District's contributions to the plan for the years ending June 30, 2010, 2011 and 2012 were \$1,071,047, \$1,129,261 and 1,076,083 respectively and equaled the required contributions for the years. The most recent actuarial valuation is dated June 30, 2010 and is available upon request.

In fiscal year 2003, California legislation mandated that all agencies with less than 100 active members be enrolled in a risk-sharing pool with all other agencies in the State with similar benefit packages. At the time of joining the risk pool, a "side fund" was created to account for the difference between the funded status of the District's Plan and the funded status of the risk pool. CalPERS established the risk-sharing pools in 2003 to reduce large fluctuations in employer

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(9) Retirement Plans, (continued)

retirement contributions caused by demographic events. Each agency has a unique contribution rate determined by the risk pools normal cost adjusted for the agencies level of benefit enhancements, funding status prior to joining the pool, and normal cost prior to joining the pool. The District's obligation for the side fund pool was \$3,403,367 as of December 31, 2008. This obligation was paid in full on December 31, 2008 and as a result reduced the District's future years' employer contribution rates. The payment of the CalPERS side fund created a prepaid asset which is being amortized over 30 years. The amount amortized for the year ending June 30, 2012 was \$43,600.

(Board of Directors are not eligible to participate in CalPERS.)

Defined Contribution Pension Plan

The District sponsors the Moulton Niguel Water District Money Purchase Pension Trust (Money Purchase Plan), a defined contribution pension plan. MNWD Board of Directors established the Money Purchase Plan and is authorized to amend the Money Purchase Plan and to name its trustees. All employees participating in the Deferred Compensation Plan and all members of executive management are eligible to participate in the Money Purchase Plan. Plan investments are held in trust by Lincoln Financial.

The District matches up to 2% of an employees' salary to the Money Purchase Plan, if the employee elects to participate in the Deferred Compensation Plan. In addition, participating executive management may contribute 5% of their compensation to the Money Purchase Plan. Employer contributions to the Money Purchase Plan were \$127,813 for the year ended June 30, 2012. All contributions are fully vested. The trustee maintains individual accounts for each participant. Each participant provides direction for investment of their account balance. Contributions, plus investment returns, are distributed to participants upon termination of employment and age 55, at disability, or at age 65.

(10) Other Post Employment Benefits (OPEB)

To mitigate the costs of increasing healthcare, the District has imposed a two-tier structure for its employees. Employees, hired prior to July 1, 2008, retiring from the District at age 55 with ten years of service to the District receive post-retirement medical benefits for themselves and their dependents. Employees, hired subsequent to July 1, 2008, retiring from the District at age 60 with fifteen years of continuous employment receive post-retirement medical benefits for themselves and their dependents.

Under the authority of the District's Board of Directors, post-retirement medical benefits are provided to eligible employees. These benefits may be amended at the discretion of the Board of Directors. The District participates in the CalPERS California Employers' Retiree Benefit Trust (CERBT) fund – an investment vehicle that can be used by all California public employers to prefund future retiree health and Other Post Employment Benefit (OPEB) costs. The CERBT fund is a Section 115 Trust – set up for the purpose of receiving employer contributions that will prefund health and OPEB costs for retirees and their beneficiaries.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(10) Other Post Employment Benefits (OPEB), (continued)

Eligibility and Benefits: Generally the District provides retiree medical coverage to former full-time employees and Board Members hired prior to January 1, 1985 (OPEB Participants) and their dependents when retirement is from the District in good standing. OPEB Participants receive this benefit on or after age 60 with 15 years of service if hired or elected on or after July 1, 2008. OPEB Participants receive this benefit on or after age 55 with 10 years of service if hired or elected before July 1, 2008. After age 65, the District provides \$235 per month cash allotment towards a Medicare supplement policy to the retiree or former Board Member. Dependent coverage ceases when the retiree or former Board member reaches age 65.

(Pursuant to Government Code Section 53201, Board of Directors first elected to a term of office that began on or after January 1, 1985, are not eligible for District paid retiree medical benefits.)

Membership of the plan consisted of the following at June 30, 2012:

Retirees and dependents receiving benefits	22
Active plan members	<u>107</u>
Total	<u>129</u>

District's Funding Policy. The contribution requirements of the District, OPEB Participants, employees, and Board Members are established and may be amended by the District Board of Directors. On October 16, 2008, the Board of Directors amended its policy to fund the Annual Required Contribution (ARC) for these benefits, rather than its previous practice of funding on a pay-as-you-go basis. This change serves to decrease the District's Unfunded Actuarial Accrued Liability over time. For fiscal year 2011-2012, the District contributed a total of \$247,178 for current premiums. The District pays the full cost for OPEB Participants using the Health Maintenance Organization (HMO). OPEB Participants electing coverage through the Preferred Provider Organization (PPO) contributed \$9,328 toward the cost of the coverage (approximately 1% of total premiums). CalPERS publish separate audited financial statements for CERBT. The report is available online at www.calpers.ca.gov or by contacting CalPERS at 1-888-CalPERS.

Annual OPEB Cost and Net OPEB Obligation. The District has implemented Government Accounting Standard Board's Statement No. 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The District's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined to comply with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over not more than thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for these benefits:

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(10) Other Post Employment Benefits (OPEB), (continued)

Annual Required Contribution (ARC)	\$ 650,639
Interest	61,025
Adjustment	(61,025)
Contributions made (including premium paid)	<u>(247,178)</u>
Increase in net OPEB obligation	403,461
Net OPEB obligation, beginning of year	<u>306,406</u>
Net OPEB obligation, end of year	<u>\$ 709,867</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for Fiscal Year 2012 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Costs Contributed</u>	<u>Net OPEB Obligation</u>
06/30/10	\$ 506,730	100%	\$ 0
06/30/11	626,022	100%	0
06/30/12	574,185	100%	709,867

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented on the following table as required supplementary information, presenting multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits. Actuarial methods and assumptions as of the last actuarial valuation date. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the District and OPEB Participants) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the District and OPEB Participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The Entry Age Normal Cost Method actuarial cost method is used for determining the benefit obligations. The actuarial assumptions included a 5.00 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(10) Other Post Employment Benefits (OPEB), (continued)

the funded level of the plan at the valuation date, and an annual healthcare cost trend rate between 5% and 12%. The UAAL is being amortized as a level percentage of projected payrolls over 20 years. It is assumed the District's payroll will increase 3.25% per year along with an annual inflation rate of 3.25%. Eighty-five percent of future retirees are assumed to have a spouse. The valuation as of January 1, 2010 was done using the eligibility criteria at that time. In the future, this will serve to decrease the Actuarial Accrued Liability of the plan. Future actuarial studies will incorporate this change. As of June 30, 2011, management has deemed the impact to be minimal since the January 1, 2010 actuarial valuation was a closed group valuation. Plan assets are as reported by CERBT using the market value of trust investments.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll
07/01/08	\$0	\$ 4,930,491	\$ 4,930,491	0%	6,365,000	77%
01/01/10	388,139	4,988,183	4,600,044	8%	6,387,000	72%

(11) Risk Management

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 member of the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), which offers a common risk management and insurance program. The program provides workers' compensation and property and liability insurance for the District. For each of the most recent years, settlements did not exceed insurance coverage. The membership includes 291 public water agencies within California. A Board of Directors consisting of representatives from member agencies governs the JPIA. The general Board of Directors elects Executive Board members to provide oversight of the operations of the JPIA, including selection of management and approval of the operating budget.

The District maintains \$60,000,000 in primary comprehensive general liability insurance. The property damage insurance program provided for up to \$77,573,267 in coverage on structures and contents with a \$25,000 retrospective allocation point per claim. A \$3,000,000 commercial blanket bond is maintained on employees. The District retains pollution insurance of \$2,000,000 and underground storage tank coverage of \$500,000. The District has a \$50,000 retrospective allocation point (self-insured retention) per claim for general and automobile liability for the year. The

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(11) Risk Management, (continued)

District's workman's compensation level of coverage is \$2,000,000 for bodily injury by each accident and \$2,000,000 for bodily injury by disease for each employee. If the District's deposits are not adequate to meet costs of claims and expenses, a retrospective adjustment to make up the difference can take place. The District promotes safety in the workplace through an extensive safety program. As a result of the program, the District has received retrospective refunds on its workman's compensation insurance premiums. The District also maintains a self insurance reserve to provide for expenses incurred to the District for the deductible amounts on insurance claims under \$50,000, please refer to Note 15 on the District's reserve funds for additional information on the self insurance reserves. Settlements have not exceeded insured limits in the past three fiscal years.

To obtain complete financial information contact ACWA/JPIA at 5620 Birdcage Street, Suite 200, Citrus Heights, CA 95610 or via telephone at (800) 231-5742. Information may be available at www.acwajpia.com.

(12) Commitments and Contingencies

Capital Improvement Projects

The following material commitments existed at June 30, 2012:

<u>Project Name</u>	<u>Cumulative Expenditures as of June 30, 2012</u>	<u>Remaining Commitments</u>
New District Enterprise Software	\$ 837,061	\$2,162,940
Baker Pipeline Regional Treatment	1,399,693	4,410,307
Seville Res 1&2 Int/Ext Coating	478,760	446,240

(13) Joint Powers Authorities and Joint Ventures

South Orange County Wastewater Authority (a California Joint Powers Authority)

The District is a member of the South Orange County Wastewater Authority (SOCWA). SOCWA collects, treats, beneficially reuses and disposes of wastewater in South Orange County. SOCWA operates four wastewater treatment plants (WWTP) in the region. SOCWA has ten member agencies, including three cities and seven water districts. A Board of Directors consisting of representatives from member agencies governs SOCWA. The Board of Directors controls the operations of SOCWA, including selection of management and approval of the annual budget. SOCWA has Project Committees that member agencies participate in financially at various levels, depending on their capacity rights. Each WWTP is a project, as well as various other physical facilities such as outfall pipelines. MNWD's overall participation level is the highest of the member agencies, approximating 46% of SOCWA. The District deposits money with SOCWA to cover its share of operation and capital in the project committees the District participates. At fiscal year-end SOCWA analyzes its actual costs and refunds or collects additional money from its members as

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(13) Joint Powers Authorities and Joint Ventures, (continued)

appropriate. Construction deposits made to SOCWA for capital projects are recorded as capital assets (see note 5).

To obtain complete financial information from SOCWA please contact SOCWA's Director of Finance at 34156 Del Obispo Street, Dana Point, CA 92629 or via telephone at (949) 234-5421.

Joint Regional Water Supply System (Formed Using a Trust Agreement)

The District is one of nine members who participate in the Joint Regional Water Supply System (JRWSS). JRWSS owns and operates several pipelines including the Joint Transmission Main that serves MNWD. The pipelines deliver drinking water to the nine member agencies. MNWD has 48.64% ownership rights to the Joint Transmission Main. South Coast Water District (SCWD) serves as Trustee of JRWSS. As Trustee SCWD maintains the infrastructure, collects money to cover expenses from the member agencies and keeps records for JRWSS. The District deposits money with JRWSS to cover its share of operation and capital costs. At fiscal year-end JRWSS analyzes its actual costs and refunds or collects additional money from its members as appropriate.

To obtain complete financial information from JRWSS contact South Coast Water District, P.O. Box 30205, Laguna Niguel, CA 92607 or via telephone at (949) 499-4555.

San Juan Basin Authority (a California Joint Powers Authority)

The District is also a member of the San Juan Basin Authority (SJBA) a joint powers authority formed to secure and develop water rights for its member agencies. It currently has permits for using the San Juan Groundwater Basin as an underground storage reservoir. A capacity of 60,000 acre-feet is classified as usable storage, where water can be routinely put into it by groundwater recharge basins and withdrawn by a number of high production wells to be drilled in the future. The state has also given SJBA water rights to divert water from the Basin for beneficial purposes. The objective of MNWD membership is to diversify and increase its water sources in the future. SJBA's membership includes MNWD along with Santa Margarita Water District, Capistrano Valley Water District and South Coast Water District. A Board of Directors consisting of representatives from member agencies governs SJBA. The Board of Directors oversees contracts and approves the annual budget. SJBA has Project Committees that member agencies participate in financially at various levels based upon ownership or usage. The District deposits money with SJBA to cover its share of costs in the respective projects. Surplus balances at fiscal year-end are refunded to member agencies or added to their reserves as determined by the Board of Directors.

To obtain complete financial information from SJBA contact Santa Margarita Water District at 26111 Antonio Parkway, Las Flores, CA 92688 or via telephone at (949) 459-6400

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(13) Joint Powers Authorities and Joint Ventures, (continued)

Santiago Aqueduct Commission (a California Joint Powers Authority)

The District is a member of the Santiago Aqueduct Commission (SAC) with five other member agencies. SAC operates and maintains the Baker Pipeline. MNWD has no capacity rights in the Baker Pipeline and is not responsible for costs to operate and maintain the Baker Pipeline. SAC also operated and maintained the Allen McColloch Pipeline (AMP) prior to its sale to MET. By agreement, MNWD funds a small portion of the annual administrative costs of SAC. Irvine Ranch Water District maintains the infrastructure, collects money to cover expenses from the members, and maintains the records for SAC.

To obtain complete financial information on the SAC contact Irvine Ranch Water District at 15600 Sand Canyon Avenue, Irvine, CA 92618-3102 or via telephone at (949) 453-5300. The relationships between MNWD and the joint powers authorities are such that SOCWA, ACWA/JPIA, JRWSS, SJBA, and SAC are not component units of the District for financial reporting purposes.

(14) Restricted Net Assets

At year end the District held \$326,175 in unspent connection fee revenue. By State law these amounts must be spent on capital projects. All interest earned in this fund is added to the total restricted fund balance.

(15) Unrestricted Net Assets

A portion of the District's unrestricted net assets have been designated by the Board of Directors for specific purposes. The details of unrestricted net assets at year end are as follows:

Unrestricted net assets:	
Designated for rate stabilization	\$ 9,283,323
Designated for replacement and refurbishment	20,216,599
Designated for self insurance reserves	1,249,753
Designated for water supply reliability	4,225,293
Designated for planning and construction	29,064,222
Designated for WBBRS	1,972,765
Unrestricted, undesignated	<u>67,816,744</u>
Total unrestricted net assets	<u>\$ 133,828,699</u>

Rate Stabilization

The Rate Stabilization reserves were established to provide funds to be used specifically for stabilizing potential fluctuation in water service rates of the District that may result in the future due to changing wholesale water rates charged by MET and passed through to the District by the MWDOC.

MOULTON NIGUEL WATER DISTRICT

Notes to the Financial Statements

Fiscal Year Ended June 30, 2012

(15) Unrestricted Net Assets, (continued)

Replacement & Refurbishment

The Replacement & Refurbishment fund was established to replace existing assets, refurbish existing assets by materially extending the useful life of the asset. Any repairing of an asset that does not extend the useful life of the asset will be classified as an O&M expense. The asset value must be \$5,000 or more and have a useful life of at least 3 years. The District anticipates an increase in these projects as it approaches a "built out" status. The reserves are increased by revenue from tax revenues equal to the appropriation limit, and 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 expenses 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 enhance 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 provide funding for new construction projects. The reserves are increased by Federal and State P.L. 660 funds and clean water grants if and when received. Designated (budgeted) and emergency construction and planning expenditures decrease the reserves. These reserves can be increased by tax revenues equal to the appropriation limit. An annual review of fund balance and budgeted projects will determine the need for any fund transfers from the General fund.

Conservation Fund (WBBRS)

The Conservation Fund was established for certain Water-Base-Budget Rate Structure ("WBBRS") revenues. The District's intent is to use the revenues for purposes generally related to water efficiency or conservation goals and policies, as specifically directed by the Board under budgetary and other approvals from time to time.

MOULTON NIGUEL WATER DISTRICT
Schedule of Revenues, Expenses, and Other Sources (Uses) of Funds
For the Fiscal Year Ended June 30, 2012

The schedule below is the District's adopted Budget Summary in the areas of revenues, expenses, debt service, capital improvement projects, and other sources and uses of District funds. It compares the District's projected figures to the actual amounts and is designed to monitor performance during the year and assist in future budget preparations.

	<u>2011-2012</u> <u>Amended</u> <u>Budget</u>	<u>2011-2012</u> <u>Actuals</u>	<u>Variance</u> <u>with Budget</u> <u>Over(Under)</u>	<u>% Variance</u> <u>with Budget</u> <u>Over(Under)</u>	
<u>Revenues</u>					
1	Potable Water Sales	\$ 26,947,832	\$ 28,866,153	\$ 1,918,321	7.12%
	Sewer Sales	16,850,232	16,826,066	(24,166)	(.14)%
2	Recycled Water Sales	3,644,800	4,530,175	885,375	24.29%
	Ad Valorem Property Tax (District's share of 1% Property Tax)	21,000,000	21,141,700	141,700	.67%
	General Obligation Bond Assessment	5,657,632	6,079,446	421,814	7.46%
3	Investment Income	3,620,000	4,822,795	1,202,795	33.23%
	Other Income	1,897,560	2,135,601	238,041	12.54%
4	RPOI Receivable for AMP Pipeline	206,846	206,846	-	-
5	Intergovernmental Revenue	<u>1,434,642</u>	<u>1,434,642</u>	-	-
	Total Revenues	<u>81,259,544</u>	<u>86,043,424</u>	<u>4,783,880</u>	5.89%
<u>Expenses, Debt Obligations, and Capital Improvement Projects</u>					
6	Operations and Maintenance	58,421,718	53,828,315	(4,593,403)	(7.86)%
	General Obligation Bonds Debt Service	6,279,306	6,279,306	-	-
	Current Year Debt Obligations Replacement & Refurbishment	9,360,312	9,285,148	(75,164)	(.80)%
7	Projects	11,261,064	4,109,766	(7,151,298)	(63.50)%
8	SOCWA & JRWSS Capital Projects	6,479,010	2,843,347	(3,635,663)	(56.11)%
9	Water Supply Reliability Projects	7,496,479	6,042,939	(1,453,540)	(19.39)%
10	Planning & Construction Projects	<u>1,921,800</u>	<u>564,863</u>	<u>(1,356,937)</u>	<u>(70.61)%</u>
	Total Expenses, Debt Obligations, and Capital Improvement Projects	<u>101,219,689</u>	<u>82,953,684</u>	<u>(18,266,005)</u>	(18.05)%
	Net Income (Deficit)	<u>(19,960,145)</u>	<u>3,089,740</u>	<u>(23,049,885)</u>	
<u>Other Sources(Uses) of Funds</u>					
	Grant Funding	-	-	-	-
11	Connection Fees	<u>20,000</u>	-	<u>(20,000)</u>	-
	Total Other Sources(Uses) of Funds	<u>20,000</u>	<u>-</u>	<u>(20,000)</u>	
	Net Increase (Decrease) to Available Reserves	<u>\$(19,940,145)</u>	<u>\$3,089,740</u>	<u>\$(23,069,885)</u>	

MOULTON NIGUEL WATER DISTRICT
Notes to the Schedule of Revenues, Expenses, and Sources (Uses) of Funds
For the Fiscal Year Ended June 30, 2012

Revenues

Actual revenues exceeded the budget estimated by \$4.8 million or 5.89%. Major budget to actual revenue variations are clarified below:

- 1) **Potable Water Sales** – The major change in potable water sales for the above fiscal year was the result of the budget based rate structure that generated penalty payments due to customers using water inefficiently. The District was proactive in working with customers to help educate them on how to be more efficient through personal home surveys and education programs. A water efficiency rebate program was also put in place for customers who purchase new water efficient appliances and landscape water systems.
- 2) **Recycled Water Sales** – The two largest factors for the variance in recycled water sales are weather and customer efficiency. During the last fiscal year there was less rain than in the prior year. Budget estimates were based on the lower historical average but due to less rain there was a greater demand for recycled water.
- 3) **Investment Income** – The District budgeted extremely conservatively due to the continued economic downturn. With the financial markets stabilizing during the fiscal year and prudent investing the District's interest income was larger than originally expected.
- 4) **RPOI Receivable for AMP Pipeline Lease** – The District receives lease revenue from the MWDOC for the AMP pipeline.
- 5) **Intergovernmental Revenue** – The 2009 COP issuance is a federally taxable "Build America Bonds" issuance. The District is eligible to receive a 35% interest subsidy from the Federal government for the interest expense associated with these bonds.

Expenses

Overall costs for FY 2012 were under budget by \$18.3 million or 18%. The major budget to actual expense variations are described below:

- 6) **Operations & Maintenance (O&M)** – The District spent approximately 92% of its O&M budget for the year. The largest variance was purchased water which was lower than the budget estimate by \$2.7M. The remaining \$1.8M was achieved through efficient operations and a focus on not spending just because it was budgeted. Detailed information on the O&M can be found on the Budget Comparison Report in this section.
- 7) **Replacement & Refurbishment (R&R) Projects** – The District had approximately 134 R&R projects scheduled for the year. The District closed 85 of these projects by the end of the year; some of these projects were completed while others were canceled. Of the remaining 49 projects not completed, most were multi-year projects not intended to be completed in one fiscal year. During the fiscal year, the R&R project budget was amended to reduce the original adopted budget by \$1.7 million. The unspent funds primarily represent cost savings on completed projects and unspent funds for projects not yet completed.

MOULTON NIGUEL WATER DISTRICT
Notes to the Schedule of Revenues, Expenses, and Sources (Uses) of Funds
For the Fiscal Year Ended June 30, 2012

Expenses, (continued)

- 8) **SOCWA & JRWSS Capital Projects** – The District is involved in joint powers agreements with the South Orange County Wastewater Authority (SOCWA) and South Coast Water District’s Joint Regional Water Supply System (JRWSS). These projects are entirely managed by these agencies and the District has limited control over completion of these projects.

- 9) **Water Supply Reliability Projects (WSR)** – The District had 13 active multi-year projects during the year. Of those projects 6 projects were completed during the fiscal year. The remaining projects are expected to be completed in future years.

- 10) **Planning & Construction (P&C) Capital Projects** – The District scheduled approximately 32 P&C projects for the fiscal year. Of these projects, 23 projects were completed during the year or canceled by the end of the year. Almost all of the remaining projects were scheduled to be completed over two fiscal years. Unspent funds represent a combination of savings on completed projects and unspent funds for projects not yet completed.

Other Sources (Uses) of Funds

- 11) **Connection Fees** – Fees collected are based on new development. The District is essentially built out and no new construction took place during the year.

MOULTON NIGUEL WATER DISTRICT
Operations & Maintenance (O&M) Budget Comparison Report
For the Fiscal Year Ended June 30, 2012

The Operations and Maintenance (O&M) Budget Comparison Report was designed to compare the expenses of the District to the budget and/or the adjusted budget figures used by the District to monitor performance during the year. For Fiscal Year 2012, the District adopted an O&M budget of \$57,671,718 and subsequently adjusted the budget for additional appropriations of \$750,000 for a total adopted appropriation amount of \$58,421,719. During the year, the District spent \$53,828,315 or 92% of the adjusted budget. The Notes to the O&M Budget Comparison Report provides explanations for major variances in this report.

<u>Description</u>	<u>Adopted Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expense for FYE 2012</u>	<u>Remaining Budget</u>
Accounting Services	\$ 150,000	\$ 150,000	\$ 159,425	\$ (9,425)
Annual Audit	40,020	40,020	42,127	(2,107)
1 Member Agencies O&M – District’s Portion	1,409,392	1,409,392	1,226,180	183,212
Director’s Fees	168,000	160,200	119,793	40,407
Dues and Memberships	96,310	97,020	68,560	28,460
Election Expense/Registrar of Voters’	-	7,800	6,071	1,729
Consulting Services	359,000	353,000	239,983	113,017
Equipment Rental	125,000	125,000	84,140	40,860
Gasoline and Oil	280,000	280,000	299,178	19,178
Insurance – General	536,825	536,825	475,027	61,798
Insurance – Workers’ Comp/Unemp,	371,820	371,820	273,056	98,764
Insurance – Life, Dental, Health & Disability	2,109,655	2,109,655	2,226,462	116,807
Legal Services – General Counsel	150,000	150,000	121,328	28,672
Legal Services – Outside Counsel	115,000	115,000	151,529	(36,529)
2 Management Information Systems	387,500	391,420	172,597	218,823
Operating Supplies – Main Office	158,500	159,600	150,087	9,513
Community Relations/Conservation Supplies	214,000	298,937	223,879	75,058
Operating Supplies – Field Office	483,880	489,880	433,027	56,853
Employee Relations	80,000	80,000	96,027	(16,027)
Contracts & Agreements – Equipment Repairs	1,169,450	1,166,350	993,316	173,034
3 Contracts & Agreements – Facilities Repairs	2,918,450	2,874,395	2,452,044	422,351
Retirement Program	1,318,544	1,318,544	1,239,491	79,053
Safety Equipment and Supplies	72,960	80,540	74,245	6,295
4 Salaries	7,707,032	7,707,032	8,086,642	(379,610)
Non-Capitalized Equipment (Small Tools)	46,360	56,360	46,208	10,152
5 SOCWA O&M	8,902,380	8,902,380	8,276,421	625,959
Special Assessments	232,000	231,000	261,826	(30,826)
Tax Collection Charges	65,000	65,000	54,470	10,530
Training and Education	50,600	49,345	12,340	37,005
Travel and Meetings	174,000	200,320	148,938	51,382
Utilities	1,792,860	1,793,360	1,835,906	(42,546)
6 Water Purchases	25,570,680	25,485,023	22,749,070	2,735,953
Meter Purchases	40,000	40,000	55,281	(15,281)
Capital Outlay	376,500	376,500	339,288	37,212
WBBRS Expense	-	750,000	634,354	115,646
Total	<u>\$57,671,718</u>	<u>\$58,421,718</u>	<u>\$53,828,315</u>	<u>\$ 4,865,374</u>

MOULTON NIGUEL WATER DISTRICT
Notes to the Operations & Maintenance (O&M) Budget Comparison Report
For the Fiscal Year Ended June 30, 2012

The following denotes explanations for some of the major variances between actual and budgeted costs for the Operations and Maintenance budget comparison report:

- 1) **Member Agencies O&M – District’s Portion** – This expense represents the District’s share of costs for participation in joint powers agreements with regional agencies. For additional information regarding the District’s joint ventures agreements please refer to Note 12 Joint Powers Authorities and Joint Ventures in the Notes to the Financial Statements in the financial section of this document.
- 2) **Management Information Systems** – District staff provides MIS support services including network maintenance, finance and utility billing software support, and related IT functional support. The 2011-12 MIS budget included funding for Microsoft software upgrades that would potentially be required for the new Enterprise Resource Planning (ERP). However, a large portion of those funds were not required since the ERP software selected could utilize the existing Microsoft products.
- 3) **Contract – Facilities Repairs** - During the fiscal year District staff was able to operate efficiently and effectively thus saving the District about \$400,000 dollars in this line item.
- 4) **Salaries** – This line item includes unbudgeted costs related to employee retirement EMPC payments and GM retirement compensation expenses.
- 5) **SOCWA O&M** – The District wastewater treatment is provided by SOCWA. The District received a refund from the annual use audit in the amount of \$657,691 that was credited against this expenditure line item.
- 6) **Water Purchases** – Due to the continued efficiency efforts of water customers and conservation measures put in place by the District the amount of water purchased was lower than originally anticipated, resulting in lower water purchase costs.

MOULTON NIGUEL WATER DISTRICT

Statistical Section Overview

The Statistical Section provides historical information on Moulton Niguel Water District's economic condition. All of the information presented in the statistical section is organized around five specific objectives:

Financial Trends – These schedules present financial trend data for assessing the District's financial position over time.

- Net Assets by Component – Last Ten Fiscal Years 57
- Changes in Net Assets – Last Ten Fiscal Years 59

Revenue Capacity – These schedules present revenue capacity information for determining the District's ability to generate revenue. The District's own source revenue is derived from sewer and water charges. The District also receives a significant amount of property tax revenue.

- Water and Sewer Sold by Type of Customer – Last Ten Fiscal Years 61
- Annual Domestic Consumption in Acre Feet – Last Ten Fiscal Years 63
- Water Rates – Last Ten Fiscal Years 64
- Principal Water Customers – Current Fiscal Year and Nine Years Ago 65
- Sewer Rates – Last Ten Fiscal Years 66
- Principal Sewer Customers – Current Fiscal Year and Nine Years Ago 67
- Recycled Water Rates – Last Ten Fiscal Years 68
- Principal Recycled Water Customers – Current Fiscal Year and Ten Years Ago 69
- Property Tax Levies and Collections – Last Ten Fiscal Years 70
- Assessed Valuations & Largest Local Secured Taxpayers – Current Fiscal Year and Seven Years Ago 71

Debt Capacity – These schedules show the District's debt burden per customer, the direct and overlapping debt within the geographic boundary of the District and the net revenues available for debt service and related coverage ratios.

- Outstanding Debt by Type and Debt per Customer – Last Ten Fiscal Years 72
- Ratio of Net Direct General Obligation Debt – Last Ten Fiscal Years 73
- Direct and Overlapping Debt – Current Fiscal Year 74
- Pledged Revenue Coverage – Last Ten Fiscal Years 75

Demographic and Economic Information – These schedules allow the reader to envision the socioeconomic environment of the local community.

- Demographic and Economic Statistics – Last Ten Fiscal Years 76
- Principal Employers – Current Year and Six Years Ago 78

Operating Information – These schedules enable the reader to assess the District’s ability to provide water and sewer services through its infrastructure, employees, and business cycles.

• Full Time Employees by Function – Last Ten Fiscal Years	79
• Operating Indicators – Last Ten Fiscal Years	80
• Historical Billings, Collections, and Delinquencies – Last Ten Fiscal Years	81
• Capital Asset Statistics – Last Ten Fiscal Years	82

Moulton Niguel Water District
Net Assets by Component
Last Ten Fiscal Years

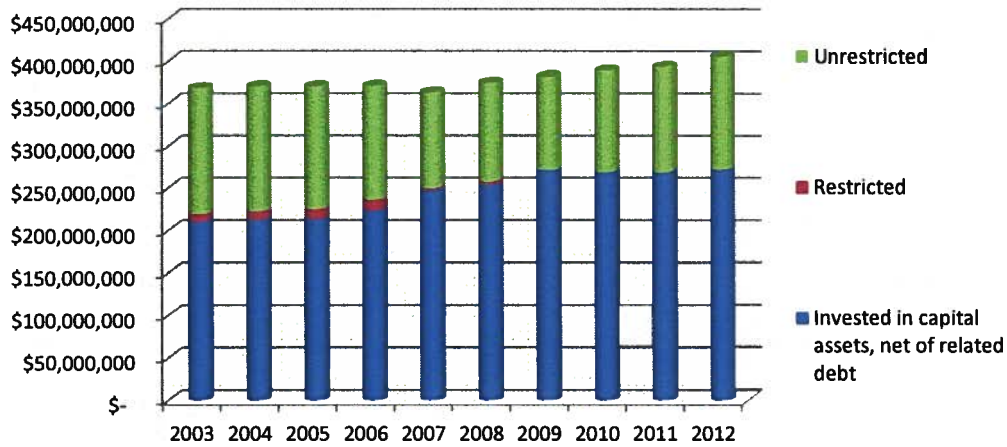
	2003	2004	2005	2006
Assets				
Current & other assets	173,081,224	133,689,528	172,106,692	167,460,342
Capital assets	356,693,681	396,287,774	350,846,634	350,877,488
Total assets	529,774,905	529,977,302	522,953,326	518,337,830
Liabilities				
Current and other liabilities	10,653,785	15,455,482	15,623,986	18,436,627
Long-term debt outstanding	150,279,056	143,393,212	136,207,909	128,174,462
Total liabilities	160,932,841	158,848,694	151,831,895	146,611,089
Net assets				
Invested in capital assets, net of related debt	\$ 209,752,006	\$ 212,135,262	\$ 212,969,450	\$ 222,891,731
Restricted	9,241,133	9,924,017	11,619,898	12,816,747
Unrestricted	149,848,925	149,069,329	146,532,083	136,018,263
¹ Total net assets	<u>\$ 368,842,064</u>	<u>\$ 371,128,608</u>	<u>\$ 371,121,431</u>	<u>\$ 371,726,741</u>

(1) Beginning Net Assets were restated for FY 2006 and 2007.

Source: Moulton Niguel Water District Audited Financial Statements.

**Moulton Niguel Water District
Net Assets by Component
Last Ten Fiscal Years**

2007	2008	2009	2010	2011	2012
135,253,605	141,180,151	126,077,279	182,990,925	174,874,393	179,943,758
361,206,238	361,582,353	368,009,569	371,543,848	373,881,504	373,802,210
496,459,843	502,762,504	494,086,848	554,534,772	548,755,896	553,745,968
15,838,853	15,849,444	17,165,769	20,038,911	18,166,398	19,829,380
117,038,604	111,527,615	94,335,405	145,122,499	136,276,375	127,591,813
132,877,457	127,377,059	111,501,174	165,161,410	154,442,773	147,421,193
\$ 245,841,042	\$ 253,165,739	\$ 270,849,808	\$ 268,089,986	\$ 267,962,257	\$ 272,169,901
3,928,653	4,143,149	98,855	119,402	312,742	326,175
113,812,691	118,076,557	111,637,011	121,163,974	126,038,124	133,828,699
\$ 363,582,386	\$ 375,385,445	\$ 382,585,674	\$ 389,373,362	\$ 394,313,123	\$ 406,324,775



Moulton Niguel Water District
Changes in Net Assets
Last Ten Fiscal Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Operating Revenue				
Water charges	\$ 16,483,084	\$ 17,053,559	\$ 16,233,296	\$ 18,472,894
Sanitation charges	8,228,151	8,480,618	8,259,528	10,281,592
Recycled water charges	3,086,398	3,442,173	2,975,868	3,342,937
Other	1,281,410	1,513,930	170,617	283,062
Total Operating Revenue	<u>29,079,043</u>	<u>30,490,280</u>	<u>27,639,309</u>	<u>32,380,485</u>
Operating Expenses				
Source of supply ²	16,689,362	18,060,766	16,469,876	17,583,352
Pumping water	412,253	600,876	618,098	357,650
Water and sewage treatment	5,487,213	6,244,920	7,159,561	7,506,433
Water transmission and distribution	2,334,510	2,378,017	2,429,357	2,547,423
Customer accounts	240,121	237,522	202,777	225,071
General, administrative and other	9,329,248	8,974,219	9,370,829	9,267,301
Depreciation	11,347,956	11,931,829	12,265,654	12,585,747
Total Operating Expenses	<u>45,840,663</u>	<u>48,428,149</u>	<u>48,516,152</u>	<u>50,072,977</u>
Operating Income (Loss)	<u>(16,761,620)</u>	<u>(17,937,869)</u>	<u>(20,876,843)</u>	<u>(17,692,492)</u>
Non-operating Revenues (Expenses)				
Interest income ¹	7,397,721	(596,510)	4,345,893	480,324
Property tax revenue & GOB assessments	20,989,890	22,872,907	19,039,914	19,293,391
Interest on long-term debt	(9,367,601)	(5,492,833)	(5,226,235)	(5,232,106)
Cellular lease income	915,908	1,091,275	961,066	1,040,136
Other non-operating revenues (expenses) ⁴	7,395,963	1,368,758	459,756	(26,539)
Total Non-operating Revenues (Expenses)	<u>27,331,881</u>	<u>19,243,597</u>	<u>19,580,394</u>	<u>15,555,206</u>
Income (Loss) before Capital Contributions	10,570,261	1,305,728	(1,296,449)	(2,137,286)
Capital Contributions				
Grant funding				
Developer donated capital facilities	504,350	809,720	939,300	2,099,826
Connection fees	257,354	171,096	349,972	642,770
Change in Net Assets	\$ 11,331,965	\$ 2,286,544	\$ (7,177)	\$ 605,310
Net Assets - Beginning of Year ³	<u>357,510,099</u>	<u>368,842,064</u>	<u>371,128,608</u>	<u>371,121,431</u>
Net Assets - End of Year	<u>\$ 368,842,064</u>	<u>\$ 371,128,608</u>	<u>\$ 371,121,431</u>	<u>\$ 371,726,741</u>

- ¹ Investment Income is combined with unrealized gain/loss on investments.
For FY 2004, the unrealized loss on investments exceeded investment income.
For FY 2006, there was a substantial unrealized loss on investments.
- ² Source of Supply includes: water purchases, meter purchases and utilities
- ³ Beginning Net Assets were restated for FY 2006 and 2007.
- ⁴ For FY 2003 a portion of the 1993 General Obligation Bonds was refunded.

Source: Moulton Niguel Water District Audited Financial Statements.

Moulton Niguel Water District
Changes in Net Assets
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$	21,366,541	\$ 20,642,013	\$ 19,860,752	\$ 20,578,666	\$ 22,520,064	\$ 28,866,153
	11,515,601	11,425,324	11,261,857	12,542,595	14,448,835	16,826,066
	4,464,604	4,201,937	3,968,090	4,446,515	4,340,197	4,530,175
	604,746	337,489	323,684	572,611	444,346	429,064
	<u>37,951,492</u>	<u>36,606,763</u>	<u>35,414,383</u>	<u>38,140,387</u>	<u>41,753,442</u>	<u>50,651,458</u>
	20,230,917	18,944,598	20,972,373	22,505,838	22,088,538	24,405,678
	393,556	390,681	360,363	349,221	419,633	444,278
	7,367,708	8,179,717	8,962,772	9,093,471	8,588,172	8,246,919
	2,707,991	2,958,395	3,277,410	4,267,727	3,752,224	4,186,565
	285,213	335,049	351,151	332,685	311,483	300,176
	10,838,062	11,407,703	13,069,750	12,788,639	13,130,167	14,563,529
	13,602,765	13,783,963	14,097,033	14,572,711	15,162,538	15,566,287
	<u>55,426,212</u>	<u>56,000,106</u>	<u>61,090,852</u>	<u>63,910,292</u>	<u>63,452,755</u>	<u>67,713,432</u>
	<u>(17,474,720)</u>	<u>(19,393,343)</u>	<u>(25,676,469)</u>	<u>(25,769,905)</u>	<u>(21,699,313)</u>	<u>(17,061,974)</u>
	6,589,646	9,477,382	7,118,974	6,846,993	4,009,899	6,271,002
	26,370,628	26,755,228	28,320,274	27,407,480	27,250,759	27,221,146
	(5,474,668)	(5,340,125)	(5,097,414)	(6,766,600)	(7,897,888)	(7,608,336)
	1,115,941	1,203,720	1,349,901	1,491,862	1,498,290	1,434,642
	(80,023)	19,410	54,270	1,438,137	1,480,660	1,685,172
	<u>28,521,524</u>	<u>32,115,615</u>	<u>31,746,005</u>	<u>30,417,872</u>	<u>26,341,720</u>	<u>29,003,626</u>
	11,046,804	12,722,272	6,069,536	4,647,967	4,642,407	11,941,652
		144,899	930,379	54,212	20,530	-
	876,334	970,889	156,511	2,069,786	94,332	70,000
	932,325	13,169	43,800	15,723	182,491	-
\$	12,855,463	\$ 13,851,241	\$ 7,200,226	\$ 6,787,688	\$ 4,939,760	\$ 12,011,652
	<u>350,726,923</u>	<u>361,534,204</u>	<u>375,385,445</u>	<u>382,585,671</u>	<u>389,373,362</u>	<u>394,313,123</u>
\$	<u>363,582,386</u>	<u>\$ 375,385,445</u>	<u>\$ 382,585,671</u>	<u>\$ 389,373,362</u>	<u>\$ 394,313,123</u>	<u>\$ 406,324,775</u>

Moulton Niguel Water District
Water and Sewer Sold by Type of Customer
Last Ten Fiscal Years

Water & Sewer Sales

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Residential	\$ 15,160,310	\$ 16,178,691	\$ 15,438,317	\$ 18,669,805	\$ 21,202,036
Commercial	6,226,861	2,766,006	2,793,134	3,173,988	3,559,177
Multi-Family Commercial ⁽¹⁾		3,462,450	3,468,057	3,887,382	4,193,311
Irrigation ⁽²⁾	3,266,839	3,099,871	2,770,325	2,982,385	3,870,441
Recycled Water	3,086,398	3,442,173	2,975,868	3,342,937	4,464,604
Hydrant ⁽²⁾	57,225	27,159	22,991	40,926	57,177
Total Water & Sewer Sales	\$ 27,797,633	\$ 28,976,350	\$ 27,468,692	\$ 32,097,423	\$ 37,346,746

Metered Accounts (ccf)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Residential	46,197	45,875	45,998	46,069	46,170
Commercial	4,611	4,641	4,670	4,674	4,732
Irrigation ⁽²⁾	1,448	1,392	1,365	1,368	1,376
Recycled Water	1,075	1,138	1,166	1,183	1,196
Hydrant ⁽²⁾	39	33	26	44	40
Total Metered Accounts	53,370	53,079	53,225	53,338	53,514

(1) Multi-Family Commercial was combined with Commercial prior to FY 2004.

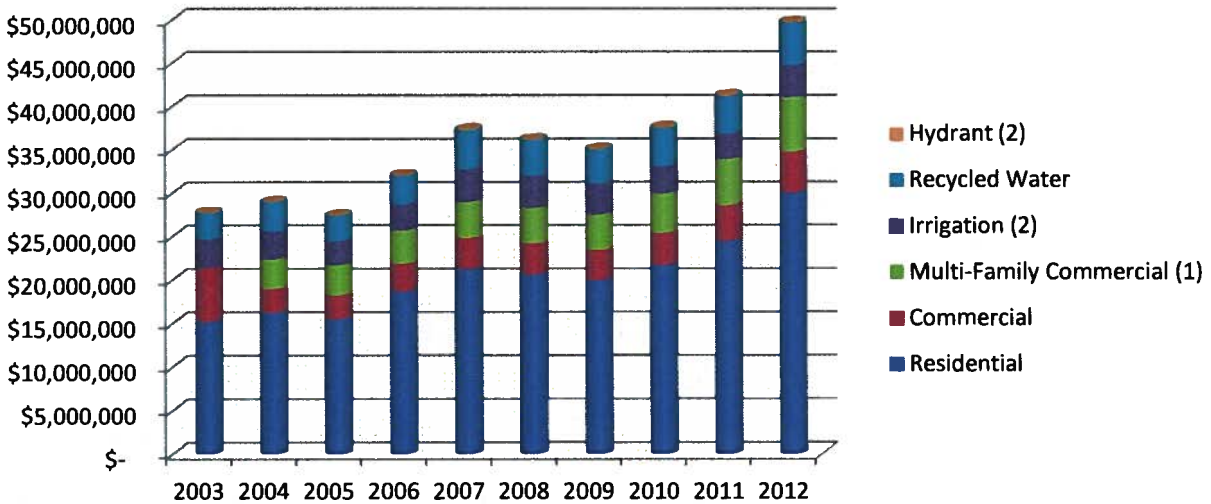
(2) Irrigation, Hydrant, and Recycled Water sales do not have sewer sales.

Source: Moulton Niguel Water District Billing Department.

**Moulton Niguel Water District
Water and Sewer Sold by Type of Customer
Last Ten Fiscal Years**

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 20,536,190	\$ 19,960,314	\$ 21,661,402	\$ 24,489,399	30,036,920.00
3,598,135	3,484,263	3,691,101	4,131,299	4,672,173
4,157,669	4,082,323	4,615,167	5,293,520	6,373,846
3,725,795	3,551,458	3,118,258	3,013,689	3,705,286
4,201,937	3,968,090	4,446,515	4,340,197	4,894,136
49,548	44,251	35,333	40,992	83,659
\$ 36,269,274	\$ 35,090,699	\$ 37,567,776	\$ 41,309,096	\$ 49,766,020

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
46,367	46,479	46,649	46,840	46,996
4,793	4,804	4,824	4,839	4,841
1,380	1,414	1,395	1,387	1,395
1,206	1,218	1,244	1,262	1,265
42	37	32	34	36
53,788	53,952	54,144	54,362	54,533



**Moulton Niguel Water District
Annual Domestic Consumption in Acre Feet (AF)
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Usage (AF)</u>	<u>Purchase Price¹</u>	<u>Average cost per AF</u>	<u>Metered Accounts</u>	<u>Average AF per Metered Account</u>	<u>Average Cost per Metered Account</u>
2003	41,763	15,498,195	371	53,370	0.78	290
2004	38,957	16,359,733	420	53,079	0.73	308
2005	32,086	14,811,603	462	53,225	0.60	278
2006	33,438	15,929,186	476	53,338	0.63	299
2007	36,679	15,949,424	435	53,514	0.69	298
2008	35,083	16,975,357	484	53,788	0.65	316
2009	33,744	18,933,932	561	53,952	0.63	351
2010	29,635	20,131,901	679	54,144	0.55	372
2011	27,360	19,908,518	728	54,362	0.50	366
2012	27,610	21,625,497	783	54,533	0.51	397

¹ Purchase price does not include any charges for services.

Source: Moulton Niguel Water District Accounting Department.

**Moulton Niguel Water District
Water Rates
Last Ten Fiscal Years**

Residential, Commercial, & Multi-Family Potable Water Rate by Fiscal Year ^(1, 2)									
Consumption Tiers	2003-2005		2006-2009		2010		2011		2012 ⁽³⁾
1-10 B.U.	\$ 0.70		\$ 0.86		\$ 1.00		\$ 1.16		
11-20 B.U.	0.80		0.96		1.12		1.30		
21-30 B.U.	1.00		1.16		1.35		1.57		
31-50 B.U.	1.20		1.36		1.58		1.84		
51+ B.U.	1.30		1.46		1.70		1.97		
Tier 1									\$ 1.38
Tier 2									1.54
Tier 3									2.75
Tier 4									5.51
Tier 5									11.02

Potable Irrigation/Fire Protection Water Rates by Fiscal Year									
Consumption Tiers	2002-2005		2006-2009		2010		2011		2012
All B.U.'s	\$ 1.30		\$ 1.46		\$ 1.70		\$ 1.97		\$ 2.29

Hydrant Water Rates by Fiscal Year									
Consumption Tiers	2002-2005		2006-2009		2010		2011		2012
All B.U.'s	\$ 1.30		\$ 1.46		\$ 1.70		\$ 1.97		\$ 2.29

(1) Billed monthly for individually metered residential, residential fire protection, dedicated residential irrigation and recycled accounts.

(2) Billed bi-monthly for commercial, fire protection, irrigation and master-metered multi-family accounts.

(3) A Water Budget Based Rate Structure was implemented July 2011. Tiers 1 and 2 of budgets are based on the number of person the household; amount of irrigated acreage; evapotranspiration rate; and the number of days in the billing cycle. Tiers 3, 4 and 5 app to usage that exceeds budget.

Basic Service Charge for Potable Water Meter Size ⁽⁴⁾										
Fiscal Year	5/8"	3/4"	1"	1.5"	2"	3"	4"	6"	8"	10"
2003	5.00	5.00	5.00	10.00	18.00	25.00	35.00	55.00	75.00	95.00
2004	5.00	5.00	5.00	10.00	18.00	25.00	35.00	55.00	75.00	95.00
2005	5.00	5.00	5.00	10.00	18.00	25.00	35.00	55.00	75.00	95.00
2006	6.60	6.60	6.60	11.60	19.60	26.60	36.60	56.60	76.60	96.60
2007	6.60	6.60	6.60	11.60	19.60	26.60	36.60	56.60	76.60	96.60
2008	6.60	6.60	6.60	11.60	19.60	26.60	36.60	56.60	76.60	96.60
2009	6.60	6.60	6.60	11.60	19.60	26.60	36.60	56.60	76.60	96.60
2010	7.67	7.67	7.67	13.48	22.78	30.91	42.53	65.77	89.01	112.25
2011	8.91	8.91	8.91	15.66	26.46	35.92	49.42	76.42	103.43	130.43
2012	10.36	10.36	10.36	34.53	55.25	120.87	207.20	431.67	621.60	1,001.47

(4) The most common meter sizes for residential customers are 5/8", 3/4" and 1".

Note: 1 Billing Unit (B.U.) is = 100 Cubic Feet = 748 gallons

Source: Moulton Niguel Water District Billing Department.

**Moulton Niguel Water District
Principal Water Customers
Last Fiscal Year and Nine Years Ago**

Fiscal Year 2012

<u>Customer</u>	<u>Type of Property</u>	<u>Total Water Sales</u>	<u>Percentage of Total Water Sales</u>
Mission Hospital Regional Medical Center	Medical Facility	\$ 96,653	0.37%
Soka University of America	Private University	64,439	0.25%
The Shops at Mission Viejo	Retail Center	57,679	0.22%
Saddleback Community College	Public College	42,106	0.16%
Renaissance Hotel Operating Co.	Retail Business	35,960	0.14%
Shea Properties/City Lights	Multi-family Residential	31,555	0.12%
K&M Royal Group LLC	Retail Center	21,412	0.08%
Mission Imports	Retail Center	19,723	0.08%
Saddleback Church	Religious Facility	19,306	0.07%
Capistrano Valley High School	School	18,590	0.07%
Heritage Point	Multi-family Residential	<u>17,588</u>	<u>0.07%</u>
		\$ 425,009	1.62%

Total Water Sales for FY 2011-12 \$ 26,259,035

Fiscal Year 2003¹

<u>Customer</u>	<u>Type of Property</u>	<u>Total Water Sales</u>	<u>Percentage of Total Water Sales</u>
Aliso Viejo Golf Club	Golf Course	\$ 247,168	1.50%
Mission Viejo Country Club	Golf Course	164,779	1.00%
El Niguel Country Club	Golf Course	164,779	1.00%
Saddleback Community College	Public College	98,867	0.60%
SOKA University of America	Private University	98,867	0.60%
Laguna Niguel Regional Park	Regional Park	49,434	0.30%
The Shops at Mission Viejo	Shopping Mall	48,610	0.30%
Mission Hospital Regional Medical Center	Hospital and Medical Offices	48,445	0.29%
Laguna Hills High School	School	36,251	0.22%
Capistrano Valley High School	School	<u>31,308</u>	<u>0.19%</u>
		\$ 988,507	6.00%

Total Water Sales for FY 2002-03 \$ 16,477,867

(1) Data prior to fiscal year 2003 is unavailable. Data for FY 2003 did not separate potable and recycled water sales.

Source: Moulton Niguel Water District Billing Department.
2003 Refunding Certificates of Participation Official Statement.

**Moulton Niguel Water District
Sewer Rates
Last Ten Fiscal Years**

RESIDENTIAL SEWER RATES										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Basic Service Charges	5.50	5.50	5.50	7.10	7.10	7.10	7.10	8.25	9.59	11.14
Volumetric Charge										
1-25 B.U.	0.40	0.40	0.40	0.56	0.56	0.56	0.56	0.65	0.76	0.88
26+ B.U.	-	-	-	-	-	-	-	-	-	-
Maximum per month	15.50	15.50	15.50	21.10	21.10	21.10	21.10	24.50	28.59	33.14

COMMERCIAL AND MULTI-FAMILY SEWER RATES										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Basic Service Charge per Sewer	14.20	14.20	14.20	14.20	14.20	14.20	14.20	16.50	19.18	22.28
Volumetric Charge - All B.U.'s										
Class 1	0.40	0.40	0.40	0.56	0.56	0.56	0.56	0.65	0.76	0.88
Class 2	0.60	0.60	0.60	0.76	0.76	0.76	0.76	0.88	1.03	1.19
Class 3	0.80	0.80	0.80	0.96	0.96	0.96	0.96	1.12	1.30	1.51
Class 4	1.00	1.00	1.00	1.16	1.16	1.16	1.16	1.35	1.57	1.82

Sewer Classes:

Class 1 : Typical users include residential, banks, car washes, churches, department and retail stores, laundromats, professional offices, schools and colleges.

Class 2: Typical users includes beauty and barber shops, hospital and convalescent facilities, commercial laundry, repair shops, service stations and veterinary hospitals.

Class 3: Typical users include hotels with dining facilities, markets with garbage disposals, mortuaries and fast-food restaurants.

Class 4: Typical users include restaurants, auto-steam-cleaning facilities and bakeries. Classifications are subject to change upon inspection by the District in order to comply with the intent of MNWD's rules and regulations and regulatory mandates.

Source: Moulton Niguel Water District Billing Department.

**Moulton Niguel Water District
Principal Sewer Customers
Last Fiscal Year and Nine Years Ago**

		<u>Fiscal Year 2012</u>	
<u>Customer</u>	<u>Type of Property</u>	<u>Total Sewer Sales</u>	<u>Percentage of Total Sewer Sales</u>
Soka University of America	Private University	\$ 54,346	0.32%
The Shops at Mission Viejo	Shopping Mall	53,074	0.32%
Mission Hospital Regional Medical Center	Hospital and Medical Offices	47,152	0.28%
Renaissance Hotel Operating Co.	Retail Business	31,272	0.19%
Shea Properties/City Lights	Multi-family Residential	22,274	0.13%
Saddleback Community College	Public College	19,522	0.12%
K&M Royal Group LLC	Retail Center	19,386	0.12%
Mission Imports	Retail Center	16,504	0.10%
Crown Valley Holding LLC	Retail Center	13,190	0.08%
Tesoro	Oil Company	10,339	0.06%
Heritage Point	Multi-family Residential	8,599	0.05%
		<u>\$ 295,659</u>	<u>1.76%</u>
Total Sewer Sales for FY 2011-12 \$		16,826,066	

		<u>Fiscal Year 2003</u> ¹	
<u>Customer</u>	<u>Type of Property</u>	<u>Total Sewer Sales</u>	<u>Percentage of Total Sewer Sales</u>
Soka University of America	Private University	\$ 33,900	0.40%
The Shops at Mission Viejo	Shopping Mall	27,276	0.32%
Mission Hospital Regional Medical Center	Hospital and Medical Offices	26,925	0.32%
Saddleback Community College	Public College	9,374	0.11%
Mission Viejo Country Club	Golf Course	8,403	0.10%
Niguel Vista Condo Association	Multi-Family Residential	8,066	0.10%
Unisys Corporation	Commercial	5,994	0.07%
General Services Administration	Government Bldg.	5,004	0.06%
El Niguel Country Club	Golf Course	3,097	0.04%
Laguna Hills High School	School	2,630	0.03%
		<u>\$ 130,669</u>	<u>1.56%</u>
Total Sewer Sales for FY 2002-03 \$		8,395,292	

(1) Data prior to 2003 is unavailable.

Source: Moulton Niguel Water District Billing Department.

2003 Refunding Certificates of Participation Official Statement.

**Moulton Niguel Water District
Recycled Water Rates
Last Ten Fiscal Years**

Recycled Water Rates by Fiscal Year									
Consumption Tiers	2003-2005		2006-2009		2010		2011		2012 ⁽¹⁾
All B.U.'s	-		\$ 1.17		\$ 1.36		1.58		
1 - 50 B.U.	\$ 0.96								
51+ B.U.	1.04								
Tier 1									1.23
Tier 2									1.23
Tier 3									2.20
Tier 4									4.41
Tier 5									8.81

(1) A Water Budget Based Rate Structure was implemented July 2011. Tiers 1 and 2 apply to usage within budget, while Tiers 3, 4 and 5 apply to usage in excess of budget.

Recycled Water Basic Service Charge									
Meter Size	2003-2005		2006-2009		2010		2011		2012
5/8"	\$ 5.00		\$ 6.60		\$ 7.67		\$ 8.91		\$ 10.36
3/4"	5.00		6.60		7.67		8.91		10.36
1"	5.00		6.60		7.67		8.91		10.36
1.5"	10.00		11.60		13.48		15.66		34.53
2"	18.00		19.60		22.78		26.47		55.25
3"	25.00		26.60		30.91		35.92		120.87
4"	35.00		36.60		42.53		49.42		207.20
6"	55.00		56.60		65.77		76.42		431.37
8"	75.00		76.60		89.01		103.43		621.60
10"	95.00		96.60		112.25		130.43		1,001.47

Note: 1 Billing Unit (B.U.) is = 100 Cubic Feet = 748 gallons

Source: Moulton Niguel Water District Billing Department.

**Moulton Niguel Water District
Principal Recycled Water Customers
Current Fiscal Year and Ten Years Ago**

Fiscal Year 2012

<u>Customer</u>	<u>Type of Property</u>	<u>Total Consumption</u> ¹	<u>Percentage of Total Consumption</u> ¹
Aliso Viejo Community Association	Parks, Slopes, Medians	318,973	11.45%
Mission Viejo Country Club	Golf Course	139,044	4.99%
Aliso Viejo Country Club	Golf Course	132,715	4.76%
El Niguel Country Club	Golf Course	111,450	4.00%
Marina Hills PCA	Golf Course	71,592	2.57%
SOKA University of America	Private University	60,615	2.18%
City of Mission Viejo	Parks, Slopes, Medians	55,268	1.98%
County of Orange - EMA	Parks, Slopes, Medians	41,350	1.48%
City of Laguna Hills	Parks, Slopes, Medians	40,022	1.44%
City of Laguna Niguel	Parks, Slopes, Medians	39,094	1.40%
Top Ten Total		1,010,123	36.25%
Total Consumption for Fiscal Year 2011-12		2,786,514	100%

Fiscal Year 2002

<u>Customer</u>	<u>Type of Property</u>	<u>Total Consumption</u> ¹	<u>Percentage of Total Consumption</u> ¹
Aliso Viejo Community Association	Parks, Slopes, Medians	461,249	14.68%
Aliso Viejo Country Club	Golf Course	186,260	5.93%
El Niguel Country Club	Golf Course	122,420	3.90%
Marina Hills PCA	Golf Course	97,177	3.09%
City of Mission Viejo	Parks, Slopes, Medians	74,935	2.38%
SOKA University of America	Private University	61,145	1.95%
City of Laguna Niguel	Parks, Slopes, Medians	54,605	1.74%
County of Orange - EMA	Park	45,320	1.44%
Pacific Park II	Landscape	41,866	1.33%
El Niguel Heights Community Assn.	Landscape	41,383	1.32%
City of Laguna Hills	Parks, Slopes, Medians	40,784	1.30%
Crest De Ville HOA	Landscape	40,472	1.29%
Top Ten Total		1,267,616	40.34%
Total Consumption for Fiscal Year 2001-02		3,142,422	100%

(1) Consumption is calculated in Billing Units (B.U.).
1 Billing Unit (B.U.) is = 100 Cubic Feet = 748 gallons

Source: Moulton Niguel Water District Billing Department.

**Moulton Niguel Water District
Property Tax Levies and Collections ¹
Last Ten Fiscal Years**

Levy Year	<u>Total Tax Levy</u>	<u>Collected within the Levy Year</u>		Collections from <u>Prior Years</u> ²	<u>Total Collections to Date</u>	
		<u>Amount</u>	Percentage of <u>Levy</u>		<u>Amount</u>	Percentage <u>of Levy</u>
2003	15,084,991	14,758,379	97.83%	282,089	15,040,468	99.70%
2004	16,267,199	16,096,282	98.95%	197,152	16,293,434	100.16% ³
2005	12,146,835	11,953,584	98.41%	188,635	12,142,220	99.96%
2006	13,805,452	13,435,730	97.32%	271,293	13,707,024	99.29%
2007	21,254,653	20,560,187	96.73%	425,393	20,985,580	98.73%
2008	22,283,832	21,583,776	96.86%	587,508	22,171,284	99.49%
2009	22,245,697	21,285,866	95.69%	721,593	22,007,458	98.93%
2010	21,679,649	20,656,502	95.28%	968,078	21,624,579	99.75%
2011	21,638,200	20,702,831	95.68%	511,337	21,214,168	98.04%
2012	21,141,700	20,394,203	96.46%	475,230	20,869,433	98.71%

(1) Property Tax revenue is the District's second major revenue source.

(2) Collections from prior years does not include penalty revenue.

(3) The District collected a substantial amount of secured prior years property taxes.

Source: Moulton Niguel Water District Finance Department.
Orange County Auditor-Controller's office.

**Moulton Niguel Water District
Assessed Valuations & Largest Local Secured Taxpayers
Last Fiscal Year and Seven Years Ago**

**Assessed Values by Land Use
FY 2012 FY 2005**

<u>Land Use</u>	<u>Secured Assessed Value</u>	
Residential	\$ 12,948,586,120	\$ 10,583,018,637
Commercial	1,311,634,769	1,390,568,672
Industrial	322,805,194	254,501,705
Vacant/Other	20,149,054	503,361,979
Total	\$ 14,603,175,137	\$ 12,731,450,993

**Principal Local Secured Taxpayers
For Fiscal Year 2012**

<u>Rank</u>	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Assessed Valuation</u>	<u>% of Total</u>
1	Shea Homes LP	Residential	\$ 79,698,382	0.55%
2	OC/SD Holdings LLC	Apartments	45,786,246	0.31%
3	BRE - FMCA LLC	Apartments	43,412,496	0.30%
4	Moritz Associates LLC	Apartments	42,683,681	0.29%
5	Barcelona, LLC	Apartments	36,883,179	0.25%
6	Laguna Cabot Road Business Park LP	Industrial	36,321,233	0.25%
7	Mission Viejo Associates	Commercial	31,763,279	0.22%
8	Sequoia Equities - Alize	Apartments	28,253,206	0.19%
9	Monarch Coast I LLC	Apartments	27,001,873	0.18%
10	Sequoia Equities - Alicante	Apartments	25,994,274	0.18%
			\$ 397,797,849	2.72%

Fiscal Year 2011-12 Total Local Secured Valuation: \$ 14,603,175,137

**Principal Local Secured Taxpayers
For Fiscal Year 2005 ¹**

<u>Rank</u>	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>Assessed Valuation</u>	<u>% of Total</u>
1	Mission Viejo Associates	Residential	\$ 157,087,919	1.42%
2	City Lights - Aliso Viejo LLC	Apartments	95,553,556	0.86%
3	Moritz Associates LLC	Apartments	94,843,408	0.86%
4	Northwestern Mutual Life Ins. Co.	Apartments	85,135,994	0.77%
5	Barcelona, LLC	Apartments	81,759,049	0.74%
6	OTR	Commercial	81,445,653	0.74%
7	Wilmington Co.	Commercial	70,222,025	0.63%
8	Monarch Bay Two	Apartments	67,009,095	0.61%
9	Sequoia Equities - Alicante	Apartments	66,901,141	0.60%
10	BRE Properties Inc.	Apartments	64,605,584	0.58%
			\$ 864,563,424	7.81%

Fiscal Year 2004-05 Local Secured Assessed Valuation: \$ 11,068,625,433

(1) Data Prior to fiscal year 2005 is unavailable.

(2) Property Tax revenue is the District's second largest source of revenue.

Moulton Niguel Water District
Outstanding Debt by Type and Debt per Customer
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds ¹	Certificates of Participation	Loans Payable	Operating Lease	Total				
					Total Debt	Customer Accounts	Debt per Customer Accounts	Est. District Population ¹	Debt per Capita
2003		36,235,234	47,731,441	7,054,000	91,020,675	53,370	1,705	164,044	555
2004	62,975,000	34,900,234	46,204,775	6,732,000	150,812,009	53,079	2,841	165,317	912
2005	59,560,000	33,555,234	44,705,460	6,385,000	144,205,694	53,225	2,709	165,636	871
2006	56,410,000	32,135,234	42,425,260	6,008,000	136,978,494	53,338	2,568	165,918	826
2007	53,080,000	30,670,234	40,095,949	5,596,000	129,442,183	53,514	2,419	166,168	779
2008	49,565,000	32,035,000	37,716,904	5,149,000	124,465,904	53,788	2,314	166,677	747
2009	45,765,000	30,465,000	25,507,053	4,667,000	106,404,053	53,952	1,972	166,964	637
2010	41,740,000	88,840,000	23,489,510	-	154,069,510	54,144	2,846	167,408	920
2011	37,400,000	86,805,000	21,432,780	-	145,637,780	54,289	2,683	164,450	886
2012	32,755,000	85,332,336	19,336,551	-	137,423,887	54,362	2,528	165,272	832

- (1) Estimated District population is based on 2010 Census information.
(2) Debt amounts exclude any premiums, discounts or other amortization amounts.

Source: Moulton Niguel Water District Finance Department.

Moulton Niguel Water District
Ratio of Net Direct General Obligation Debt ¹
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total General Obligation Bonds Outstanding</u>	<u>Net Direct General Obligation Debt</u>	<u>Assessed Value ²</u>	<u>Percent of General Obligation Debt to Assessed Value</u>	<u>Population ³</u>	<u>Net General Obligation Debt per Capita</u>
2003	\$ 62,975,000	\$ 6,715,715	3,645,951,494	0.18%	68,490	\$ 98
2004 ⁴	62,975,000	1,882,953	4,071,102,047	0.05%	52,659	36
2005	59,560,000	5,953,813	4,635,100,705	0.13%	52,738	113
2006	56,410,000	5,620,513	5,357,123,304	0.10%	52,813	106
2007	53,080,000	5,737,513	6,256,186,514	0.09%	52,936	108
2008	49,565,000	5,855,913	6,746,635,752	0.09%	53,223	110
2009	45,765,000	5,982,738	6,734,350,793	0.09%	53,437	112
2010	41,740,000	6,022,175	6,193,574,675	0.10%	56,919	106
2011	37,400,000	6,159,813	6,062,288,925	0.10%	58,503	105
2012	32,755,000	6,263,016	6,051,286,544	0.10%	56,114	112

(1) The repayment of the General Obligation Bonds debt is a voter approved property tax assessment to the property owners residing in the service areas in which the debt applies.

(2) Assessed valuations are only property related to the General Obligation Bond debt (GOB).

(3) Estimated District population is based on 2010 census information.

(4) In 2003-04, the District refunded a portion of its GOB obligation from various service areas. The population figure has been adjusted to reflect the updated service area of the GOBs.

Source: Orange County Auditor-Controller, 2000 Census Bureau and Moulton Niguel Water District Accounting Department.

**Moulton Niguel Water District
Direct and Overlapping Debt
For Fiscal Year 2012**

2011-2012 Assessed Valuations: \$14,624,454,704 (Land only before redevelopment adjustment)

	Total Debt 06/30/2012	% Applicable (1)	District's Share of Debt 06/30/2012
Metropolitan Water District	\$ 196,545,000	1.524%	\$ 2,995,346
Capistrano Unified School District School Facilities ID No. 1	45,509,930	32.317%	14,707,444
Laguna Beach Unified School District	30,480,000	2.001%	609,905
Saddleback Valley Unified School District	131,925,000	22.788%	30,063,069
City of San Juan Capistrano	31,815,000	0.217%	69,039
Moulton Niguel Water District, ID No. 6	22,550,000	100.000%	22,550,000
Moulton Niguel Water District, ID No. 7	10,125,000	100.000%	10,125,000
Moulton Niguel Water District, ID No. 8	80,000	100.000%	80,000
Orange County Community Facilities Districts	62,667,096	2.343% to 100%	48,009,960
South Coast Water District	2,965,000	6.824%	202,332
City of Aliso Viejo Community Facilities District No. 2005-01	34,030,000	100.000%	34,030,000
City of Mission Viejo Community Facilities District No. 92-1	2,060,000	100.000%	2,060,000
Capistrano Unified School District Community Facilities District No. 87-1	45,905,000	74.430%	34,167,092
<i>Total Direct & Overlapping Tax and Assessment Debt</i>			<u>\$ 199,669,187</u>

Direct & Overlapping General Fund Debt:

Orange County General Fund Obligations	\$ 233,751,000	7.295%	\$ 17,052,135
Orange County Pension Obligations	214,405,353	7.295%	15,640,871
Orange County Board of Education COP	16,000,000	7.295%	1,167,200
Capistrano Unified School District COP	22,005,000	32.226%	7,091,331
City of Aliso Viejo COP	7,490,000	97.531%	7,305,072
City of Laguna Hills COP	14,970,000	70.588%	10,567,024
City of Mission Viejo COP	39,508,010	31.257%	12,349,019
City of San Juan Capistrano Judgment Obligations	2,690,000	0.217%	5,837
Municipal Water District of Orange County Water Facilities Corp.	12,145,000	8.623%	1,047,263
Moulton Niguel Water District COP (2)	85,215,000	100.000%	85,215,000
<i>Total Gross Direct & Overlapping General Fund Debt</i>			<u>\$ 157,440,752</u>
Less: Self Supporting Debt			
City of Mission Viejo CDFA			(7,266,630)
MWDOC Facilities Corp			(1,047,263)
<i>Total Net Direct & Overlapping General Fund Debt</i>			<u>\$ 149,126,859</u>

Total Direct Debt	\$ 137,306,551
Total Gross Overlapping Debt	239,139,939
Total Net Overlapping Debt	230,826,046
Gross Combined Total Debt (3)	\$ 357,109,939
Net Combined Total Debt	\$ 348,796,046

Ratios to Land Only Assessed Valuation:

Direct Debt (\$32,755,000) (3)	0.22%
Total Direct and Overlapping Tax and Assessment Debt	1.37%

Ratios to Adjusted All Property Assessed Valuation:

Total Direct Debt (\$117,970,000)	0.42%
Gross Combined Total Debt	1.30%
Net Combined Total Debt	1.27%

(1) Percentage of overlapping District's assessed valuation located within boundaries of the District.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

(3) Moulton Niguel Improvement District.

Source: California Municipal Statistics, Inc.

**Moulton Niguel Water District
Pledged Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Total Revenues ¹	Operating Expenses ²	Net Available Revenues	Annual Debt Service ³			Coverage Ratio
				Principal	Interest	Total	
2003	\$ 50,562,582	\$ 34,492,707	\$ 16,069,875	\$ 2,377,245	\$ 3,580,951	\$ 5,958,196	2.70
2004	53,102,198	36,496,320	16,605,878	3,671,059	2,332,737	6,003,796	2.77
2005	46,192,399	36,250,498	9,941,901	3,577,144	2,330,239	5,907,383	1.68
2006	52,424,799	37,487,230	14,937,569	3,700,199	2,404,399	6,104,598	2.45
2007	65,783,315	42,216,143	23,567,172	7,491,753	2,667,114	10,158,867	2.32
2008	65,783,315	42,216,143	23,567,172	4,331,069	2,675,483	7,006,552	3.36
2009	63,008,926	46,993,818	16,015,108	14,261,828	2,163,186	16,425,014	0.98
2010	67,240,733	55,611,741	11,628,992	8,309,566	3,787,050	12,096,616	0.96
2011	71,267,139	55,783,588	15,483,551	3,681,716	5,701,425	9,383,141	1.65
2012	79,198,813	55,577,437	23,621,376	3,686,551	5,727,264	9,413,815	2.51

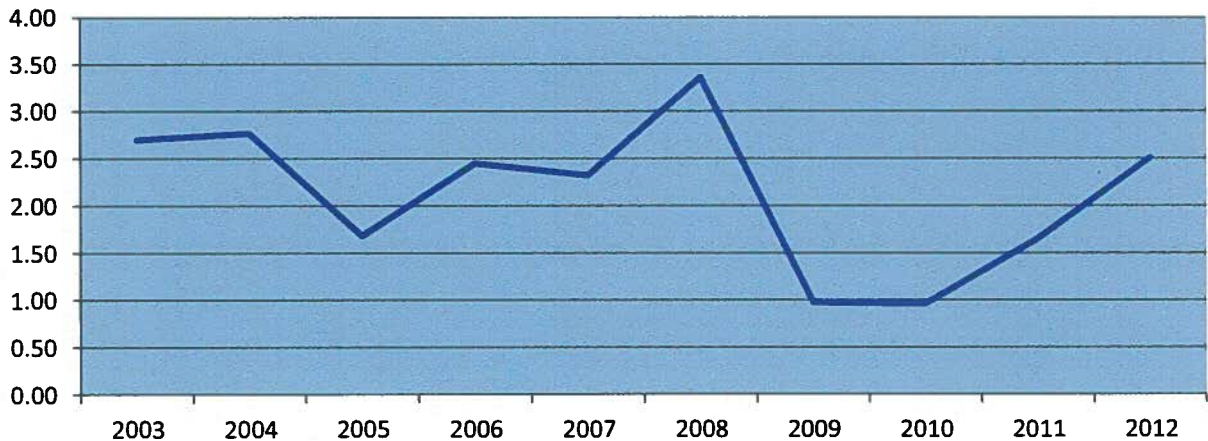
(1) Total Revenues include all operating revenues, interest income and other non-operating revenues excluding general obligation bond assessment revenues used to repay the general obligation bond debt, unrealized gains and connection fees.

(2) Operating expenses excludes depreciation, amortization and unrealized loss.

(3) Principal and Interest amounts do not include debt obligations related to general obligation bonds.

(4) The District repaid its obligations for the WateReuse loan and AMP loan in its entirety during FY 2009 and 2010 respectively.

(5) The District issued \$60,000,000 in COPs in FY 2010 and refunded the 93 COPs in FY 2011.



Source: Moulton Niguel Water District Finance Department.

**Moulton Niguel Water District
Demographic and Economic Statistics
Last Ten Fiscal Years**

Moulton Niguel Water District	
Fiscal Year	Estimated District Population
2003	164,044
2004	165,317
2005	165,636
2006	165,918
2007	166,168
2008	166,677
2009	166,964
2010	167,408
2011	164,450
2012	168,402

Source: Moulton Niguel Water District Billing Department.

City of Laguna Niguel ¹				
Fiscal Year	Population	Per Capita Income	Unemployment Rate	
2003	65,089	41,442	3.70%	
2004	65,620	43,907	3.30%	
2005	65,800	46,283	2.90%	
2006	65,959	49,815	2.60%	
2007	66,058	52,162	3.00%	
2008	66,522	52,705	4.10%	
2009	67,117	51,005	7.00%	
2010	67,666	47,820	7.50%	
2011	63,228	55,196	7.20%	
2012	63,691	49,804	6.80%	

(1) The City of Laguna Niguel represents 41% of total District population. The District serves 100% of the City of Laguna Niguel. Source: City of Laguna Niguel Comprehensive Annual Financial Report for FYE 2012.

City of Aliso Viejo ²				
Calendar Year	Population	Total Personal Income	Per Capita Income	Unemployment Rate
2002	43,955	1,595,698,365	36,303	2.60%
2003	44,846	1,668,540,276	37,206	2.50%
2004	44,854	1,710,327,874	38,131	2.20%
2005	44,924	1,755,584,996	39,079	1.90%
2006	45,037	1,791,256,601	39,773	1.80%
2007	45,249	1,857,154,707	41,043	2.00%
2008	45,683	2,052,308,775	44,925	2.70%
2009	45,634	1,977,868,828	43,342	4.80%
2010	47,823	2,059,354,026	43,062	4.90%
2011	48,988	2,002,825,000	40,884	4.60%

(2) The City of Aliso Viejo represents 26% of total District population. The District serves 98% of the City of Aliso Viejo.

Source: City of Aliso Viejo Comprehensive Annual Financial Report for FYE 2012.

Note: The District boundaries encompass five cities: Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo. Aliso Viejo, Laguna Hills, Laguna Niguel, and Mission Viejo represent 99% of District population.

**Moulton Niguel Water District
Demographic and Economic Statistics
Last Ten Fiscal Years**

Moulton Niguel Water District	
Fiscal Year	Estimated District Population
2003	164,044
2004	165,317
2005	165,636
2006	165,918
2007	166,168
2008	166,677
2009	166,964
2010	167,408
2011	164,450
2012	168,402

City of Laguna Hills ³					
Calendar Year	Population	Total Personal Income (in thousands)	Per Capita Income	Unemployment Rate	
2003	32,833	1,226,811	37,369	2.40%	
2004	32,994	1,275,828	38,677	1.90%	
2005	33,101	1,321,554	39,938	3.10%	
2006	33,129	1,384,623	41,813	2.90%	
2007	33,143	1,425,961	43,058	2.90%	
2008	33,421	1,441,089	43,346	4.00%	
2009	33,280	1,417,282	42,444	7.00%	
2010	33,593	1,500,666	44,672	8.00%	
2011	30,341	1,445,996	47,227	6.60%	
2012	30,410				

Source: Moulton Niguel Water District Billing Department.

(3) The City of Laguna Hills represents 13% of total District population.
Source: City of Laguna Hills Comprehensive Annual Financial Report for FYE 2012.

City of Mission Viejo ⁴				
Fiscal Year	Population	Total Personal Income (in thousands)	Per Capita Income	Unemployment Rate
2003	97,276	116,997,802	39,536	2.5%
2004	97,845	130,200,000	52,871	2.1%
2005	97,848	139,300,000	54,127	2.7%
2006	98,165	150,500,000	56,114	2.6%
2007	98,030	153,300,000	55,172	2.8%
2008	99,781	155,000,000	53,552	3.8%
2009	100,122	148,300,000	51,374	6.8%
2010	93,297	153,300,000	52,124	6.9%
2011	93,483	163,300,000	53,733	6.7%
2012	94,196	166,900,000	54,319	5.7%

(4) The City of Mission Viejo represents 19% of total District population.
Source: City of Mission Viejo Comprehensive Annual Financial Report FYE 2012.

Note: The District boundaries encompass five cities: Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo. Aliso Viejo, Laguna Hills, Laguna Niguel and Mission Viejo represent 99% of District population.

**Moulton Niguel Water District
Principal Employers ¹
Current Year and Six Years Ago**

FY 2012²

<u>Rank</u>	<u>Employer</u>	<u>Operating City</u>	<u>Number of Employees</u>	<u>Percent of Each City's Employment</u>
1	Saddleback College	City of Mission Viejo	1,909	3.45%
2	Mission Hospital Regional Medical Center	City of Mission Viejo	1,275	2.30%
3	Saddleback Valley Unified School District	City of Mission Viejo	1,245	2.25%
4	Saddleback Memorial Hospital	City of Laguna Hills	1,020	6.14%
5	UPS	City of Aliso Viejo	1,000	5.67%
6	Capistrano Unified School District	City of Mission Viejo	846	1.53%
7	Pacific Life Insurance	City of Aliso Viejo	811	4.59%
8	Fluor Corporation	City of Aliso Viejo	630	3.57%
9	Hines Growers LLC	City of Laguna Hills	600	3.61%
10	Quest Software Inc.	City of Aliso Viejo	600	3.40%

FY 2006²

<u>Rank</u>	<u>Employer</u>	<u>Operating City</u>	<u>Number of Employees</u>	<u>Percent of Each City's Employment</u>
1	Saddleback College	City of Mission Viejo	2,130	3.94%
2	Mission Hospital Regional Medical Center	City of Mission Viejo	1,349	2.50%
3	Costco Wholesale Corporation	City of Laguna Niguel	1,136	7.17%
4	Unisys Corporation	City of Mission Viejo	1,000	1.85%
5	Saddleback Valley Unified School District	City of Mission Viejo	640	1.19%
6	Quest Software Inc.	City of Aliso Viejo	600	4.05%
7	Fluor Daniel Construction Co.	City of Aliso Viejo	500	3.38%
8	Wal-Mart Stores, Inc.	City of Laguna Niguel	500	3.15%
9	Macy's Department Stores	City of Mission Viejo	475	0.88%
10	Capistrano Unified School District	City of Laguna Niguel	400	2.52%

(1) Principal Employers represents blended data from the five cities the District serves: Aliso Viejo, Dana Point, Laguna Hills, Laguna Niguel and Mission Viejo. The District does adhere to City boundaries.

(2) The District used data from the FYE 2006 - 2012 CAFR for the cities of Aliso Viejo, Laguna Niguel, Mission Viejo, and Laguna Hills comprising 99% of total District population. Data prior to 2006 was not available in comparable formats for all cities. Ranked according to the number of employees.

Source: All data is derived from the Cities' Comprehensive Annual Financial Report for FYE 2012.

**Moulton Niguel Water District
Full Time Employees by Function
Last Ten Fiscal Years**

<u>Function</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Office of the General Manager	3	3	3	3	3	3	3	3	2.5	3
Human Resources	-	-	-	-	-	-	1	1	1	1
Administration	2	2	2	2	2	2	-	-	-	-
Customer Service	-	-	-	-	-	-	2	2	2	2
Customer Service - Field	19	19	19	19	19	19	17	19	17	18
Customer Service - Office	8	8	8	6	6	6	5	6	6	6
Engineering - Field	10	10	10	10	10	10	10	11	9	8
Engineering - Office	3	3	3	3	3	3	3	3	6.5	9
Financial Services	2	2	2	2	2	2	2	2	2.5	2
Accounting	6	6	6	5	5	5	5	5	5	5
Utility Billing	5	5	5	5	5	5	6	6	7	6
Purchasing	1	1	1	1	1	1	1	2	2	3
Information Technology	2	2	2	3	3	3	3	3	3	3
Operations Administration	6	6	6	6	6	6	6	6	5.5	6
Operations - Plant	18	18	18	18	18	18	18	14	9	10
Operations - Field	17	17	17	17	17	17	17	17	24	22
Total	102	102	102	100	100	100	99	100	102	104

Source: Moulton Niguel Water District Accounting Department.

**Moulton Niguel Water District
Operating Indicators
Last Ten Fiscal Years**

FISCAL YEAR	SERVICE CONNECTIONS	NET INCREASE PIPELINE (MILES)	MONTH OF PEAK CONSUMPTION	PEAK MONTHLY CONSUMPTION (M.G.D.)	AVERAGE DAILY CONSUMPTION (M.G.D.)	DAILY SEWAGE (M.G.D.)	POTABLE IMPORT	TAKEOUTS
2003	58,838	< 1,400	July	41.58	30.28	13.3	30.28	14
2004	53,101	< 1,400	August	39.83	31.27	13.4	31.27	14
2005	53,255	< 1,400	August	40.33	28.84	13.4	28.84	14
2006	53,343	< 1,400	August	39.42	29.71	13.6	29.71	14
2007	53,520	< 1,400	July	41.56	32.20	13.6	32.20	14
2008	53,804	< 1,400	July	41.21	30.69	14.6	30.69	14
2009	53,938	< 1,400	August	39.30	29.24	14.6	29.24	14
2010	54,174	< 1,400	August	34.20	26.15	14.6	26.15	14
2011	54,374	< 1,400	August	31.30	24.16	12.5	24.16	13
2012	54,597	< 1,400	August	34.31	24.43	13.4	20.54	13

FISCAL YEAR	PUMP STATIONS			RESERVOIRS		NO. OF FIRE HYDRANTS	TREATMENT PLANTS	MILES OF WATER	MILES OF SEWER	MILES OF RECYCLED
	RECYCLED	POTABLE	LIFT	RECYCLED	POTABLE					
2002	11	28	18	12	29	6,700	4	700	530	140
2003	11	28	19	12	29	6,900	4	700	530	140
2004	12	28	19	12	29	7,000	4	700	530	140
2005	12	28	19	12	28	7,000	4	700	530	140
2006	12	30	19	12	28	7,150	4	700	530	140
2007	12	30	19	12	28	7,150	4	700	530	140
2008	12	30	19	12	28	7,170	4	700	530	140
2009	12	30	19	12	28	7,200	4	700	530	140
2010	12	30	19	12	28	7,250	4	700	530	144
2011	12	30	19	13	28	7,256	4	700	537	148
2012	12	30	19	13	28	7,258	4	700	537	148

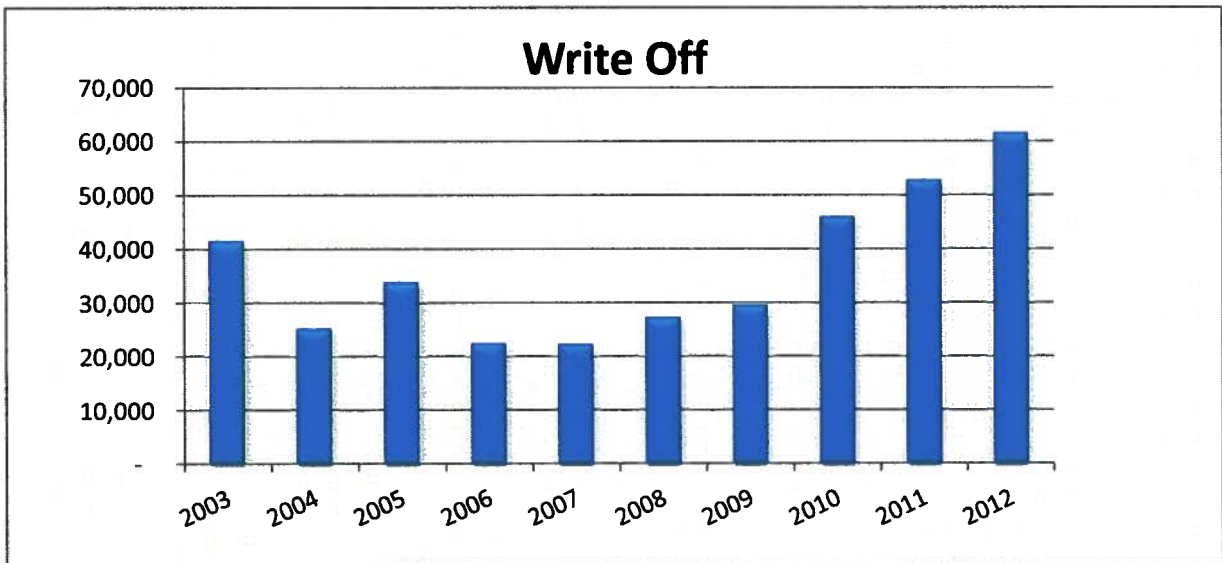
Note: MGD = Millions of Gallons per Day.

(1) The District wholly owns or has capacity rights in its pump stations, reservoirs, and treatment plants.

Source: Moulton Niguel Water District Operations Department.

**Moulton Niguel Water District
Historical Billings, Collections, and Delinquencies
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Balance Beginning FY</u>	<u>Billings</u>	<u>Payments</u>	<u>Balance Ending FY</u>	<u>Write Off</u>	<u>% of Billing</u>
2003	3,868,490	28,419,103	29,601,472	2,686,121	41,313	0.15%
2004	2,686,121	28,999,532	28,812,106	2,873,547	25,112	0.09%
2005	2,873,547	27,669,078	27,691,955	2,850,670	33,721	0.12%
2006	2,850,670	31,842,768	31,285,539	3,407,899	22,364	0.07%
2007	3,407,899	37,288,053	36,585,907	4,110,045	22,209	0.06%
2008	4,110,045	36,200,266	36,697,046	3,613,265	27,189	0.08%
2009	3,613,265	35,213,638	35,775,830	3,051,073	29,480	0.08%
2010	3,051,073	37,584,780	37,232,581	3,403,272	45,825	0.12%
2011	3,403,272	41,104,192	39,862,841	4,644,623	52,657	0.13%
2012	4,644,623	49,766,022	49,423,883	4,986,762	61,286	0.12%

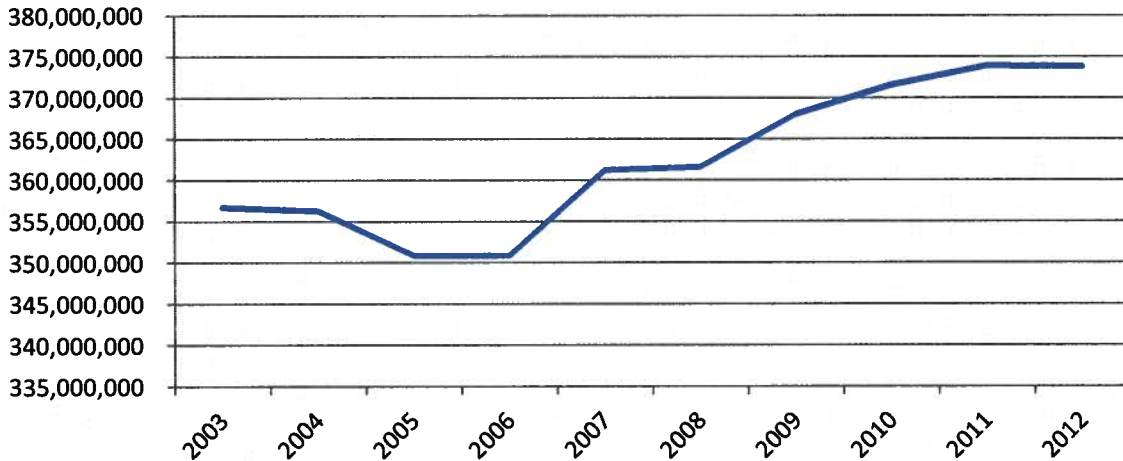


Source: Moulton Niguel Water District Finance Department.

**Moulton Niguel Water District
Capital Assets Statistics
Last Ten Fiscal Years**

Fiscal Year	Water Systems	Capacity Rights	Buildings	Automobiles & Equipment	Land	Construction in Progress	Capital Assets, Net of Depreciation
2003	337,193,436	-	3,875,001	3,270,268	1,091,910	11,263,067	356,693,681
2004	341,057,377	-	3,754,147	3,653,139	1,091,910	6,724,621	356,281,194
2005	335,874,248	-	3,898,176	4,091,970	1,091,910	5,890,330	350,846,634
2006	331,989,023	-	3,744,139	3,981,016	1,091,910	10,071,400	350,877,488
2007	343,948,637	-	3,617,740	3,878,408	1,091,910	8,669,543	361,206,238
2008	341,989,768	-	3,455,277	3,622,842	1,091,910	11,422,556	361,582,353
2009	343,943,064	-	3,365,172	4,145,584	1,091,910	15,463,838	368,009,568
2010	341,293,660	8,551,999	3,538,659	3,484,082	1,091,910	13,583,539	371,543,849
2011	335,560,748	7,995,119	3,401,805	3,448,555	1,091,910	22,383,367	373,881,504
2012	329,278,513	27,691,901	3,217,693	2,949,815	1,091,910	9,572,378	373,802,210

Capital Assets, Net of Depreciation



Source: Moulton Niguel Water District Accounting Department