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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

November 2, 1992

To: Board of Directors (Special Audit Committee--Information)
 (Finance and Insurance Committee--Information)

From: General Counsel

Subject: Comparative Financial Statements as of June 30, 1992 and 1991,
 Statements of Cash and Investments and Cash Receipts and
 Disbursements as of June 30, 1992, and Reports of Independent
 Auditors

Report

Enclosed is a copy of the District's comparative Financial Statements as of June 30, 1992 and 1991, and for the years then ended and the independent auditors' report on the statements. The Financial Statements as of June 30, 1991, and for the year then ended, were audited by the District's previous independent auditors who also had expressed an unqualified opinion on the statements for that period. Also enclosed is a copy of the Statements of Cash and Investments and Cash Receipts and Disbursements as of June 30, 1992, and for the year then ended, and the independent auditors' report on those statements.

Board Committee Assignments

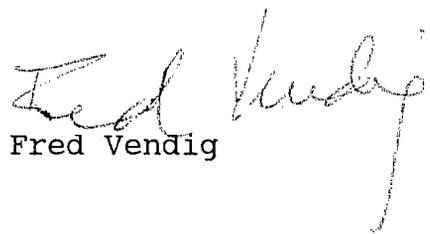
This letter is referred for information to:

The Special Audit Committee because of its responsibility regarding auditors' periodic and annual reports, pursuant to Administrative Code Section 2571(a)(1); and

The Finance and Insurance Committee because of its interest in the form and content of financial statements and reports, pursuant to Administrative Code Section 2441(k).

Recommendation

For information only.



Fred Vendig

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Certified Public Accountants

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 1992 AND 1991**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

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The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Metropolitan Water District
of Southern California

We have audited the accompanying balance sheet of The Metropolitan Water District of Southern California as of June 30, 1992 and the related statements of revenues and expenses, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended June 30, 1991 were audited by other auditors whose report, dated September 6, 1991, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metropolitan Water District of Southern California as of June 30, 1992 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

September 11, 1992

FINANCIAL STATEMENTS

BALANCE SHEETS

The Metropolitan Water District
of Southern California

June 30,	1992	1991
(in Thousands)		
ASSETS		
Current Assets:		
Cash and investments (Notes 3 and 10)	\$ 326,771	\$ 394,552
Receivables:		
Water sales	79,693	55,546
Annexation charges	7,525	7,466
Interest on investments	7,956	12,232
Other	12,951	9,309
Receivables	108,125	84,553
Inventories (at moving-average cost):		
Water in storage	7,057	10,021
Operating supplies	10,736	9,353
Inventories	17,793	19,374
Total current assets	452,689	498,479
Restricted cash and investments (Notes 3 and 9)	447,869	373,454
Plant and Equipment:		
Plant and equipment (Note 2)	2,358,289	2,150,197
Less accumulated depreciation and amortization	440,108	412,061
Total plant and equipment - net	1,918,181	1,738,136
Participation Rights:		
Participation rights in state water facilities (Note 6a)	2,086,816	1,944,712
Participation rights in other facilities (Note 6b)	28,179	8,955
Participation rights	2,114,995	1,953,667
Less accumulated amortization	999,266	923,463
Total participation rights - net	1,115,729	1,030,204
Other Assets:		
Deposits, deferred charges and other (Note 7)	166,733	163,882
Annexation charges—noncurrent portion	32,001	36,547
Assets held for employees' deferred compensation (Notes 3 and 8)	24,079	21,444
Total other assets	222,813	221,873
Total Assets	\$ 4,157,281	\$ 3,862,146

See notes to financial statements.

BALANCE SHEETS

The Metropolitan Water District
of Southern California

June 30,	1992	1991
	(in Thousands)	
LIABILITIES AND EQUITY		
Current Liabilities:		
Payable from current assets:		
Accounts payable and accrued expenses	\$ 220,576	\$ 203,244
Accrued compensated absences-current portion	8,546	7,917
Other	23,773	14,246
	<hr/>	<hr/>
Payable from current assets	252,895	225,407
Payable from restricted assets:		
Commercial paper notes (Note 4)	60,000	60,000
Current portion of long-term debt	27,475	22,445
Accrued bond interest	29,923	20,770
Matured bonds and coupons not presented for payment	2,250	1,952
Customer deposits and trust funds	11,975	6,626
Current portion of obligation for off-aqueduct power facilities	3,230	3,100
	<hr/>	<hr/>
Payable from restricted assets	134,853	114,893
	<hr/>	<hr/>
Total current liabilities	387,748	340,300
Long-Term Liabilities:		
Long-term debt (Note 4)	1,288,285	1,025,524
Obligation for off-aqueduct power facilities (Note 6d)	169,935	167,800
Deferred compensation obligation (Note 8)	24,079	21,444
Accrued compensated absences	7,597	6,439
Obligation for arbitrage tax rebate (Note 6j)	5,678	4,844
	<hr/>	<hr/>
Total long-term liabilities	1,495,574	1,226,051
	<hr/>	<hr/>
Total liabilities	1,883,322	1,566,351
	<hr/>	<hr/>
Commitments and Contingencies (Notes 6 and 11)	—	—
	<hr/>	<hr/>
Equity:		
Contributions in aid of construction	28,551	28,551
	<hr/>	<hr/>
Retained earnings:		
Reserved (Note 9)	141,709	102,949
Unreserved:		
Designated (Note 10)	221,767	289,311
Undesignated	1,881,932	1,874,984
	<hr/>	<hr/>
Retained earnings	2,245,408	2,267,244
	<hr/>	<hr/>
Total equity	2,273,959	2,295,795
	<hr/>	<hr/>
Total Liabilities and Equity	\$ 4,157,281	\$ 3,862,146

STATEMENTS OF REVENUES AND EXPENSES

The Metropolitan Water District
of Southern California

June 30,	1992	1991
	(in Thousands)	
Operating Revenues:		
Water sales	\$ 404,477	\$ 411,876
Power recoveries	13,003	15,064
Total operating revenues	417,480	426,940
Operating Expenses:		
Power and water costs	196,202	172,330
Operations and maintenance	189,227	152,633
Other-net	1,422	5,715
Total operating expenses	386,851	330,678
Operating income before depreciation and amortization	30,629	96,262
Less depreciation and amortization	106,216	117,366
Operating loss	(75,587)	(21,104)
Other Income (Expense):		
Taxes-net	75,497	75,549
Bond interest, net of \$22,190 and \$8,785 of interest capitalized in fiscal 1992 and 1991, respectively	(60,872)	(54,888)
Interest on investments	50,825	67,196
Other-net	(11,699)	15,791
Total other income - net	53,751	103,648
Net Income (Loss)	\$ (21,836)	\$ 82,544

See notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

The Metropolitan Water District
of Southern California

(in Thousands)	Contributions in Aid of Construction	Retained Earnings			Total Equity
		Reserved	Unreserved		
			Designated	Undesignated	
Balance at July 1, 1990	\$ 27,158	\$ 90,598	\$ 390,227	\$ 1,703,875	\$ 2,211,858
Fiscal 1991 contributions in aid of construction	1,393	—	—	—	1,393
Reduction in amounts designated for pay-as-you-go capital expenditures (Note 10)	—	—	(2,894)	2,894	—
Decrease in amounts designated for reduction of future water revenue requirements (Note 10)	—	—	(88,429)	88,429	—
Decrease in amounts designated for reduction of future water treatment costs (Note 10)	—	—	(9,593)	9,593	—
Increase in amounts reserved for revenue bond indenture requirements (Note 9)	—	12,351	—	(12,351)	—
Net income for fiscal 1991	—	—	—	82,544	82,544
Balance at June 30, 1991	28,551	102,949	289,311	1,874,984	2,295,795
Decrease in amounts designated for reduction of future water revenue requirements (Note 10)	—	—	(54,389)	54,389	—
Decrease in amounts designated for reduction of future water treatment costs (Note 10)	—	—	(13,155)	13,155	—
Increase in amounts reserved for revenue bond and commercial paper note indenture requirements (Note 9)	—	38,760	—	(38,760)	—
Net loss for fiscal 1992	—	—	—	(21,836)	(21,836)
Balance at June 30, 1992	\$ 28,551	\$ 141,709	\$ 221,767	\$ 1,881,932	\$ 2,273,959

STATEMENTS OF CASH FLOWS

The Metropolitan Water District
of Southern California

Year Ended June 30,	1992	1991
	(in Thousands)	
Cash Flows from Operating Activities:		
Operating Loss	\$ (75,587)	\$ (21,104)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	106,216	117,366
(Increase) decrease in receivables	(24,839)	30,852
(Increase) decrease in inventories	1,581	(8,630)
Increase in prepaid expenses	(1,703)	(20,004)
Increase in accounts payable	2,787	8,950
Other expense-net	5,935	5,712
Net Cash Provided by Operating Activities	14,390	113,142
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(177,236)	(232,620)
Payments for participation rights in state water facilities	(144,731)	(141,754)
Payments for participation rights in other facilities	(20,129)	(37,881)
Proceeds from sale of general obligation bonds	289,107	—
Proceeds from tax levy	83,572	86,315
Principal and interest paid on bonds and commercial paper notes	(94,712)	(84,758)
Proceeds from sale of commercial paper notes	—	60,000
Purchase of operating equipment	(3,852)	(4,841)
Other	5,109	9
Net Cash Used for Capital and Related Financing Activities	(62,872)	(355,530)
Cash Flows from Investing Activities:		
Purchase of investment securities	(16,004,294)	(12,414,931)
Proceeds from sale and maturities of investment securities	15,997,341	12,583,289
Interest on investments	55,116	74,354
Net Cash Provided by Investing Activities	48,163	242,712
Net (decrease) increase in cash and cash equivalents	(319)	324
Cash and cash equivalents at beginning of year	765	441
Cash and Cash Equivalents at End of Year	\$ 446	\$ 765
Reconciliation of Cash and Investments to Cash and Cash Equivalents		
Unrestricted cash and investments	\$ 326,771	\$ 394,552
Restricted cash and investments	447,869	373,454
Employee deferred compensation fund	23,477	21,092
Total cash and investments	798,117	789,098
Less carrying value of investments and employee deferred compensation fund	797,671	788,333
Total Cash and Cash Equivalents	\$ 446	\$ 765

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

The Metropolitan Water District

of Southern California

June 30, 1992 and 1991

1. Reporting Entity and Summary of Significant Accounting Policies

(a) **Reporting Entity.** The Metropolitan Water District of Southern California (the "District"), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (the "Act") by the California Legislature. The District's primary purposes under the Act are to develop, store, and distribute water at wholesale rates for domestic and municipal purposes to its member public agencies. Surplus water is sold for other beneficial uses, including agricultural use. The District's service area comprises 5,139 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. There are 27 independent member agencies of the District, consisting of 14 cities, 12 municipal water districts, and one county water authority. The District has no oversight responsibility over its member agencies and no component units within its reporting entity structure. The District is governed by a 51 member Board of Directors comprised of representatives of the member agencies. Representation and voting rights are based on the relative assessed valuations of property within the member agencies.

(b) **Principles of Presentation.** The District operates as a utility enterprise and the accompanying financial statements reflect the accrual basis of accounting. In order to comply with certain debt covenants and other purposes, the District has segregated its cash and investment accounts to include a water revenue fund, operations and maintenance fund, revenue bond reserve fund, revenue remainder fund, general fund, water rate and water treatment surcharge stabilization funds, special tax fund, state contract fund, bond interest and redemption funds, bond excess earnings funds, general obligation and revenue bond construction, pay-as-you-go fund, revolving construction fund, commercial paper note construction fund, commercial paper interest and principal payment fund, commercial paper excess earnings fund, several trust funds and an employee deferred compensation fund.

For purposes of the statements of cash flows, the District defines cash and cash equivalents as cash in demand accounts, cash on hand and non-negotiable time

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

deposits. In prior years this definition also included investments with a maturity date of less than ninety days. The District has determined that the change to the current definition is more appropriate. The indirect method is used to present cash flows from operating activities and for the periods presented, non-cash investing, capital and financing activities were not significant.

Certain reclassifications of prior year amounts have been made in order to conform to the current year presentation.

(c) **Revenue Policies.** The District's principal source of revenue is water sales. Other sources of revenue include taxes, interest income and hydroelectric power sales. Generally, water revenue requirements are determined by the Board after giving consideration to a formula which allocates costs between water users and taxpayers. Water rates are established by the Board of Directors and are not subject to regulation by the Public Utilities Commission of California or by any other local, state, or federal agency. Water is delivered to the member agencies on demand, and revenue is recognized at the time of delivery.

(d) **Taxing Authority.** The District is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution. Property taxes are levied 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, respectively. The taxes levied are billed and collected by the counties in the District's service area on behalf of the District and are remitted to the District throughout the year.

Property tax revenue is used to pay the District's general obligation bond debt service and a portion of its obligations under the State Water Contract. Special taxes collected pursuant to pre-1978 annexation proceedings are also used for payments under the State Water Contract. In developing the annual tax levy, the District takes into account potential delinquencies, tax allocations to redevelopment agencies and supplemental tax collections.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

Effective in fiscal 1991, as a result of legislation enacted in 1984, future tax levies, other than special annexation taxes, were restricted to the amount needed to pay for debt service on District general obligation bonds and the District's proportionate obligation for general obligation bond debt service of the State under its contract with the State for a water supply (the "State Water Contract"). Generally, the net tax levy is determined using a formula which allocates costs between water users and taxpayers unless that method produces an amount that exceeds the amount permitted by the 1984 legislation or is less than a lower limit of approximately \$77 million established by the Board in 1991. Under the terms of the 1984 legislation, however, tax levies may exceed the upper limit during periods of financial necessity.

(e) **Annexation Charges.** Charges are collected for areas that annex to the District unless the areas annex to cities which are member agencies, in which case no charge is collected. Since fiscal 1978, such charges are paid in cash before completion of an annexation.

Prior to fiscal 1978, annexation charges were primarily collected in installments, including interest on unpaid balances, through the levy of special ad valorem taxes. It is the District's policy not to record a receivable on pre-1978 annexations until amortization of the principal and interest thereon can be accomplished within 50 years following the date of annexation through application of a maximum annual tax rate of 0.1875 percent of assessed valuation or less, assuming that the assessed valuation of the annexed area remains constant. Accordingly, at June 30, 1992 and 1991, annexation receivables of \$39,526,000 and \$44,012,000, respectively, including uncollected interest of \$8,714,000 and \$8,909,000, respectively, are not reflected as assets or included in the equity of the District.

(f) **Plant and Equipment.** District plant and equipment are recorded at cost. The cost of constructed assets includes labor, materials, certain general and administrative expenses and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which range from 80 years for storage and distribution facilities, 50 years for treatment plants and hydroelectric power recovery

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California

June 30, 1992 and 1991

facilities, and 4 to 20 years for vehicles and other operating equipment. The cost of major computer systems software, whether purchased or internally developed, is capitalized if the estimated cost equals or exceeds \$250,000 and useful life is at least 5 years.

(g) **State Water Project Participation Rights.** The District is one of thirty participants contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, the District is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 6a). The District and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 36 percent of the District's total expenditures during fiscal 1992 pertained to its payment obligations for the project. The magnitude of these payments is primarily based on contractual water delivery entitlements, the requested and actual deliveries received, and the cost of power required for such deliveries.

Management's present intention is to exercise the District's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated eighty-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

In addition to system "on-aqueduct" power facilities, the State has, either on its own or by joint venture, financed certain off-aqueduct power facilities (OAPF). The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities. The District is entitled to a proportionate share of the revenues resulting from sales of excess power. The District and the other water contractors are responsible for repaying the capital and operating costs of the OAPF regardless of the amount of power generated (see Note 6d).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

The District capitalizes its share of system construction costs as Participation Rights in State Water Facilities, as such costs are billed by the State. Unamortized participation rights essentially represent a prepayment for future water deliveries through the State system. The District's share of system operations and maintenance costs is charged to expense.

The District amortizes a portion of capitalized participation rights each month using a formula that considers the estimated useful life and estimated production capacity of the assets based upon information provided by the State of California. Amortization expense totalled \$75,804,000 and \$91,968,000 in fiscal 1992 and 1991, respectively.

(h) **Participation Rights in Imperial Irrigation District Facilities.** The District has entered into a water conservation agreement with the Imperial Irrigation District (IID) (see Note 6b). As capital projects are completed, the costs contributed by the District to each completed project will be capitalized as participation rights in the District's accounting records. These participation rights are amortized using the straight-line method over the original term of the agreement, which is thirty-five years, plus the number of years remaining in the original five-year construction period. Amortization expense of \$486,000 and \$115,000 was recorded in fiscal 1992 and 1991 respectively.

(i) **Contributions in Aid of Construction.** Amounts received from member agencies for construction of service connections or other facilities are included as part of equity and are combined with retained earnings for purposes of determining the District's borrowing limitations. Contributed service connections or other facilities are recorded as District assets and are depreciated in accordance with established policy for similar capital assets.

(j) **Compensated Absences.** The District accrues its estimated obligations for vacation, sick, and compensatory leave when earned by eligible employees. The allocations to the current and long-term portions of these vested obligations are based on experience.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California

June 30, 1992 and 1991

2. Plant and Equipment

At June 30, 1992 and 1991, plant and equipment (at cost) consists of the following (in Thousands):

	1992	1991
Land, easements, and rights of way	\$ 139,725	\$ 123,924
Parker Power Plant and Dam	13,009	13,009
Power recovery plants	103,038	103,038
Other dams and reservoirs	103,359	103,359
Water transportation facilities	936,030	941,625
Pumping plants and facilities	66,871	66,937
Treatment plants and facilities	252,239	252,617
Power lines and communication facilities	14,228	14,228
Miscellaneous	44,225	43,411
Construction in progress	582,839	393,835
Major equipment	58,131	49,619
Pre-operating interest and other expenses of original aqueduct	44,595	44,595
Plant and equipment	<u>2,358,289</u>	<u>2,150,197</u>
Less accumulated depreciation and amortization	440,108	412,061
Total plant and equipment — net	<u>\$ 1,918,181</u>	<u>\$ 1,738,136</u>

Title to the northerly portion of the First San Diego Aqueduct (included in the asset category of water transportation facilities at a cost of \$19,595,000) is vested in the United States government. It will be transferred to the District in 1995 upon completion of reimbursement to the United States for the cost of the aqueduct. Title to Parker Power Plant and Dam and surrounding land is also vested in the United States government. However, the District is entitled in perpetuity to approximately one-half of the energy generated at the power plant and to certain water diversion rights from the reservoir.

3. Cash and Investments

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Cash and investments may be restricted as to use or unrestricted, depending on the specific purposes for which such assets are held (see Notes 9 and 10).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

Annually the District's Treasurer submits a statement of investment policy to the Board. The statement describes the Treasurer's investment authority, practices and limitations. The District's basic investment policy has as its objectives, in order of importance: safety of principal, liquidity, and return on investment.

A summary of the District's deposit and investment policies and information on credit or market risks follows:

(a) **Deposits.** The balances per bank of the District's demand deposits, as categorized by credit risk, are shown below (in Thousands):

June 30,	1992	1991
Amount insured by the FDIC	\$ 100	\$ 100
Amount collateralized with securities held by the bank's trust department in the District's name	1,415	304
Total balance per bank	<u>\$ 1,515</u>	<u>\$ 404</u>

The carrying amounts of the District's cash and demand deposits at June 30, 1992 and 1991 are disclosed on the accompanying table of cash and investments on page 15.

The District's demand and time deposits are covered by federal depository up to a maximum of \$100,000 per financial institution. Deposits in excess of this limit are collateralized by pooled securities held by the financial institution on behalf of the District and other public agencies, as required by State law. State law requires public agency deposits, including time deposits, in excess of insured levels to be collateralized by the depository institutions with pooled government securities having market values of at least 110 percent of the deposits. To ensure compliance with the 110 percent requirement, the collateral must be marked to market at least monthly by the bank. The District's investment policy does not permit real estate mortgages or mortgage-backed securities to qualify as acceptable collateral in these pools.

(b) **Investments, including Repurchase Agreements.** The District is permitted by State law and Board policy to invest in a variety of instruments

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

including U.S. Treasury, federal agencies, repurchase agreements, and other securities (including negotiable certificates of deposit, bankers' acceptances, and prime commercial paper). All investments are subject to various limitations and restrictions. In the case of money market instruments issued by private entities, risk is controlled by strict eligibility requirements and duration limitations. All securities purchased are delivered against payment and are held in safekeeping on the District's behalf by the trust department of the bank used by the District.

In accordance with Governmental Accounting Standards Board Statement No. 3 (GASB 3) criteria, the District's credit risk on investments is categorized on page 15 in the accompanying table of Cash and Investments as follows: Category 1 consists of investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. Category 2 would consist of securities that are uninsured and unregistered and held by the counter-party's trust department or by its agent in the District's name. Category 3 would consist of securities that are uninsured and unregistered and held by the counter-party, its trust department, or its agent, but not held in the District's name. Deposits in investment pools managed by other governments, such as the District's investments in the State Treasury Local Agency Investment Fund, are not subject to categorization under GASB 3 guidelines.

(c) **Reverse Repurchase Agreements.** The District is permitted to sell securities owned under written agreements to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the fiscal years ended June 30, 1992 and 1991.

(d) **Investments in Escrow Trust Deposits.** At June 30, 1992 and 1991, U.S. Treasury securities costing \$234,583,000 and \$238,492,000, respectively, were held in escrow trust arrangements at a bank for the redemption of the District's 1985 Waterworks General Obligation Bonds, Series F, and Waterworks Revenue Bonds, Issue of 1983, which issues were refunded in advance of their respective first call dates (see Note 4). The refundings resulted in the defeasance of these bond issues; accordingly, the bond obligations and related investments in trust are excluded for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District

of Southern California

June 30, 1992 and 1991

Cash and Investments							
(in Thousands)							
	June 30, 1992				June 30, 1991		
	Category			Carrying Amount	Market Value	Carrying Amount	Market Value
	1	2	3				
U.S. Treasury securities	\$ 275,065	\$ —	\$ —	\$ 275,065	\$ 278,781	\$ 328,680	\$ 332,028
U.S. Guarantees - GNMA's	9,119	—	—	9,119	9,829	10,420	10,569
Federal agency securities	110,713	—	—	110,713	113,260	86,719	88,815
State agency securities	34	—	—	34	34	29	29
Bankers' acceptances	51,412	—	—	51,412	51,521	68,909	69,721
Prime commercial paper	129,973	—	—	129,973	129,973	128,291	128,334
Negotiable certificates of deposit	40,794	—	—	40,794	40,794	59,924	59,924
Repurchase agreements	165,561	—	—	165,561	166,812	95,361	95,361
Total	<u>\$ 782,671</u>	<u>\$ —</u>	<u>\$ —</u>	782,671	791,004		
Local agency investment fund - State of California				15,000	15,000	10,000	10,000
Total investments				797,671	<u>\$ 806,004</u>	788,333	<u>\$ 794,781</u>
Add:							
Cash/demand deposits				346		665	
Non-negotiable certificate of deposit				100		100	
Total cash				<u>446</u>		<u>765</u>	
Total cash and investments				798,117		789,098	
Less:							
Restricted cash and investments				447,869		373,454	
Employee deferred compensation fund (Note 8)				23,477		21,092	
Current and unrestricted cash and investments				<u>\$ 326,771</u>		<u>\$ 394,552</u>	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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4. Short-Term and Long-Term Debt

The District's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within the District. Existing outstanding long-term debt of \$1.316 billion represents only a fraction of one percent of the 1992-93 taxable assessed valuation of \$865 billion.

The Board authorized the issuance of \$200 million in commercial paper notes, and \$60 million were sold and were outstanding at June 30, 1992 and 1991. These notes are intended to be redeemed by net operating revenues and are subordinate to all other District debt. It is the intent of the District to renew these notes as they become due, at the option of the District.

In July 1991, the District sold \$300 million of Water Works Revenue Bonds with an average interest cost of 6.8788 percent, to finance construction of improvements and works of the District. These bonds have varying interest rates. Their maturities extend to July 2021 and are subject to mandatory and optional redemption provisions. These obligations are secured by a pledge of net revenues of the District and are subordinate to the prior lien revenue bonds.

The District's long-term debt consists of general obligation and revenue bond issues and other obligations. The various revenue bond obligations are special limited obligations of the District and are secured by a pledge of net operating revenues of the District and contain certain restrictive covenants, with which the District has complied. The general obligation bonds are secured by the District's authority to levy property taxes in an unlimited amount for such purposes. All of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and will continue to be, utilized to fund new facilities, improvements and betterments.

In 1966, voter authorization was obtained to incur \$850,000,000 of general obligation bonded indebtedness to finance a portion of the District's capital improvement program. The original amounts issued under the authorization totalled

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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\$800,000,000 at June 30, 1992, issued as Series A through G. At June 30, 1992, a total of \$682,535,000 in general obligation bonds was outstanding. Portions of the Series C bonds (those maturing on or after March 1, 1981) were advance refunded by the Waterworks Refunding Bonds, Issue of 1976, and portions of the Series F Bonds (those maturing on or after March 1, 1996) were advance refunded by the Waterworks Refunding General Obligation Bonds, Issue of 1986. The Series F bonds outstanding, which are considered defeased, totaled \$81,220,000 at June 30, 1992 and 1991.

Each general obligation bond issue consists of both serial and term bonds which mature in varying amounts through 2018 at interest rates ranging from 4.0 percent to 9.2 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after certain interest payment dates are subject to call and redemption prior to maturity at the option of the District, as a whole or in part (by lot within each maturity) on any interest payment date. Early redemptions made on certain interest payment dates are subject to an early redemption premium.

Pursuant to a 1974 voter authorization, additional funds, primarily for the capital improvement program, were obtained through sales of Waterworks Revenue Bonds in 1975, 1976, 1979, 1983 and 1991. Revenue bonds may be issued subject to certain provisions, including a requirement that the total of revenue bonds outstanding does not exceed the equity of the District as of the fiscal year-end prior to such issuance. At June 30, 1992, a total of \$671,045,000 of revenue bonds had been issued under the 1974 authorization, of which \$652,095,000 remain outstanding. Portions of the 1983 Waterworks Revenue Bonds (those maturing on or after June 1, 1994) were defeased by the Waterworks Refunding Revenue Bonds, Issue of 1986. The outstanding 1983 bonds which are considered defeased, totalled \$143,110,000 at June 30, 1992 and 1991.

Each revenue bond issue consists of both serial and term bonds which mature in varying amounts through 2023 at interest rates ranging from 4.75 percent to 8.75 percent. The term bonds are subject to mandatory redemption prior to maturity. All revenue bonds maturing on or after certain interest payment dates are subject to call and redemption prior to maturity at the option of the District, as a

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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whole or in part (by lot within each maturity) on any interest payment date. Early redemptions made on certain interest payment dates are subject to an early redemption premium.

Interest rates on the outstanding obligations range from 2.25 percent to 9.2 percent. Future principal and interest obligations on the currently outstanding issues are (in Thousands):

Due in fiscal year ending June 30,	Principal	Interest	Total
1993	\$ 27,475	\$ 80,134	\$ 107,609
1994	28,839	78,524	107,363
1995	30,275	76,818	107,093
1996	31,860	74,983	106,843
1997	33,685	73,096	106,781
Later years	1,183,060	965,331	2,148,391
	\$ 1,335,194	\$ 1,348,886	\$ 2,684,080
Less unamortized bond discount, net	19,434		
Total long-term debt	\$ 1,315,760		
Less current portion	27,475		
Long-term portion of debt	\$ 1,288,285		

In August 1992, the District sold \$550,000,000 of Water Revenue Bonds at an average interest cost of 5.94 percent, to finance construction of improvements and works of the District. These bonds have varying interest rates. Their maturities extend to July 2022 and are subject to mandatory and optional redemption provisions. These obligations are not reflected in the preceding table.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The changes in components of total long-term debt are listed below (in Thousands):

	Maturity Dates	Range of Interest Rates
General obligation bonds and refunding general obligation bonds:		
Colorado river waterworks bonds—1931	9/1/92—4/1/94	2.25%—3.0%
Waterworks bonds—1966 — series a-g	3/1/93—3/1/22	4%—9.2%
Waterworks refunding general obligation bonds, issue of 1976	3/1/93—3/1/00	4.9%—5.25%
Waterworks refunding general obligation bonds, issue of 1986	6/1/93—6/1/23	5.8%—6.75%
Total general obligation and refunding general obligation bonds		
Revenue and refunding revenue bonds:		
Waterworks refunding revenue bonds, issue of 1978	1/1/93—1/1/20	5%—5.6%
Waterworks revenue bonds—1979	7/1/92—7/1/20	5.4%—6.1%
Waterworks revenue bonds—1983	6/1/93	7.75%—8.75%
Waterworks refunding revenue bonds, issue of 1986	3/1/93—3/1/10	5.6%—6.75%
Waterworks revenue bonds—1991	7/1/92—7/1/21	4.75%—7.75%
Total revenue and refunding revenue bonds		
Payable to San Diego County Water Authority	6/1/92—6/1/95	2.519%
Unamortized bond discount, net		
Total long-term debt		

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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June 30, 1991	Additions	Less Maturities and (Amortization)	June 30, 1992
\$ 1,250	\$ —	\$ 500	\$ 750
553,505	—	11,620	541,885
51,500	—	4,600	46,900
<u>93,765</u>	<u>—</u>	<u>765</u>	<u>93,000</u>
<u>700,020</u>	<u>—</u>	<u>17,485</u>	<u>682,535</u>
125,230	—	2,330	122,900
68,625	—	800	67,825
2,035	—	980	1,055
160,950	—	635	160,315
<u>—</u>	<u>300,000</u>	<u>—</u>	<u>300,000</u>
<u>356,840</u>	<u>300,000</u>	<u>4,745</u>	<u>652,095</u>
778	—	214	564
<u>(9,669)</u>	<u>(10,893)</u>	<u>(1,128)</u>	<u>(19,434)</u>
<u><u>\$ 1,047,969</u></u>	<u><u>\$ 289,107</u></u>	<u><u>\$ 21,316</u></u>	<u><u>\$ 1,315,760</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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5. Pension Plan

(a) **Plan Description.** The District is a member of the California Public Employees' Retirement System (PERS), an agent multiple-employer pension system which provides a contributory defined-benefit pension for substantially all District employees. PERS functions as an investment and administrative agent for its members.

All full-time District employees are required to participate in PERS. The pension plan provides for service and disability retirement, survivor, and death benefits. Vesting occurs after 5 years of credited service. Vested employees who retire at or after age 50 are entitled to a service retirement allowance, payable monthly for the remainder of their lives. Several survivor benefit options are available which reduce a retiree's unmodified allowance.

The District makes biweekly contributions to PERS based on actuarially determined employer contribution rates which, together with employee contributions, will provide sufficient assets to pay benefits when due. Employees are required to contribute 7 percent of their gross earnings (excluding premium pay) to PERS, except that employees hired prior to January 1, 1981, contribute 4.5 percent of their compensation and the District contributes the remaining 2.5 percent.

The District's payroll covered by PERS totalled approximately \$97 million and \$82.2 million, respectively, for the years ended June 30, 1992 and 1991. Total payrolls for the same two periods were \$106.5 million and \$92 million, respectively.

(b) **Funding Status and Progress.** The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to PERS by its members.

The latest pension benefit obligation information available is as of June 30, 1991 and 1990 and was computed as part of actuarial valuations performed as of those dates, but which reflect all plan amendments adopted through June 30, 1992 and 1991, respectively. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8.75 percent a year compounded annually, and (b) projected salary increases of 7 percent a year compounded annually, attributable to inflation, merit and other increases. Mortality rates and other economic projections are also utilized in the valuation process.

The pension benefit obligation and funded position applicable to the District's employees is as follows, based on the latest information provided by PERS (in Thousands):

June 30,	1991	1990
Pension benefit obligation:		
Retirees and beneficiaries receiving benefits and terminated employees not receiving benefits	\$ 117,786	\$ 106,305
Current employees:		
Accumulated employee contributions, including allocated investment earnings	70,465	64,098
Employer-financed vested	107,875	105,712
Employer-financed nonvested	<u>3,631</u>	<u>3,101</u>
Total pension benefit obligation	<u>299,757</u>	<u>279,216</u>
Less: Net assets available for benefits—at cost or amortized cost (market values of \$331,038 and \$304,161 at June 30, 1991 and 1990, respectively)	<u>298,501</u>	<u>282,594</u>
Unfunded (assets in excess of) pension benefit obligation	<u>\$ 1,256</u>	<u>\$ (3,378)</u>

(c) **Actuarially Determined Contribution Requirements and Contributions Made.** The District's annual contribution rate is recalculated effective each July 1 as part of an annual actuarial valuation. The purpose of an actuarial cost method is to assign to each year the cost of the benefit accrued in that year. The

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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actuarial cost of the benefits assigned to a particular year is called the normal cost. PERS uses the Entry Age Normal Actuarial Cost Method which is a projected benefit cost method. That is, PERS takes into account those benefits that are expected to be earned in the future as well as those already accrued.

The current normal cost would be sufficient to fund the current benefit structure if it had been paid since the members' dates of employment and the emerging experience through the years had been identical to the current actuarial assumptions. However, because of changes through the years in the benefit structure and the actuarial assumptions, and because actuarial gains and losses caused by experience are different from such assumptions, these conditions normally will not be satisfied and, therefore, an unfunded actuarial liability may develop.

The present value of projected benefits is funded by the normal cost paid over the future working lifetime of the plan participants, assets accumulated to date, and the unfunded actuarial liability, if any, which will be funded by the District over a fixed period of time, generally through the year 2000.

The significant actuarial assumptions used to compute the District's contribution requirement are the same as those used to compute the pension benefit obligation. The District's contributions to PERS for fiscal 1992 and 1991 were made in accordance with requirements determined as part of actuarial valuations performed as of June 30, 1991 and 1990, respectively, as follows (in Thousands):

Actuarially determined contributions required to cover:	1992		1991	
	Amount	Percentage of Covered Payroll	Amount	Percentage of Covered Payroll
Normal cost	\$ 8,480	8.75%	\$ 5,821	7.08%
Contributions on behalf of employees hired before 1/1/81	1,001	1.03	984	1.20
Total contributions	<u>\$ 9,481</u>	<u>9.78%</u>	<u>\$ 6,805</u>	<u>8.28%</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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District employees contributed \$5,835,000 (representing 6.017 percent of covered payroll) and \$4,814,000 (representing 5.856 percent of covered payroll) during fiscal 1992 and 1991, respectively.

(d) **Trend Information.** Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Trend information required by Statement No. 5 of the Government Accounting Standards Board is presented below to the extent available from PERS for disclosure purposes (in Thousands):

Fiscal Year Ending June 30	Net Assets Available for Benefits (at cost)	Pension Benefit Obligation	Percentage Funded	Unfunded (assets in excess of) Pension Benefit Obligation	Annual Covered	Unfunded (assets in excess of) Pension Benefit Obligation as a percentage of Covered Payroll
1987	\$ 206,268	\$ 209,913	98.26%	\$ 3,645	\$ 54,100	6.74%
1988	228,871	226,198	101.18	(2,673)	59,200	(4.52)
1989	259,523	247,941	104.67	(11,582)	64,200	(18.04)
1990	282,594	279,216	101.21	(3,378)	72,800	(4.64)
1991	298,501	299,757	99.58	1,256	82,200	1.53

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded or assets in excess of pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the District's funding status in PERS on a going-concern basis. Analysis of this percentage over time indicates whether the District's funding position is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the position. Trends in the funded status of the pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded or assets in excess of pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the District's progress made in accumulating sufficient assets in PERS to pay benefits when due. Generally, the smaller this percentage, the stronger the fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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For fiscal 1992, 1991, and 1990, the District's contributions to the system, all made in accordance with actuarially determined requirements, were 9.8 percent, 8.3 percent and 8.5 percent, respectively, of annual covered payroll.

6. Commitments and Contingencies

(a) **State Water Contract.** Estimates of the District's share of the projected fixed costs of the State Water Project are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation.

During the next five years payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows (in Thousands):

Fiscal year ending June 30,

1993	\$ 352,346
1994	323,940
1995	329,771
1996	325,440
1997	324,661

According to the State's latest estimates, the District's long-term obligations under the contract, for capital and minimum operations and maintenance costs, including interest from 1992 to year 2035, are as follows (in Thousands):

Conservation facilities	\$ 1,848,718
Transportation facilities	5,531,447
Off-aqueduct power facilities (See Note 1g)	1,694,591
Revenue bond surcharge	334,499
East Branch enlargement	831,167
Total	<u>\$ 10,240,422</u>

The amounts shown above do not contain any escalation for inflation, are based upon a number of assumptions, are contingent upon future events, and are

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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subject to significant variation over time. Accordingly, virtually none of the estimated obligations, other than the \$173.2 million obligation related to loss accruals on certain off-aqueduct power facilities (see Note 6d), are recorded as liabilities in the accompanying financial statements.

(b) Participation Rights in Imperial Irrigation District Facilities. In December 1988 the District and the Imperial Irrigation District (IID) entered into a water conservation agreement which became effective through a subsequent approval agreement in December 1989. IID is a California agency which has contracted for the delivery of Colorado River water.

Under the terms of the IID/MWD Agreement the District will pay for capital and annual direct costs, and certain indirect costs of specific conservation projects within IID. The District will then receive an estimated 106,000 acre-feet annually, except under certain limited circumstances, upon completion of construction of the conservation projects.

All conserved water must be used by the District in the calendar year the water is conserved, unless stored in a reservoir pursuant to a separate banking agreement. The initial term of the agreement is 35 years after completion of the last project or initial operation of that project, whichever is later.

As of June 30, 1992, the District paid IID a total of \$87.2 million for construction costs, operations and maintenance costs and indirect costs for conservation projects. During the remaining two years of the construction program the District is obligated to pay IID an estimated \$70 million for construction, indirect and operations and maintenance costs. In addition, the District will pay IID approximately \$3 million per year for operation and maintenance costs during the 35 year term of this agreement.

(c) Land Following Program. In May 1992 the Board authorized the General Manager to execute agreements for the Palo Verde Irrigation District (PVID) land following program. It is anticipated that this two year test program will develop 200,000 acre feet of water for the District's use at an estimated cost of \$27 million.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
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The District will execute agreements with lessees and or landowners in PVID to fallow an agreed upon amount of acreage. This means that they will not use Colorado River water to irrigate the fallowed acreage. The District will store this unused water in Lake Mead under a separate agreement and it will be available until January 1, 2000. The program costs will be recorded as intangible water rights, in keeping with the District's policy of recording water owned by the District that is stored in another agency's facilities. Also, it is management's intent that this water will be retained in this storage facility to be sold in future years, prior to January 1, 2000.

(d) **Off-Aqueduct Power Facilities.** As described in Note 1g, the State Department of Water Resources (DWR) has financed the construction of certain off-aqueduct power facilities (OAPF) in order to provide power for water transportation purposes for the State Water Project system. Construction on one such facility, the South Geysers Geothermal Power Plant, was suspended in 1987 due to a lack of a steam supply sufficient to operate the plant at planned capacity. During the year ended June 30, 1989, DWR officials decided to dispose of the plant assets, if possible, by leasing the steam field and plant site and selling the power plant equipment. A second OAPF project, the Bottle Rock Geothermal Power Plant, was shut down (mothballed) in 1990. This shutdown was necessary because the declining steam supply made continued operation of the plant uneconomical.

As a result of these actions by DWR, management recorded losses of \$76.5 million and \$127.6 million in fiscal years 1989 and 1990, respectively. The District's estimated remaining long-term obligations for debt service on the Bottle Rock and South Geysers facilities as of June 30, 1992, which are based on the State's latest estimates, including imputed interest at 6.66 percent through the year 2024, are as follows (in Thousands):

Due in fiscal year ending June 30,	Principal	Interest	Total
1993	\$ 3,230	\$ 11,535	\$ 14,765
1994	3,445	11,320	14,765
1995	3,676	11,091	14,767
1996	3,923	10,846	14,769
1997	4,197	10,585	14,782
Later years	154,694	122,078	276,772
Total long-term obligation	<u>173,165</u>	<u>\$ 177,455</u>	<u>\$ 350,620</u>
Less current portion	<u>3,230</u>		
Long-term portion of obligation	<u>\$ 169,935</u>		

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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(e) **Construction Programs and Contracts.** At June 30, 1992, the estimated cost of the District's planned construction program through fiscal year 2002 totalled approximately \$5.9 billion, including escalations for inflation of 5 percent per year. The program includes the estimated costs of facilities which may be required to meet future water quality standards (see Note 6i). Planning studies are in progress to revise and update the construction program based upon estimates of increasing population and water demand in the District's service area, and the need to enhance the water treatment process.

The District had commitments under construction contracts in force at June 30, 1992 and 1991, totalling approximately \$108,774,000 and \$73,226,000, respectively, for rehabilitation of its aqueduct system and expansion of its distribution system.

(f) **Claims and Litigation.** A number of suits and claims arising in the normal course of business are pending against the District. In the opinion of the District's General Counsel, the results of such legal actions will not have a material effect on the District's financial position.

(g) **Lease and Purchase Commitments.** Commitments under installment purchases are not material.

The District is obligated under certain leases for office and warehouse space which are accounted for as operating leases. Rent expense for these leases was approximately \$1,623,000 and \$687,600 for fiscal 1992 and 1991, respectively.

A lease previously executed by the District which was to commence during fiscal 1991-92 was deemed rejected by the lessor by order of the United States Bankruptcy Court and accordingly has been eliminated from future lease obligations. In order to replace the lost space and obtain additional needed space, the District entered into a six year lease for 344,000 square feet of office space in downtown Los Angeles. This lease is effective beginning fiscal 1993 and the future lease payments listed in the table which follows include this new lease.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 1992 (in Thousands).

Fiscal year ending June 30

1993	\$ 2,350
1994	6,390
1995	10,086
1996	10,159
1997	9,932
Later Years	10,669
Total Minimum Payments Required	<u>\$ 49,586</u>

(h) **Post-Retirement Benefits.** The District pays a basic premium to the California Public Employees' Retirement System to provide health care benefits to its retirees. These benefits are provided to all retired District employees and are paid on a pay-as-you-go basis. During fiscal years 1992 and 1991, the District paid \$2,135,000 and \$1,727,000, respectively, for health care benefits for its retirees.

(i) **Drinking Water Quality Standards.** Under the Safe Drinking Water Act (SDWA) Amendments of 1986, the United States Environmental Protection Agency (EPA) has been mandated by Congress to set new drinking water quality standards. New standards for disinfection by-products (DBPs), such as trihalomethanes (THMs), will be set in the mid 1990s. The 1986 SDWA amendments identified granular activated carbon (GAC) as the best method to control synthetic organic chemicals, which could be interpreted to include THMs. District studies, however, have concluded that GAC is not a cost-effective means of reducing THMs for the District.

Further studies by the District have explored the use of ozone and a new technology, ozone/hydrogen peroxide (PEROXONE), to minimize the production of DBPs. Subject to completion of the studies and approval by the Board of Directors, ozone or PEROXONE technology will be used at each of the District's treatment plants by the late 1990s. These treatment methods are anticipated to be compatible with EPA's goals and objectives. Current estimates of the cost to implement ozone or

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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PEROXONE treatment, including escalations for inflation of 5 percent per year, range as high as \$501 million. This amount is included in the District's Capital Improvement Program (see Note 6e).

(j) **Arbitrage Rebate Obligation.** As of June 30, 1992 and 1991, the District has recorded arbitrage rebate liabilities presently valued at \$5,677,890 and \$4,843,000, respectively. These liabilities were calculated in accordance with regulations promulgated by the U.S. Treasury Department. The term arbitrage rebate refers to the required payment to the U.S. Treasury of excess earnings received on applicable tax-exempt bond proceeds that are invested at a higher yield than the yield of the tax-exempt bond issue. At June 30, 1992, the District had general obligation and revenue bonds and commercial paper notes outstanding which are subject to arbitrage limitations. The District's ultimate rebate of arbitrage earnings on these issues is contingent on various factors, including future yields on invested proceeds. The rebate obligations will be computed and adjusted, as applicable, on an annual basis in the future.

Required rebates are generally due and payable in five-year intervals during the life of debt issues, with final rebates due upon the retirement of the debt issues.

7. Deferred Water Rights

The District has entered into several water exchange, storage, and reclamation project agreements with other agencies. These agreements provide the District with additional reliable water supplies to supplement deliveries of Colorado River and State project water. The District is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies.

The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. The reclamation project agreements effectively provide for District funding to local agencies for the construction of reclamation facilities that produce subpotable water for irrigational and industrial uses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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Expenditures associated with these agreements have been recorded as deferred charges and are amortized to the cost of water as the rights are exercised. At June 30, 1992 and 1991, deferred water rights totalled approximately \$20,654,000 and \$31,130,000, respectively, based on volumes of 538,000 and 737,000 acre-feet, as of such dates.

8. Deferred Compensation and Savings Plans

For the benefit of its employees, the District has adopted and administers a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

All amounts of compensation deferred under the plan, all assets purchased with these amounts, and all income attributable to these amounts or assets (until paid or made available to the employee or other beneficiary) are solely the property of the District, subject to the claims of the District's general creditors. Participants' rights to deferred amounts under the plan are equivalent to those of the general creditors of the District. It is the opinion of the District's General Counsel that the District has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The District believes it is highly unlikely that it will ever become necessary to use these assets to satisfy the claims of general creditors.

Deferred amounts under the plan are invested by the District's Treasurer. The monies are invested primarily in U.S. Treasury securities or guarantees and Federal Agency securities. Monies are also invested in the State Treasury Local Agency Investment Fund. At June 30, 1992 and 1991, such assets totalled approximately \$24,079,000 and \$21,444,000, respectively, including accrued interest of \$602,000 and \$352,000. Differences between the costs and market values of deferred compensation fund assets were not material at such dates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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The District also has adopted two compensation deferral arrangements in accordance with Section 401(k) of the Internal Revenue Code. Savings Plan I is available to management, confidential, and supervisory employees. Savings Plan II is available to employees represented by the MWD Employees Association. Taken together, the savings plans are available to substantially all employees. At June 30, 1992, 312 and 601 employees were participants in Plan I and Plan II, respectively. Amounts deferred by participants, District matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by the District each pay period to a third-party broker who invests such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The District's Treasurer serves as Trustee for each plan, but the District is not liable to its employees for any losses that may be incurred in connection with their participation in such plans.

Effective January 1, 1990, the District initiated a matching contribution program on behalf of each participating employee in Savings Plan I. This contribution amounts to 50 cents for each dollar contributed by the employee. The District's contribution is subject to the maximum of 2 and 3 percent of the total of the employee's total cash compensation for the years beginning January 1, 1991, and 1992, respectively, and will be in effect until the current Memorandum of Understanding is terminated.

Effective January 1, 1992, the District began a matching contribution program for each participating employee in Savings Plan II. This contribution amounts to 20 cents for each dollar contributed by the employee (to be increased to 25 cents in 1993), subject to a maximum of 2 and 3 percent of the employee's total cash compensation for the years beginning January 1992 and 1993 respectively. The program will be in effect until the current Memorandum of Understanding with the MWD Employee's Association is terminated.

Contributions to the Savings Plans by employees totalled \$2,297,000 and \$1,289,000 for fiscal 1992 and 1991, respectively. Matching contributions by the District totalled \$650,000 and \$253,000 for fiscal 1992 and 1991, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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of Southern California
June 30, 1992 and 1991

Employee contributions represented 2.2 and 1.5 percent of the District's eligible payrolls of \$104,143,000 and \$88,896,000 for fiscal 1992 and 1991, respectively.

9. Restricted Assets and Reserved Retained Earnings.

The District has established a number of separate accounts (funds) to provide for specific activities in accordance with special regulations, bond covenants, trust arrangements, or Board policy. The funds are classified as either "restricted" or "unrestricted." Most restricted funds have minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of fund assets. Among other things, the restricted funds provide for: payments of debt service on District bonds and commercial paper notes; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payments of capital costs under the State Water Contract; payment of District operations and maintenance expenses; and payment of the costs related to the closure and post closure maintenance of the District's solid waste landfill facility at Iron Mountain. The cash and investments in the respective restricted funds are, in total, reflected as restricted assets for financial reporting purposes.

A portion of restricted assets relates to reserved retained earnings, which represent funds legally restricted for specific purposes. These balances are not available for appropriation for other purposes. As of June 30, 1992 and 1991, reserved retained earnings consists of the following amounts (in Thousands):

	1992	1991
Reserved for revenue bond operations and maintenance	\$ 87,666	\$ 71,995
Reserved for revenue bond current debt service	23,642	11,021
Contingency reserve for revenue bonds	29,900	18,433
Reserved for payment of commercial paper notes	501	1,500
Total reserved retained earnings	<u>\$ 141,709</u>	<u>\$ 102,949</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

10. Unrestricted Funds and Designated Unreserved Retained Earnings

Unlike the restricted accounts (funds) (see Note 9), the Board of Directors has complete discretion in establishing the minimum cash and investment balance requirements in the various unrestricted accounts (funds) and in the uses of such assets. Cash and investments available for working capital purposes, exclusive of amounts on hand for pay-as-you-go construction and water rate and water treatment surcharge stabilization, totalled \$130,003,500 and \$130,241,000, at June 30, 1992 and 1991, respectively. Such amounts, which reflect the combined cash and investments in the revenue remainder and general funds, net of trust account balances, meet the minimum levels required at such dates as established by Board policy. At June 30, 1992 and 1991, the minimum requirements for working capital purposes consisted of \$25 million for emergency repairs, casualty losses and claims, and \$105 million for general purposes in the event that revenues are insufficient to pay expenses.

The District utilizes a water rate stabilization fund for the purpose of identifying amounts available, at the end of each fiscal year, to mitigate future water rate increases. The District also utilizes a water treatment surcharge stabilization fund for the purpose of identifying any treatment surcharge revenues in excess of water treatment costs, at the end of each fiscal year, to mitigate increases in future treatment charges. In fiscal 1989, the District established a pay-as-you-go fund to pay for certain capital expenditures on a current basis in lieu of using bond funds. As of June 30, 1992 and 1991, the cash and investments in these three funds totalled approximately \$197 million and \$264 million, respectively.

The Board retains the option to adjust or eliminate the amounts set aside as retained earnings designated for specific purposes. At June 30, 1992 and 1991, the following amounts, which represent the Board's tentative plans for future use of the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The Metropolitan Water District
of Southern California
June 30, 1992 and 1991

assets of certain of the unrestricted funds, have been reflected as designated unreserved retained earnings for financial reporting purposes (in Thousands):

	1992	1991
Designated for emergency repairs, casualty losses, and claims (see Note 11)	\$ 25,000	\$ 25,000
Designated for reduction of future water revenue requirements	146,764	201,153
Designated for reduction of future water treatment surcharges	—	13,155
Designated for pay-as-you-go capital expenditures	50,003	50,003
Total designated retained earnings	<u>\$ 221,767</u>	<u>\$ 289,311</u>

11. Risk Management

It is the District's policy to self-insure for District property loss and damage risks. Third-party liability coverage is maintained in excess of a self-insured retention. During the years ended June 30, 1992 and 1991, excess liability coverage of \$75 million was maintained in excess of a self-insured retention of \$25 million for each year. The third-party liability insurance program was renewed for fiscal 1993 at the same coverage and retention levels.

Workers' compensation insurance is maintained at \$10 million in excess of a self-insured retention of \$400,000. Other District insurance coverages include a comprehensive bond, aircraft liability, and other specialty coverage.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Statements of Cash and Investments and
Cash Receipts and Disbursements,
by Fund Category and in Total

As of and for the year
ended June 30, 1992

(With Independent Auditors' Report Thereon)

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

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Certified Public Accountants

725 South Figueroa Street
Los Angeles, CA 90017

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Metropolitan Water District
of Southern California:

We have audited the accompanying statement of cash and investments of The Metropolitan Water District of Southern California (the District) as of June 30, 1992 and the related statement of cash receipts and disbursements, by fund category and in total, for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 opinion.

As discussed in note 1, the accompanying statements of cash and investments and cash receipts and disbursements present a summary of cash activity of the District prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Such statements are not intended to present fairly the financial position or results of operations of the District in conformity with generally accepted accounting principles.

In our opinion, the statements referred to above present fairly, in all material respects, the cash and investments of The Metropolitan Water District of Southern California as of June 30, 1992 and its cash receipts and disbursements, by fund category and in total, for the year then ended on the basis of accounting described in note 1.

KPMG Peat Marwick

September 11, 1992

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Statement of Cash and Investments

June 30, 1992

Cash (note 1):

Demand, paying agent and other accounts:

Security Pacific National Bank:

General account	\$ (8,263)
Paying agent accounts	350,189
Treasurer's office cash fund	4,000
Time deposits with MWD Federal Credit Union	<u>100,025</u>

Total cash 445,951

Investments, at cost (notes 1, 2 and 3):

U.S. Treasury securities	275,065,705
U.S. guarantees - Government National Mortgage Association Notes	9,118,726
Federal agencies	110,712,597
California State Water Project Bonds	34,591
Repurchase agreements	165,561,000
Prime commercial paper	129,972,601
Negotiable certificates of deposit	40,794,000
Bankers' acceptances	51,411,867
State Treasury - Local Agency Investment Fund	<u>15,000,000</u>

Total investments 797,671,087

Total cash and investments \$ 798,117,038

See accompanying notes to financial statements.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Statement of Cash Receipts and Disbursements, by Fund Category and in Total

Year ended June 30, 1992

	<u>Operating funds</u>	<u>Debt service funds</u>	<u>State contract funds</u>	<u>Construction funds</u>	<u>Rate stabilization funds</u>	<u>Trust and other funds</u>	<u>Total</u>
Cash and investments at July 1, 1991	\$ 203,324,555	\$ 58,190,151	\$ 58,501,655	\$ 224,323,866	\$ 214,308,032	\$ 30,449,148	\$ 789,097,407 *
Receipts:							
Net tax collections	—	55,144,247	28,427,666	—	—	—	83,571,913
Water sales	379,805,161	—	—	—	—	—	379,805,161
Power recoveries	10,867,811	—	—	—	—	—	10,867,811
Interest on investments	9,109,427	4,175,139	2,468,200	19,508,029	19,433,537	2,141,959	56,836,291
Net proceeds from issuance of revenue bonds	—	—	—	289,107,036	—	—	289,107,036
Refund from state for State Water Project	—	—	—	—	—	—	—
Other collections	2,680,511	—	—	227,954	—	—	2,908,465
Total receipts	402,462,910	59,319,386	30,895,866	308,843,019	19,433,537	2,141,959	823,096,677
Interfund transfers	25,594,251	57,055,866	114,050,578	(110,453,449)	(86,606,198)	358,952	—
Reimbursements:							
Operations and maintenance	2,816,143	—	—	—	—	—	2,816,143
Operating equipment	1,554	—	—	—	—	—	1,554
Construction	6,920,482	—	—	2,189,388	—	—	9,109,870
Interest and premium on bonds	—	1,291,016	—	—	—	—	1,291,016
Total reimbursements	9,738,179	1,291,016	—	2,189,388	—	—	13,218,583
Disbursements:							
Operations and maintenance	204,038,904	—	—	—	—	—	204,038,904
Operating equipment, net	3,853,869	—	—	—	—	—	3,853,869
Inventories and other, net	(4,198,614)	—	—	—	—	—	(4,198,614)
Construction	39,563,785	—	—	166,911,529	—	—	206,475,314
State Water Contract:							
Capital payments	—	—	118,425,880	—	—	—	118,425,880
Minimum operations and maintenance	80,938,683	—	—	—	—	—	80,938,683
Off-aqueduct power facilities	39,339,644	—	62,510,832	—	—	—	101,850,476
Variable power costs	15,609,898	—	—	—	—	—	15,609,898
Power credits	(24,679,060)	—	(36,205,960)	—	—	—	(60,885,020)
State Water Bank	40,013,178	—	—	—	—	—	40,013,178
Colorado River aqueduct power costs	28,036,912	—	—	—	—	—	28,036,912
San Diego County Water Authority, purchase of portion of first aqueduct	214,659	—	—	—	—	—	214,659
Debt service on District bonds	—	96,003,207	—	—	—	—	96,003,207
Total disbursements	422,731,858	96,003,207	144,730,752	166,911,529	—	—	830,377,346
Trust account transactions, net	2,284,208	—	—	—	—	797,509	3,081,717
Cash and investments at June 30, 1992	\$ 220,672,245	\$ 79,853,212	\$ 58,717,347	\$ 257,991,295	\$ 147,135,371	\$ 33,747,568	\$ 798,117,038 *

* Excludes \$150,539,536 and \$87,952,933 at July 1, 1991 and \$148,134,436 and \$86,448,733 at June 30, 1992 held in Waterworks Refunding Revenue Bond and Waterworks Refunding General Obligation Bond Escrow Trust Funds, respectively (note 2).

See accompanying notes to financial statements.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Financial Statements

June 30, 1992

(1) Significant Accounting Policies

The accompanying financial statements have been prepared by management for the purpose of presenting the District's cash and investments as of June 30, 1992 and disclosing the changes in total cash and investments, by fund and in total, for the year then ended, on the basis of cash receipts and disbursements in accordance with established District policy.

Financial statements prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles, may differ from presentations under generally accepted accounting principles since certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present the District's financial position and results of operations in conformity with generally accepted accounting principles.

Cash receipts and disbursements are allocated to the various funds and may not necessarily reflect actual cash transfers. Certain of the funds are also legally restricted to use for a specific purpose. See note 4 for a description of the currently active funds of the District.

(2) Investments Held in Escrow

At June 30, 1992, U.S. Treasury securities with a cost basis totaling \$234,583,169 are being held in escrow trust accounts at Security Pacific National Bank and represent amounts sufficient to provide debt service for the refunded Waterworks Revenue Bonds, Issue of 1983 and the Waterworks General Obligations Bonds, Issue of 1985, which were refunded in advance of their respective first call dates. Such refundings resulted in the defeasance of these bond issues; accordingly, the bond obligations and the related investments are excluded from the District's financial statements.

(3) Market Value of Investments

At June 30, 1992, the market value of U.S. Treasury securities totaled approximately \$279 million. The market values of the District's other investments approximated their respective costs. Repurchase agreements were collateralized with marketable government securities having a total value of approximately \$167 million.

(4) Description of Currently Active Funds of the District by Fund Category

Operating Funds

- General Fund (Fund No. 01)

Established in 1929. This fund contains operating revenues and other miscellaneous monies not specifically allocable to other funds and which may be used for general purposes of the District. In practice, this fund is used to finance reimbursable works and, since 1990, to pay for capital and indirect costs incurred by the Imperial Irrigation

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

District (IID) for specified water conservation projects. The monies in this fund that are not utilized for payments to IID or for reimbursable works are designated working capital funds as part of the minimum working capital balance required by Section 5202(a) of the Administrative Code.

- Water Revenue Fund (Fund No. 21)

Established in 1975. Receipts from water sales are deposited in this fund and are transferred to various other funds in accordance with senior revenue bond resolutions to pay in order of priority:

- Operation and maintenance expenditures
- Principal of and interest on outstanding parity revenue bonds
- Deposits into the Revenue Bond Reserve Fund
- Any other obligations which are liens or encumbrances upon operating revenues.

Monies remaining at the end of each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.

- Operations and Maintenance Fund (Fund No. 22)

Established in 1975. This fund is used to pay all operation and maintenance expenditures, including State Water Contract operation, maintenance, power and replacement charges. The revenue bond resolutions require that, at the beginning of each month, monies equal to estimated operation and maintenance expenditures for that month and the succeeding month be set aside in this fund, and such amounts represent the minimum fund balance requirements specified in Section 5201(f) of the Administrative Code.

- Revenue Remainder Fund (Fund No. 25)

Established in 1975. Monies remaining in the Water Revenue Fund at month-end, after meeting the priority expenditures set forth in the bond resolutions, are transferred to this fund and may be used for any lawful purpose by the District. As specified by Section 5202(a) of the Administrative Code, the required total minimum balance to be held collectively in the General Fund and the Revenue Remainder Fund as of June 30 of each year shall be equal to the sum of \$25 million for emergency repairs and claims, and \$105 million for general purposes in the event that revenues are insufficient to pay the costs of the District. Monies in excess of \$130 million are transferred to the Pay-As-You-Go, Water Rate Stabilization and Water Treatment Surcharge Stabilization funds in accordance with the priority outlined in Sections 5202(b)-5202(d) of the Administrative Code.

Debt Service Funds

- 1931 General Obligation Bond Interest and Redemption Fund (Fund No. 04)

Established in 1932. This fund is used for the payment of principal and interest on the 1931 general obligation bonds of the District from ad valorem property tax revenues. Section 5201(a) of the Administrative Code requires maintenance of monies at each June 30 equal to 18 months' debt service, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

- 1966 General Obligation Bond Interest and Principal Fund (Fund No. 11)
Established in 1967. This fund is used to pay the debt service on the District's 1966 Authorization general obligation bonds from ad valorem property taxes. Section 5201(a) of the Administrative Code requires maintenance of monies at each June 30 equal to 18 months' debt service, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.
- Optional Redemption Fund (Fund No. 15)
Established in 1980. This fund is used for the purpose of redeeming the untendered refunded Series C general obligation bonds which were called in 1980. The District, in accordance with its refunding bond resolution, must maintain in this fund amounts sufficient to retire the called bonds.
- Waterworks Revenue Bond Interest and Principal Fund (Fund No. 23)
Established in 1975. This fund is used to pay the debt service on revenue bonds of the District. The revenue bond resolutions require setting aside in this fund each month 1/6 of the semiannual interest payments and 1/12 of the annual principal payment next coming due. Such amounts represent the minimum fund balance requirements specified in Section 5201(b) of the Administrative Code.
- Waterworks Revenue Bond Reserve Fund (Fund No. 24)
Established in 1975. The revenue bond resolutions require the District to maintain a fund balance at least equal to 100% of the combined maximum annual debt service on all outstanding revenue bonds to the extent that such debt service does not exceed \$10 million and 50% of the excess of such debt service over \$10 million. This amount represents the minimum fund balance requirement specified in Section 5201(b) of the Administrative Code.
- Optional Revenue Bond Redemption Fund 1975 (Fund No. 30)
Established in 1985. This fund is used for the purpose of redeeming the untendered 1975 revenue bonds which were called in 1985. In accordance with the refunding revenue bond resolutions, the District maintains in this fund amounts sufficient to retire the called bonds.
- Optional Revenue Bond Redemption Fund 1976 (Fund No. 31)
Established in 1986. This fund is used for the purpose of redeeming the untendered 1976 revenue bonds which were called in 1986. In accordance with the refunding revenue bond resolutions, the District maintains in this fund amounts sufficient to retire the called bonds.
- Series G 1966 General Obligation Bond Interest and Principal Fund (Fund No. 37)
Established in 1989. This fund is used to pay debt service on the District's 1966 general obligation bonds, Series G, from ad valorem property taxes. Section 5201(a) of the Administrative Code requires maintenance of monies at each June 30 equal to 18 months' debt service, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

- Series G 1966 General Obligation Bond Reserve for Interest and Principal Fund (Fund No. 39)
Established in 1990. This fund is used to satisfy debt service requirements on the District's 1966 general obligation bonds, Series G, if there are insufficient monies available in the Series G 1966 General Obligation Bond Interest and Principal Fund. There is no minimum balance requirement for this fund.
- Commercial Paper Note Payment Fund (Fund No. 54)
Established in 1991. This fund is used to pay debt service on the commercial paper notes of the District. Section 5201(h) of the Administrative Code requires the District to deposit amounts in this fund sufficient to pay principal of, and interest on, the Commercial Paper Notes as they become due.
- Water Revenue Bond Service Fund (Fund No. 57)
Established in 1991. Used to pay debt service on subordinate water revenue bonds after payment of Prior Lien Waterworks Revenue Bonds, including reimbursement of any payments made by providers of credit as liquidity enhancement for the bonds.
- Water Revenue Bonds, Issue of 1991 Reserve Fund (Fund No. 58)
Established in 1991. Proceeds from the sale of these subordinate bonds, in an amount equal to the 1991 Bond Reserve Requirement, were deposited into this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Bond Service Fund.

State Contract Funds

- State Contract Fund (Fund No. 05)
Established in 1960. Items billed the District as capital charges under the State Water Contract, including the capital costs of off-aqueduct power facilities, are paid from this fund. Revenues from sales of water are transferred to this fund to meet most costs, with the residual met from ad valorem property tax revenues and annexation fees, as determined by the Board's proportionate-use formula in Chapter 3 of Division IV of the Administrative Code. As specified by Section 5201(d) of the Administrative Code, the required minimum balance to be held as of June 30 and December 31 of each year shall equal the capital payments due on July 1 of the same calendar year and January 1 of the following calendar year, respectively.
- Special Tax Fund (Fund No. 06)
Established in 1951. Annexation fees (cash payments and special tax collections) are deposited in this fund and are transferred to the State Contract Fund to pay a portion of the District's State Water Contract capital charges. As specified by Section 5201(e) of the Administrative Code, there is no minimum balance requirement for this fund.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

Construction Funds

- Pay-As-You-Go Fund (Fund No. 02)

Established in 1988. This fund is used to internally finance a portion of the District's capital improvement program in accordance with Section 5109 of the Administrative Code. As specified by Section 5202(b) of the Administrative Code, the required minimum balance to be held as of June 30 of each year shall be at least equal to the amount needed to fund Board-authorized pay-as-you-go expenditures estimated for the ensuing fiscal year. Notwithstanding the principal purpose of this fund, amounts assigned may be used by the Board for any lawful purposes.
- 1966 General Obligation Bond Construction Fund (Fund No. 08)

Established in 1967. Proceeds from the sale of District general obligation bonds are deposited in this trust fund and must, by bond resolution, be applied exclusively to the purposes for which the bonds were authorized. As specified by Section 5201(c) of the Administrative Code, there is no minimum balance requirement for this fund.
- Water Revenue Bond Construction Fund (Fund No. 20)

Established in 1975. Proceeds from the sale of water revenue bonds are deposited in this trust fund and must, by bond resolution, be applied exclusively to the purposes for which the bonds were authorized. As specified by Section 5201(c) of the Administrative Code, there is no minimum balance requirement for this fund.
- Revolving Construction Fund (Fund No. 35)

Established in 1988. Capital expenditures made from this fund are to be reimbursed with proceeds from security sales to the extent such expenditures are authorized uses of debt proceeds under the Metropolitan Water District Act. As specified in Section 5201(g) of the Administrative Code, there is no minimum balance requirement for this fund.
- Series G 1966 General Obligation Bond Construction Fund (Fund No. 36)

Established in 1989. Proceeds from the sale of the District's 1966 general obligation bonds, Series G, are allocated to this trust fund and must, by bond resolution, be applied exclusively to the purposes for which the bonds were authorized. As specified in Section 5201(c) of the Administrative Code, there is no minimum balance requirement for this fund.
- Commercial Paper Note Construction Fund (Fund No. 53)

Established in 1991. Proceeds from the sale of commercial paper are deposited in this fund and are applied exclusively to the purposes for which the notes were authorized.
- Water Revenue Bonds, Issue of 1991 Construction Fund (Fund No. 56)

Established in 1991. Net proceeds from the sale of these subordinate revenue bonds were deposited into this fund and are used exclusively for the purposes for which the bonds were authorized.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

Rate Stabilization Funds

- Water Rate Stabilization Fund (Fund No. 33)

Established in 1987. This fund is for the principal purpose of reducing water revenue requirements in order to smooth water rate adjustments over time. As specified in Section 5202(c) of the Administrative Code, amounts that exceed the Board's working capital and internal capital improvement funding requirements on June 30 of each year are transferred to this fund, except as required under Section 5202(d). Notwithstanding the principal purpose of this fund, amounts assigned may be used by the Board for any lawful purpose.

- Water Treatment Surcharge Stabilization Fund (Fund No. 34)

Established in 1988. This fund is used for the principal purpose of mitigating required increases in the surcharge for water treatment. Notwithstanding the principal purpose of this fund, amounts assigned to this fund may be used by the Board for any lawful purpose of the District. After making the required year-end transfer to the Water Rate Stabilization Fund required by Section 5202(c) of the Administrative Code, a determination is made to identify the portion, if any, of such transferred monies attributable to collections of treatment surcharge revenue in excess of water treatment cost. Such monies are then transferred to the Water Treatment Surcharge Stabilization Fund. If the calculation determines a deficiency in treatment surcharge revenue, a transfer of monies will be made for this fund as needed to reimburse amounts used for the deficiency.

Trust and Other Funds

- Series G 1966 General Obligation Bond Excess Earnings Fund (Fund No. 38)

Established in 1990. This fund is used to separately hold rebatable arbitrage interest earnings transferred from the Series G 1966 General Obligation Bond Construction Fund, computed on an annual basis in accordance with Federal regulations.

- Employee Deferred Compensation Fund (Fund No. 50)

Established in 1976. Compensation deferred by employees under Section 457 of the Internal Revenue Code of 1986, as amended, is held in this fund and is withdrawn in accordance with the Plan's provisions as set forth in Chapter 7 of Division VI of the Administrative Code. Monies in this fund are solely the property of the District until paid or made available to employees or their beneficiaries.

- San Joaquin Reservoir Fund (Fund No. 51)

Established in 1980. This fund is used solely for the purposes contained in the San Joaquin Reservoir Trust Agreement between the District and the other entities who share joint ownership of the facility. Annual receipts from each part owner for its proportionate share of the approved reservoir expenditures are allocated to this fund for payment of operation and maintenance expenses and improvement projects.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Financial Statements, Continued

- Iron Mountain Landfill Closure/Postclosure Maintenance Fund (Fund No. 52)

Established in 1990. This fund is used as a trust fund to maintain monies to be used for the costs of closure and postclosure maintenance of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Integrated Waste Management Board.