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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

December 17, 1996

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

From: Auditor

Michael W. Hendrop

SUBJECT: Audited Cash Basis Financial Statements as of September 30, 1996

RECOMMENDATION

For information only.

DETAILED REPORT

The District's Statements of Cash and Investments and Cash Receipts and Disbursements, by Fund Category and in Total, as of and for the three months ended September 30, 1996, together with the Independent Auditors' Report on those statements, are attached. The accompanying cash basis statements and Independent Auditors' report are prepared pursuant to the District's audit services contract with KPMG Peat Marwick and are consistent with those issued in previous periods.

Attachment



The Global Leader



**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 three months ended September 30, 1996

(With Independent Auditors' Report Thereon)

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

As of and for the three months ended September 30, 1996

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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 September 30, 1996 and the related statement of cash receipts and disbursements, by fund category and in total, for the three months 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, by fund category and in total, present a summary of the 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 financial 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 financial statements referred to above present fairly, in all material respects, the cash and investments of The Metropolitan Water District of Southern California as of September 30, 1996 and its cash receipts and disbursements, by fund category and in total, for the three months then ended on the basis of accounting described in note 1.

KPM & Peat Marwick LLP

December 2, 1996

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Statement of Cash and Investments

September 30, 1996

Cash (notes 1 and 2):

Demand, paying agent and other accounts:

Bank of America – demand accounts (general, payroll, drafts)	\$	(5,442,093)	(A)
Wells Fargo Bank – paying agent account		32,007	
The Chase Manhattan Bank, N.A. – paying agent account		50,000	
Treasurer’s office cash fund		10,000	
		<u>10,000</u>	

Total cash		<u>(5,350,086)</u>	
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Investments, at cost (notes 1, 2 and 3):

U.S. Treasury securities		152,556,101	
U.S. Treasury securities held for crossover refunding bonds		138,130,906	
U.S. guarantees – Government National Mortgage Association Notes		7,284,157	
Federal agency securities		118,765,953	
California State Water Project Bonds		1,506,400	
Repurchase agreements		140,000,000	(A)
Asset-backed securities		41,827,651	
Prime commercial paper		261,059,882	
Bankers’ acceptances		55,660,098	
Negotiable certificates of deposit		76,000,643	
Corporate bonds		64,922,259	
State Treasury – Local Agency Investment Fund		<u>20,000,000</u>	

Total investments		<u>1,077,714,050</u>	
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Total cash and investments		<u>\$ 1,072,363,964</u>	
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(A) Credit balance in cash arises from the investment of available cash of \$6,345,000 in an overnight repurchase agreement investment at September 30, 1996.

See accompanying notes to financial statements.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Statement of Cash Receipts and Disbursements, by Fund Category
Three months ended September 30, 1996

	<u>Operating Funds</u>	<u>Debt Service Funds</u>	<u>Construction Funds</u>
Cash and investments at July 1, 1996	\$ 261,950,998	125,266,365	313,382,020
Receipts:			
Net tax collections	—	3,601,844	—
Water sales	192,421,915	—	—
Readiness-to-serve charge collections	4,638,182	—	—
Power recoveries	5,186,658	—	—
Interest on investments	4,734,850	1,547,418	4,383,782
Reimbursements	1,618,830	—	1,425,077
Other collections	910,327	—	—
Total receipts	<u>209,510,762</u>	<u>5,149,262</u>	<u>5,808,859</u>
Interfund transfers	<u>(49,238,481)</u>	<u>24,634,787</u>	<u>—</u>
Disbursements:			
Operations and maintenance	52,965,986	—	—
Operating equipment, net	1,721,613	—	—
Construction	711,997	—	89,904,514
State Water Contract:			
Capital payments	—	—	—
Minimum operations and maintenance	22,728,464	—	—
Off-aqueduct power facilities	4,100,755	—	—
Variable power costs	443,980	—	—
Power credits	(1,679,237)	—	—
State Water Bank	1,510,486	—	—
Colorado River aqueduct power costs	4,511,488	—	—
Debt service on District bonds	—	70,691,783	—
Arbitrage rebate tax to IRS	—	—	—
Gains on investment transactions, net	743	—	—
Total disbursements, net	<u>87,016,275</u>	<u>70,691,783</u>	<u>89,904,514</u>
Other trust account transactions, net	<u>12,046,185</u>	<u>(12,978,855)</u>	<u>—</u>
Cash and investments at September 30, 1996	<u>\$ 347,253,189</u>	<u>71,379,776</u>	<u>229,286,365</u>

* Balance at July 1, 1996 excludes \$264,633,389 held in the Water Revenue Refunding Bonds, 1993 Series A, escrow trust account; \$10,000,000 held in the Water Revenue Refunding Bonds, 1993 Series A, and in the Water Revenue Refunding Bonds, 1996 Series B, escrow trust account.

See accompanying notes to financial statements.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Financial Statements
Cash Receipts and Disbursements, by Fund Category and in Total
Three months ended September 30, 1996

Debt Service Funds	Construction Funds	Rate Stabilization Funds	State Contract Funds	Trust and Other Funds	Total
125,266,365	313,382,020	201,378,194	64,634,699	176,577,492	1,143,189,768 *
3,601,844	—	—	3,892,778	—	7,494,622
—	—	—	—	—	192,421,915
—	—	—	—	—	4,638,182
—	—	—	—	—	5,186,658
1,547,418	4,383,782	3,283,550	741,547	4,463,595	19,154,742
—	1,425,077	—	—	—	3,043,907
—	—	—	—	—	910,327
5,149,262	5,808,859	3,283,550	4,634,325	4,463,595	232,850,353
24,634,787	—	—	24,000,000	603,694	—
—	—	—	—	—	52,965,986
—	—	—	—	—	1,721,613
—	89,904,514	—	—	—	90,616,511
—	—	—	54,957,048	—	54,957,048
—	—	—	—	—	22,728,464
—	—	—	5,674,586	—	9,775,341
—	—	—	—	—	443,980
—	—	—	(10,356,546)	—	(12,035,783)
—	—	—	—	—	1,510,486
—	—	—	—	—	4,511,488
70,691,783	—	—	—	3,906,920	74,598,703
—	—	—	—	603,694	603,694
—	—	—	—	—	743
70,691,783	89,904,514	—	50,275,088	4,510,614	302,398,274
(12,978,855)	—	—	—	(345,213)	(1,277,883)
71,379,776	229,286,365	204,661,744	42,993,936	176,788,954	1,072,363,964 *

including Bonds, 1993 Series A, escrow trust account (note 3). Balance at September 30, 1996 excludes \$292,125,000 held in the funding Bonds, 1996 Series B, escrow trust accounts (note 3).

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements

September 30, 1996

(1) Significant Accounting Policies

The accompanying statements of cash and investments and cash receipts and disbursements, by fund category and in total have been prepared by management for the purpose of presenting the cash and investments of The Metropolitan Water District of Southern California (District) as of September 30, 1996 and disclosing the changes in total cash and investments, by fund category and in total, for the three months then ended, on the cash basis of accounting in accordance with established District policy.

Financial statements prepared on the cash basis of accounting, 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) Deposits and Investments

As a public agency, the District's investment practices are prescribed by various provisions of the California Government Code as well as by administrative policies. The District's Statement of Investment Policy is approved annually by the Board and describes the Treasurer's investment authorities and limitations. The District's basic investment policy objectives, in order of importance, are: safety of principal, liquidity and return on investment.

The District's demand and time deposits are fully insured or collateralized. Such deposits are covered by Federal depository insurance 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% of the deposits. To ensure compliance with the 110% 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.

The District invests in a variety of instruments, including U.S. Treasury, Federal agencies, repurchase agreements and other securities (including negotiable certificates of deposit, bankers' acceptances and prime commercial paper). 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 (reverse repurchase agreements). All investments are subject to various

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Financial Statements, Continued

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.

At September 30, 1996, all of the District's investments, except deposits in the State Treasury Local Agency Investment Fund, consist of investments that are insured or registered, or for which the securities are held, in the District's name, in safekeeping at the District's bank, which is not a counterparty to the investment transactions. The District had no investments in reverse repurchase agreements during the three months ended September 30, 1996.

At September 30, 1996, the market value of U.S. Treasury securities, exclusive of U.S. Treasury securities held in an escrow trust account for the Crossover Bonds, totaled approximately \$159.8 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 \$142.8 million.

(3) Investments Held in Escrow

At September 30, 1996, U.S. Treasury securities with a cost basis totaling \$292,125,000 are being held in an escrow trust account and represent amounts sufficient to provide debt service for the advance refunding of portions of the Waterworks Revenue Refunding Bonds, Issue of 1986 and Water Revenue Bonds, Issue of 1991. 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.

At September 30, 1996, U.S. Treasury securities, purchased primarily from bond proceeds, with a cost basis totaling \$138,130,906 for Series A1 (Crossover Bonds) of the Waterworks General Obligation Refunding Bonds, Issue of 1993, are being held in an escrow trust account. The Series A1 Bonds were issued to provide the funds necessary to refund, on March 1, 1999 (the Crossover Date), the principal, accrued interest and early redemption premiums on a portion of the District's Waterworks Bonds, Election 1966, Series G dated June 1, 1989.

The proceeds of the Series A1 escrow trust account will be used to pay debt service on the Crossover Bonds through the Crossover Date. Prior to the Crossover Date, the Series A1 Bonds will be special obligations of the District, payable from the Series A1 escrow trust account. On the Crossover Date, the Series A1 Bonds will become general obligations of the District.

On February 12, 1993, the District issued \$87,315,000 of Waterworks General Obligation Refunding Bonds, 1993, Series A2. The Series A2 Crossover Bonds were issued to provide for their debt service through March 1, 1996 (Series A2 Crossover Date) and to advance refund on the Series A2 Crossover Date, \$86,705,000 of outstanding Waterworks Refunding General Obligation Bonds, issue of 1986 (1986 Bonds). At the Series A2 Crossover Date, the 1986 Bonds were considered defeased and the Series A2 Crossover Bonds became a general obligation of the District.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

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

Operating Funds

- General Fund (Fund No. 1001)

This fund was established in 1929. This fund contains operating revenues and other 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 costs incurred under contracts with the Imperial Irrigation District (IID) and others for specified water conservation projects. The monies in this fund that are not utilized for specified capital 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. 1002)

This fund was established in 1975. Receipts from water sales and standby charges are deposited in this fund and are transferred to various other funds in accordance with revenue bond and other Board resolutions to pay in order of priority:

- Operation and maintenance expenditures
- Debt service on outstanding revenue bonds and commercial paper
- Water Standby Charge Fund
- Any other obligations which are charges, 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. 1003)

These funds were 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 these funds, and such amounts represent the minimum fund balance requirements specified in Section 5201(f) of the Administrative Code.

- Revenue Remainder Funds (Funds No. 1004 and No. 1006)

These funds were 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 these funds 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 \$150 million for general purposes in the event that revenues are insufficient to

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

pay the costs of the District. Monies in excess of \$175 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(e) of the Administrative Code.

- Water Standby Charge Fund (Fund No. 1005)

This fund was established in 1992. Revenues attributable to water standby charges are transferred to this fund, which is treated as an operating fund for financial reporting purposes. Monies in this fund are used exclusively for the purpose for which the water standby charge was imposed.

- Water Transfer Fund (Fund No. 1007)

This fund was established in 1995. This fund is used for the purpose of purchasing water through transfers or similar arrangements, and for the costs of filling the Eastside Reservoir Project. Any amounts remaining on July 1, 2004 shall be transferred to the Water Rate Stabilization Fund.

Debt Service Funds

- Waterworks Revenue Bond Interest and Principal Fund (Fund No. 2001)

This fund was 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.

- Optional Revenue Bond Redemption Fund (Fund No. 2006)

This fund was established in 1985; amended in 1993. This fund is used for the purpose of redeeming untendered refunded revenue bonds. In accordance with the refunding revenue bond resolutions, the District maintains in this fund amounts sufficient to retire the called bonds.

- Water Revenue Bond Service Fund (Fund No. 2009)

This fund was established in 1991. This fund is 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 Refunding Bonds, 1993 Series A Interest and Principal Fund (Fund No. 2010)

This fund was established in 1993. This fund is used to pay debt service on the subordinate water revenue refunding bonds after the payment of debt service on Prior Lien Waterworks Revenue Bonds.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Financial Statements, Continued

- Water Revenue Refunding Bonds, 1993 Series B Interest and Principal Fund (Fund No. 2011)

This fund was established in 1993. This fund is used to pay debt service on the subordinate water revenue refunding bonds after payment of Prior Lien Revenue Bonds.

- Water Revenue Refunding Bonds, 1995 Series A Interest and Principal Fund (Fund No. 2012)

This fund was established in 1995. This fund is used to pay the debt service on the subordinate water revenue refunding bonds after the payment of debt service on Prior Lien Revenue Bonds.

- Water Revenue Refunding Bonds, 1996 Series B Interest and Principal Fund (Fund No. 2013)

This fund was established in 1996. This fund is used to pay the debt service on the subordinate water revenue refunding bonds after the payment of debt service on Prior Lien Revenue Bonds.

- Water Revenue Refunding Bonds, 1996 Series A Interest and Principal Fund (Fund No. 2014)

This fund was established in 1996. This fund is used to pay the debt service on the subordinate water revenue refunding bonds after the payment of debt service on Prior Lien Revenue Bonds.

- Waterworks Revenue Bond Reserve Fund (Fund No. 2501)

This fund was 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.

- Water Revenue Refunding Bonds, 1996 Series B Reserve Fund (Fund No. 2505)

This fund was established in 1996. Proceeds from the sale of these subordinate bonds, in an amount necessary to maintain the Bond Reserve Requirement of fifty percent (50%) of the maximum annual debt service, were deposited into this fund.

- 1931 General Obligation Bond Interest and Redemption Fund (Fund No. 3001)

This fund was 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. 3002)

This fund was 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 General Obligation Bond Redemption Fund (Fund No. 3006)

This fund was established in 1980; amended in 1993. This fund is used for the purpose of redeeming untendered refunded general obligation bonds. The District, in accordance with its refunding bond resolutions, must maintain in this fund amounts sufficient to retire the called bonds.

- Series G 1966 General Obligation Bond Interest and Principal Fund (Fund No. 3008)

This fund was 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.

- Water General Obligation Refunding Bonds, 1993 Series A3 Interest and Principal Fund (Fund No. 3010)

This fund was established in 1993. This fund is used to pay debt service on the District's 1993 Series A3 general obligation refunding bonds.

- Waterworks General Obligation Refunding Bonds, 1993 Series B Interest and Principal Fund (Fund No. 3011)

This fund was established in 1993. This fund is used to pay debt service on the District's 1993 Series B general obligation refunding bonds.

- Commercial Paper Note Payment Funds (Funds No. 3501 and No. 3502)

These funds were established in 1991. These funds are 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 these funds sufficient to pay principal of, and interest on, the commercial paper notes as they become due.

**THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA**

Notes to Financial Statements, Continued

Construction Funds

- Water Revenue Bonds, Issue of 1992 Construction Fund (Fund No. 4003)

This fund was established in 1992. Net proceeds from the sale of these subordinate revenue bonds were deposited in this fund and are used exclusively for the purposes for which the bonds were authorized.

- Water Revenue Bonds, 1995 Series A (Fund No. 4005)

This fund was established in 1995. Net proceeds from the sale of these subordinate revenue bonds were deposited in this fund and are used to finance the District's capital improvement program.

- Series G 1966 General Obligation Bond Construction Fund (Fund No. 4504)

This fund was 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.

- Pay-As-You-Go Fund (Fund No. 5001)

This fund was 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.

- Revolving Construction Fund (Fund No. 5003)

This fund was 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.

- Commercial Paper Note Construction Funds (Funds No. 5004 and No. 5005)

These funds were established in 1991. Proceeds from the sale of commercial paper are deposited in these funds and are applied exclusively to the purposes for which the notes were authorized.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Notes to Financial Statements, Continued

Rate Stabilization Funds

- Water Rate Stabilization Fund (Fund No. 5501)

This fund was 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. 5502)

This fund was 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.

State Contract Funds

- State Contract Fund (Fund No. 5701)

This fund was 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 formula in Chapter 3 of Division IV of the Administrative Code, or Board action. 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. 5702)

This fund was 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
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Notes to Financial Statements, Continued

Trust and Other Funds

- Series G 1966 General Obligation Bond Excess Earnings Fund (Fund No. 6001)

This fund was 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. 6003)

This fund was 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 Trust Fund (Fund No. 6004)

This fund was 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.

- Iron Mountain Landfill Closure/Postclosure Maintenance Trust Fund (Fund No. 6005)

This fund was 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.

- Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2 Escrow Account Fund (Fund No. 6011)

This fund was established in 1993. Proceeds from the sale of the 1993 Series A1 and A2 General Obligation Refunding Bonds are deposited in this fund and used to pay debt service on such bonds through March 1, 1999 and March 1, 1996, respectively. At these dates, the monies available in the fund will be used to partially refund certain bonds for which the 1993 A1 and A2 Bonds were issued.

- Waterworks General Obligation Refunding Bonds, 1993 Series B Excess Earnings Fund (Fund No. 6017)

This fund was established in 1993. This fund is used to separately hold rebatable arbitrage interest earnings computed on an annual basis in accordance with Federal regulations.

**THE METROPOLITAN WATER
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Notes to Financial Statements, Continued

- Water Revenue Bonds, 1995 Series A Excess Earnings Fund (Fund No. 6018)

This fund was established in 1995. This fund is used to separately hold rebatable arbitrage interest earnings computed on an annual basis in accordance with Federal regulations.

- Commercial Paper Note, Series B Excess Earnings Fund (Fund No. 6019)

This fund was established in 1995. This fund is used to separately hold rebatable arbitrage interest earnings computed on an annual basis in accordance with Federal regulations.

- Water Revenue Refunding Bonds, 1996 Series A and B Excess Earnings Funds (Funds No. 6021 and No. 6023)

These funds were established in 1996. These funds are used to separately hold rebatable arbitrage interest earnings computed on an annual basis in accordance with Federal regulations.