



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: June 26, 2007
To: Distribution
From: Thomas E. DeBacker, Controller
Subject: Distribution of Final Executive Financial Reports – June 2006 – April 2007

The final June 30, 2006, through April 2007 Executive Financial Reports are being distributed. The issuance of these final reports was delayed pending completion of the fiscal 2005/06 annual audit, which was completed on April 20, 2007. Preliminary quarterly reports were provided to the Budget and Finance Committee during this period.

Attached is the Final Executive Financial Report for the Twelve Months Ended June 30, 2006. The Executive Financial Reports for July 2006 through April 2007 are provided under separate cover.



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Executive Financial Report
For the Twelve Months Ended June 30, 2006**

Executive Financial Report
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For the Twelve Months Ended June 30, 2006

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Executive Financial Report for the Twelve Months Ended June 30, 2006

A summary of the accrual basis statement of operations activity for the fiscal year ended June 30, 2006 as well as the changes in the balance sheet for June 2006 is discussed below.

Statements of Operations (page 2)

Net Income of \$54.2 million was \$73.6 million less than the prior year's net income of \$127.8 million. Included in the variance were higher operating expenses of \$113.4 million and other expenses-net of \$20.1 million, partially offset by higher operating revenues of \$59.9 million. These items are further described below.

Operating revenues for the fiscal year ended June 30, 2006 totaled \$971.0 million, which was \$59.9 million more than prior year operating revenues of \$911.1 million. The increase was primarily due to \$50.1 million higher water sales, which included \$20.2 million due to higher rates, \$14.6 million of seasonal storage certification corrections from prior years, and \$15.3 million due to higher sales volumes of 29,900 acre-feet in the current year. Additionally, power sales were \$5.8 million greater than the prior period due to the higher water sales.

Operating expenses for the fiscal year ended June 30, 2006 totaled \$941.1 million, which was \$113.4 million higher than prior year operating expenses of \$827.7 million. The increase included \$82.9 million of higher cost of water and \$46.9 million of higher O&M costs partially offset by a prior year \$13.5 million grant to The Center for Water Education. The higher cost of water was due to the expensing of \$56.4 million of State Water Project costs, which were previously capitalized and higher State Water Project energy costs. The increased O&M costs were primarily due to \$45.3 million more in personnel costs of which \$18.2 million was related to the new postemployment benefits other than pension (OPEB) charge and \$27.1 million of higher salary and benefit costs. Of the salary and benefit costs, \$14.1 million related to retirement, \$6.4 million due to negotiated contracts and \$3.0 million for medical insurance for both current and retired employees.

Other income-net of \$24.4 million was \$20.1 million less than prior year other income-net. This decrease was due to \$14.5 million less in investment income, \$9.7 million more in bond interest expense, and \$6.8 million less in 'other', partially offset by \$10.9 million more in taxes. The reduction in investment income was due to \$21.6 million less of fair value adjustments offset by \$7.1 million more of interest earnings resulting from higher interest rates. Bond interest expense was higher due to more debt outstanding and higher interest rates in the current year. Taxes were \$10.9 million higher than the prior year due to a \$7.1 million change in provision for uncollectible taxes from the prior year and \$3.8 million more in current year taxes levied resulting from increased assessed property values.

Balance Sheets (page 3)

At June 30, 2006, assets totaled \$9.9 billion, which were \$175.9 million higher than June 30, 2005. Property, plant and equipment-net was \$412.7 million higher due to construction progress on the Oxidation Retrofit programs, Skinner Filtration Plant Expansion 4, San Diego Pipeline No. 6, Inland Feeder, Skinner Filtration Plant Improvement, and Diamond Valley Lake Recreation Plan. Accounts receivables were up \$26.1 million from the prior year primarily due to \$9.4 million more in water sales receivables and \$10.5 million in other accounts receivables of which \$7.2 million related to higher grant receivables. Partially offsetting the increases, were a reduction in cash and investments of \$228.4 million and prepaid State Water Project entitlements, net of \$39.7 million.

Liabilities totaled \$4.4 billion at June 30, 2006, which were \$107.4 million higher than June 30, 2005. This increase was due primarily to \$143.3 million net increase in long-term debt and \$18.4 million higher State Water Project obligations, offset by \$30.1 million less in accounts payables. The net increase in long-term debt was due to \$200.0 million of revenue bonds issued July 2005, partially offset by principal paydowns, refundings and cash defeasances of debt. The accounts payable decrease was due primarily to a \$53.2 million payment of PVID contracts.

The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis (Dollars in millions)

	For the Twelve Months Ended June 30,		<i>Favorable/ (Unfavorable) Variance</i>
	2006	2005	
Operating Revenues:			
Water Sales	\$ 823.3 ⁽¹⁾	\$ 773.2	\$ 50.1
Wheeling / Exchange	9.1	6.9	2.2
Readiness-to-Serve	80.0	80.0	0.0
Capacity Charge	31.8	30.0	1.8
Power Sales	26.8	20.9	5.8
Total Operating Revenues	971.0	911.1	59.9
Operating Expenses:			
Cost of Water	363.0	280.1	(82.9)
Operations & Maintenance	337.6	290.7	(46.9)
Grant Expense	-	13.5	13.5
Water Management Programs, Net	35.2	32.9	(2.3)
Depreciation & Amortization	205.3	210.5	5.2
Total Operating Expenses	941.1	827.7	(113.4)
Net Operating Income	29.9	83.4	(53.5)
Other Income (Expense):			
Net Taxes/Annexations	102.7	91.8	10.9
Investment Income	32.3	46.8	(14.5)
Bond Interest Expense	(110.0)	(100.3)	(9.7)
Other	(0.7)	6.1	(6.8)
Total Other Income - Net	24.4	44.4	(20.1)
Net Income	\$ 54.2	\$ 127.8	\$ (73.6)

Sales Statistics:

Water Sales (TAF)	2,081.0	2,051.1	29.9
Wheeling/Exchange (TAF)	35.3	26.6	8.6
Power Sales (mWh)	493.0	426.3	66.7
Average Sales Price			
Water Sales	\$ 395.60	\$ 376.96	\$ 18.64
Wheeling/Exchange	\$ 258.29	\$ 259.76	\$ (1.47)
Power Sales	\$ 0.05	\$ 0.05	\$ 0.01

Ratios:

Operating (Operating Expense* divided by Operating Revenue) 75.8 % 66.3 %

* Excludes depreciation/amortization and grant expense.

Revenue Bond Debt Service Coverage (rolling 12 months) - Cash Basis

(Net receipts divided by annual revenue bond principal and interest requirements) 1.85 x 2.53 x

Notes:

(1) Water sales include \$14.6 million of untreated In-Lieu water sales, no associated volumes, from correction of prior year certifications.

Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis (Dollars in millions)

	2006	June 30, 2005	Increase/ (Decrease)
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 977.1	\$ 1,205.5	\$ (228.4)
Fair Value Adjustment	(8.1)	4.5	(12.5)
Accounts Receivable	196.8	170.7	26.1
Property, Plant and Equipment, net	6,653.9	6,241.3	412.7
Prepaid State Water Project Entitlements, net	1,488.1	1,605.0	(116.9)
Participation Rights, net	265.8	193.3	72.4
Deferred Charges and Water Rights	219.5	209.9	9.5
Other	135.7	122.7	13.0
Total Assets	\$ 9,928.8	\$ 9,752.9	\$ 175.9
Liabilities and Equity:			
Long-Term Debt	\$ 3,866.3	\$ 3,723.1	\$ 143.3
Off-Aqueduct Power Facilities	79.7	88.3	(8.5)
Accounts Payable and Accrued Bond Interest	191.2	221.3	(30.1)
Deferred Income	6.3	18.5	(12.2)
State Water Project Obligations	224.4	206.0	18.4
Trust Funds and Other	80.9	84.3	(3.4)
Total Liabilities	4,448.9	4,341.5	107.4
Equity	5,479.9	5,411.5	68.4
Total Liabilities and Equity	\$ 9,928.8	\$ 9,752.9	\$ 175.9

Debt as a percent of equity (Long-Term Debt divided by Equity) **70.6 %** 68.8 %

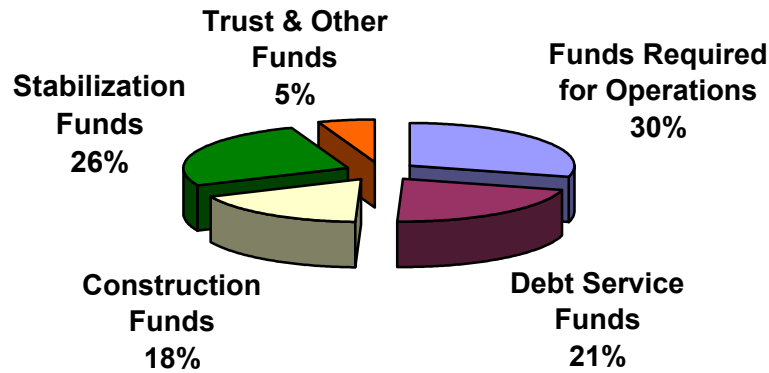
(1) Fair value of cash and investments was \$969.0 million and \$1,210.0 million at June 30, 2006 and 2005 respectively.

Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of June 30, 2006 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$192.0	\$92.9	\$0.3	\$285.2
Debt Service Funds	209.3	0.0	0.0	209.3
Construction Funds	76.9	0.0	95.0	171.9
Stabilization Funds (1)	0.0	0.0	257.0	257.0
Trust & Other Funds	36.5	17.2	0.0	53.7
Total	\$514.7	\$110.1	\$352.3	\$ 977.1



(1) Includes \$158.9 million of Revenue Remainder funds, previously reported as unrestricted Funds Required for Operations.

Executive Financial Report for the Twelve Months Ended June 30, 2006 Actual to Estimate

A summary of accrual basis operations and construction activity for the fiscal year ended June 30, 2006 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 6)

Operating revenues of \$971.0 million were \$110.7 million more than the \$860.3 million estimate, due primarily to \$98.9 million of higher than estimated water sales and \$11.1 million higher power sales. The increase in water sales included \$14.6 million of seasonal storage certification corrections from prior years and \$87.2 million due to 223,800 acre-feet higher sales volumes, partially offset by a \$2.9 million unfavorable price variance. Power sales were higher than estimate due to lower diversions on the Colorado River, which resulted in the sale of surplus energy.

Operating expenses of \$941.1 million were \$131.5 million more than the \$809.6 million estimate primarily due to \$95.6 million higher cost of water and \$46.7 million higher O&M costs. The higher cost of water was due to expensing \$56.4 million of previously capitalized State Water Project costs, higher than anticipated State Water Contract energy costs, and higher than expected water sales. The higher O&M costs were due primarily to \$28.0 million more in personnel costs and \$11.7 million higher insurance costs. The higher personnel costs resulted from a new OPEB adjustment of \$18.2 million and increases in salaries and benefits due to negotiated contracts. Insurance costs were \$11.7 million higher due to recognition of \$15.0 million related to the Cargill settlement and PERS enrollment.

Other income-net totaling \$24.4 million was \$24.2 million less than estimate due primarily to \$25.1 million higher bond interest expense. The higher than expected bond interest expense resulted from \$200.0 million of revenue bonds issued in July 2005 that were not included in the estimate and a lower than anticipated credit from interest on construction.

Construction Activity (page 9)

Construction costs for the fiscal year ended June 30, 2006 totaled \$411.5 million, which was \$94.8 million, or 19 percent, under the \$506.3 million estimate. The Oxidation Retrofit Programs (ORP) were \$11.7 million less than estimate due to delays in construction starts at the Skinner and Diemer plants and a transfer from Jensen ORP to Jensen Treatment Plant Improvements for \$2.9 million related to prior year costs. Work on Skinner ORP scheduled to start in April 2005 did not begin until late July 2005. Activity at Diemer, initially scheduled early in the second quarter began late in the third quarter. Inland Feeder was \$18.2 million less than estimate, as the tunneling is taking longer than anticipated. While tunneling at the Arrowhead East Tunnel continued at a consistent pace, the Arrowhead West tunnel boring machine had continued difficulties due to poor soil conditions. The Treatment Plant Improvement program was \$12.0 million less than estimate due to re-bidding of the Surface Washwater project, rain delays affecting the Solids Handling Facility project, and delays at Diemer due to construction sequencing with other major plant projects. Delays at Weymouth were due to unresponsive bids on the Perimeter Improvement contracts. Other projects were \$32.9 million less than estimate due to credits of \$8.9 million related to DVL and Oxnard land sales, and delays in start-up of new programs this fiscal year. San Diego Pipeline No. 6 was \$11.1 million ahead of schedule due to accelerated construction progress.

The Metropolitan Water District of Southern California

Statement of Operations - Accrual Basis Estimate vs. Actual For the Twelve Months Ended June 30, 2006 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Operating Revenues				
Water Sales	\$ 724.4	\$ 823.3 ⁽¹⁾	\$ 98.9	14%
Wheeling/Exchange	7.7	9.1	1.4	18%
RTS	80.0	80.0	0.0	0%
Capacity Charge	32.4	31.8	(0.6)	(2%)
Power Sales	15.7	26.8	11.1	70%
Total Operating Revenues	860.3	971.0	110.7	13%
Operating Expenses				
Operations & Maintenance	290.9	337.6	(46.7)	(16%)
Cost of Water	267.4	363.0	(95.6)	(36%)
Water Mgt. Programs	39.4	35.2	4.2	11%
Depreciation & Amortization	212.0	205.3	6.7	3%
Total Operating Expenses	809.6	941.1	(131.5)	(16%)
Operating Income	50.7	29.9	(20.8)	(41%)
Other Income/(Expense)				
Net Taxes/Annexations	96.2	102.7	6.5	7%
Investment Income	40.2	32.3	(7.9)	(20%)
Bond Interest Expense	(84.9)	(110.0)	(25.1)	(30%)
Other	(3.0)	(0.7)	2.3	(76%)
	48.5	24.4	(24.2)	(50%)
Net Income	\$ 99.2	\$ 54.2	\$ (44.9)	(45%)
Sales Statistics:				
Water Sales (TAF)	1,857.3	2,081.0	223.8	12%
Wheeling Sales (TAF)	30.0	35.3	5.3	18%

Notes:

(1) Actual water sales include \$14.6 million of untreated In-Lieu water sales, no associated volumes, from correction of prior year certifications.

Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Estimate vs. Actual - Accrual Basis (Dollars in millions) For the Twelve Months Ended June 30, 2006

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Operations & Maintenance				
Fixed				
Personnel	\$ 191.1	\$ 219.1	\$ (28.0)	(15%)
Materials & Supplies	13.1	18.9	(5.8)	(44%)
Professional Services	15.9	17.8	(2.0)	(13%)
Outside Non-Professional Services	19.1	16.6	2.5	13%
Other	10.9	21.4	(10.5)	(97%)
Total Fixed	250.0	293.8	(43.8)	(18%)
Variable				
Water Treatment Chemicals	23.4	27.1	(3.7)	(16%)
Utility Costs	17.5	16.7	0.8	5%
Total Variable	40.9	43.8	(2.9)	(7%)
Total Operations & Maintenance	\$ 290.9	\$ 337.6	\$ (46.7)	(16%)
Cost of Water				
Cost of Water	\$ 277.2	\$ 369.5	(92.3)	(33%)
SWP Prior Year Adjustments	(9.9)	(6.5)	(3.3)	34%
Total	\$ 267.4	\$ 363.0	\$ (95.6)	(36%)
Capital Investment Plan	\$ 506.3	\$ 411.5	\$ 94.8	19%

Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Operations and Maintenance Fixed and Variable Components - Accrual Basis Estimate vs. Actual Twelve Months Ended June 30, 2006 (Dollars in millions)

Component	Estimate	Actual	<i>Favorable/ (Unfavorable)</i> <i>Variance</i>	
			\$	%
Fixed				
Personnel	\$191.1	\$219.1	(\$28.0)	(15%)
Professional Services	15.9	17.8	(2.0)	(13%)
Outside Non-Professional Services	19.1	16.6	2.5	13%
Materials & Supplies	13.1	18.9	(5.8)	(44%)
Communications Expense	3.6	3.1	0.5	14%
Travel Expense	2.1	2.0	0.0	2%
Training	0.8	0.7	0.1	11%
Memberships & Subscriptions	2.2	1.7	0.4	19%
Equipment Expensed	1.2	1.3	(0.1)	(6%)
Equipment Rents/Leases	1.1	1.1	(0.0)	(2%)
Insurance	8.6	20.3	(11.7)	(136%)
Agency Dues	1.7	2.0	(0.3)	(21%)
Rents/Leases	0.4	0.5	(0.1)	(20%)
Overhead Credit from Construction	(17.9)	(16.8)	(1.2)	7%
Other	7.2	5.4	1.8	25%
Total Fixed Costs	250.0	293.8	(43.8)	(18%)
Variable				
Water Treatment Chemicals	23.4	27.1	(3.7)	(16%)
Utility Costs:				
Utilities	11.2	10.8	0.5	4%
Sludge Removal	4.8	4.6	0.2	5%
Permits	1.5	1.3	0.1	9%
Total Variable Costs	40.9	43.8	(2.9)	(7%)
Total O&M	\$290.9	\$337.6	(\$46.7)	(16%)
Water Sales - Thousand Acre-Feet	1,857.3	2,081.0	223.8	12%

Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Estimate vs. Actual: Construction Activities - Accrual Basis
For the Twelve Months Ended June 30, 2006
(Dollars in millions)

	Estimate	Actual	Variance from Estimate	
			\$	%
Sources of Funds				
Bond Construction Funds	\$ 411.3	\$ 336.1	\$ 75.2	18%
R & R/General Funds	95.0	75.4	19.6	21%
Total	\$ 506.3	\$ 411.5	\$ 94.8	19%
Program Expenditures				
Oxidation Retrofit Programs	\$ 102.7	\$ 91.0 (1)	\$ 11.7	11%
Inland Feeder	79.8	61.6	18.2	23%
Treatment Plant Improvement	65.5	53.6 (1)	12.0	18%
Skinner Filtration Plant Expansion No. 4	65.4	60.0	5.4	8%
San Diego Pipeline No. 6	43.9	55.0	(11.1)	(25%)
Diamond Valley Lake Recreation	20.9	8.0	12.8	62%
Distribution System - Rehabilitation Program	13.5	14.0	(0.5)	(3%)
CRA - Reliability/Containment Programs	13.2	4.0	9.2	69%
Chlorine Containment and Handling Facilities	13.1	6.7	6.4	49%
Diemer - Solids Handling/Water Reclamation	12.4	14.8	(2.4)	(19%)
Other	75.7	42.8 (2)	32.9	43%
Total	\$ 506.3	\$ 411.5	\$ 94.8	19%

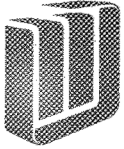
(1) \$2.85 million of costs transferred from Jensen ORP to Jensen Plant Improvement program.

(2) Credited to construction were \$4.276 million for DVL land sales and \$4.764 million for Oxnard land sales during the fiscal year.

Major Program Statistics

	Current Program Estimate	Project-to-Date Jun. 06	% Complete		Projected Program Total	Projected Program Variance
			Spent	Complete		
Inland Feeder	\$ 1,186.5	\$ 869.0	73%	86%	\$ 1,186.0	\$ 0.5
Oxidation Retrofit Programs	856.4	348.2	41%	43%	856.4	-
Local Groundwater Projects	290.5	50.4	17%	47%	290.5	-
Treatment Plant Improvement Projects	460.2	90.1	20%	20%	460.2	-
San Diego Pipeline No. 6	277.6	86.5	31%	42%	277.6	-
Skinner Expansion No. 4	143.2	95.1	66%	67%	143.2	-
CRA - Reliability/Containment Programs	143.5	61.2	43%	52%	143.5	-
Diamond Valley Lake Recreation	92.8	51.4	55%	58%	92.8	-

Totals may not foot / cross foot due to rounding.



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: July 11, 2006
To: Board of Directors
From: Interim General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of June 2006

Pursuant to Sections 2741(a) and 5101(b)(5) of the Administrative Code, this office has examined the Treasurer's Monthly Report to the Board for the month of June 2006 covering the investment of securities for that period. The reported forms of investment are within the eligible group of securities authorized by Section 5101(b)(2) of the Administrative Code, and as of the end of the month are within the percentage constraints specified in that section. For purposes of this letter, we have not undertaken to independently verify the accuracy of the information submitted by the Treasurer to this office.

A handwritten signature in black ink, appearing to read 'Sydney B. Bennion'.

Sydney B. Bennion

cc: T. E. DeBacker
J. Kightlinger
R. N. Marumoto
B. G. Thomas