



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Twelve Months Ended June 30, 2008

Executive Financial Report
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For the Twelve Months Ended June 30, 2008

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Executive Financial Report

For the Twelve Months Ended June 30, 2008 – Current vs. Prior Year

Discussion and Analysis

A summary of the accrual basis statement of operations activity for the fiscal year ended June 30, 2008 as well as the changes in the balance sheet for June 2008 are discussed below.

Statements of Operations (page 2)

Net Income of \$156.6 million was \$33.2 million less than prior year's net income of \$189.8 million. Included in the variance were higher operating revenues of \$27.2 million and higher other income-net of \$8.6 million, offset by higher operating expenses of \$69.0 million. These items are described below.

Operating revenues for the fiscal year ended June 30, 2008 totaled \$1,096.5 million, which were \$27.2 million more than prior year operating revenues of \$1,069.3 million. The increase was primarily due to \$21.2 million higher water sales, of which \$59.1 million was due to higher prices offset by \$37.9 million of lower volumes. Exchange sales were \$6.5 million greater than the prior year due to higher sales volumes.

Operating expenses for the fiscal year ended June 30, 2008 totaled \$985.3 million and were \$69.0 million higher than prior year operating expenses of \$916.3 million. Included in the increase were \$34.1 million higher O&M, \$13.6 million higher cost of water, \$14.2 million more in depreciation and amortization expense, and \$7.2 million higher water management programs. O&M's were higher primarily due to \$10.0 million more in personnel costs due to negotiated labor contracts; \$8.3 million higher insurance costs including approximately \$7.0 million more of 3rd party liability as new claims occurred and/or older claims were revised, and \$1.0 million for Cargill litigation; \$7.9 million higher costs related to the Quagga mussel containment; and \$3.0 million higher advertising expense as the water conservation programs were more aggressively marketed. The increased cost of water was due primarily to higher unit costs, partially offset by \$47.3 million more of credits from DWR for adjustments to prior year costs. Depreciation and amortization was \$14.2 million higher as the Jensen and Mills ORP and Mills Expansion 2 programs started depreciating. Water management programs were \$7.2 million more due to more aggressive conservation efforts.

Other income-net of \$45.4 million was \$8.6 million more than prior year other income-net of \$36.8 million. This increase was mainly due to \$10.7 million more of investment income as the result of higher interest rates and portfolio balances.

Balance Sheets (page 3)

At June 30, 2008, assets totaled \$11.0 billion, which were \$89.3 million higher than June 30, 2007. This variance included \$370.1 million of higher property, plant and equipment, net (PP&E), \$51.2 million higher deferred charges and water rights, and \$26.0 million more in 'other' assets, which were partially offset by \$347.1 million less in cash and investments. The higher PP&E was primarily due to construction progress on the Oxidation Retrofit programs, Inland Feeder, Perris Valley Pipeline, Treatment Plant Improvement programs, and the Chlorine Containment and Handling facilities program. The increase in 'other' assets is primarily attributed to \$16.7 million more in grants, resulting from increased grant activity and \$8.3 million of higher water inventory. The increase in deferred charges and water rights included \$34.4 million higher State Water Contract OMP&R costs, \$28.7 million for the Drop 2 reservoir, and \$10.7 million in various water transfer programs; partially offset by \$27.5 million of lower water storage programs (e.g., Arvin-Edison, Semitropic). The \$347.1 million decrease in cash and investments was due primarily to construction expenditures.

Liabilities totaled \$5.1 billion at June 30, 2008, which were \$82.8 million less than June 30, 2007. This decrease included \$81.5 million less of long-term debt due to principal paydowns and refundings of debt, \$22.5 million less of SWC obligations due to lower deliveries; partially offset by \$16.0 million of higher accounts payable due primarily to a \$19.8 million increase in the Other Postemployment benefits obligation and \$11.4 million higher trust funds and other.

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>
	2008	2007	
Operating Revenues:			
Water Sales	\$ 937.8	\$ 916.5	\$ 21.2
Wheeling / Exchange	20.9	14.4	6.5
Readiness-to-Serve	82.1	80.0	2.1
Capacity Charge	32.6	32.3	0.3
Power Sales	23.1	26.1	(3.0)
Total Operating Revenues	1,096.5	1,069.3	27.2
Operating Expenses:			
Cost of Water	346.1 ⁽¹⁾	332.6	(13.6)
Operations & Maintenance	361.9	327.8	(34.1)
Water Management Programs	49.3	42.1	(7.2)
Depreciation & Amortization	228.0	213.8	(14.2)
Total Operating Expenses	985.3	916.3	(69.0)
Net Operating Income	111.2	153.0	(41.8)
Other Income (Expense):			
Net Taxes/Annexations	98.6	96.4	2.3
Investment Income ⁽²⁾	65.9	55.2	10.7
Bond Interest Expense	(119.9)	(118.9)	(1.0)
Other	0.7	4.0	(3.4)
Total Other Income - Net	45.4	36.8	8.6
Net Income	\$ 156.6	\$ 189.8	\$ (33.2)

Sales Statistics

Water Sales (TAF)	2,176.4	2,296.2	(119.8)
Wheeling/Exchange (TAF)	77.2	55.8	21.5
Power Sales (mWh)	402.3	509.9	(107.6)
Average Sales Price ⁽³⁾			
Water Sales	\$ 430.88	\$ 399.15	\$ 31.74
Wheeling/Exchange	\$ 270.92	\$ 258.03	\$ 12.89
Power Sales	\$ 0.06	\$ 0.05	\$ 0.01

Ratios:

Fixed Charge Coverage (rolling 12 months) - Cash Basis:

Actual	1.27 x	1.69 x
Target	≥ 1.20 x	≥ 1.20 x

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

Actual	1.76 x	2.21 x
Target	> 2.00 x	> 2.00 x

Notes:

- (1) Includes \$47.7 million in credits from DWR related to prior year variable costs.
- (2) Includes fair value adjustment of \$2.8 million and \$7.3 million at June 30, 2008 and 2007, respectively.
- (3) Average prices calculated using exact rather than rounded dollar amounts.
- (4) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis (Dollars in millions)

	2008	June 30, 2007	Increase/ (Decrease)
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 1,076.7	\$ 1,423.9	\$ (347.1)
Fair Value Adjustment	2.0	(0.8)	2.8
Accounts Receivable	228.4	244.8	(16.4)
Property, Plant and Equipment, net	7,513.2	7,143.0	370.1
Prepaid State Water Project Costs, net	1,487.8	1,477.8	10.0
Participation Rights, net	253.5	260.8	(7.3)
Deferred Charges and Water Rights	262.6	211.4	51.2
Other	175.0	149.0	26.0
Total Assets	\$ 10,999.2	\$ 10,909.8	\$ 89.3
Liabilities and Equity:			
Long-Term Debt	\$ 4,534.8	\$ 4,616.4	\$ (81.5)
Off-Aqueduct Power Facilities	66.7	72.5	(5.9)
Accounts Payable and Accrued Bond Interest	204.1	188.1	16.0
Deferred Income	5.9	6.3	(0.4)
State Water Project Obligations	237.5	260.0	(22.5)
Trust Funds and Other	96.2	84.8	11.4
Total Liabilities	5,145.3	5,228.2	(82.8)
Equity	5,853.8	5,681.7	172.1
Total Liabilities and Equity	\$ 10,999.2	\$ 10,909.8	\$ 89.3

Revenue Bond Debt as a percent of equity	Actual	74.4	%	75.3	%
	Target	< 100.0	%	< 100.0	%

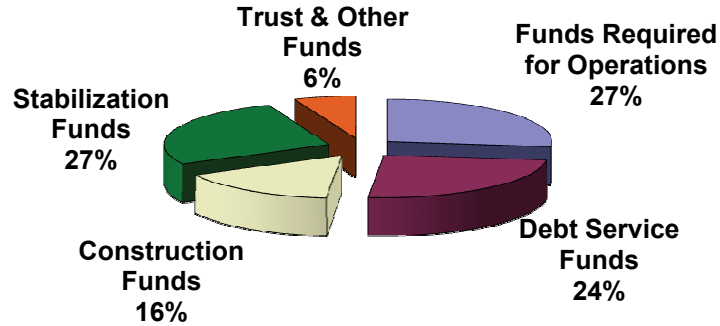
Notes:

- (1) Fair value of cash and investments was \$1,078.7 million and \$1,423.1 million at June 30, 2008 and 2007, respectively.
- (2) Certain reclassifications of prior year amounts have been made to conform to current year presentation.
- (3) 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, 2008 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 228.8	\$ 61.3	\$ 0.0	\$ 290.1
Debt Service Funds	264.2	-	-	264.2
Construction Funds	137.6	-	34.0	171.6
Stabilization Funds	-	-	286.9	286.9
Trust & Other Funds	44.7	19.2	-	63.9
Total	\$ 675.3	\$ 80.5	\$ 320.9	\$ 1,076.7



Executive Financial Report For the Twelve Months Ended June 30, 2008 – Actual vs. Estimate Discussion and Analysis

A summary of accrual basis operations and construction activity for the fiscal year ended June 30, 2008 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 6)

Net income of \$156.6 million was \$42.7 million lower than the \$199.3 million estimate. Included in this variance was \$1.9 million of higher than estimated operating revenues, \$36.6 million of higher than estimated operating expenses, and \$8.0 million less of estimated other income-net. These items are further described below.

Operating revenues of \$1,096.5 million were \$1.9 million higher than the \$1,094.6 million estimate. This increase was due primarily to \$22.8 million of higher than estimated water sales, of which \$13.9 million was related to higher prices and \$8.9 million to higher volumes; and \$1.1 million of higher than estimated wheeling/exchange sales, partially offset by \$22.0 million less in power sales. Water sales volumes totaled 2,176.4 thousand acre-feet (TAF), or 20.9 TAF more than the estimate of 2,155.4 TAF. The power sales estimate included revenues for CRA power sales; instead these sales are recorded as a reduction of water inventory costs for accrual basis accounting.

Operating expenses of \$985.3 million were \$36.6 million higher than the \$948.7 million estimate primarily due to \$13.8 million more in depreciation and amortization, \$10.5 million higher cost of water, \$6.3 million more in water management programs, and \$6.0 million more in O&M's. The increase in depreciation and amortization is due primarily to higher State Water Contract capital costs not anticipated in the estimate. The higher cost of water was due to \$43.8 million of higher supply costs, partially offset by additional State Water Contract credits of \$33.5 million for prior year adjustments. Water management programs increased due primarily to more aggressive conservation credits on the public sector program and increased activity on the high efficiency washer and toilet rebates. O&M's increased due to costs relating to controlling the quagga mussel infestation.

Other income-net totaling \$45.4 million was \$8.0 million less than estimate. The variance included \$22.4 million of higher bond interest expense, partially offset by \$13.7 million of higher than anticipated investment income. The higher bond interest expense was due primarily to lower than expected capitalization of interest on construction, resulting from lower than anticipated construction costs. The favorable variance for investment income was due to higher than anticipated yields and \$2.8 million of fair value adjustment, which was not part of the estimated amount.

Construction Activity (page 9)

Construction costs for the fiscal year ended June 30, 2008 totaled \$377.6 million, which was \$120.8 million, or twenty-four percent, under estimate. Included in the variance were the Treatment Plant Improvement Programs, which were \$50.8 million less than estimate; the Oxidation Retrofit Programs (ORP) which were \$42.5 million less than estimate; the Diamond Valley Lake Recreation program, which was \$8.2 million less than estimate; and the Chlorine Containment and Handling Facilities program, which was \$5.9 million less than estimate. The ORP programs were lower primarily due to rescheduling at the Weymouth facility to accommodate rehabilitation and upgrade work. The Treatment Plant Improvement, Chlorine Containment and Handling Facilities, and Diamond Valley Lake Recreation programs were less than estimate due to timing of work performed.

The Metropolitan Water District of Southern California

Statement of Operations Actual vs. Estimate - Accrual Basis (Dollars in millions)

For the Twelve Months Ended June 30, 2008				
		<i>Favorable/ (Unfavorable)</i>		
		<i>Variance</i>		
	Estimate	Actual	\$	%
Operating Revenues				
Water Sales	\$ 915.0	\$ 937.8	\$ 22.8	2%
Wheeling/Exchange	19.8	20.9	1.1	6%
RTS	82.0	82.1	0.1	0%
Capacity Charge	32.7	32.6	(0.1)	(0%)
Power Sales	45.1	23.1	(22.0)	(49%)
Total Operating Revenues	1,094.6	1,096.5	1.9	0%
Operating Expenses				
Operations & Maintenance	355.9	361.9	(6.0)	(2%)
Cost of Water	335.7	346.1	(10.5)	(3%)
Water Mgt. Programs	42.9	49.3	(6.3)	(15%)
Depreciation & Amortization	214.2	228.0	(13.8)	(6%)
Total Operating Expenses	948.7	985.3	(36.6)	(4%)
Operating Income	145.9	111.2	(34.7)	(24%)
Other Income/(Expense)				
Net Taxes/Annexations	102.1	98.6	(3.5)	(3%)
Investment Income	52.2	65.9 ⁽¹⁾	13.7	26%
Bond Interest Expense	(97.5)	(119.9)	(22.4)	(23%)
Other	(3.4)	0.7	4.1	(120%)
Total Other Income(Expense)	53.4	45.4	(8.0)	(15%)
Net Income	\$ 199.3	\$ 156.6	\$ (42.7)	(21%)
Sales Statistics:				
Water Sales (TAF)	2,155.4	2,176.4	20.9	1%
Wheeling Sales (TAF)	73.7	77.2	3.5	5%

Notes:

(1) Includes fair value adjustment of \$2.8 million not included in estimate.

(2) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Operations & Maintenance and Cost of Water Actual vs. Estimate - Accrual Basis For the Twelve Months Ended June 30, 2008 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<u>Operations & Maintenance</u>				
Fixed:				
Personnel	\$ 239.8	\$ 240.0	\$ (0.2)	(0%)
Materials & Supplies	16.9	19.2	(2.3)	(14%)
Professional Services	18.8	21.2	(2.4)	(13%)
Outside Non-Professional Services	21.0	17.6	3.4	16%
Other	15.0	27.7	(12.7)	(85%)
Total Fixed	311.5	325.8	(14.3)	(5%)
Variable:				
Water Treatment Chemicals	28.5	22.1	6.4	23%
Utility Costs	15.9	14.1	1.8	11%
Total Variable	44.4	36.2	8.3	19%
Total Operations & Maintenance	\$ 355.9	\$ 361.9	\$ (6.0)	(2%)
<u>Cost of Water</u>				
Cost of Water	\$ 349.8	\$ 393.8	(44.0)	(13%)
SWP Prior Year Adjustments	(14.2)	(47.7)	33.5	(237%)
Total Cost of Water	\$ 335.7	\$ 346.1	\$ (10.5)	(3%)

Note:

(1) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Operations and Maintenance Fixed and Variable Components Actual vs. Estimate - Accrual Basis For the Twelve Months Ended June 30, 2008 (Dollars in millions)

Component	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Fixed:				
Personnel	\$239.8	\$240.0	(\$0.2)	(0%)
Professional Services	18.8	21.2	(2.4)	(13%)
Outside Non-Professional Services	21.0	17.6	3.4	16%
Materials & Supplies	16.9	19.2	(2.3)	(14%)
Communications Expense	3.9	3.9	(0.0)	(0%)
Travel Expense	2.4	2.5	(0.1)	(2%)
Training	1.0	0.7	0.4	36%
Memberships & Subscriptions	2.2	2.0	0.1	6%
Equipment Expensed	1.0	0.7	0.3	30%
Equipment Rents/Leases	1.2	1.3	(0.0)	(3%)
Insurance	7.0	22.6	(15.7)	(224%)
Agency Dues	2.2	2.3	(0.1)	(5%)
Rents/Leases	0.4	0.5	(0.1)	(17%)
Overhead Credit from Construction	(19.4)	(19.2)	(0.3)	1%
Other	13.1	10.0	3.1	24%
Total Fixed Costs	311.5	325.8	(14.3)	(5%)
Variable:				
Water Treatment Chemicals	28.5	22.1	6.4	23%
Utility Costs:				
Utilities	11.0	10.9	0.1	1%
Sludge Removal	3.3	1.5	1.8	53%
Permits	1.6	1.6	(0.0)	(2%)
Total Variable Costs	44.4	36.2	8.3	19%
Total O&M	\$355.9	\$361.9	(\$6.0)	(2%)

Note:

(1) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

**Actual vs. Estimate: Construction Activity - Accrual Basis
(Dollars in millions)**

	For the Twelve Months Ended June 30, 2008			
	Estimate	Actual	Variance from Estimate	
			\$	%
Sources of Funds				
Bond Construction Funds	\$ 388.6	\$ 333.3	\$ 55.4	14%
R & R/General Funds	109.8 ⁽¹⁾	44.4 ⁽²⁾	65.4	60%
Total	\$ 498.4	\$ 377.6	\$ 120.8	24%
Program Expenditures				
Oxidation Retrofit Programs	\$ 155.5	\$ 113.0	\$ 42.5	27%
Treatment Plant Improvement	83.2	32.4	50.8	61%
Inland Feeder	69.3	66.8	2.4	4%
Chlorine Containment and Handling Facilities	28.5	22.6	5.9	21%
Perris Valley Pipeline	25.1	36.8	(11.7)	(46%)
Distribution System - Rehabilitation Program	18.3	16.4	1.9	10%
Mills Capacity Upgrade	17.1	11.7	5.3	31%
CRA - Reliability/Containment Programs	11.4	6.6	4.7	42%
Local Groundwater Storage	9.6	10.8	(1.2)	(13%)
Diamond Valley Lake Recreation	9.6	1.4	8.2	85%
Other	70.9	59.0	11.9	17%
Total	\$ 498.4	\$ 377.6	\$ 120.8	24%

(1) Per Board action at the March 11, 2008 meeting, the R&R/General Fund estimate was revised to \$45 million.

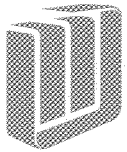
(2) Excludes the \$28.7 million Drop 2 payment from the R&R fund for a water transfer program expenditure, not a construction expenditure.

Major Program Statistics - June 2008

	Current Estimate	Project- to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,010.5	85%	82%
Oxidation Retrofit Program	998.2	594.3	60%	60%
Treatment Plant Improvement Projects	439.9	221.7	50%	56%
Chlorine Containment and Handling Facilities	135.8	98.8	73%	90%
CRA - Reliability/Containment Programs	148.5	85.3	57%	60%
Skinner Expansion No. 4	147.0	145.8	99%	99%
Diamond Valley Lake Recreation	92.8	63.5	68%	68%

Note:

(3) Totals may not foot / cross foot due to rounding.



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: July 8, 2008
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of June 2008

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 2008 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.


Karen L. Tachiki

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