



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Fiscal Year Ended June 30, 2009

**Executive Financial Report
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For the Fiscal Year Ended June 30, 2009**

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Executive Financial Report For the Fiscal Year Ended June 30, 2009 – Current vs. Prior Year Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the fiscal year ended June 30, 2009 and June 30, 2008 as well as the changes in the balance sheet for June 2009 are discussed below.

Statements of Operations (page 3)

Net income of \$104.7 million was \$51.9 million less than prior year net income of \$156.6 million. Included in the variance were \$40 million of higher operating revenues, \$79 million more in operating expenses, and \$12.8 million less in other income-net. These items are further described below.

Operating revenues for the fiscal year ended June 30, 2009 totaled \$1,136.5 million and were \$40 million higher than prior year operating revenues of \$1,096.5 million. The increase was primarily due to \$33.7 million higher water sales and \$7.1 million higher wheeling/exchange sales. The water sales increase included \$103 million due to higher average sales prices partially offset by \$69.3 million related to lower sales volumes. The wheeling/exchange sales increase included \$1 million due to higher average sales prices and \$6.1 million related to higher sales volumes.

Operating expenses for the fiscal year ended June 30, 2009 totaled \$1,064.3 million and were \$79 million higher than prior year operating expenses of \$985.3 million. This increase was due primarily to \$52.5 million of higher cost of water and \$31.5 million more in demand management program costs. Cost of water increased due to higher unit costs and less credits from DWR for adjustments to prior year costs. Demand management programs were \$31.5 million higher reflecting Metropolitan's enhanced emphasis on conservation through new products (synthetic turf and central irrigation controllers), increased public sector participation, and growing conservation efforts (high efficiency toilets and high efficiency washers) in both the residential and commercial sectors.

Other income/ (expense)-net of \$32.6 million was \$12.8 million lower than prior year other income-net of \$45.4 million. The decrease was due primarily to a \$35.9 million reduction in investment income partially offset by \$18.6 million of lower bond interest expense. The lower investment income was due to \$25.8 million less in interest income as interest rates and portfolio balances were lower than the prior year and \$10.1 million less in fair value adjustment reflecting current market conditions, and includes adjustment for reductions in value of corporate notes and commercial paper held by Metropolitan (e.g., Lehman Brothers, AIG, Merrill Lynch, etc.). The reduction in bond interest expense was due primarily to lower interest rates.

Ratios (page 3)

The fixed charge coverage ratio measures the ability to pay fixed financing expenses, such as debt service and State Water Project capital costs, from net operating revenues. At June 30, 2009, this ratio was 1.29x compared to the Board approved guideline of greater than or equal to 1.20x. The revenue bond debt service coverage ratio is a measure of Metropolitan's ability to pay its revenue bond principal and interest payments from net operating revenues. This measure is used by the rating agencies to assess Metropolitan's ongoing credit quality. At June 30, 2009, this ratio was 1.79x compared to the Board approved guideline of greater than 2.00x. All debt service payments and other fixed charges were met during the fiscal year ended June 30, 2009.

Executive Financial Report For the Fiscal Year Ended June 30, 2009 – Current vs. Prior Year Discussion and Analysis

Balance Sheets (page 4)

At June 30, 2009, assets totaled \$11.5 billion, which were \$452.9 million higher than June 30, 2008. This variance included \$286.6 million of higher property, plant and equipment, net (PP&E), \$108.8 million more in participation rights, net and \$69.5 million more in accounts receivable. The higher PP&E, net was primarily due to construction progress on the Oxidation Retrofit programs, Inland Feeder project, Treatment Plant Improvement programs, Perris Valley Pipeline, and the Conveyance and Distribution System Rehabilitation programs. The increase in participation rights is primarily due to the addition of three groundwater storage programs to which Metropolitan has storage rights: \$28.4 million for Calleguas groundwater storage, \$27.5 million for Chino Basin groundwater storage, and \$23 million for Orange County groundwater storage, a \$17.4 million increase in Arvin-Edison and \$20.6 million related to agreements with other agencies for various conjunctive use programs. These increases were offset by \$8.7 million of amortization expense. The increase in accounts receivable is primarily attributed to \$67 million of grant billings to the State of California.

Liabilities totaled \$5.4 billion at June 30, 2009, which were \$259.1 million higher than June 30, 2008. This increase included \$194.9 million higher long-term debt, \$43.8 million higher accounts payable, and \$32.4 million of higher state water project obligations. The increase in long-term debt reflects the issuance of \$200 million in revenue bonds in January 2009 partially offset by principal paydowns and refunding of debt. The increase in accounts payable was primarily due to \$21.2 million of other post-employment benefit (OPEB) liability, \$4.3 million more of accrued bond interest, and \$4 million of conservation credits - accrued but unpaid. The higher state water project obligations were due in part to higher deliveries (2009 – 40% allocation; 2008 – 35% allocation).

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>
	2009	2008	
Operating Revenues:			
Water Sales	\$ 971.5	\$ 937.8	\$ 33.7
Wheeling / Exchange	28.0	20.9	7.1
Readiness-to-Serve	87.0	82.1	4.9
Capacity Charge	32.6	32.6	0.0
Power Sales	17.3	23.1	(5.8)
Total Operating Revenues	1,136.5	1,096.5	40.0
Operating Expenses:			
Cost of Water	398.6	346.1	(52.5)
Operations & Maintenance	358.8	361.9	3.1
Demand Management Programs	80.8	49.3	(31.5)
Depreciation & Amortization	226.1	228.0	1.9
Total Operating Expenses	1,064.3	985.3	(79.0)
Net Operating Income	72.2	111.2	(39.1)
Other Income (Expense):			
Net Taxes/Annexations	105.6	98.6	6.9
Investment Income	30.0	65.9	(35.9)
Bond Interest Expense	(101.3)	(119.9)	18.6
Other	(1.7)	0.7	(2.4)
Total Other Income/(Expense) - Net	32.6	45.4	(12.8)
Net Income	\$ 104.7	156.5848535	\$ (51.9)

Sales Statistics:

Water Sales (TAF)	2,044.7	2,176.4	(131.7)
Wheeling/Exchange (TAF)	99.6	77.2	22.4
Power Sales (mWh)	263.7	402.3	(138.6)
Average Sales Price (1)			
Water Sales	\$ 475.13	\$ 430.88	\$ 44.25
Wheeling/Exchange	\$ 281.31	\$ 270.92	\$ 10.39
Power Sales	\$ 0.07	\$ 0.06	\$ 0.01

Ratios:

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

Actual	1.29 x	1.24 x
Target (2)	≥ 1.20 x	≥ 1.20 x

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

Actual	1.79 x	1.76 x
Target (2)	> 2.00 x	> 2.00 x

Notes:

- (1) Average prices calculated using exact rather than rounded dollar amounts.
- (2) Board adopted guideline.
- (3) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis (Dollars in millions)

	2009	June 30, 2008	Increase/ (Decrease)
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 1,069.7	\$ 1,076.7	\$ (7.0)
Fair Value Adjustment	(5.3)	2.0	(7.3)
Accounts Receivable	298.0	228.4	69.5
Property, Plant and Equipment, net	7,799.8 ⁽²⁾	7,513.2	286.6
Prepaid State Water Project Costs, net	1,508.3	1,487.8	20.5
Participation Rights, net	362.2	253.5	108.8
Deferred Charges and Water Rights	241.2	263.6	(22.4)
Other	178.3	174.0	4.2
Total Assets	\$ 11,452.1	\$ 10,999.2	\$ 452.9
Liabilities and Equity:			
Long-Term Debt	\$ 4,729.8	\$ 4,534.8	\$ 194.9
Off-Aqueduct Power Facilities	60.8	66.7	(5.9)
Accounts Payable and Accrued Bond Interest	248.0	204.1	43.8
Deferred Income	5.8	5.9	(0.1)
State Water Project Obligations	269.9	237.5	32.4
Trust Funds and Other	90.2	96.2	(6.1)
Total Liabilities	5,404.4	5,145.3	259.1
Equity	6,047.7 ⁽²⁾	5,853.8	193.8
Total Liabilities and Equity	\$ 11,452.1	\$ 10,999.2	\$ 452.9

Revenue Bond Debt as a percent of equity	Actual	75.9 %	74.5 %
	Target ⁽³⁾	< 100.0 %	< 100.0 %

Notes:

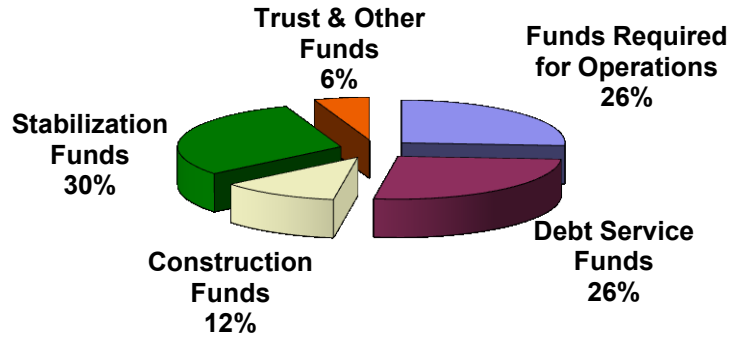
- (1) Fair value of cash and investments was \$1,064.4 million and \$1,078.7 million at June 30, 2009 and 2008, respectively.
- (2) Includes \$14.4 million of the Center for Water Education's (CWE) retained earnings transferred to Metropolitan in April 2009 upon recording the dissolution of the CWE.
- (3) Per Metropolitan Water District Act - Part 5, Chapter 1.6, Section 239.2.
- (4) Certain reclassifications of prior year amounts has been made to conform to current year presentation.
- (5) 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, 2009 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 237.9	\$ 39.7	\$ 1.0	\$ 278.6
Debt Service Funds	281.6	-	-	281.6
Construction Funds	91.5	-	34.0	125.5
Stabilization Funds	-	-	325.5	325.5 ⁽¹⁾
Trust & Other Funds	39.1	19.4	-	58.5
Total	\$ 650.1	\$ 59.1	\$ 360.5	\$ 1,069.7

(1) Includes \$1.3 million of investments posted as collateral with Morgan Stanley.



Executive Financial Report For the Fiscal Year Ended June 30, 2009 – Actual vs. Estimate Discussion and Analysis

A summary of accrual basis operations and construction activity for fiscal year ended June 30, 2009 compared to estimate for the same period is discussed below.

Actual vs. Estimate (page 7)

Net income for the fiscal ended June 30, 2009 was \$104.7 million or \$8.2 million less than the \$112.9 million estimate. Included in this variance were \$47.6 million of lower operating revenues, \$28.9 million lower operating expenses, and \$10.5 million of higher other income-net. These items are further described below.

Operating revenues of \$1,136.5 million were \$47.6 million lower than the \$1,184.1 million estimate due primarily to \$34.1 million of lower than estimated water sales and \$17.9 million less in power sales. The lower water sales were due to \$44 million in lower sales volumes, partially offset by \$9.9 million related to higher prices. Power sales were less than estimate due to lower power generation resulting from lower water flows. In addition, the power sales estimate included revenues of \$9.5 million for CRA power sales; instead these sales are recorded as a reduction of water inventory costs for accrual basis accounting.

Operating expenses of \$1,064.3 million were \$28.9 million lower than the estimate primarily due to \$39.4 million lower cost of water and \$12.7 million less in O&M costs, partially offset by \$27.1 million higher water management programs. The lower cost of water was due primarily to a State Water Contract credit of \$32.8 million for prior year adjustments which was not in the estimate. O&M costs were \$12.7 million less than estimate due primarily to \$9.4 million in lower chemical and utility costs due to lower State Water Project deliveries. Water management programs were higher than estimate primarily due to increased conservation efforts in both the residential and commercial sectors and reflect fiscal year 2009 Board actions approving an additional \$20 million for the conservation program and \$2 million for the local resources program.

Other income/(expense)-net totaling \$32.6 million was \$10.5 million higher than estimate due primarily to \$8.7 million more in net taxes/annexations revenues and \$13.3 million lower bond interest expense, partially offset by \$13 million less of investment income. The estimate for net taxes/annexations revenues was based on preliminary data which was less than the actual tax levy. The favorable variance in bond interest expense was due primarily to lower variable interest rates. Investment income was \$13 million less than estimate due to lower portfolio balances and lower interest rates and a \$7.3 million write-down for the fair value adjustment not included in the estimate.

Construction Activity (page 10)

Construction costs for the fiscal year ended June 30, 2009 totaled \$367 million, which was \$101.9 million, or twenty-two percent, under estimate. The variance includes \$40.2 million for the Treatment Plant Improvement programs; \$24.9 million for Perris Valley Pipeline; \$22.3 million for the Mills Capacity Upgrade; and \$10.6 million for the CRA–Reliability/Containment programs. Treatment Plant Improvement programs were less than estimate due to delays in construction and scope reductions. Perris Valley Pipeline was lower than estimate due to bids being considerably lower than anticipated for the South Reach. The Mills Capacity Upgrade was less than estimate due to the deferral of construction on the project. The CRA–Reliability/Containment programs were less than estimate due to delays in construction. The Inland Feeder project was \$25.0 million higher than estimate due to accelerated construction activity.

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, 2009			
	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Operating Revenues				
Water Sales	\$ 1,005.6	\$ 971.5	\$ (34.1)	(3%)
Wheeling/Exchange	23.6	28.0	4.4	19%
RTS	87.0	87.0	-	0%
Capacity Charge	32.6	32.6	(0.0)	(0%)
Power Sales	35.2	17.3	(17.9)	(51%)
Total Operating Revenues	1,184.1	1,136.5	(47.6)	(4%)
Operating Expenses				
Operations & Maintenance	371.5	358.8	12.7	3%
Cost of Water	438.1	398.6	39.4	9%
Demand Mgt. Programs	53.7	80.8	(27.1)	(51%)
Depreciation & Amortization	230.0	226.1	3.9	2%
Total Operating Expenses	1,093.3	1,064.3	28.9	3%
Operating Income	90.8	72.2	(18.7)	(21%)
Other Income/(Expense)				
Net Taxes/Annexations	96.9	105.6	8.7	9%
Investment Income	43.0	30.0	(13.0)	(30%)
Bond Interest Expense	(114.6)	(101.3)	13.3	12%
Other	(3.2)	(1.7)	1.5	(46%)
Total Other Income(Expense)	22.1	32.6	10.5	47%
Net Income	\$ 112.9	\$ 104.7	\$ (8.2)	(7%)
Sales Statistics:				
Water Sales (TAF)	2,138.3	2,044.7	(93.6)	(4%)
Wheeling Sales (TAF)	84.9	99.6	14.7	17%

Note:

(1) 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, 2009 (Dollars in millions)

	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
<u>Operations & Maintenance</u>				
Fixed:				
Personnel	\$ 247.5	\$ 247.8	\$ (0.3)	(0%)
Materials & Supplies	17.1	19.2	(2.1)	(12%)
Professional Services	22.9	28.2	(5.3)	(23%)
Outside Non-Professional Services	21.6	19.4	2.2	10%
Other	15.7	6.9	8.7	56%
Total Fixed	324.8	321.5	3.3	1%
Variable:				
Water Treatment Chemicals	31.6	23.8	7.8	25%
Utility Costs	15.1	13.5	1.6	11%
Total Variable	46.7	37.3	9.4	20%
Total Operations & Maintenance	\$ 371.5	\$ 358.8	\$ 12.7	3%
<u>Cost of Water</u>				
Cost of Water	\$ 447.2	\$ 442.2	5.1	1%
SWP Prior Year Adjustments	(9.2)	(43.5)	34.3	(375%)
Total Cost of Water	\$ 438.1	\$ 398.6	\$ 39.4	9%

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, 2009 (Dollars in millions)

Component	Estimate	Actual	Favorable/ (Unfavorable) Variance	
			\$	%
Fixed:				
Personnel	\$247.5	\$247.8	(\$0.3)	(0%)
Professional Services	22.9	28.2	(5.3)	(23%)
Outside Non-Professional Services	21.6	19.4	2.2	10%
Materials & Supplies	17.1	19.2	(2.1)	(12%)
Communications Expense	3.9	3.5	0.4	10%
Travel Expense	2.5	2.1	0.3	14%
Training	1.1	0.8	0.3	28%
Memberships & Subscriptions	2.3	2.4	(0.1)	(4%)
Equipment Expensed	0.7	0.7	(0.0)	(2%)
Equipment Rents/Leases	1.1	1.1	0.0	4%
Insurance	10.0	7.5	2.6	26%
Agency Dues	1.9	1.6	0.3	15%
Rents/Leases	0.4	0.3	0.1	28%
Overhead Credit from Construction	(19.6)	(20.3)	0.7	(3%)
Other	11.3	7.2	4.2	37%
Total Fixed Costs	324.8	321.5	3.3	1%
Variable:				
Water Treatment Chemicals	31.6	23.8	7.8	25%
Utility Costs:				
Utilities	10.9	11.1	(0.1)	(1%)
Sludge Removal	2.5	0.9	1.6	65%
Permits	1.7	1.5	0.2	9%
Total Variable Costs	46.7	37.3	9.4	20%
Total O&M	\$371.5	\$358.8	\$12.7	3%

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, 2009			
	Estimate	Actual	Variance from Estimate	
			\$	%
Sources of Funds				
Bond Construction Funds	\$ 438.9	\$ 330.3	\$ 108.6	25%
R & R/General Funds (1)	30.0	36.7	(6.7)	(22%)
Total	\$ 468.9	\$ 367.0	\$ 101.9	22%
Program Expenditures				
Oxidation Retrofit Programs	\$ 90.1	\$ 92.7	\$ (2.6)	(3%)
Treatment Plant Improvement	84.0	43.9	40.2	48%
Inland Feeder	61.4	86.4	(25.0)	(41%)
Riverside Treatment Plant Land Acquisition	9.9	0.1	9.8	99%
Perris Valley Pipeline	61.7	36.8	24.9	40%
Distribution System - Rehabilitation Program	23.5	18.1	5.4	23%
Mills Capacity Upgrade	35.8	13.5	22.3	62%
CRA - Reliability/Containment Programs	17.2	6.6	10.6	61%
Local Groundwater Storage	10.3	3.6	6.7	65%
Power Reliability & Energy Conservation	7.3	12.8	(5.5)	(75%)
Other	67.8	52.7	15.1	22%
Total	\$ 468.9	\$ 367.0	\$ 101.9	22%

	Major Program Statistics			
	Current Estimate	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,096.9	92%	95%
Oxidation Retrofit Program	1,206.9	647.0	54%	50%
Treatment Plant Improvement Projects	748.2	265.6	35%	35%
Chlorine Containment Handling Facilities	162.9	108.9	67%	72%
CRA - Reliability/Containment Programs	166.2	92.0	55%	57%
Skinner Expansion No. 4	153.2	150.0	98%	99%
Diamond Valley Lake Recreation	92.8	64.8	70%	70%

Notes:

(1) R&R expenses were reduced from \$95 million to \$30 million per approved action at the March 2009 Board meeting.

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



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: August 6, 2009
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of June 2009

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 2009 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. We note that the Investment Policy authorizes continued holding of the investments listed on Attachment 2a for orderly and systematic liquidation. 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 cursive script, appearing to read "Karen L. Tachiki".

Karen L. Tachiki

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