



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Six Months Ended December 31, 2009

Executive Financial Report
Table of Contents
For the Six Months Ended December 31, 2009

Schedule	Page No.
Current vs. Prior Year – Accrual Basis	
Discussion and Analysis	1
Statements of Operations	3
Balance Sheets	4
Cash and Investments	5
Projected vs. Budget – Accrual Basis	
Discussion and Analysis	6
Statement of Operations	7
Actual vs. Budget – Accrual Basis	
Discussion and Analysis	8
Construction Activities	9
Eligibility of Securities	10

Executive Financial Report For the Six Months Ended December 31, 2009 – Current vs. Prior Year Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the six months ended December 31, 2009 and December 31, 2008 as well as the changes in the balance sheet for December 2009 are discussed below.

Statements of Operations (page 3)

Net income of \$85 million was \$6.6 million less than the prior year net income of \$91.6 million. Included in the variance were \$33.9 million of higher operating revenues, \$29.5 million more in operating expenses, and \$11 million less in other income-net. These items are further described below.

Operating revenues for the six months ended December 31, 2009 totaled \$642.6 million and were \$33.9 million higher than prior year's operating revenues. The increase was primarily due to \$20.2 million higher wheeling/exchange sales and \$8 million more in readiness-to-serve charges reflecting a Board approved increase. The increase in wheeling/exchange sales was primarily due to higher volumes: 31.1 thousand acre-feet (TAF), or \$9.8 million, of exchange water sales related to the All American Canal and 15.5 TAF, or \$5.7 million, of wheeled water delivered from Placer County to San Diego County Water Authority.

Operating expenses for the six months ended December 31, 2009 totaled \$565.6 million and were \$29.5 million higher than prior year operating expenses of \$536.1 million. This increase was due primarily to \$36.8 million of higher cost of water, partially offset by lower demand management program costs of \$11.4 million as the result of Board directed action. The increase in cost of water was due to \$16.9 million less of credits from DWR for adjustments to prior year costs and \$10 million more in costs, \$21.6 million related to higher unit prices offset by \$11.6 million due to lower volumes.

Other income-net of \$8 million was \$11 million lower than prior year other income-net of \$19 million mainly due to \$10.9 million of higher bond interest expense. The increase in bond interest expense was the result of new bond issues, partially offset by refunded bonds.

Ratios (page 3)

The fixed charge coverage ratio measures the ability to pay fixed financing expenses, including debt service and State Water Project capital costs, from net operating revenues. At December 31, 2009, this ratio was 1.31x compared to the Board approved guideline of greater 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. At December 31, 2009, this ratio was 1.85x compared to the Board approved guideline of greater than 2.00x. These ratios are used by the rating agencies to assess Metropolitan's ongoing credit quality. All debt service payments and other fixed charges were met during the past six months.

Executive Financial Report For the Six Months Ended December 31, 2009 – Current vs. Prior Year Discussion and Analysis

Balance Sheets (page 4)

At December 31, 2009, assets totaled \$12 billion, which were \$757.5 million higher than December 31, 2008. This variance included \$326.6 million more in cash and investments, \$285.5 million of higher property, plant and equipment, net (PP&E), and \$106.1 million higher participation rights, net. The \$326.6 million increase in cash and investments was primarily due to \$550 million of revenue bonds issued during the year and the receipt of \$59.5 million in state grant funds from Propositions 13 and 50, partially offset by expenditures on the capital improvement program. The higher PP&E was primarily due to construction progress on the Treatment Plant Improvement programs, Inland Feeder, Oxidation Retrofit programs, and the Perris Valley Pipeline. The increase in participation rights was 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 as well as \$20.6 million related to agreements with other agencies for various conjunctive use programs.

Liabilities totaled \$5.9 billion at December 31, 2009, which were \$566.5 million higher than December 31, 2008. The increase included \$421.3 million more of long-term debt, \$99.2 million higher State Water Project obligations, and \$40.7 million more in accounts payables. The net increase to long-term debt was due to \$550 million of revenue bonds issued during the year, partially offset by principal pay downs and refundings. The increase in State Water Project obligations was due primarily to a \$39 million increase in the capital component, of which \$18.5 million related to Delta Habitat Conservation and Conveyance, and \$57 million higher variable costs, of which \$21.8 million related to lower credits in the current year for prior year adjustments and \$34.6 million more in variable rate power billings. The increase in accounts payable was primarily due to \$22.2 million of other post-employment benefit (OPEB) liability and \$18.3 million more of accrued bond interest expense resulting from the \$550 million of new bonds issued subsequent to December 2008.

The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis (Dollars in millions)

	For the Six Months Ended December 31,		<i>Favorable/ (Unfavorable) Variance</i>
	2009	2008	
Operating Revenues:			
Water Sales	\$ 530.0	\$ 525.0	\$ 5.1
Wheeling / Exchange	33.4	13.1	20.2
Readiness-to-Serve	51.5	43.5	8.0
Capacity Charge	16.2	16.4	(0.2)
Power Sales	11.5	10.7	0.8
Total Operating Revenues	642.6	608.8	33.9
Operating Expenses:			
Cost of Water	246.6	209.8	(36.8)
Operations & Maintenance	170.5	172.9	2.5
Demand Management Programs	29.9	41.3	11.4
Depreciation & Amortization	118.7	112.1	(6.6)
Total Operating Expenses	565.6	536.1	(29.5)
Net Operating Income	77.0	72.7	4.4
Other Income (Expense):			
Net Taxes/Annexations	52.8	53.6	(0.8)
Investment Income	15.9	16.5	(0.6)
Bond Interest Expense	(62.0)	(51.0)	(10.9)
Other	1.3	(0.1)	1.3
Total Other Income/(Expense) - Net	8.0	19.0	(11.0)
Net Income	\$ 85.0	\$ 91.6	\$ (6.6)

Sales Statistics:

Water Sales (TAF)	914.1	1,150.7	(236.6)
Wheeling/Exchange (TAF)	108.2	46.9	61.3
Power Sales (mWh)	137.1	170.2	(33.1)
Average Sales Price (1)			
Water Sales	\$ 579.85	\$ 456.23	\$ 123.61
Wheeling/Exchange	\$ 308.39	\$ 280.19	\$ 28.20
Power Sales	\$ 0.08	\$ 0.06	\$ 0.02

Ratios:

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

Actual	1.31 x	1.03 x
Target (2)	≥ 1.20 x	≥ 1.20 x

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

Actual	1.85 x	1.45 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)

	December 31,		<i>Increase/ (Decrease)</i>
	2009	2008	
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 1,242.1	\$ 915.6	\$ 326.6
Fair Value Adjustment	(4.5)	(1.0)	(3.5)
Accounts Receivable	289.2	319.9	(30.7)
Property, Plant and Equipment, net	7,902.4	7,616.9	285.5
Prepaid State Water Project Costs, net	1,621.4	1,598.8	22.6
Participation Rights, net	356.0	249.9	106.1
Deferred Charges and Water Rights	405.0	401.9	3.1
Other	199.8	151.9	47.9
Total Assets	\$ 12,011.3	\$ 11,253.8	\$ 757.5
Liabilities and Equity:			
Long-Term Debt	\$ 4,889.9	\$ 4,468.6	\$ 421.3
Off-Aqueduct Power Facilities	57.2	63.5	(6.2)
Accounts Payable and Accrued Bond Interest	231.2	190.5	40.7
Deferred Income	110.8	103.4	7.4
State Water Project Obligations	500.6	401.4	99.2
Trust Funds and Other	89.4	85.2	4.2
Total Liabilities	5,879.1	5,312.6	566.5
Equity	6,132.2	5,941.2	191.0
Total Liabilities and Equity	\$ 12,011.3	\$ 11,253.8	\$ 757.5

Revenue Bond Debt as a percent of equity	Actual	76.0 %	71.1 %
	Target ⁽²⁾	< 100.0 %	< 100.0 %

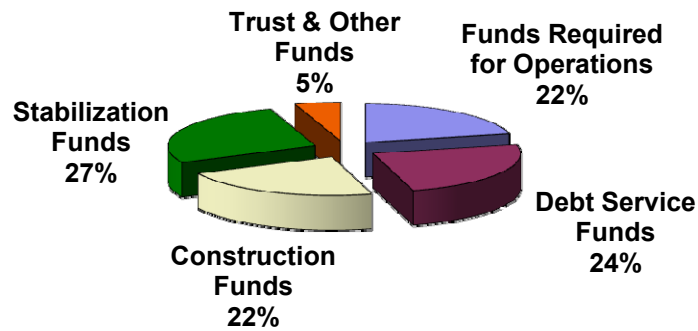
Notes:

- (1) Fair value of cash and investments was \$1,237.6 million and \$914.6 million at December 31, 2009 and 2008, respectively.
- (2) Per Metropolitan Water District Act - Part 5, Chapter 1.6, Section 239.2.
- (3) Certain reclassifications of prior year amounts have been made to conform to current year presentation.
- (4) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of December 31, 2009 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 190.4	\$ 74.9	\$ 0.5	\$ 265.8
Debt Service Funds	301.1	-	-	301.1
Construction Funds	255.1	-	21.0	276.1
Stabilization Funds	-	-	337.5	337.5
Trust & Other Funds	42.1	19.5	-	61.6
Total	\$ 788.7	\$ 94.4	\$ 359.0	\$ 1,242.1



Executive Financial Report For the Fiscal Year Ending June 30, 2010 – Projected vs. Budget Discussion and Analysis

A summary of the projected accrual basis operations for the fiscal year ending June 30, 2010 as compared to the annual budget is discussed below.

Projected vs. Budget (page 7)

Net income for the fiscal year ending June 30, 2010 is projected to be \$106.4 million or \$94.2 million less than the \$200.6 million budget. Included in this variance is \$53.9 million of lower operating revenues, \$68.3 million of higher operating expenses, and \$28 million of higher other income-net. These items are further described below.

Operating revenues of \$1,224.4 million are \$53.9 million lower than the \$1,278.3 million budget due primarily to \$78.8 million of lower than budgeted water sales of which \$6.6 million relates to price (untreated sales are lower and exchange/wheeling sales higher as described below) and \$72.2 million is due to lower volumes. Water sales volumes are projected at 1,691.3 TAF or 120.5 TAF less than the budget of 1,811.8 TAF. Partially offsetting the lower water sales is \$26.1 million higher wheeling and exchange sales primarily due to increased volumes of 31.1 TAF, or \$9.8 million, of exchange water sales related to the allocation of water conserved from the All American Canal Lining project and 15.5 TAF, or \$5.7 million, of wheeled water delivered from Placer County to San Diego County Water Authority.

Operating expenses of \$1,150.2 million are \$68.3 million greater than budget primarily due to \$50.5 million higher cost of water, \$14 million more in depreciation and amortization, and \$13.7 million more in demand management program costs. Partially offsetting these increased costs is \$9.8 million less in O&M costs. The higher cost of water was primarily due to higher than budgeted unit costs partially offset by lower than anticipated volumes. Depreciation is \$14 million greater than budget due to Inland Feeder becoming operational in advance of its original schedule. Amortization is \$3.8 million higher 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 and \$20.6 million related to agreements with other agencies for various conjunctive use programs. The additional demand management program costs relate to the processing of unbudgeted back-log: amounts identified by the General Auditor during a Board requested audit of the conservation program. O&M costs are lower than budget due to \$5.4 million less in chemical costs and \$4.4 million less in professional service costs. The reduced chemical costs reflect lower State Water Project deliveries and chemical blends required at the treatment plants. Professional services are lower as some of the bond remarketing and liquidity facility fees were eliminated when variable rate debt was refunded with fixed rate debt.

Other income-net totaling \$32.2 million is \$28 million higher than the \$4.2 million budget. Included in the increase is \$14.2 million higher net taxes/annexations revenues and \$17 million lower bond interest expense, partially offset by \$4.2 million lower investment income. Lower bond interest expense is due to lower variable interest rates. The unfavorable variance in investment income is due primarily to lower than expected interest rates.

The Metropolitan Water District of Southern California

Statement of Operations Projected vs. Budget - Accrual Basis Fiscal Year Ending June 30, 2010 (Dollars in millions)

	Projected	Budget	<i>Favorable/ (Unfavorable) Variance</i>
Operating Revenues			
Water Sales	\$ 1,007.2	\$ 1,086.0	\$ (78.8)
Wheeling/Exchange	58.0	31.9	26.1
Readiness-to-Serve	103.0	103.0	-
Capacity Charge	33.3	33.3	-
Power Sales	22.9	24.1	(1.2)
Total Operating Revenues	1,224.4	1,278.3	(53.9)
Operating Expenses			
Operations & Maintenance	369.6	379.4	9.8
Cost of Water	466.3	415.8	(50.5)
Demand Management Programs	73.5	59.8	(13.7)
Depreciation & Amortization	240.8	226.8	(14.0)
Total Operating Expenses	1,150.2	1,081.9	(68.3)
Operating Income	74.2	196.4	(122.2)
Other Income/(Expense)			
Net Taxes/Annexations	105.6	91.4	14.2
Investment Income	30.0	34.2	(4.2)
Bond Interest Expense	(104.7)	(121.7)	17.0
Other	1.3	0.4	0.9
Total Other Income(Expense)	32.2	4.2	28.0
Net Income	\$ 106.4	\$ 200.6	\$ (94.2)

Sales Statistics:

Water Sales (TAF)	1,691.3	1,811.8	(120.5)
Wheeling Sales (TAF)	181.8	103.3	78.5

Note:

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

**Executive Financial Report
For the Six Months Ended December 31, 2009 – Actual vs. Budget
Discussion and Analysis**

The following is a summary of the construction activity for the six months ended December 31, 2009 as compared to the budget.

Construction Activity (page 9)

Construction costs for the six months ended December 31, 2009 totaled \$145.7 million, which was \$68.8 million, or thirty-two percent, under budget. Included in the variance were \$17.9 million for the Treatment Plant Improvement programs, \$11.9 million for the Riverside Treatment Plant land acquisition program, \$8.4 million for Inland Feeder, and \$8.3 million for the Power Reliability and Energy Conservation program. Treatment Plant Improvement programs were less than budget due to delays in construction and the timing and scope of work. The variance for the Riverside land acquisition is due to timing as staff continues to evaluate options associated with the acquisition of property for the future Riverside treatment plant. The Inland Feeder costs were lower than budget because the project became operational fourteen months ahead of schedule. The Power Reliability and Energy Conservation program was less than budget as work was completed in fiscal year 2009. Construction costs are expected to be \$346.7 million, or sixteen percent lower than budget, by year-end.

The Metropolitan Water District of Southern California

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

	For the Six Months Ended December 31, 2009				Fiscal Year Ending June 30, 2010			
	Budget	Actual	Variance from Budget		Budget	Projected	Variance from Budget	
			\$	%			\$	%
Sources of Funds								
Bond Construction Funds	\$ 195.4	\$ 128.6	\$ 66.8	34%	\$ 375.4	\$ 310.0	\$ 65.3	17%
R & R/General Funds	19.1	17.1	2.0	10%	36.7	36.7	-	0%
Total	\$ 214.5	\$ 145.7	\$ 68.8	32%	\$ 412.1	\$ 346.7	\$ 65.3	16%

Program Expenditures								
	Budget	Actual	Variance from Budget (\$)	Variance from Budget (%)	Budget	Projected	Variance from Budget (\$)	Variance from Budget (%)
Treatment Plant Improvement	\$ 46.7	\$ 28.8	\$ 17.9	38%	\$ 118.2	\$ 107.3	\$ 10.9	9%
Oxidation Retrofit Programs	43.8	42.4	1.4	3%	92.8	81.4	11.4	12%
Inland Feeder	36.0	27.6	8.4	23%	49.6	45.9	3.7	7%
Distribution System - Rehabilitation Program	12.1	7.1	5.0	41%	23.1	18.3	4.8	21%
Perris Valley Pipeline	13.4	13.3	0.1	0%	19.5	19.5	-	0%
CRA - Reliability/Containment Programs	5.8	4.6	1.2	21%	17.3	12.0	5.3	31%
Hayfield Ground Storage Program	7.2	1.0	6.2	86%	13.4	2.0	11.4	85%
Riverside Treatment Plant Land Acquisition	11.9	0.0	11.9	100%	11.9	-	11.9	100%
Power Reliability & Energy Conservation	9.2	0.9	8.3	90%	9.6	3.6	6.0	62%
Information Technology System - Infrastructure	3.8	2.0	1.8	47%	6.0	6.0	0.0	0%
Other	24.6	18.0	6.6	27%	50.7	50.7	-	0%
Total	\$ 214.5	\$ 145.7	\$ 68.8	32%	\$ 412.1	\$ 346.7	\$ 65.3	16%

Major Program Statistics

	Current Budget	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,124.6	95%	99%
Oxidation Retrofit Program	1,210.3	701.8	58%	58%
Treatment Plant Improvement Projects	995.8	322.0	32%	32%
Chlorine Containment Handling Facilities	175.9	110.8	63%	68%
CRA - Reliability/Containment Programs	204.2	96.6	47%	47%
Diamond Valley Lake Recreation	92.8	65.8	71%	71%

Note:

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



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: January 12, 2009
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of December 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 December 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 that reads "Karen L. Tachiki".

Karen L. Tachiki

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