



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Three Months Ended September 30, 2010

Executive Financial Report
Table of Contents
For the Three Months Ended September 30, 2010

Schedule	Page No.
Financial Statements Year-to-date Current vs. Prior Year – Accrual Basis	
Statements of Operations	1
Balance Sheets	2
Statistics and Ratios – Cash and Accrual	3
Discussion and Analysis	4
Cash and Investments	6
Statement of Operations Projected vs. Annual Budget – Accrual Basis	
Statement of Operations	7
Discussion and Analysis	8
Construction Activities Year-to-date Actual vs. Budget – Accrual Basis	
Construction Activities	9
Discussion and Analysis	10
Eligibility of Securities	11

The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis (Dollars in millions)

	For the Three Months Ended		
	2010	September 30, 2009	<i>Favorable/ (Unfavorable)</i>
		Restated ⁽¹⁾	<i>Variance</i>
Operating Revenues:			
Water Sales	\$ 301.8	\$ 312.0	\$ (10.1)
Wheeling / Exchange	11.6	7.5	4.1
Readiness-to-Serve	29.9	25.8	4.1
Capacity Charge	8.6	8.1	0.5
Power Sales	8.8	8.0	0.8
Total Operating Revenues	360.7	361.4	(0.6)
Operating Expenses:			
Cost of Water	67.6	125.7	58.2
Operations & Maintenance	88.5	85.1	(3.4)
Demand Management Programs	11.3	15.2	3.9
Depreciation & Amortization	67.7	57.5	(10.2)
Total Operating Expenses	235.1	283.6	48.5
Net Operating Income	125.6	77.8	47.9
Other Income (Expense):			
Net Taxes/Annexations	22.1	26.4	(4.3)
Investment Income	11.8	20.0	(8.2)
Bond Interest Expense	(32.8)	(26.6)	(6.1)
Other	2.3	0.9	1.4
Total Other Income/(Expense) - Net	3.5	20.7	(17.2)
Net Income	\$ 129.1	\$ 98.5	\$ 30.7

Notes:

- (1) Restatement relates to implementation of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.
- (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

Balance Sheets - Accrual Basis (Dollars in millions)

	September 30,		
	2010	2009 Restated ⁽²⁾	<i>Increase/ (Decrease)</i>
Assets:			
Cash and investments at book value ⁽¹⁾	\$ 890.5	\$ 1,170.1	\$ (279.5)
Fair Value Adjustment	14.1	8.8	5.3
Accounts Receivable	385.0	414.2	(29.2)
Property, Plant and Equipment, net	8,061.7	7,844.5	217.2
Prepaid State Water Project Costs, net	1,693.5	1,668.6	24.9
Participation Rights, net	383.0	359.1	23.9
Deferred Charges and Water Rights	490.9	507.0	(16.1)
Deferred Outflow of Effective Swaps	93.6	51.8	41.8
Other	211.1	200.3	10.8
Total Assets	\$ 12,223.5	\$ 12,224.5	\$ (1.0)
Liabilities and Equity:			
Long-Term Debt	\$ 4,681.9	\$ 4,834.7	\$ (152.8)
Fair Value of Interest Rate Swaps	180.0	122.6	57.4
Off-Aqueduct Power Facilities	52.3	59.0	(6.7)
Accounts Payable and Accrued Bond Interest	204.4	200.1	4.4
Deferred Income	171.2	169.6	1.6
State Water Project Obligations	566.9	600.4	(33.5)
Trust Funds and Other	91.1	92.6	(1.4)
Total Liabilities	5,947.8	6,078.9	(131.1)
Equity	6,275.7	6,145.6	130.1
Total Liabilities and Equity	\$ 12,223.5	\$ 12,224.5	\$ (1.0)

Notes:

- (1) Fair value of cash and investments was \$904.6 million and \$1,178.9 million at September 30, 2010 and 2009, respectively.
- (2) Restatement relates to implementation of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.
This pronouncement requires derivative instruments to be reported at their fair value on the balance sheet along with a related deferred outflow to be recorded for effective hedges.
- (3) Totals may not foot / cross foot due to rounding.

The Metropolitan Water District of Southern California

Statistics and Ratios - Cash and Accrual Basis For the Three Months Ended

	2010	September 30, 2009 Restated ⁽⁴⁾	<i>Increase/ (Decrease)</i>
Sales Statistics:			
Water Sales (TAF)	481.0	580.2	(99.2)
Wheeling/Exchange (TAF)	36.9	25.7	11.3
Power Sales (mWh)	68.7	100.8	(32.1)
Average Sales Price ⁽¹⁾			
Water Sales	\$ 627.50	\$ 537.72	\$ 89.78
Wheeling/Exchange	\$ 313.99	\$ 292.69	\$ 21.30
Power Sales	\$ 0.13	\$ 0.08	\$ 0.05

Ratios:

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

Actual	1.03 x	1.17 x
Target ⁽²⁾	≥ 1.20 x	≥ 1.20 x

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

Actual	1.44 x	1.66 x
Target ⁽²⁾	> 2.00 x	> 2.00 x

Revenue Bond Debt as a Percent of Equity

Actual	73.1 %	76.3 %
Target ⁽³⁾	< 100.0 %	< 100.0 %

Notes:

- (1) Average prices calculated using exact rather than rounded dollar amounts.
- (2) Board adopted guideline.
- (3) Per Metropolitan Water District Act - Part 5, Chapter 1.6, Section 239.2.
- (4) Restatement relates to implementation of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.

Executive Financial Report For the Three Months Ended September 30, 2010 – Current vs. Prior Year Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the three months ended September 30, 2010 and September 30, 2009 as well as the changes in the balance sheet for September 2010 are discussed below.

Statements of Operations (page 1)

Net income of \$129.1 million was \$30.7 million more than prior year's net income. Included in the variance were \$600,000 of lower operating revenues, \$48.5 million less in operating expenses, and \$17.2 million less in other income-net. These items are further described below.

Operating revenues for the three months ended September 30, 2010 totaled \$360.7 million which was \$600,000 lower than prior year's operating revenues. The decrease included \$10.1 million lower water sales due to lower volumes: 99.2 thousand acre-feet (TAF), or \$53.3 million, offset by \$43.2 million resulting from higher rates. Partially offsetting this decrease were \$4.1 million higher wheeling/exchange sales due to higher volumes: 11.2 TAF, or \$3.3 million, and \$800,000 resulting from higher rates; and \$4.1 million more in readiness-to-serve charges reflecting a Board approved increase.

Operating expenses for the three months ended September 30, 2010 totaled \$235.1 million and were \$48.5 million lower than prior year operating expenses of \$283.6 million. This decrease was due to \$58.2 million of lower cost of water primarily due to \$43 million of higher credits from DWR for adjustments to prior year costs. This favorable variance was offset by \$10.2 million more of depreciation and amortization which included \$3.4 million for the Inland Feeder project, which became operational in September 2009, and \$4.7 million of amortization for three new ground water storage programs and various conjunctive use programs, which were added in September 2009.

Other income-net of \$3.5 million was \$17.2 million lower than prior year other income-net of \$20.7 million. Included in the decrease were \$8.2 million less in investment income due to an \$8.6 million change in fair value of investments and \$6.1 million more of bond interest expense. The higher bond interest expense was primarily due to \$5.3 million less in capitalized interest on construction as a result of Inland Feeder becoming operational. Finally, net taxes/annexations were \$4.3 million less than the prior year primarily reflecting a decrease in the general obligation bonds debt service in the fiscal year 2011 tax levy.

Executive Financial Report As of September 30, 2010 – Current vs. Prior Year Discussion and Analysis

Balance Sheets (page 2)

At September 30, 2010, assets totaled \$12.2 billion, which were \$1 million less than September 30, 2009. This variance included a \$279.5 million decrease in cash and investments, \$29.2 million less in accounts receivable, and \$16.1 million lower deferred charges and water rights. The decrease in cash and investments was due to expenditures on the capital improvement program. The decrease in accounts receivable included \$17.2 million of lower annual tax levy as a result of the decrease in general obligation bonds debt service requirement in fiscal 2011 and \$7.8 million lower miscellaneous receivables primarily due to receipt of \$13.6 million of Proposition 13 funds. Deferred charges and water rights were lower as \$37 million of Kern Delta Water District water management program costs were transferred from deferred charges to participation rights, partially offset by a net increase of \$14.6 million related to a new water transfer program.

Offsetting these increases were \$217.2 million higher property, plant and equipment (PP&E), net; \$41.8 million more deferred outflow of effective swaps; \$24.9 million more prepaid State Water Project costs, net; and \$23.9 million higher participation rights, net. The higher PP&E was primarily due to construction progress on the Treatment Plant Improvement programs, Oxidation Retrofit programs, Inland Feeder, and the Perris Valley Pipeline. The deferred outflow of effective swaps increased due to an unfavorable change in the fair value of the swaps. The increase in State Water Project costs was due to higher capital payments offset by amortization expense. Participation rights was higher primarily due to the addition of \$37 million of Kern Delta Water District water management program costs which gives Metropolitan priority rights to convey water acquired from third-parties through the Kern Delta facilities.

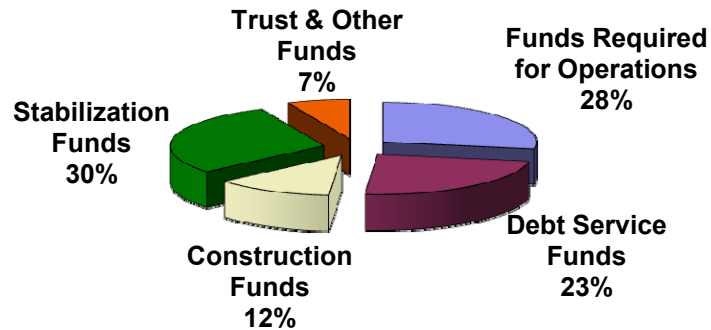
Liabilities totaled \$5.9 billion at September 30, 2010, which were \$131.1 million lower than September 30, 2009. The decrease included \$152.8 million less of long-term debt and \$33.5 million lower State Water Project obligations. The net decrease to long-term debt was due to principal pay downs. The decrease in State Water Project obligations was due primarily to a \$34.8 million decrease in the variable component resulting from \$43 million of higher credits from DWR for adjustments to prior year costs.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of September 30, 2010 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 179.9	\$ 66.4	\$ 0.6	\$ 246.9
Debt Service Funds	209.9	-	-	209.9
Construction Funds	82.2	-	28.1	110.3
Stabilization Funds	23.0	-	241.3	264.3 ⁽¹⁾
Trust & Other Funds	39.5	19.6	-	59.1
Total	\$ 534.5	\$ 86.0	\$ 270.0	\$ 890.5

(1) Restricted investments of \$23.0 million are posted as collateral with Morgan Stanley.



The Metropolitan Water District of Southern California

Statement of Operations Projected vs. Budget - Accrual Basis Fiscal Year Ending June 30, 2011 (Dollars in millions)

	Projected	Budget	<i>Favorable/ (Unfavorable)</i>	
			<i>Variance</i>	<i>%</i>
Operating Revenues				
Water Sales	1,080.4	\$ 1,172.9	\$ (92.5)	(8%)
Wheeling/Exchange	54.1	53.4	0.7	1%
Readiness-to-Serve	119.5	119.5	-	0%
Capacity Charge	34.4	34.4	-	0%
Power Sales	23.3	22.4	1.0	4%
Total Operating Revenues	1,311.7	1,402.5	(90.8)	(6%)
Operating Expenses				
Operations & Maintenance	379.0	382.7	3.7	1%
Cost of Water	407.9	456.0	48.1	11%
Demand Management Programs	51.4	58.2	6.8	12%
Depreciation & Amortization	253.4	253.4	-	0%
Total Operating Expenses	1,091.8	1,150.4	58.6	5%
Operating Income	219.9	252.1	(32.2)	(13%)
Other Income/(Expense)				
Net Taxes/Annexations	88.5	81.8	6.7	8%
Investment Income	24.0	30.2	(6.2)	(21%)
Bond Interest Expense	(129.9)	(129.9)	(0.0)	(0%)
Other	3.0	3.5	(0.5)	(15%)
Total Other Income(Expense)	(14.5)	(14.4)	(0.1)	1%
Net Income	205.5	\$ 237.8	\$ (32.3)	(14%)

Sales Statistics:

Water Sales (TAF)	1,600.2	1,785.2	(185.0)	(10%)
Wheeling Sales (TAF)	160.7	160.7	-	0%

Note:

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

Executive Financial Report For the Fiscal Year Ending June 30, 2011 – Projected vs. Budget Discussion and Analysis

A summary of the projected accrual basis operations for the fiscal year ending June 30, 2011 as compared to the annual budget is provided below.

Projected vs. Budget (page 7)

Net income for the fiscal year ending June 30, 2011 is projected to be \$205.5 million or \$32.3 million less than the \$237.8 million budget. Included in this variance is \$90.8 million of lower operating revenues, \$58.6 million of lower operating expenses, and \$100,000 of lower other expense-net. These items are further described below.

Projected operating revenues of \$1.3 billion are expected to be \$90.8 million lower than budget due primarily to \$92.5 million of lower than budgeted water sales as a result of 185 TAF of lower volumes expected to be sold.

Projected operating expenses of \$1.1 billion are expected to be \$58.6 million less than budget. This decrease includes \$49.5 million of unbudgeted higher credits from DWR for adjustments to prior year costs.

Though projected other expense-net of \$14.5 million is expected to be on budget, investment income is expected to be \$6.2 million lower than budget but will be offset by \$6.7 million more of net taxes/annexations revenue. Investment income will be less than expected as the result of lower interest rates. The estimate for net taxes/annexations revenue was based on preliminary data which was less than the actual tax levy.

The Metropolitan Water District of Southern California

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

	For the Three Months Ended September 30, 2010					Fiscal Year Ending June 30, 2011				
	Budget	Actual	Variance from Budget		Budget	Projected	Variance from Budget			
			\$	%			\$	%		
Sources of Funds										
Bond Construction Funds	\$ 58.9	\$ 49.7	\$ 9.2	16%	\$ 164.9	\$ 164.9	\$ -	0%		
R & R/General Funds	9.7	6.4	3.3	34%	95.0	95.0	-	0%		
Total	\$ 68.5	\$ 56.1	\$ 12.5	18%	\$ 259.9	\$ 259.9	\$ -	0%		
Program Expenditures										
Treatment Plant Improvement	\$ 22.5	\$ 15.4	\$ 7.0	31%	\$ 84.7	\$ 84.7	\$ -	0%		
Oxidation Retrofit Programs	22.0	21.3	0.6	3%	79.8	79.8	-	0%		
Distribution System - Rehabilitation Program	8.6	3.2	5.4	63%	33.8	29.8	4.0	12%		
CRA - Reliability/Containment Programs	5.8	2.8	3.0	52%	22.3	22.3	-	0%		
Information Technology System	2.4	0.8	1.6	66%	6.3	6.3	-	0%		
Hydroelectric Power Plant Improvement Program	0.7	0.1	0.7	93%	4.7	4.7	-	0%		
Chlorine Containment and Handling Facilities	1.0	0.4	0.6	60%	4.2	4.2	-	0%		
Perris Valley Pipeline	0.1	6.2	(6.1)	(8562%) (1)	3.6	7.6	(4.0)	(110%)		
Inland Feeder	1.2	1.0	0.2	20%	3.5	3.5	-	0%		
Other	4.3	4.9	(0.6)	(13%)	17.0	17.0	-	0%		
Total	\$ 68.5	\$ 56.1	\$ 12.5	18%	\$ 259.9	\$ 259.9	\$ -	0%		

Major Program Statistics

	Current Budget	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,143.4	96%	99%
Oxidation Retrofit Program	1,030.0	771.5	75%	75%
Treatment Plant Improvement Projects	1,114.9	371.2	33%	32%
Chlorine Containment Handling Facilities	163.5	112.4	69%	69%
CRA - Reliability/Containment Programs	227.5	108.4	48%	48%

Notes:

(1) Includes a \$4 million settlement to contractor.

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

**Executive Financial Report
For the Three Months Ended September 30, 2010 – Actual vs. Budget
Discussion and Analysis**

The following is a summary of the construction activity for the three months ended September 30, 2010 as compared to the budget.

Construction Activity (page 9)

Construction costs for the three months ended September 30, 2010 totaled \$56.1 million, which was \$12.5 million, or eighteen percent, under budget. Included in the variance were \$7 million for the Treatment Plant Improvement programs, \$5.4 million for the Distribution System – Rehabilitation program, \$3 million for the CRA – Reliability/Containment programs and \$1.6 million for the Information Technology System program. Partially offsetting these decreases was a \$4 million settlement related to the Perris Valley Pipeline. Treatment Plant Improvement programs were less than budget due to delays in construction and the timing and scope of work. The variance for the Distribution System – Rehabilitation program and the CRA – Reliability/Containment programs were due to lower than estimated costs. The Information Technology System program variance was due to a change in the scope of work on one of the projects.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: October 25, 2010
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of September 2010

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 September 2010 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