



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Six Months Ended December 31, 2010

Executive Financial Report
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For the Six Months Ended December 31, 2010

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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)</i>
	2010	2009 Restated ⁽¹⁾	<i>Variance</i>
Operating Revenues:			
Water Sales	\$ 513.1	\$ 530.0	\$ (16.9)
Wheeling / Exchange	24.4	33.4	(9.0)
Readiness-to-Serve	59.8	51.5	8.2
Capacity Charge	17.2	16.2	1.0
Power Sales	14.7	11.5	3.1
Total Operating Revenues	629.2	642.6	(13.5)
Operating Expenses:			
Cost of Water	159.7	246.6	86.8
Operations & Maintenance	175.5	170.5	(5.0)
Demand Management Programs	23.4	29.9	6.5
Depreciation & Amortization	131.9	118.7	(13.2)
Total Operating Expenses	490.5	565.6	75.1
Net Operating Income	138.7	77.1	61.7
Other Income (Expense):			
Net Taxes/Annexations	44.2	52.8	(8.6)
Investment Income	2.5	16.2	(13.8)
Bond Interest Expense	(65.7)	(64.2)	(1.5)
Other	3.8	2.1	1.7
Total Other Income/(Expense) - Net	(15.2)	7.0	(22.2)
Net Income	\$ 123.5	\$ 84.1	\$ 39.5

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)

	December 31,		
	2010	2009 Restated (2)	<i>Increase/ (Decrease)</i>
Assets:			
Cash and investments at book value (1)	\$ 1,161.6	\$ 1,242.1	\$ (80.6)
Fair Value Adjustment	(0.3)	(4.5)	4.3
Accounts Receivable	277.4	289.2	(11.8)
Property, Plant and Equipment, net	8,103.6	7,902.4	201.1
Prepaid State Water Project Costs, net	1,637.8	1,621.4	16.4
Participation Rights, net	379.4	356.0	23.4
Deferred Charges and Water Rights	421.0	405.0	16.0
Deferred Outflow of Effective Swaps	33.3	11.6	21.7
Other	212.0	199.8	12.3
Total Assets	\$ 12,225.8	\$ 12,022.9	\$ 202.9
Liabilities and Equity:			
Long-Term Debt	\$ 4,921.5	\$ 4,817.5	\$ 103.9
Fair Value of Interest Rate Swaps	121.5	84.9	36.6
Off-Aqueduct Power Facilities	50.8	57.2	(6.4)
Accounts Payable and Accrued Bond Interest	246.1	231.2	14.9
Deferred Income	110.3	110.8	(0.5)
State Water Project Obligations	412.4	500.6	(88.2)
Trust Funds and Other	92.8	89.4	3.3
Total Liabilities	5,955.3	5,891.7	63.6
Equity	6,270.5	6,131.2	139.3
Total Liabilities and Equity	\$ 12,225.8	\$ 12,022.9	\$ 202.9

Notes:

- (1) Fair value of cash and investments was \$1,161.3 million and \$1,237.6 million at December 31, 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 Six Months Ended

	December 31,		
	2010	2009 Restated ⁽⁴⁾	<i>Increase/ (Decrease)</i>
Sales Statistics:			
Water Sales (TAF)	821.8	914.1	(92.3)
Wheeling/Exchange (TAF)	77.7	108.2	(30.5)
Power Sales (mWh)	190.3	137.1	53.2
Average Sales Price ⁽¹⁾			
Water Sales	\$ 624.40	\$ 579.85	\$ 44.54
Wheeling/Exchange	\$ 314.00	\$ 308.39	\$ 5.61
Power Sales	\$ 0.08	\$ 0.08	\$ -

Ratios:

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

Actual	0.84 x	1.31 x
Target ⁽²⁾	≥ 1.20 x	≥ 1.20 x

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

Actual	1.21 x	1.85 x
Target ⁽²⁾	> 2.00 x	> 2.00 x

Revenue Bond Debt as a Percent of Equity

Actual	77.1 %	76.1 %
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 Six Months Ended December 31, 2010 – Current vs. Prior Year

Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the six months ended December 31, 2010 and December 31, 2009 as well as the changes in the balance sheet for December 2010 are discussed below.

Statements of Operations (page 1)

Net income of \$123.5 million was \$39.5 million more than prior year's net income. Included in the variance were \$13.5 million of lower operating revenues, \$75.1 million less in operating expenses, and \$22.2 million less in other income-net. These items are further described below.

Operating revenues for the six months ended December 31, 2010 totaled \$629.2 million and were \$13.5 million lower than prior year operating revenues. Included in the lower revenues were \$16.9 million less of water sales and \$9 million lower wheeling/exchange sales, partially offset by \$8.2 million more in readiness-to-serve charges reflecting a Board approved increase, and \$3.1 million higher power sales. The decrease in water sales was due to lower volumes: 92.3 thousand acre-feet (TAF), or \$53.5 million, offset by \$36.6 million resulting from higher rates. The lower wheeling/exchange sales were due primarily to 30.5 TAF lower volumes. Power sales were higher as the result of higher volumes, \$4.4 million, partially offset by \$1.3 million due to lower prices.

Operating expenses for the six months ended December 31, 2010 totaled \$490.5 million and were \$75.1 million lower than prior year operating expenses of \$565.6 million. This decrease was due to \$86.8 million of lower cost of water due to \$44.3 million of higher credits from DWR for adjustments to prior year costs and \$43.4 million related to lower water sales volumes and a lower average rate in the current year. This favorable variance was offset by \$13.2 million more of depreciation and amortization expense. The increase in depreciation and amortization expense was primarily due to \$12.7 million of depreciation for the Inland Feeder project which became operational in September 2009.

Other expense-net of \$15.2 million was \$22.2 million lower than prior year other income-net of \$7 million. The decrease was due to \$13.8 million less in investment income primarily due to a \$9.6 million change in fair value of investments and \$8.6 million lower net taxes/annexations reflecting the decreased general obligation bonds debt service requirement in fiscal 2011.

Executive Financial Report As of December 31, 2010 – Current vs. Prior Year Discussion and Analysis

Balance Sheets (page 2)

At December 31, 2010, assets totaled \$12.2 billion, which were \$202.9 million more than December 31, 2009. This variance included \$201.1 million higher property, plant and equipment, net (PP&E), \$23.4 million higher participation rights, net, \$21.7 million more deferred outflow of effective swaps, \$16.4 million more prepaid State Water Project costs, net, and \$16 million higher deferred charges and water rights. The higher PP&E was primarily due to construction progress on the Oxidation Retrofit programs, Treatment Plant Improvement programs, Inland Feeder, and the CRA Reliability/Containment programs. Participation rights are higher due to the addition of \$37 million of Kern Water District water management program which gives Metropolitan priority rights to convey water acquired from third-parties through the Kern-Delta facilities, offset by amortization expense. The deferred outflow of effective swaps increased due to an unfavorable change in the fair value of the swaps. The net increase in State Water Project costs was due to higher capital charges offset by amortization expense. Deferred charges and water rights were higher due to \$5.2 million more in PVID land following operating costs, \$3.6 million related to various short-term water programs where the water is expected to be delivered in the near future, and \$3 million related to the San Bernardino Valley water agreement.

Partially offsetting these increases were an \$80.6 million decrease in cash and investments and \$11.8 million lower accounts receivable. The decrease in cash and investments was due to expenditures on the capital improvement program offset by an increase in long-term debt and accounts payable. Accounts receivable decreased mainly due to a \$12.2 million lower tax levy as the general obligation bonds debt service requirement in fiscal 2011 decreased.

Liabilities totaled \$6 billion at December 31, 2010, which were \$63.6 million higher than December 31, 2009. Included in the increase were \$103.9 million more of long-term debt, \$36.6 million more in unfavorable change in the fair value of interest rate swaps, and \$14.9 million higher accounts payable and accrued bond interest. The net increase to long-term debt was due to \$250 million of revenue bonds issued in December 2010, partially offset by principal paydowns and bond refundings. Of the \$14.9 million increase in accounts payable and accrued bond interest, \$23 million related to the OPEB obligation and \$2.3 million to accrued bond interest which were partially offset by \$9.9 million less in workers' compensation and 3rd party liability obligations as prior year claims were settled.

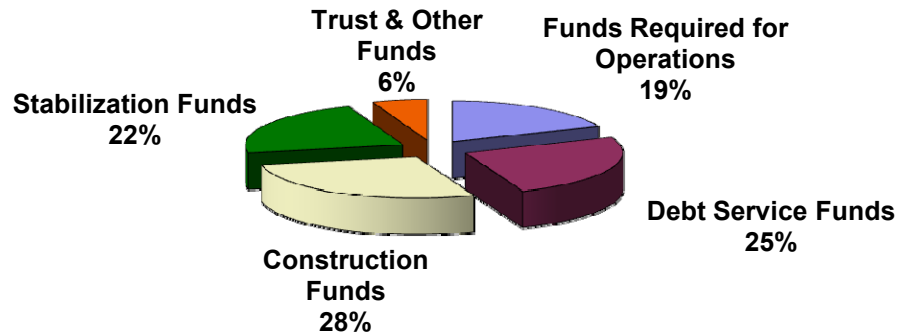
Partially offsetting these increases was an \$88.2 million reduction in State Water Project obligations which was due primarily to a \$65.9 million decrease in the variable component resulting from \$39.3 million of higher credits from DWR for adjustments to prior costs and \$25 million less in variable costs.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of December 31, 2010 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 115.7	\$ 103.3	\$ 0.0	\$ 219.0
Debt Service Funds	293.0	-	-	293.0
Construction Funds	285.1	-	38.6	323.7
Stabilization Funds	4.3 ⁽¹⁾	-	256.2	260.5
Trust & Other Funds	46.5	18.9	-	65.4
Total	\$ 744.6	\$ 122.2	\$ 294.8	\$ 1,161.6

(1) Restricted investments of \$4.3 million are posted as collateral with Morgan Stanley pursuant to Metropolitan's interest rate swap agreements.



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	1,034.4	\$ 1,172.9	\$ (138.5)	(12%)
Wheeling/Exchange	56.6	53.4	3.2	6%
Readiness-to-Serve	119.5	119.5	-	0%
Capacity Charge	34.4	34.4	-	0%
Power Sales	24.5	22.4	2.1	10%
Total Operating Revenues	1,269.4	1,402.5	(133.1)	(9%)
Operating Expenses				
Operations & Maintenance	378.7	382.7	4.0	1%
Cost of Water	361.4	456.0	94.6	21%
Demand Management Programs	54.7	58.2	3.5	6%
Depreciation & Amortization	258.5	253.4	(5.1)	(2%)
Total Operating Expenses	1,053.3	1,150.4	97.1	8%
Operating Income	216.1	252.1	(36.0)	(14%)
Other Income/(Expense)				
Net Taxes/Annexations	88.5	81.8	6.7	8%
Investment Income	22.3	30.2	(7.9)	(26%)
Bond Interest Expense	(137.0)	(129.9)	(7.1)	(5%)
Other	3.5	3.5	-	0%
Total Other Income(Expense)	(22.8)	(14.4)	(8.4)	58%
Net Income	193.3	\$ 237.8	\$ (44.4)	(19%)

Sales Statistics:

Water Sales (TAF)	1,589.4	1,785.2	(195.8)	(11%)
Wheeling Sales (TAF)	174.5	160.7	13.8	9%

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 \$193.3 million or \$44.4 million less than budget. Included in this variance are \$133.1 million of lower operating revenues, \$97.1 million of lower operating expenses, and \$8.4 million more in other expense-net. These items are further described below.

Projected operating revenues of \$1.3 billion are expected to be \$133.1 million lower than the \$1.4 billion budget due primarily to \$138.5 million of lower than budgeted water sales as a result of 195.8 TAF of lower volumes expected to be sold.

Projected operating expenses of \$1 billion are expected to be \$97.1 million less than budget primarily due to \$94.6 million lower cost of water. The lower cost of water results from \$49.5 million more of unbudgeted credits from DWR for adjustments to prior year costs and \$25.4 million less in OMP&R costs as actual costs billed by DWR are lower than originally budgeted.

Projected other expense-net totaling \$22.8 million is expected to be \$8.4 million higher than the \$14.4 million budget. Included in the increase are \$7.9 million of lower investment income and \$7.1 million more of bond interest expense, partially 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. Bond interest expense is higher than expected as a new bond issue in December 2010 was not reflected in the budget. 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 Six Months Ended December 31, 2010				Fiscal Year Ending June 30, 2011			
	Budget	Actual	Variance from Budget		Budget	Projected	Variance from Budget	
			\$	%			\$	%
Sources of Funds								
Bond Construction Funds	\$ 112.9	\$ 96.8	\$ 16.1	14%	\$ 164.9	\$ 190.0	\$ (25.1)	(15%)
R & R/General Funds	18.6	13.9	4.7	25%	95.0	45.0	50.0	53%
Total	\$ 131.5	\$ 110.6	\$ 20.8	16%	\$ 259.9	\$ 235.0	\$ 24.9	10%
Program Expenditures								
Treatment Plant Improvement	\$ 44.3	\$ 34.6	\$ 9.7	22%	\$ 84.7	\$ 76.2	\$ 8.5	10%
Oxidation Retrofit Programs	41.8	42.0	(0.2)	(1%)	79.8	79.8	(0.0)	(0%)
Distribution System - Rehabilitation Program	18.1	7.0	11.2	62%	33.8	25.0	8.8	26%
CRA - Reliability/Containment Programs	9.5	5.6	3.8	41%	22.3	18.0	4.3	19%
Information Technology System	3.9	1.2	2.7	69%	6.3	3.0	3.3	52%
Hydroelectric Power Plant Improvement Program	1.6	0.1	1.5	96%	4.7	3.0	1.7	37%
Chlorine Containment and Handling Facilities	1.8	0.8	1.0	54%	4.2	2.0	2.2	53%
Perris Valley Pipeline	0.1	7.5	(7.4)	(6891%) ⁽¹⁾	3.6	7.5	(3.9)	(106%)
Inland Feeder	2.0	1.9	0.1	4%	3.5	3.5	0.0	1%
Other	8.4	9.8	(1.4)	(17%)	17.0	17.0	(0.0)	(0%)
Total	\$ 131.5	\$ 110.6	\$ 20.8	16%	\$ 259.9	\$ 235.0	\$ 24.9	10%

Major Program Statistics

	Current Budget	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,144.3	96%	99%
Oxidation Retrofit Program	1,030.0	792.2	77%	77%
Treatment Plant Improvement Projects	1,114.9	390.5	35%	35%
Chlorine Containment Handling Facilities	163.5	112.9	69%	69%
CRA - Reliability/Containment Programs	227.5	111.2	49%	49%
Diamond Valley Lake Recreation	92.8	66.6	72%	72%

Notes:

- (1) Includes a \$4 million settlement to contractor.
(2) Totals may not foot / cross foot due to rounding.

Executive Financial Report
For the Six Months Ended December 31, 2010 – Actual vs. Budget
Discussion and Analysis

The following is a summary of the construction activity for the six months ended December 31, 2010 as compared to the budget.

Construction Activity (page 9)

Construction costs for the six months ended December 31, 2010 totaled \$110.6 million, which was \$20.8 million, or sixteen percent, under budget. Included in the variance were \$11.2 million for the Distribution System – Rehabilitation program, \$9.7 million for the Treatment Plant Improvement programs, and \$3.8 million for the CRA – Reliability/Containment programs. Partially offsetting these decreases was an unbudgeted settlement related to the Perris Valley Pipeline. The variances for the Distribution System – Rehabilitation program, the CRA – Reliability/Containment programs and the Treatment Plant Improvement programs were due to delays in construction and/or changes in the scope of work. Construction costs are currently forecast at \$235 million or \$24.9 million lower than budget for the year.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: January 18, 2010
To: Board of Directors
From: General Counsel
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of December 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 December 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.


Karen L. Tachiki

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