



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report For the Nine Months Ended March 31, 2011

Executive Financial Report
Table of Contents
For the Nine Months Ended March 31, 2011

<u>Schedule</u>	<u>Page No.</u>
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 Nine Months Ended March 31,		<i>Favorable/ (Unfavorable) Variance</i>
	2011	2010 Restated (1)	
Operating Revenues:			
Water Sales	\$ 679.9	\$ 695.9	\$ (16.0)
Wheeling / Exchange	39.2	44.9	(5.8)
Readiness-to-Serve	89.6	77.3	12.4
Capacity Charge	25.8	24.8	1.0
Power Sales	18.0	13.8	4.2
Total Operating Revenues	852.4	856.6	(4.2)
Operating Expenses:			
Cost of Water	253.7	317.1	63.4
Operations & Maintenance	259.5	242.9	(16.6)
Demand Management Programs	32.6	40.7	8.2
Depreciation & Amortization	196.6	179.9	(16.6)
Total Operating Expenses	742.2	780.6	38.3
Net Operating Income	110.2	76.1	34.1
Other Income (Expense):			
Net Taxes/Annexations	66.3	79.3	(13.0)
Investment Income	5.1	24.0	(18.9)
Bond Interest Expense	(99.8)	(99.0)	(0.9)
Other	9.7	2.0	7.7
Total Other Income/(Expense) - Net	(18.8)	6.3	(25.1)
Net Income	\$ 91.4	\$ 82.4	\$ 9.0

Notes:

- (1) Restatement relates to implementaton 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)

	March 31,		
	2011	2010 Restated (2)	<i>Increase/ (Decrease)</i>
Assets:			
Cash and investments at book value (1)	\$ 1,032.0	\$ 1,077.0	\$ (45.0)
Fair Value Adjustment	(3.0)	(3.4)	0.5
Accounts Receivable	224.9	219.0	5.9
Property, Plant and Equipment, net	8,152.2	7,962.7	189.6
Prepaid State Water Project Costs, net	1,601.2	1,577.9	23.4
Participation Rights, net	375.7	352.8	22.9
Deferred Charges and Water Rights	374.8	349.2	25.7
Deferred Outflow of Effective Swaps	21.1	20.7	0.4
Other	228.5	192.9	35.6
Total Assets	\$ 12,007.6	\$ 11,748.7	\$ 258.9
Liabilities and Equity:			
Long-Term Debt	\$ 4,895.4	\$ 4,783.0	\$ 112.4
Fair Value of Interest Rate Swaps	108.9	94.1	14.8
Off-Aqueduct Power Facilities	49.3	55.4	(6.1)
Accounts Payable and Accrued Bond Interest	219.8	195.0	24.8
Deferred Income	70.0	66.8	3.2
State Water Project Obligations	319.6	334.0	(14.4)
Trust Funds and Other	91.6	90.8	0.8
Total Liabilities	5,754.7	5,619.2	135.5
Equity	6,252.9	6,129.6	123.4
Total Liabilities and Equity	\$ 12,007.6	\$ 11,748.7	\$ 258.9

Notes:

- (1) Fair value of cash and investments was \$1,029.0 million and \$1,073.6 million at March 31, 2011 and 2010, 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 Nine Months Ended

	March 31,		
	2011	2010 Restated ⁽⁴⁾	<i>Increase/ (Decrease)</i>
Sales Statistics:			
Water Sales (TAF)	1,070.5	1,179.0	(108.5)
Wheeling/Exchange (TAF)	117.3	145.1	(27.8)
Power Sales (MWh)	240.1	180.9	59.2
Average Sales Price ⁽¹⁾			
Water Sales	\$ 635.08	\$ 590.22	\$ 44.86
Wheeling/Exchange	\$ 333.82	\$ 309.60	\$ 24.21
Power Sales	\$ 0.07	\$ 0.08	\$ -

Ratios:

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

Actual	0.86 x	1.28 x
Target ⁽²⁾	≥ 1.20 x	≥ 1.20 x

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

Actual	1.25 x	1.79 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 Nine Months Ended March 31, 2011 – Current vs. Prior Year

Discussion and Analysis

A comparison of the accrual basis statement of operations activity for the nine months ended March 31, 2011 and March 31, 2010 as well as the changes in the balance sheet for March 2011 are discussed below.

Statements of Operations (page 1)

Net income of \$91.4 million was \$9.0 million more than prior year's net income of \$82.4 million. Included in the variance were \$4.2 million of lower operating revenues, \$38.3 million less in operating expenses, and \$25.1 million less in other income-net. These items are further described below.

Operating revenues for the nine months ended March 31, 2011 totaled \$852.4 million and were \$4.2 million lower than prior year operating revenues of \$856.6 million. Included in the lower revenues were \$16 million less of water sales and \$5.8 million lower wheeling/exchange sales, partially offset by \$12.4 million more in readiness-to-serve charges reflecting a Board approved increase, and \$4.2 million higher power sales. The decrease in water sales was due to lower volumes: 108.5 thousand acre-feet (TAF), or \$64 million, offset by \$48 million resulting from higher rates. The lower wheeling/exchange sales were primarily due to 27.8 TAF lower volumes. The increase in power sales were primarily due to higher volumes: 59.2 Megawatt hours, or \$4.5 million.

Operating expenses for the nine months ended March 31, 2011 totaled \$742.2 million and were \$38.3 million lower than prior year operating expenses. This decrease was due to \$63.4 million of lower cost of water due to \$44.3 million of higher credits from DWR for adjustments to prior year costs in addition to lower water sales volumes and a lower average rate in the current year. This favorable variance was offset by \$16.6 million higher operations and maintenance (O&M) expense and \$16.6 million more of depreciation and amortization expense. The increase in O&M expense was primarily due to the settlement of 3rd party liability claims which resulted in a \$9 million credit to fiscal year 2010 expense. The increase in depreciation and amortization expense was primarily due to \$13.8 million of depreciation for the Inland Feeder project which became operational in September 2009.

Other expense-net of \$18.8 million was \$25.1 million lower than prior year other income-net of \$6.3 million. The decrease was due to \$18.9 million less in investment income primarily due to a \$13.4 million change in fair value of investments along with \$13 million lower net taxes/annexations reflecting the decreased general obligation bonds debt service requirement in fiscal 2011.

Executive Financial Report As of March 31, 2011 – Current vs. Prior Year Discussion and Analysis

Balance Sheets (page 2)

At March 31, 2011, assets totaled \$12 billion, which were \$258.9 million more than March 31, 2010. This variance included \$189.6 million higher property, plant and equipment, net (PP&E), \$35.6 million more of other assets, \$25.7 million higher deferred charges and water rights, \$23.4 million more prepaid State Water Project costs, net, and \$22.9 million higher participation rights, net. The higher PP&E was primarily due to construction progress on the Oxidation Retrofit programs, Treatment Plant Improvement programs, Distribution System – Rehabilitation programs, and the CRA Reliability/Containment programs. Other assets are higher due to the increase in allocation from the State Water Project combined with lower water sales resulting in more water in storage. Deferred charges and water rights were higher due to \$14.5 million more in PVID land following operating costs and \$5.5 million related to various short-term water programs where the water is expected to be delivered in the near future. The net increase in State Water Project costs was due to higher capital charges offset by amortization expense. Participation rights were higher due to the addition of \$37 million related to the Kern Delta 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.

Partially offsetting these increases was a \$45 million decrease in cash and investments due to expenditures on the capital improvement program offset by an increase in long-term debt.

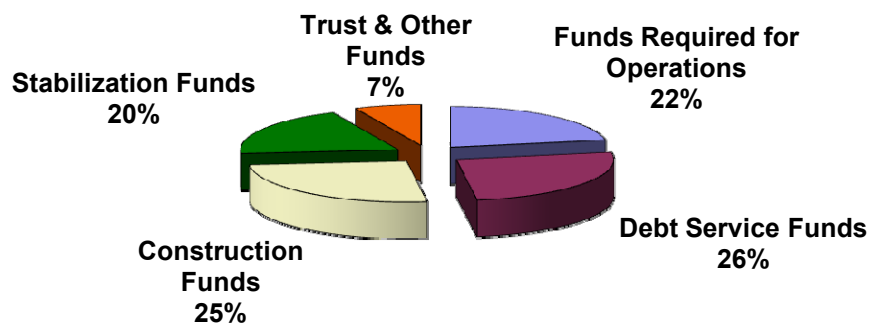
Liabilities totaled \$5.8 billion at March 31, 2011, which were \$135.5 million higher than March 31, 2010 primarily due to \$112.4 million more of long-term debt and \$24.8 million higher accounts payable and accrued bond interest. The net increase to long-term debt was due to \$250 million of revenue bonds issued in December 2010, partially offset by principal paydowns and bond refundings. The \$24.8 million increase in accounts payable and accrued bond interest was primarily due to \$23.4 million of OPEB related obligation.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of March 31, 2011 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 153.8	\$ 74.2	\$ 0.6	\$ 228.6
Debt Service Funds	265.7	-	-	265.7
Construction Funds	232.7	-	31.6	264.3
Stabilization Funds	2.1 ⁽¹⁾	-	200.9	203.0
Trust & Other Funds	47.5	22.9	-	70.4
Total	\$ 701.8	\$ 97.1	\$ 233.1	\$ 1,032.0

(1) Restricted investments of \$2.1 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	982.8	\$ 1,172.9	\$ (190.1)	(16%)
Wheeling/Exchange	54.3	53.4	0.9	2%
Readiness-to-Serve	119.5	119.5	-	0%
Capacity Charge	34.4	34.4	-	0%
Power Sales	24.3	22.4	1.9	9%
Total Operating Revenues	1,215.2	1,402.5	(187.3)	(13%)
Operating Expenses				
Operations & Maintenance	370.0	382.7	12.7	3%
Cost of Water	337.6	456.0	118.4	26%
Demand Management Programs	53.2	58.2	5.1	9%
Depreciation & Amortization	260.4	253.4	(6.9)	(3%)
Total Operating Expenses	1,021.1	1,150.4	129.2	11%
Operating Income	194.1	252.1	(58.0)	(23%)
Other Income/(Expense)				
Net Taxes/Annexations	88.5	81.8	6.7	8%
Investment Income	22.2	30.2	(8.0)	(26%)
Bond Interest Expense	(128.8)	(129.9)	1.0	1%
Other	10.5	3.5	7.0	198%
Total Other Income(Expense)	(7.7)	(14.4)	6.7	(46%)
Net Income	186.4	\$ 237.8	\$ (51.4)	(22%)

Sales Statistics:

Water Sales (TAF)	1,515.6	1,785.2	(269.5)	(15%)
Wheeling Sales (TAF)	160.8	160.7	0.1	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 \$186.4 million or \$51.4 million less than budget. Included in this variance are \$187.3 million of lower operating revenues, \$129.2 million of lower operating expenses, and \$6.7 million less in other expense-net. These items are further described below.

Projected operating revenues of \$1.2 billion are expected to be \$187.3 million lower than the \$1.4 billion budget due primarily to \$190.1 million of lower than budgeted water sales. This is primarily due to 269.5 TAF of lower volumes that are expected to be sold.

Projected operating expenses of \$1 billion are expected to be \$129.2 million less than budget primarily due to \$118.4 million lower cost of water. The lower cost of water results from \$39.2 million more of unbudgeted credits from DWR for adjustments to prior year costs in addition to lower water sales volumes and a lower average rate in the current year.

Projected other expense-net totaling \$7.7 million is expected to be \$6.7 million lower than the \$14.4 million budget. The decrease is primarily due to \$6.7 million higher net taxes/annexations. 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 Nine Months Ended March 31, 2011					Fiscal Year Ending June 30, 2011				
	Budget	Actual	Variance from Budget		Budget	Projected	Variance from Budget			
			\$	%			\$	%		
Sources of Funds										
Bond Construction Funds	\$ 169.3	\$ 149.6	\$ 19.7	12%	\$ 164.9	\$ 180.0	\$ (15.1)	(9%)		
R & R/General Funds	27.8	23.1	4.7	17%	95.0	45.0	50.0	53%		
Total	\$ 197.2	\$ 172.7	\$ 24.5	12%	\$ 259.9	\$ 225.0	\$ 34.9	13%		
Program Expenditures										
Treatment Plant Improvement	\$ 65.5	\$ 55.2	\$ 10.3	16%	\$ 84.7	\$ 76.2	\$ 8.5	10%		
Oxidation Retrofit Programs	61.0	65.5	(4.5)	(7%)	79.8	79.8	(0.0)	(0%)		
Distribution System - Rehabilitation Program	25.4	13.7	11.7	46%	33.8	20.0	13.8	41%		
CRA - Reliability/Containment Programs	15.6	10.0	5.6	36%	22.3	15.0	7.3	33%		
Information Technology System	5.0	1.9	3.1	63%	6.3	3.0	3.3	52%		
Hydroelectric Power Plant Improvement Program	3.1	0.1	3.0	98%	4.7	0.2	4.5	96%		
Chlorine Containment and Handling Facilities	2.7	1.2	1.5	55%	4.2	2.0	2.2	53%		
Perris Valley Pipeline	3.6	8.3	(4.7)	(128%) ⁽¹⁾	3.6	8.3	(4.7)	(128%)		
Inland Feeder	2.8	2.4	0.4	15%	3.5	3.5	0.0	1%		
Other	12.6	14.5	(2.0)	(16%)	17.0	17.0	(0.0)	(0%)		
Total	\$ 197.2	\$ 172.7	\$ 24.5	12%	\$ 259.9	\$ 225.0	\$ 34.9	13%		

Major Program Statistics

	Current Budget	Project-to-Date	% Spent	% Complete
Inland Feeder	\$ 1,186.5	\$ 1,144.8	96%	99%
Oxidation Retrofit Program	1,030.0	801.3	78%	78%
Treatment Plant Improvement Projects	1,114.9	411.0	37%	37%
Chlorine Containment Handling Facilities	163.5	113.2	69%	69%
CRA - Reliability/Containment Programs	227.5	115.6	51%	51%
Diamond Valley Lake Recreation	92.8	66.8	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 Nine Months Ended March 31, 2011 – Actual vs. Budget
Discussion and Analysis

The following is a summary of the construction activity for the nine months ended March 31, 2011 as compared to the budget.

Construction Activity (page 9)

Construction costs for the nine months ended March 31, 2011 totaled \$172.7 million, which was \$24.5 million, or twelve percent, under budget. Included in the variance were \$11.7 million for the Distribution System – Rehabilitation program, \$10.3 million for the Treatment Plant Improvement programs, and \$5.6 million for the CRA – Reliability/Containment programs, partially offset by an unbudgeted settlement related to the Perris Valley Pipeline and \$4.5 million more of Oxidation Retrofit programs cost. The variances for the Distribution System – Rehabilitation program, Treatment Plant Improvement programs, and the CRA – Reliability/Containment programs were due to delays in construction and/or changes in the scope of work. The Oxidation Retrofit programs variance were primarily due to the timing of contractor payments. Construction costs are currently forecast at \$225 million or \$34.9 million lower than budget for the year.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: April 15, 2011
To: Board of Directors
From: Interim General Counsel Marcia Scully
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of March 2011

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 March 2011 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 "mscully".

Marcia Scully

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