



*THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

# **Executive Financial Report**

## **For the Three Months Ended September 30, 2011**

**Executive Financial Report**  
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# The Metropolitan Water District of Southern California

## Statements of Operations - Accrual Basis (Dollars in millions)

|                                    | For the Three Months Ended<br>September 30, |                 | <i>Favorable/<br/>(Unfavorable)<br/>Variance</i> |
|------------------------------------|---|-----------------|--|
|                                    | 2011  | 2010            |  |
| <b>Operating Revenues:</b>         |   |                 |  |
| Water Sales                        | \$ 354.4                                    | \$ 301.8        | \$ 52.6  |
| Wheeling / Exchange                | 42.2  | 11.6            | 30.6   |
| Readiness-to-Serve                 | 31.3  | 29.9            | 1.4  |
| Capacity Charge                    | 8.6   | 8.6             | (0.1)  |
| Power Sales                        | 15.2  | 8.8             | 6.4  |
| Total Operating Revenues           | 451.7                                       | 360.7           | 90.9   |
| <b>Operating Expenses:</b>         |   |                 |  |
| Cost of Water                      | 103.8                                       | 67.6            | (36.2)   |
| Operations & Maintenance           | 84.6  | 88.5            | 3.9  |
| Demand Management Programs         | 8.6   | 11.3            | 2.7  |
| Depreciation & Amortization        | 67.8  | 67.7            | (0.0)  |
| Total Operating Expenses           | 264.7                                       | 235.1           | (29.6)   |
| <b>Net Operating Income</b>        | <b>187.0</b>                                | <b>125.6</b>    | <b>61.3</b>                                      |
| <b>Other Income (Expense):</b>     |   |                 |  |
| Net Taxes/Annexations              | 22.0  | 22.1            | (0.1)  |
| Investment Income                  | 14.6  | 11.8            | 2.8  |
| Bond Interest Expense              | (33.7)                                      | (32.8)          | (0.9)  |
| Other                              | 2.6   | 2.3             | 0.3  |
| Total Other Income/(Expense) - Net | 5.6   | 3.5             | 2.1  |
| <b>Net Income</b>                  | <b>\$ 192.5</b>                             | <b>\$ 129.1</b> | <b>\$ 63.4</b>                                   |

**Note:**

(1) 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,      |                    | <i>Increase/<br/>(Decrease)</i> |
|---|--------------------|--------------------|---------------------------------|
|   | 2011               | 2010               |                                 |
| <b>Assets:</b>                                    |                    |                    |                                 |
| Cash and investments at book value <sup>(1)</sup> | \$ 1,000.7         | \$ 890.5           | \$ 110.2                        |
| Fair Value Adjustment                             | 10.9               | 14.1               | (3.2)                           |
| Accounts Receivable                               | 432.9              | 385.0              | 47.9                            |
| Property, Plant and Equipment, net                | 8,196.2            | 8,061.7            | 134.6                           |
| Prepaid State Water Project Costs, net            | 1,712.5            | 1,693.5            | 19.0                            |
| Participation Rights, net                         | 344.9              | 383.0              | (38.1)                          |
| Deferred Charges and Water Rights                 | 579.4              | 490.9              | 88.4                            |
| Deferred Outflow of Effective Swaps               | 97.7               | 93.6               | 4.1                             |
| Other   | 222.7              | 211.1              | 11.6                            |
| <b>Total Assets</b>                               | <b>\$ 12,598.0</b> | <b>\$ 12,223.5</b> | <b>\$ 374.5</b>                 |
| <b>Liabilities and Equity:</b>                    |                    |                    |                                 |
| Long-Term Debt                                    | \$ 4,802.6         | \$ 4,681.9         | \$ 120.7                        |
| Fair Value of Interest Rate Swaps                 | 200.4              | 180.0              | 20.4                            |
| Off-Aqueduct Power Facilities                     | 45.6               | 52.3               | (6.7)                           |
| Accounts Payable and Accrued Bond Interest        | 222.1              | 204.4              | 17.7                            |
| Deferred Income                                   | 186.3              | 171.2              | 15.2                            |
| State Water Project Obligations                   | 582.8              | 566.9              | 16.0                            |
| Trust Funds and Other                             | 94.1               | 91.1               | 3.0                             |
| <b>Total Liabilities</b>                          | <b>6,134.0</b>     | <b>5,947.8</b>     | <b>186.2</b>                    |
| <b>Equity</b>                                     | <b>6,464.0</b>     | <b>6,275.7</b>     | <b>188.3</b>                    |
| <b>Total Liabilities and Equity</b>               | <b>\$ 12,598.0</b> | <b>\$ 12,223.5</b> | <b>\$ 374.5</b>                 |

**Notes:**

(1) Fair value of cash and investments was \$1,011.6 million and \$904.6 million at September 30, 2011 and 2010, respectively.

(2) 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

|  | September 30,       |           | Increase/<br>(Decrease) |
|--|---------------------|-----------|-------------------------|
|  | 2011                | 2010      |                         |
| <b>Sales Statistics:</b>   |                     |           |                         |
| Water Sales (TAF)  | <b>573.0</b>        | 481.0     | 92.0                    |
| Wheeling/Exchange (TAF)  | <b>132.4</b>        | 36.9      | 95.5                    |
| Power Sales (MWh)  | <b>177.4</b>        | 68.7      | 108.7                   |
| <br>   |                     |           |                         |
| Average Sales Price <sup>(1)</sup>                                   |                     |           |                         |
| Water Sales  | \$ <b>618.58</b>    | \$ 627.50 | \$ (8.93)               |
| Wheeling/Exchange  | \$ <b>318.75</b>    | \$ 314.00 | \$ 4.75                 |
| Power Sales  | \$ <b>0.09</b>      | \$ 0.13   | \$ -                    |
| <br>   |                     |           |                         |
| <b>Ratios:</b>   |                     |           |                         |
| Fixed Charge Coverage (rolling 12 months) - Cash Basis:              |                     |           |                         |
| Actual   | <b>1.11 x</b>       | 1.03 x    |                         |
| Target <sup>(2)</sup>  | <b>≥ 1.20 x</b>     | ≥ 1.20 x  |                         |
| <br>   |                     |           |                         |
| Revenue Bond Debt Service Coverage (rolling 12 months) - Cash Basis: |                     |           |                         |
| Actual   | <b>1.55 x</b>       | 1.44 x    |                         |
| Target <sup>(2)</sup>  | <b>&gt; 2.00 x</b>  | > 2.00 x  |                         |
| <br>   |                     |           |                         |
| Revenue Bond Debt as a Percent of Equity                             |                     |           |                         |
| Actual   | <b>74.0 %</b>       | 73.1 %    |                         |
| Target <sup>(3)</sup>  | <b>&lt; 100.0 %</b> | < 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.

## **Executive Financial Report**

### **For the Three Months Ended September 30, 2011 – Current vs. Prior Year**

### **Discussion and Analysis**

A comparison of the accrual basis statement of operations activity for the three months ended September 30, 2011 and September 30, 2010 as well as the changes in the balance sheet for September 2011 are discussed below.

#### **Statements of Operations (page 1)**

Net income of \$192.5 million was \$63.4 million more than prior year's net income of \$129.1 million. Included in the variance were \$90.9 million of higher operating revenues and \$29.6 million more in operating expenses.

Operating revenues for the three months ended September 30, 2011 totaled \$451.7 million and were \$90.9 million higher than prior year's operating revenues. The increase was due to higher water sales of \$52.6 million and \$30.6 million more of wheeling/exchange revenue. The increase in water sales was due to higher volumes sold: 92.0 thousand acre-feet (TAF), or \$57.7 million, partially offset by \$5.1 million related to lower overall rates which include 134.0 TAF of replenishment water. Wheeling/exchange revenue was higher as a result of an agreement with Coachella for 105 TAF of exchange water or \$27.5 million.

Operating expenses for the three months ended September 30, 2011 totaled \$264.7 million and were \$29.6 million higher than prior year operating expenses of \$235.1 million. This increase was primarily the result of \$36.2 million of higher cost of water due to \$37.4 million lower credits from DWR for adjustments to prior year costs.

#### **Balance Sheets (page 2)**

At September 30, 2011, assets totaled \$12.6 billion, which were \$374.5 million more than September 30, 2010. This variance included \$134.6 million higher property, plant and equipment, net (PP&E), \$110.2 million more of cash and investments, \$88.4 million higher deferred charges and water rights, and \$47.9 million more of accounts receivable. 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. Cash and investments were higher due to a \$250.0 million issuance of revenue bonds in December 2010, offset by expenditures on the capital improvement program. The increase in deferred charges and water rights were due to a \$55.8 million or 352.0 TAF increase in intangible water rights related to Desert/Coachella, Kern Delta, Semitropic, and Arvin-Edison storage programs and a \$16.0 million Board approved increase in the readiness-to-serve (RTS) charge. Accounts receivable was higher primarily due to the \$27.5 million Coachella water exchange agreement for 105 TAF. Partially offsetting these increases was \$38.1 million lower participation rights of which \$28.4 million resulted from the termination of the Calleguas program in June 2011.

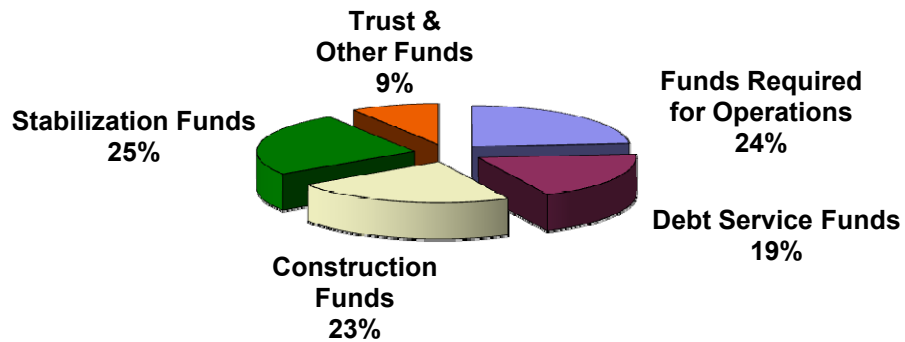
Liabilities totaled \$6.1 billion at September 30, 2011, which were \$186.2 million higher than September 30, 2010 primarily due to \$120.7 million more of long-term debt and a \$20.4 million decrease in fair value of interest rate swaps. The net increase to long-term debt was due to \$250.0 million of revenue bonds issued, partially offset by principal paydowns and bond refundings. The lower fair value of interest rate swaps was due to fluctuations in interest rates.

# The Metropolitan Water District of Southern California

## Cash and Investments at Book Value As of September 30, 2011 (Dollars in millions)

|                               | Restricted          |                | Unrestricted    | Total             |
|-------------------------------|---------------------|----------------|-----------------|-------------------|
|                               | Contractual         | Board          |                 |                   |
| Funds Required for Operations | \$ 159.3            | \$ 79.9        | \$ (2.4)        | \$ 236.8          |
| Debt Service Funds            | 191.6               | -              | -               | 191.6             |
| Construction Funds            | 203.1               | -              | 25.2            | 228.3             |
| Stabilization Funds           | 25.7 <sup>(1)</sup> | -              | 227.6           | 253.3             |
| Trust & Other Funds           | 70.8                | 19.9           | -               | 90.7              |
| <b>Total</b>                  | <b>\$ 650.5</b>     | <b>\$ 99.8</b> | <b>\$ 250.4</b> | <b>\$ 1,000.7</b> |

(1) Restricted investments of \$25.7 million are posted as collateral with Morgan Stanley pursuant to Metropolitan's interest rate swap agreements.



The Metropolitan Water District of Southern California

Actual vs. 1.8 MAF Projection: Construction Activity - Accrual Basis  
(Dollars in millions)

|  | For the Three Months Ended September 30, 2011 |                       |                |                                 |            | Fiscal Year Ending June 30, 2012 |                       |                      |                                   |            |
|--|---|-----------------------|----------------|---------------------------------|------------|----------------------------------|-----------------------|----------------------|-----------------------------------|------------|
|  | Budget  | 1.8 MAF<br>Projection | Actual         | Variance: Actual vs. Projection |            | Annual<br>Budget                 | 1.8 MAF<br>Projection | Year End<br>Estimate | Variance: Estimate vs. Projection |            |
|  |   |                       |                | \$                              | %          |                                  |                       |                      | \$                                | %          |
| <b>Sources of Funds</b>                      |   |                       |                |                                 |            |                                  |                       |                      |                                   |            |
| Bond Construction Funds                      | \$ 67.0                                       | \$ 50.0               | \$ 29.7        | \$ 20.3                         | 41%        | \$ 293.5                         | \$ 236.9              | \$ 190.8             | \$ 46.1                           | 16%        |
| R & R/General Funds                          | 10.8  | 9.5                   | 7.0            | 2.5                             | 26%        | 47.5                             | 45.0                  | 45.0                 | -                                 | 0%         |
| <b>Total</b>                                 | <b>\$ 77.8</b>                                | <b>\$ 59.6</b>        | <b>\$ 36.8</b> | <b>\$ 22.8</b>                  | <b>38%</b> | <b>\$ 341.0</b>                  | <b>\$ 281.9</b>       | <b>\$ 235.8</b>      | <b>\$ 46.1</b>                    | <b>16%</b> |
| <b>Program Expenditures</b>                  |   |                       |                |                                 |            |                                  |                       |                      |                                   |            |
| Oxidation Retrofit Programs                  | \$ 14.3                                       | \$ 13.4               | \$ 13.5        | \$ (0.1)                        | (1%)       | \$ 80.0                          | \$ 84.6               | \$ 79.8              | 4.8                               | 6%         |
| Treatment Plant Improvement                  | 19.1  | 18.4                  | 10.3           | 8.1                             | 44%        | 67.1                             | 78.9                  | 76.2                 | 2.7                               | 4%         |
| Distribution System - Rehabilitation Program | 12.3  | 10.1                  | 3.2            | 6.8                             | 68%        | 46.1                             | 36.0                  | 20.0                 | 16.0                              | 35%        |
| CRA - Reliability/Containment Programs       | 4.4   | 4.4                   | 2.1            | 2.3                             | 51%        | 34.7                             | 23.1                  | 15.0                 | 8.1                               | 23%        |
| La Verne Shop Facilities Upgrades            | 1.7   | 1.7                   | 1.2            | 0.5                             | 28%        | 11.9                             | 12.5                  | 15.0                 | (2.5)                             | (21%)      |
| Information Technology System                | 6.4   | 2.5                   | 0.2            | 2.3                             | 90%        | 23.7                             | 10.2                  | 3.0                  | 7.2                               | 30%        |
| Chlorine Containment and Handling Facilities | 1.1   | 1.3                   | 0.7            | 0.6                             | 46%        | 2.4                              | 6.2                   | 2.0                  | 4.2                               | 176%       |
| Inland Feeder                                | 0.7   | 0.7                   | 2.1            | (1.4)                           | (195%)     | 1.9                              | 2.1                   | 3.5                  | (1.4)                             | (72%)      |
| Other  | 17.9  | 7.0                   | 3.3            | 3.7                             | 53%        | 73.2                             | 28.3                  | 21.3                 | 7.0                               | 10%        |
| <b>Total</b>                                 | <b>\$ 77.8</b>                                | <b>\$ 59.6</b>        | <b>\$ 36.8</b> | <b>\$ 22.8</b>                  | <b>38%</b> | <b>\$ 341.0</b>                  | <b>\$ 281.9</b>       | <b>\$ 235.8</b>      | <b>\$ 46.1</b>                    | <b>16%</b> |

Major Program Statistics

|  | Current<br>Budget | Project-<br>to-Date | %<br>Spent | %<br>Complete |
|--|-------------------|---------------------|------------|---------------|
| Inland Feeder                            | \$ 1,186.5        | \$ 1,147.8          | 97%        | 99%           |
| Oxidation Retrofit Program               | 1,030.0           | 512.7               | 50%        | 78%           |
| Treatment Plant Improvement Projects     | 1,114.9           | 474.2               | 43%        | 37%           |
| Chlorine Containment Handling Facilities | 163.5             | 114.5               | 70%        | 69%           |
| CRA - Reliability/Containment Programs   | 227.5             | 121.3               | 53%        | 51%           |
| Diamond Valley Lake Recreation           | 92.8              | 75.4                | 81%        | 72%           |

Note:

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



**Executive Financial Report  
For the Three Months Ended September 30, 2011  
Actual vs. 1.8 MAF Projection  
Discussion and Analysis**

The following is a summary of the construction activity for the three months ended September 30, 2011 as compared to the 1.8 MAF projection.

**Construction Activity (page 6)**

Construction costs for the three months ended September 30, 2011 totaled \$36.8 million, which was \$22.8 million, or thirty-eight percent, under the 1.8 MAF projection. Included in the variance were \$8.1 million for the Treatment Plant Improvement programs, \$6.8 million for the Distribution System – Rehabilitation program, \$2.3 million for the CRA – Reliability/Containment programs, and \$2.3 million for the Information Technology System programs, partially offset by \$1.4 million of unbudgeted Inland Feeder expenditures. The variances for the Treatment Plant Improvement programs and Distribution System – Rehabilitation program, and the CRA – Reliability/Containment programs were due to delays in construction and/or changes in the scope of work. The Information Technology System programs variance was primarily due to delays in procurement and equipment testing. Construction costs are currently forecast at \$235.8 million or \$46.1 million lower than the 1.8 MAF projection.



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** October 20, 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 September 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 September 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  
G. Breaux