



*THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA*

# **Executive Financial Report For the Six Months Ended December 31, 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 Six Months Ended<br>December 31, |          | <i>Favorable/<br/>(Unfavorable)<br/>Variance</i> |
|---|--|----------|--|
|   | 2011                                     | 2010     |  |
| <b>Operating Revenues:</b>                |  |          |  |
| Water Sales                               | \$ 544.0                                 | \$ 513.1 | \$ 30.8  |
| Wheeling / Exchange                       | 57.7                                     | 24.4     | 33.3   |
| Readiness-to-Serve                        | 62.5                                     | 59.8     | 2.7  |
| Capacity Charge                           | 17.1                                     | 17.2     | (0.1)  |
| Power Sales                               | 20.1                                     | 14.7     | 5.4  |
| <b>Total Operating Revenues</b>           | <b>701.4</b>                             | 629.2    | 72.2   |
| <b>Operating Expenses:</b>                |  |          |  |
| Cost of Water                             | 190.3                                    | 159.7    | (30.5)   |
| Operations & Maintenance                  | 175.8                                    | 175.5    | (0.3)  |
| Demand Management Programs                | 21.6                                     | 23.4     | 1.8  |
| Depreciation & Amortization               | 138.2                                    | 131.9    | (6.3)  |
| <b>Total Operating Expenses</b>           | <b>525.9</b>                             | 490.5    | (35.4)   |
| <b>Net Operating Income</b>               | <b>175.5</b>                             | 138.7    | 36.7   |
| <b>Other Income (Expense):</b>            |  |          |  |
| Net Taxes/Annexations                     | 38.8                                     | 44.2     | (5.4)  |
| Investment Income                         | 19.5                                     | 2.5      | 17.1   |
| Bond Interest Expense                     | (66.0)                                   | (65.7)   | (0.3)  |
| Other                                     | 2.9                                      | 3.8      | (0.9)  |
| <b>Total Other Income/(Expense) - Net</b> | <b>(4.7)</b>                             | (15.2)   | 10.5   |
| <b>Net Income</b>                         | <b>\$ 170.7</b>                          | \$ 123.5 | \$ 47.3  |

**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)

|   | December 31,       |                    | <i>Increase/<br/>(Decrease)</i> |
|---|--------------------|--------------------|---------------------------------|
|   | 2011               | 2010               |                                 |
| <b>Assets:</b>                                    |                    |                    |                                 |
| Cash and investments at book value <sup>(1)</sup> | \$ 1,173.1         | \$ 1,161.6         | \$ 11.5                         |
| Fair Value Adjustment                             | 15.9               | (0.3)              | 16.2                            |
| Accounts Receivable                               | 230.7              | 277.4              | (46.7)                          |
| Property, Plant and Equipment, net                | 8,211.1            | 8,103.6            | 107.6                           |
| Prepaid State Water Project Costs, net            | 1,661.2            | 1,637.8            | 23.4                            |
| Participation Rights, net                         | 341.5              | 379.4              | (37.9)                          |
| Deferred Charges and Water Rights                 | 478.4              | 421.0              | 57.4                            |
| Deferred Outflow of Effective Swaps               | 101.6              | 33.3               | 68.3                            |
| Other   | 233.7              | 212.0              | 21.7                            |
| <b>Total Assets</b>                               | <b>\$ 12,447.3</b> | <b>\$ 12,225.8</b> | <b>\$ 221.5</b>                 |
| <b>Liabilities and Equity:</b>                    |                    |                    |                                 |
| Long-Term Debt                                    | \$ 4,793.9         | \$ 4,921.5         | \$ (127.5)                      |
| Fair Value of Interest Rate Swaps                 | 204.1              | 121.5              | 82.6                            |
| Off-Aqueduct Power Facilities                     | 44.0               | 50.8               | (6.8)                           |
| Accounts Payable and Accrued Bond Interest        | 266.5              | 246.1              | 20.4                            |
| Deferred Income                                   | 118.7              | 110.3              | 8.4                             |
| State Water Project Obligations                   | 479.8              | 412.4              | 67.4                            |
| Trust Funds and Other                             | 96.5               | 92.8               | 3.8                             |
| <b>Total Liabilities</b>                          | <b>6,003.6</b>     | <b>5,955.3</b>     | <b>48.3</b>                     |
| <b>Equity</b>                                     | <b>6,443.7</b>     | <b>6,270.5</b>     | <b>173.2</b>                    |
| <b>Total Liabilities and Equity</b>               | <b>\$ 12,447.3</b> | <b>\$ 12,225.8</b> | <b>\$ 221.5</b>                 |

**Notes:**

(1) Fair value of cash and investments was \$1,189.0 million and \$1,161.3 million at December 31, 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 Six Months Ended<br>December 31, |       | <i>Increase/<br/>(Decrease)</i> |
|---------------------------|--|-------|---------------------------------|
|                           | 2011                                     | 2010  |                                 |
| <b>Sales Statistics:</b>  |  |       |                                 |
| Water Sales (TAF)         | <b>630.2</b>                             | 821.8 | (191.6)                         |
| Wheeling/Exchange (TAF)   | <b>81.1</b>                              | 77.7  | 3.5                             |
| Replenishment Sales (TAF) | <b>224.9</b>                             | -     | 224.9                           |
| CVWD Exchange (TAF)       | <b>105.0</b>                             | -     | 105.0                           |
| Power Sales (MWh)         | <b>248.2</b>                             | 190.3 | 57.9                            |

### Average Sales Price <sup>(1)</sup>

|                     |                  |           |           |
|---------------------|------------------|-----------|-----------|
| Water Sales         | \$ <b>700.55</b> | \$ 624.40 | \$ 76.15  |
| Wheeling/Exchange   | \$ <b>372.00</b> | \$ 314.00 | \$ 58.00  |
| Replenishment Sales | \$ <b>455.70</b> | \$ -      | \$ 455.70 |
| CVWD Exchange       | \$ <b>262.32</b> | \$ -      | \$ 262.32 |
| Power Sales         | \$ <b>0.08</b>   | \$ 0.08   | \$ -      |

### Ratios:

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

|                       |          |          |
|-----------------------|----------|----------|
| Actual                | 1.43 x   | 0.84 x   |
| Target <sup>(2)</sup> | ≥ 1.20 x | ≥ 1.20 x |

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

|                       |          |          |
|-----------------------|----------|----------|
| Actual                | 2.02 x   | 1.21 x   |
| Target <sup>(2)</sup> | > 2.00 x | > 2.00 x |

#### Revenue Bond Debt as a Percent of Equity

|                       |           |           |
|-----------------------|-----------|-----------|
| Actual                | 73.9 %    | 77.1 %    |
| Target <sup>(3)</sup> | < 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.

**Executive Financial Report**  
**For the Six Months Ended December 31, 2011 – Current vs. Prior Year**  
**Discussion and Analysis**

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

**Statements of Operations (page 1)**

Net income of \$170.7 million was \$47.3 million more than prior year's net income. Included in the variance were \$72.2 million of higher operating revenues, \$35.4 million more in operating expenses, and \$10.5 million less in other expense-net.

Operating revenues for the six months ended December 31, 2011 totaled \$701.4 million and were \$72.2 million higher than prior year operating revenues of \$629.2 million. Included in the increase was \$33.3 million more in wheeling/exchange revenues of which \$27.5 million related to the sale of 105 thousand acre-feet (TAF) of exchange water to the Coachella Valley Water District. The \$30.8 million increase in water sales included \$102.5 million from the sale of replenishment water offset by \$71.6 million of lower other water sales primarily due to lower volumes sold.

Operating expenses for the six months ended December 31, 2011 totaled \$525.9 million and were \$35.4 million higher than prior year operating expenses of \$490.5 million. This increase was primarily the result of \$30.5 million of higher cost of water due to \$35.4 million lower credits from DWR for adjustments to prior year costs.

Other expense-net was \$10.5 million lower than prior year primarily due to \$17.1 million more in investment income resulting from a \$17.9 million change in fair value of investments.

## **Executive Financial Report**

### **As of the Six Months Ended December 31, 2011 – Current vs. Prior Year**

### **Discussion and Analysis**

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

At December 31, 2011, assets totaled \$12.4 billion, which were \$221.5 million more than December 31, 2010. This variance included \$107.6 million higher property, plant and equipment, net (PP&E), \$68.3 million more of deferred outflow of effective swaps, \$57.4 million higher deferred charges and water rights, \$23.4 million more of prepaid State Water Project costs, net, and a \$21.7 million increase in Other assets. 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. The deferred outflow of effective swaps increased due to an unfavorable change in the fair value of the swaps. Included in the higher deferred charges and water rights were \$37.5 million or 281.2 TAF, more of intangible water rights related to Desert/Coachella, Kern Delta, and Semitropic storage programs and a \$15.2 million increase in PVID land fallowing operating costs. The net increase in State Water Project costs was due to higher capital charges offset by amortization expense. Other assets included a \$19.9 million increase in water inventory.

Partially offsetting these increases were \$46.7 million lower accounts receivable and \$37.9 million lower participation rights, of which \$28.4 million resulted from the termination of the Calleguas program in June 2011. The decrease in accounts receivable included \$24.5 million of lower water sales receivables, primarily due to lower volumes sold, and \$11.3 million less of miscellaneous receivables as the Department of Water Resources paid retention amounts due.

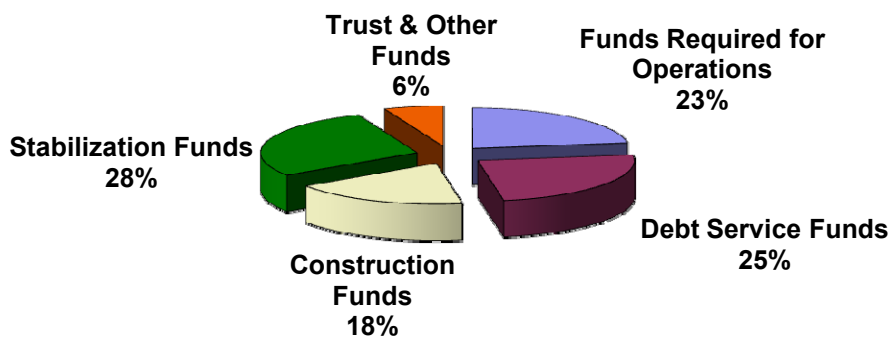
Liabilities of \$6.0 billion at December 31, 2011, were \$48.3 million higher than December 31, 2010 due to an \$82.6 million increase in fair value of interest rate swaps, \$67.4 million more of State Water Project obligations, and \$20.4 million more of accounts payable and accrued bond interest, partially offset by \$127.5 million less in long-term debt due to principal pay downs. The higher fair value of interest rate swaps was due to a decrease in interest rates. The higher State Water Project obligations was primarily due to a \$44.9 million increase in the variable component resulting from \$35.4 million lower credits from DWR for adjustments to prior costs and \$9.9 million more in variable costs. Accounts payable and accrued bond interest increased due to \$22.6 million more of OPEB obligation.

# The Metropolitan Water District of Southern California

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

|                               | Restricted          |                 | Unrestricted    | Total             |
|-------------------------------|---------------------|-----------------|-----------------|-------------------|
|                               | Contractual         | Board           |                 |                   |
| Funds Required for Operations | \$ 155.3            | \$ 112.1        | \$ (0.0)        | \$ 267.4          |
| Debt Service Funds            | 288.1               | -               | -               | 288.1             |
| Construction Funds            | 176.0               | -               | 37.7            | 213.7             |
| Stabilization Funds           | 29.1 <sup>(1)</sup> | -               | 302.8           | 331.9             |
| Trust & Other Funds           | 52.1                | 19.9            | -               | 72.0              |
| <b>Total</b>                  | <b>\$ 700.6</b>     | <b>\$ 132.0</b> | <b>\$ 340.5</b> | <b>\$ 1,173.1</b> |

(1) Restricted investments of \$27.9 million and \$1.2 million were posted as collateral with Morgan Stanley and JP Morgan Chase, respectively, 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 Six Months Ended December 31, 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                      | \$ 138.9                                   | \$ 107.5              | \$ 56.9        | \$ 50.5                         | 47%        | \$ 293.5                         | \$ 236.9              | \$ 142.0             | \$ 94.9                           | 32%        |
| R & R/General Funds                          | 22.5                                       | 20.4                  | 14.6           | 5.8                             | 28%        | 47.5                             | 45.0                  | 45.0                 | -                                 | 0%         |
| <b>Total</b>                                 | <b>\$ 161.4</b>                            | <b>\$ 127.9</b>       | <b>\$ 71.6</b> | <b>\$ 56.3</b>                  | <b>44%</b> | <b>\$ 341.0</b>                  | <b>\$ 281.9</b>       | <b>\$ 187.0</b>      | <b>\$ 94.9</b>                    | <b>34%</b> |
| <b>Program Expenditures</b>                  |  |                       |                |                                 |            |                                  |                       |                      |                                   |            |
| Oxidation Retrofit Programs                  | \$ 34.8                                    | \$ 32.1               | \$ 27.2        | \$ 4.8                          | 15%        | \$ 80.0                          | \$ 84.6               | \$ 53.0              | 31.6                              | 40%        |
| Treatment Plant Improvement                  | 35.7                                       | 40.3                  | 20.0           | 20.3                            | 50%        | 67.1                             | 78.9                  | 53.0                 | 25.9                              | 39%        |
| Distribution System - Rehabilitation Program | 24.5                                       | 18.8                  | 6.0            | 12.9                            | 68%        | 46.1                             | 36.0                  | 20.0                 | 16.0                              | 35%        |
| CRA - Reliability/Containment Programs       | 12.5                                       | 8.5                   | 4.4            | 4.2                             | 49%        | 34.8                             | 23.1                  | 19.0                 | 4.1                               | 12%        |
| La Verne Shop Facilities Upgrades            | 4.9  | 5.0                   | 2.8            | 2.2                             | 44%        | 11.9                             | 12.5                  | 8.2                  | 4.3                               | 36%        |
| Information Technology System                | 11.8                                       | 5.0                   | 0.7            | 4.4                             | 87%        | 23.7                             | 10.2                  | 3.0                  | 7.2                               | 30%        |
| Chlorine Containment and Handling Facilities | 1.5  | 3.2                   | 1.6            | 1.6                             | 51%        | 2.4                              | 6.2                   | 6.0                  | 0.2                               | 10%        |
| Inland Feeder                                | 1.3  | 1.3                   | 3.0            | (1.6)                           | (125%)     | 1.9                              | 2.1                   | 3.5                  | (1.4)                             | (72%)      |
| Other  | 34.5                                       | 13.6                  | 6.1            | 7.6                             | 56%        | 73.2                             | 28.3                  | 21.3                 | 7.0                               | 10%        |
| <b>Total</b>                                 | <b>\$ 161.4</b>                            | <b>\$ 127.9</b>       | <b>\$ 71.6</b> | <b>\$ 56.3</b>                  | <b>44%</b> | <b>\$ 341.0</b>                  | <b>\$ 281.9</b>       | <b>\$ 187.0</b>      | <b>\$ 94.9</b>                    | <b>34%</b> |

Major Program Statistics

|  | Current<br>Budget | Project-<br>to-Date | %<br>Spent | %<br>Complete |
|--|-------------------|---------------------|------------|---------------|
| Inland Feeder                            | \$ 1,186.5        | \$ 1,148.7          | 97%        | 99%           |
| Oxidation Retrofit Program               | 1,030.0           | 524.7               | 51%        | 51%           |
| Treatment Plant Improvement Projects     | 1,114.9           | 482.3               | 43%        | 43%           |
| Chlorine Containment Handling Facilities | 163.5             | 115.4               | 71%        | 71%           |
| CRA - Reliability/Containment Programs   | 227.5             | 124.9               | 55%        | 55%           |
| Diamond Valley Lake Recreation           | 92.8              | 77.1                | 83%        | 83%           |

Note:

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

**Executive Financial Report  
For the Six Months Ended December 31, 2011  
Actual vs. 1.8 MAF Projection  
Discussion and Analysis**

The following is a summary of the construction activity for the six months ended December 31, 2011 as compared to the 1.8 MAF projection.

**Construction Activity (page 9)**

Construction costs for the six months ended December 31, 2011 totaled \$71.6 million, which was \$56.3 million, or forty-four percent, under the 1.8 MAF projection. Included in the variance were \$20.3 million for the Treatment Plant Improvement programs, \$12.9 million for the Distribution System – Rehabilitation program, \$4.8 million for the Oxidation Retrofit programs, \$4.4 million for the Information Technology System programs, and \$4.2 million for the CRA – Reliability/Containment programs. The variances for the Treatment Plant Improvement programs, Distribution System – Rehabilitation program, Oxidation Retrofit programs, 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 \$187.0 million or \$94.9 million lower than the 1.8 MAF projection.



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

**Date:** January 11, 2012  
**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 December 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 December 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