



*THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA*

Executive Financial Report

For the Three Months Ended September 30, 2012

**Executive Financial Report
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For the Three Months Ended September 30, 2012**

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The Metropolitan Water District of Southern California

Statements of Operations - Accrual Basis (Dollars in millions)

	For the Three Months Ended September 30,		Favorable/(Unfavorable) Variance		Explanation for Variances +/- \$5 million and 5%
	2012	2011	\$	%	
Operating Revenues					
Water Sales ⁽³⁾	\$ 361.1	\$ 354.4	\$ 6.6	2%	
Wheeling / Exchange ⁽³⁾	10.4	42.2	(31.8)	(75%)	Unfavorable variance primarily due to sale of \$27.5 million, or 105 TAF, of exchange water sold to the Coachella Valley Water District in prior year that is not in fiscal year 2013.
Readiness-to-Serve	36.5	31.2	5.3	17%	Variance due to Board approved increase.
Capacity Charge	7.9	8.6	(0.6)	(7%)	
Power Sales	10.9	15.2	(4.3)	(28%)	
Total Operating Revenues	426.8	451.7	(24.9)	(6%)	
Operating Expenses					
Cost of Water	103.1	103.8	0.7	1%	
Operations & Maintenance (O&M)	94.3	84.6	(9.7)	(11%)	Change primarily due to higher other post employment benefits (medical costs).
Demand Management Programs	10.9	8.6	(2.3)	(27%)	
Depreciation & Amortization	68.3	67.8	(0.5)	(1%)	
Total Operating Expenses	276.5	264.7	(11.8)	(4%)	
Net Operating Income	150.3	187.0	(36.7)	(20%)	
Other Income (Expense)					
Net Taxes/Annexations	21.4	22.0	(0.6)	(3%)	
Investment Income	5.8	14.6	(8.8)	(60%)	Variance due to a \$5.1 million unfavorable change in the fair value of investments and \$3.7 million lower interest income due to lower interest rates.
Bond Interest Expense	(23.6)	(33.7)	10.1	(30%)	Favorable variance due to refundings of variable interest rate bonds with lower fixed interest rate bonds.
Other	1.0	2.6	(1.6)	(63%)	
Total Other Income/(Expense) - Net	4.6	5.6	(1.0)	(18%)	
Net Income	\$ 154.9	\$ 192.5	\$ (37.6)	(20%)	

Notes:

- (1) Totals may not foot / cross foot due to rounding.
(2) 2012 includes adjustment for San Diego County Water Authority that reduced wheeling sales by \$6,221,000 and 16,722 acre feet and increased water sales by \$8,812,000 and 16,722 acre feet.

The Metropolitan Water District of Southern California

Balance Sheets - Accrual Basis (Dollars in millions)

	September 30,		Increase/(Decrease)		<i>Explanation for Variances +/- \$10 million and \$5%</i>
	2012	2011	\$	%	
Assets					
Cash and investments at book value ⁽¹⁾	\$ 1,038.8	\$ 1,000.7	\$ 38.1	4%	
Fair Value Adjustment ⁽¹⁾	22.3	11.0	11.4	(104%)	Change due to increase in market value.
Accounts Receivable	396.7	432.8	(36.2)	(8%)	Decrease primarily due to sale of \$27.5 million, or 105 TAF, of exchange water to the Coachella Valley Water District in prior year that is not in fiscal year 2013.
Property, Plant and Equipment, net	8,252.0	8,196.2	55.7	1%	
Prepaid State Water Project Costs, net	1,483.7	1,491.9	(8.3)	(1%)	
Participation Rights, net	331.2	344.9	(13.7)	(4%)	
Deferred Charges and Water Rights	343.1	295.1	48.0	16%	Increase primarily due to \$42.9 million (367.1 TAF) of intangible water rights related to Arvin-Edison, Desert/Coachella, Semitropic, and Mojave storage programs.
Deferred Outflow of Effective Swaps	110.0	97.7	12.3	13%	Change due to an unfavorable change in the fair value of the swaps.
Other	200.4	222.7	(22.3)	(10%)	Variance includes \$8.2 million lower water inventory, \$4.5 million of which was due to lower average unit cost and \$3.7 million was due to lower volumes, or 40.2 TAF, and \$7 million of gas hedging deposit that was refunded in prior year.
Total Assets	\$ 12,178.3	\$ 12,093.1	\$ 85.2	1%	
Liabilities and Equity					
Long-Term Debt	\$ 4,728.1	\$ 4,802.6	\$ (74.5)	(2%)	
Fair Value of Interest Rate Swaps	166.1	200.4	(34.3)	(17%)	Variance primarily due to an increase in interest rates.
Off-Aqueduct Power Facilities	38.1	45.6	(7.5)	(16%)	
Accounts Payable and Accrued Bond Interest	267.4	222.1	45.2	20%	Increase primarily due to \$34.5 million more of postemployment benefits other than pensions.
Deferred Income	181.2	186.3	(5.1)	(3%)	
State Water Project Obligations	95.7	77.9	17.8	23%	Change primarily due to \$12.1 million higher variable costs as a result of increased water allocation.
Trust Funds and Other	105.9	94.1	11.8	13%	Variance includes \$6.8 million of higher San Luis Rey trust due to primarily to deliveries of 18.7 TAF of water and \$3.1 million of higher Habitat Maintenance Fund for the Lower Colorado River trust due to required quarterly deposits and related interest earnings.
Total Liabilities	5,582.5	5,629.1	(46.6)	(1%)	
Equity	6,595.8	6,464.0	131.8	2%	
Total Liabilities and Equity	\$ 12,178.3	\$ 12,093.1	\$ 85.2	1%	

Notes:

(1) Fair value of cash and investments was \$1,061.1 million and \$1,011.7 million at September 30, 2012 and 2011, respectively.

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

The Metropolitan Water District of Southern California

Statistics and Ratios

	For the Three Months Ended		Increase/(Decrease)	
	2012	2011	TAF/\$	%
Sales Statistics - Accrual Basis				
Water Sales (TAF) ⁽²⁾	500.0	403.2	96.8	24%
Wheeling/Exchange (TAF) ⁽²⁾	41.9	39.4	2.5	6%
Replenishment Sales (TAF)	-	169.8	(169.8)	(100%)
CVWD Exchange (TAF)	-	105.0	(105.0)	(100%)
Power Sales (MWh)	110.6	177.4	(66.7)	(38%)
Average Sales Price ⁽¹⁾				
Water Sales	\$ 704.51	\$ 690.16	\$ 14.35	2%
Wheeling/Exchange	\$ 396.00	\$ 372.00	\$ 24.00	6%
Replenishment Sales	\$ -	\$ 448.56	\$ (448.56)	(100%)
CVWD Exchange	\$ -	\$ 262.32	\$ (262.32)	(100%)
Power Sales	\$ 0.10	\$ 0.09	\$ -	0%

	September 30, 2012	Target
Ratios		
Revenue Bond Debt Service Coverage - Cash Basis ⁽³⁾	1.93 x	> 2.00 x
Fixed Charge Coverage - Cash Basis ⁽³⁾	1.49 x	≥ 1.20 x
Revenue Bond Debt as a Percent of Equity ⁽³⁾	72.3 %	< 100.0 %

Notes:

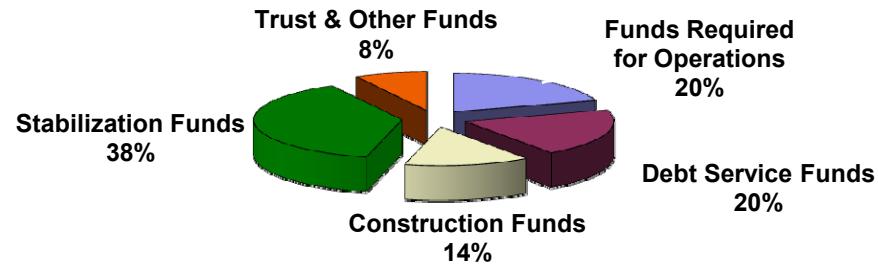
- (1) Average prices calculated using exact rather than rounded dollar amounts.
- (2) 2012 excludes adjustment for San Diego County Water Authority that reduced wheeling sales by \$6,221,000 and 16,722 acre feet and increased water sales by \$8,812,000 and 16,722 acre feet.
- (3) Board adopted guideline.
- (4) Per Metropolitan Water District Act - Part 5, Chapter 1.6, Section 239.2.

The Metropolitan Water District of Southern California

Cash and Investments at Book Value As of September 30, 2012 (Dollars in millions)

	Restricted		Unrestricted	Total
	Contractual	Board		
Funds Required for Operations	\$ 139.2	\$ 70.3	\$ 0.5	\$ 210.0
Debt Service Funds	207.7	-	-	207.7
Construction Funds	110.8	-	31.0	141.8
Stabilization Funds	26.3 ⁽¹⁾	-	371.5	397.8
Trust & Other Funds	61.6	19.9	-	81.5
Total	\$ 545.6	\$ 90.2	\$ 403.0	\$ 1,038.8

(1) Restricted investments of \$21.6 million and \$4.7 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

**Construction Activity - Accrual Basis
For the Three Months Ended September 30, 2012
(Dollars in millions)**

	Budget ⁽¹⁾	Actual	Variance		Explanation for Variances +/- \$5 million and 5%
			\$	%	
Sources of Funds					
Bond Construction Funds	\$ 39.0	\$ 30.5	\$ 8.6	22%	
R & R/General Funds	10.6	0.6	10.0	94%	
Total	\$ 49.7	\$ 31.1	\$ 18.6	37%	
Program Expenses					
Oxidation Retrofit Programs	\$ 9.1	\$ 9.6	\$ (0.5)	(5%)	
Treatment Plant Improvement	12.4	7.0	5.3	43%	Lower expenses were due to the rescheduling of the Diemer Chemical Feed System projects to coordinate with Phase II of the the electrical improvements project and the Diemer Basin Rehabilitation project to accomodate recommendations of a value engineering study; scope revision for the Jensen Surface Wash Upgrade to include additional service water pumps; change in project strategy for the Jensen Module 1 to purchase new rather than refurbish existing filter valves and the Jensen Solids Dewatering as directed by the Board.
CRA - Reliability/Containment Programs	7.6	3.6	4.0	53%	
Distribution System - Rehabilitation Program	7.8	2.2	5.6	72%	Expenses lower than budget as follows: rescheduling of the Canal Improvements projects for the next shutdown to initiate investigation and the CRA Pumping Plant Auxiliary Power System Rehabilitation to accommodate preparation of a CRA Electrical Master Plan; extension of the design schedule for the Desert Sewer System Rehabilitation pending coordination with the paving and domestic water system improvements; the CRA Siphon Rehabilitation project was substantially ahead of schedule in FY2011/12.
La Verne Shop Facilities Upgrades	3.7	2.4	1.3	35%	
Information Technology System	2.0	0.4	1.6	80%	
Chlorine Containment and Handling Facilitie:	1.2	1.6	(0.4)	(38%)	
Other	5.9	4.3	1.6	28%	
Total	\$ 49.7	\$ 31.1	\$ 18.6	37%	

Notes:

- (1) Estimated year end results are under review.
- (2) Totals may not foot / cross foot due to rounding.



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: October 10, 2012
To: Board of Directors
From: General Counsel Marcia Scully
Subject: Review as to Eligibility of Securities Invested in by the
Treasurer for the Month of September 2012

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 2012 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, appearing to read "M. Scully".

Marcia Scully

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

Portfolio Summary Report
Attachment 2a
September 30, 2012
(\$ in Thousands)

Credit Ratings		Medium Term Notes	Maturity Date	Market Value	Book Value
Moody's	S&P				
Baa2	A-	Merrill Lynch Corporation 5.0%	1/15/2015	2,148	2,024
Baa1	A-	Morgan Stanley 4.10%	1/26/2015	2,532	2,438
				\$ 4,680	\$ 4,462