THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Nine Months ended March 31, 2017 and 2016

(Unaudited)

TABLE OF CONTENTS

UNAUDITED
March 31, 2017 and 2016

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the nine months ended March 31, 2017 and 2016. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan operates as a utility enterprise and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project costs and principal and interest payments on borrowed money. Certain amounts reported in fiscal years 2016 and 2015 have been reclassified to conform to the fiscal year 2017 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2015, Metropolitan implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, which addresses the accounting and financial reporting for pensions. Metropolitan also implemented Governmental Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, which resolves transition issues in GASB 68. Metropolitan did not restate the financial statements for the fiscal year ended June 30, 2014 because the necessary actuarial information from the California Public Employees' Retirement System was not provided for fiscal year 2014. As of July 1, 2014, Metropolitan restated beginning net position in the amount of $491.0 million to record the beginning deferred pension contributions and net pension liability.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	March 31, 2017	2016	2015
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,607.1**	$ 10,467.5	$ 10,239.2
Other assets and deferred outflows of resources	**2,052.2**	2,012.1	2,355.6
Total assets and deferred outflows of resources	**12,659.3**	12,479.6	12,594.8
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**5,032.9**	4,913.1	4,551.7
Current liabilities and deferred inflows of resources	**854.1**	778.1	559.1
Total liabilities and deferred inflows of resources	**5,887.0**	5,691.2	5,110.8
Net position			
Net investment in capital assets, including State Water Project costs	**5,997.2**	5,915.7	5,746.0
Restricted	**398.0**	436.7	362.6
Unrestricted	**377.1**	436.0	1,375.4
Total net position	**$ 6,772.3**	$ 6,788.4	$ 7,484.0

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, net capital assets totaled $10.6 billion, or 83.8 percent, of total assets and deferred outflows of resources, and were $139.6 million higher than the prior year. The increase was primarily due to a $175.9 million Board approved land purchase in the Delta Wetlands in July 2016. Additional increases included Metropolitan's continued expenditures on the capital investment plan of $225.8 million and net capital payments for participation rights in the State Water Project and other facilities of $131.4 million. These increases were offset by depreciation and amortization of $393.5 million. See the capital assets and debt administration section for additional information.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, net capital assets totaled $10.5 billion, or 83.9 percent, of total assets and deferred outflows of resources, and were $228.3 million higher than the prior year. The increase was primarily due to a $256.1 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. Additional increases included Metropolitan's continued expenditures on the capital investment plan of $239.7 million and net capital payments for participation rights in the State Water Project and other facilities of $106.9 million. These increases were offset by depreciation and amortization of $374.4 million. See the capital assets and debt administration section for additional information.

Other Assets and Deferred Outflows of Resources

Other assets and deferred outflows of resources include accounts receivable, inventories, prepaid costs, deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability, deferred outflows for effective interest rate swaps, and cash and investments.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, other assets and deferred outflows totaled $2.1 billion and were $40.1 million more than the prior year. Cash and investments were $163.6 million higher primarily due to proceeds from new bond issue of $255.0 million. This increase was partially offset by $55.0 million of lower water sales receivable as February and March 2017 sales were 87.3 thousand acre-feet (TAF) less than the prior year's comparable months and $32.3 million lower deposits, prepaid costs, and other primarily due to $23.5 million of lower prepaid water costs resulting from a reduction in water storage of 178.3 TAF. In addition, deferred outflows on effective swaps were $28.9 million lower due to rising interest rates (see Long-term liabilities, net of current portion for additional information).

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, other assets and deferred outflows totaled $2.0 billion and were $343.5 million lower than the prior year. Included in the decrease were $272.4 million of lower cash and investments primarily due to $256.1 million of land purchase, $83.7 million of lower prepaid water costs due to a reduction in water storage of 202.5 TAF, and $35.6 million of lower water sales receivable as February and March 2016 sales were 51.0 TAF less than the prior year's comparable months. These decreases were offset by $28.1 million of higher water inventory due to the purchase of 150 TAF of water from Southern Nevada Water Authority for $44.4 million. In addition, the implementation of GASB 68 and GASB 71 resulted in $34.3 million of deferred outflows for pension contribution.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, customer deposits and trust funds, net pension liability, postemployment benefits other than pensions (OPEB), accrued compensated absences, obligations for off-aqueduct facilities, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, long-term liabilities, net of current portion, totaled $5.0 billion and were $119.8 million higher than the prior year. The increase included $72.8 million more of net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year and $255.0 million of new debt issued. These increases were partially offset by scheduled principal payments of $146.3 million and a $49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. The fair value of interest rate swaps liability account represents a negative market value which improved by $28.9 million due to rising interest rates. See the long-term debt section for additional information.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, long-term liabilities, net of current portion, totaled $4.9 billion and were $361.4 million higher than the prior year. Included in the increase were $406.8 million of net pension liability related to the implementation of GASB 68 and $208.3 million of new debt issued in December 2015. Partially offsetting these increases were $144.0 million of scheduled principal payments and a $5.3 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, $96.5 million and $10.4 million of long-term debt were classified as current liability as the Revolving Credit Agreement (RCA) and Standby Bond Purchase Agreement (SBPA) that covered the bonds expired on March 31, 2016 and September 23, 2016, respectively. See the long-term debt section for additional information.

Current Liabilities and Deferred Inflows of Resources

Current liabilities and deferred inflows of resources represent current liabilities that are due within one year and deferred inflows related to the net pension liability. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, current liabilities and deferred inflows of resources totaled $854.1 million, and were $76.0 million higher than the prior year primarily due to $250.0 million of revolving notes issued by Metropolitan in April 2016. Offsetting this increase was $78.7 million lower accounts payable and accrued expenses, which included $62.2 million of lower State Water Project costs due to $34.3 million of Flex Storage pay down and $27.6 million of lower operating and maintenance costs resulting from the accrual of the $37.0 million credit from SWP in fiscal year 2017. In addition, pension related deferred inflows of resources was $69.1 million lower due to $82.3 million lower actual pension plan investment earnings as compared to prior year partially offset by $24.1 million of deferred pension expenses due to change in assumptions.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, current liabilities and deferred inflows of resources totaled $778.1 million, and were $219.0 million higher than the prior year. Included in the increase were $109.2 million of deferred inflows of resources, which represents the net difference between projected and actual earnings on pension plan investments that will be amortized as a component of pension expense over the remaining 4 years. In addition, current portion of long-term debt increased $106.9 million as the self-liquidity bonds were not covered by the RCA and SBPA that expired on March 31, 2016 and September 23, 2016, respectively. (see Long-term liabilities, net of current portion section for additional information).

Net Investment in Capital Assets, including State Water Project Costs

Net investment in capital assets, including State Water Project costs include amounts expended for capital improvements and State Water Project, offset by debt issued for these purposes.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, net investment in capital assets, including State Water Project costs totaled $6.0 billion and was $81.5 million more than the prior year. This increase included $139.6 million net increase in capital assets offset by $50.2 million net increase in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, net investment in capital assets, including State Water Project costs totaled $5.9 billion and was $169.7 million more than the prior year. This increase included $228.3 million net increase in capital assets offset by $65.4 million net increase in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, restricted net position totaled $398.0 million which was $38.7 million lower than fiscal year 2016. The decrease included $51.2 million lower restricted for operating expenses partially offset by $12.5 million of higher restricted for debt service.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, restricted net position totaled $436.7 million which was $74.1 million higher than fiscal year 2015. The increase included $56.2 million higher restricted for operating expenses and $17.9 million of higher restricted for debt service.

Unrestricted Net Position

Unrestricted net position consists of net position items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Certain unrestricted net position items have been designated for purposes authorized by the Board.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Unrestricted net position of $377.1 million decreased $58.9 million from the prior year which, included $81.5 million net investment in capital assets and the twelve months ended March 31, 2017 net loss before contributions of $18.4 million partially offset by $38.7 million of lower restricted net position requirements for debt service and operating expenses.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Unrestricted net position of $436.0 million decreased $939.4 million from the prior year. The decrease included $406.8 million of net pension liability and $109.2 million of deferred inflows of resources resulting from Metropolitan's implementation of GASB 68 in fiscal year 2015. In addition, Metropolitan invested a net of $169.7 million in capital assets, net loss before contributions for the twelve months ended March 31, 2016 totaled $207.2 million, and $74.1 million of higher restricted net position requirements for debt service and operating expenses.

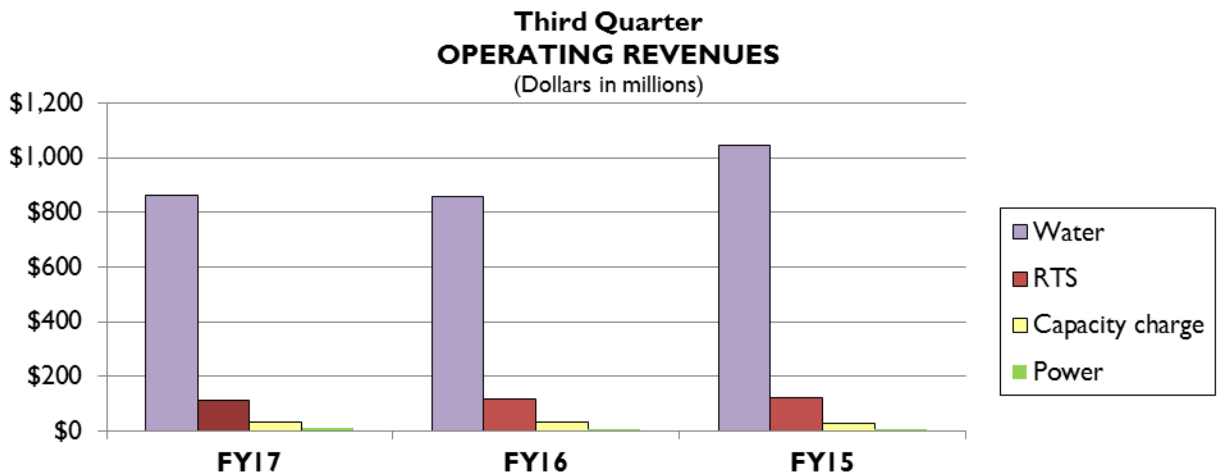
CHANGES IN NET POSITION

Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Nine Months Ended March 31,		
(Dollars in millions)	**2017**	2016	2015
Water sales	**$ 859.8**	$ 856.6	$ 1,044.2
Readiness-to-serve charges	**110.3**	117.2	122.5
Capacity charge	**31.3**	33.3	26.5
Power sales	**11.3**	4.8	6.0
Operating revenues	**1,012.7**	1,011.9	1,199.2
Taxes, net	**84.4**	78.4	74.9
Investment income (loss)	**0.8**	12.6	(4.2)
Other	**4.3**	7.8	6.4
Nonoperating revenues	**89.5**	98.8	77.1
Total revenues	**1,102.2**	1,110.7	1,276.3
Power and water costs	**(323.0)**	(403.1)	(317.0)
Operations and maintenance	**(366.6)**	(502.6)	(380.6)
Depreciation and amortization	**(222.2)**	(201.2)	(192.2)
Operating expenses	**(911.8)**	(1,106.9)	(889.8)
Bond interest, net of amount capitalized	**(99.1)**	(93.2)	(99.6)
Other	**(2.9)**	(3.8)	(3.9)
Nonoperating expenses	**(102.0)**	(97.0)	(103.5)
Total expenses	**(1,013.8)**	(1,203.9)	(993.3)
Income before contributions	**88.4**	(93.2)	283.0
Capital contributions	**0.1**	—	—
Changes in net position	**88.5**	(93.2)	283.0
Net position, at June 30,	**6,683.8**	6,881.6	7,201.0
Net position, at March 31,	**$ 6,772.3**	$ 6,788.4	$ 7,484.0

Operating Revenues

Metropolitan's principal source of revenue is from water sales, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the State Water Project.



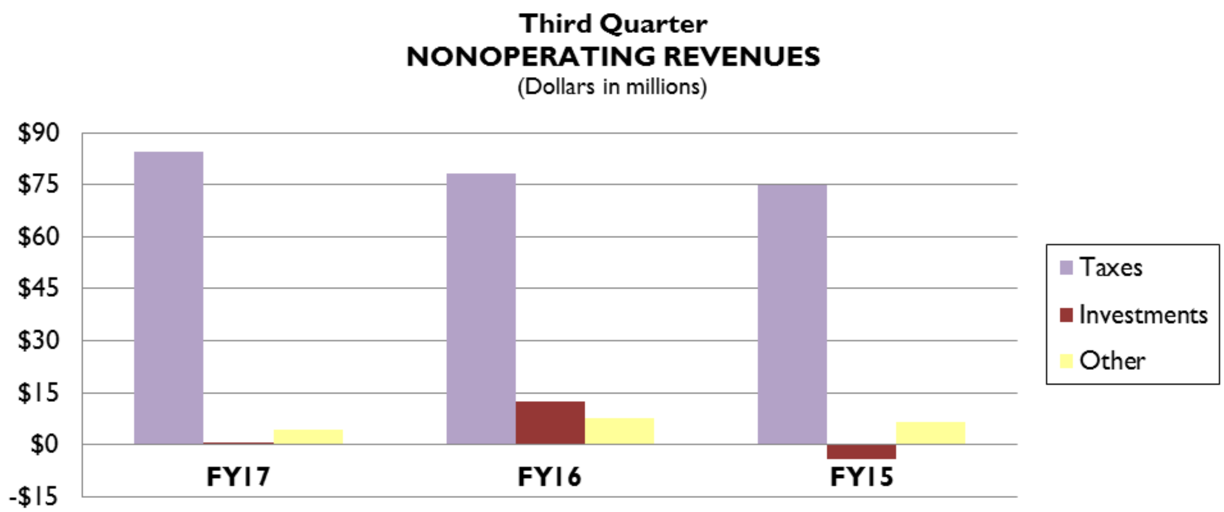
Analytical Review of Operating Revenues

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 operating revenues were $1.0 billion or $800,000 more than the prior year.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, operating revenues were $1.0 billion or $187.3 million less than the prior year primarily due to $187.6 million of lower water sales, of which $179.1 million related to 245.4 TAF of lower volumes sold and $8.5 million from lower rates. The reduction in water sales were primarily due to the Governor's requirement that retail water agencies implement conservation programs to reduce water consumption by an average of 25% statewide.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



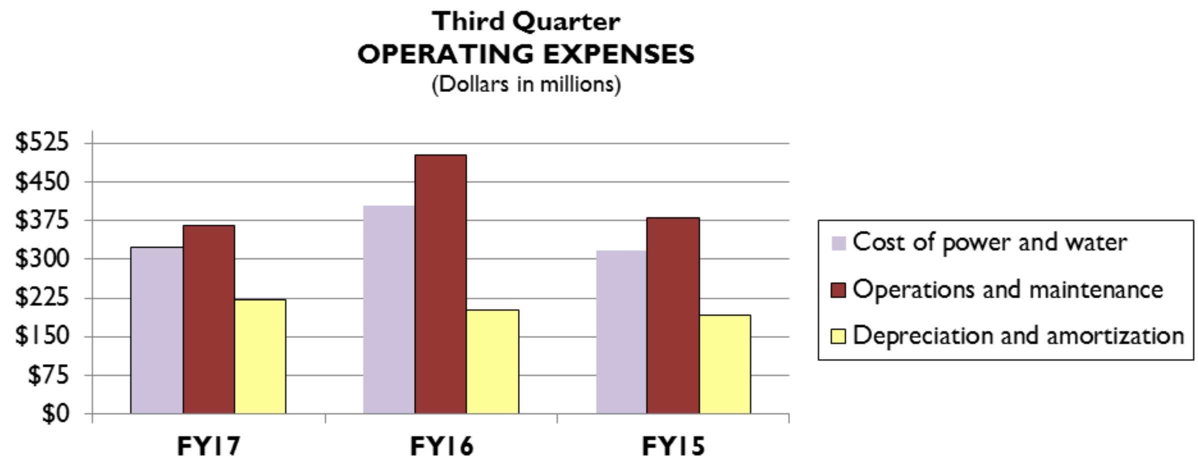
Analytical Review of Nonoperating Revenues

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Nonoperating revenues for the nine months ended March 31, 2017 totaled $89.5 million and were $9.3 million lower than the prior year primarily due to $13.4 million of unfavorable change in fair value of investments.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Nonoperating revenues for the nine months ended March 31, 2016 totaled $98.8 million and were $21.7 million higher than the prior year. Investment income increased $16.8 million primarily due to the fact that a $18.7 million loss on swap termination occurred in the previous year.

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.



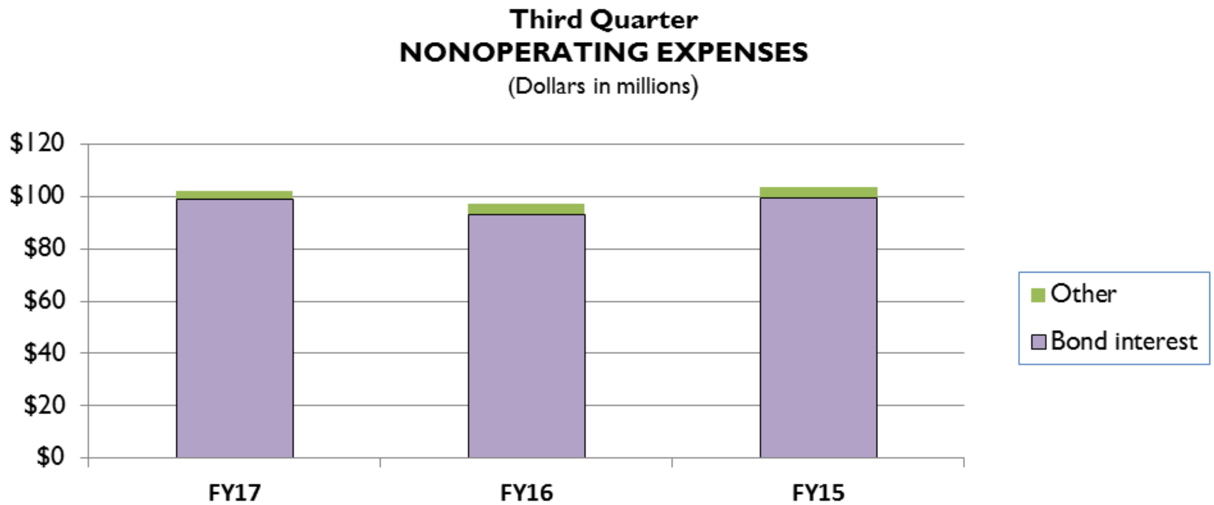
Analytical Review of Operating Expenses

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 operating expenses of $911.8 million were $195.1 million lower than prior year. The decrease included $136.0 million of lower operations and maintenance costs primarily due to $142.3 million lower conservation credits expenses as the $450.0 million budget in fiscal year 2015 for conservation spending is spent down. In addition, power and water costs decreased $80.1 million due to the fact that the $44.4 million purchase of water from Southern Nevada Water Authority which had a higher per acre-foot cost did not occur in the current year and $37.0 million credit related to the State Water Project (SWP) in fiscal year 2017.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, operating expenses of $1.1 billion were $217.1 million higher than prior year. Operations and maintenance costs increased $122.0 million primarily due to $120.8 million higher conservation credits expenses as a result of the Board approving a historic $450.0 million budget for conservation spending in response to the continued drought. In addition, power and water costs increased $86.1 million due to $49.1 million of higher SWP operation, maintenance, power and replacement (OMP&R) costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs and $28.5 million lower SWP credits, as compared to prior year.

Nonoperating Expenses

The primary source of nonoperating expenses is interest expense on bonds and other, net.



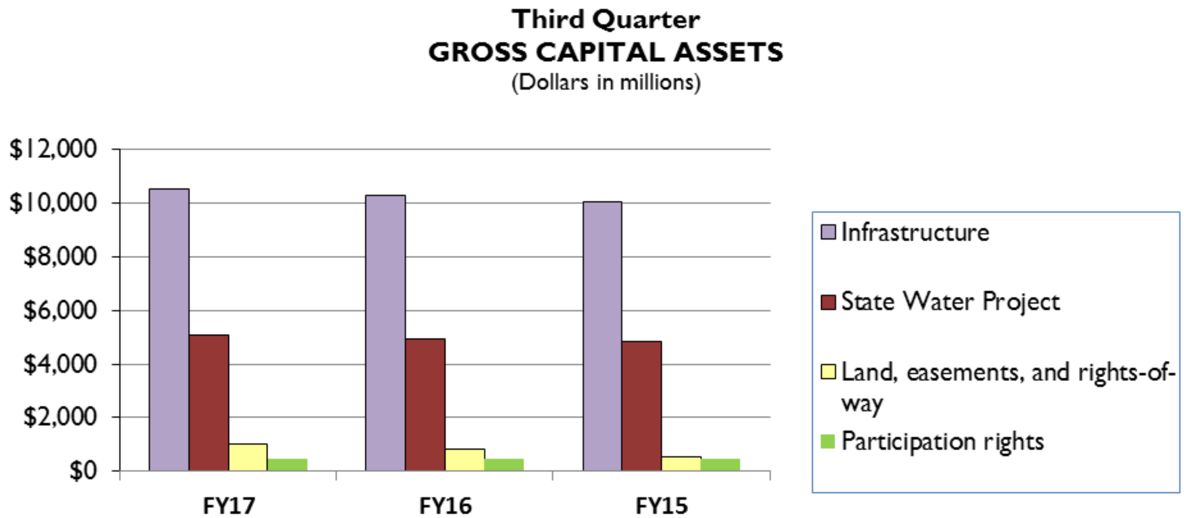
Analytical Review of Nonoperating Expenses

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. For the nine months ended March 31, 2017 nonoperating expenses of $102.0 million were $5.0 million higher than the prior year primarily due to a decrease in capitalized interest on assets constructed.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. For the nine months ended March 31, 2016, nonoperating expenses of $97.0 million were $6.5 million lower than the prior year. The decrease included $3.7 million less in interest expense on bonds related to bond refunding transactions to take advantage of lower interest rates and a $2.1 million increase in capitalized interest on assets constructed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.



Schedule of Capital Assets

(Dollars in millions)	March 31, 2017	2016	2015
Land, easements and rights-of-way	**$ 1,009.7**	$ 814.5	$ 557.7
Construction in progress	**970.5**	1,829.2	1,801.5
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**180.4**	178.7	178.7
Other dams and reservoirs	**1,546.3**	1,541.7	1,537.5
Water transportation facilities	**3,708.9**	3,504.0	3,376.2
Pumping plants and facilities	**293.6**	240.7	240.5
Treatment plants and facilities	**2,920.4**	2,138.6	2,070.1
Buildings	**136.1**	136.1	136.1
Other plant assets	**700.5**	681.2	670.6
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**5,056.5**	4,925.1	4,816.0
Participation rights in other facilities	**459.7**	459.7	461.9
Gross capital assets	**17,040.2**	16,507.1	15,904.4
Less accumulated depreciation and amortization	**(6,433.1)**	(6,039.6)	(5,665.2)
Capital assets, net	**$ 10,607.1**	$ 10,467.5	$ 10,239.2
Net increase from prior year	**$ 139.6**	$ 228.3	$ 68.8
Percent change	**1.3%**	2.2%	0.7%

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. Net capital assets totaled approximately $10.6 billion and increased $139.6 million over the prior year. This increase included $175.9 million Delta Wetlands land purchase, $225.8 million of new construction activity, and a net increase of $131.4 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of $393.5 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $69.1 million for the improvements in infrastructure reliability at the treatment plants.
- $44.6 million for the distribution system's rehabilitation program.
- $30.6 million for the Colorado River Aqueduct (CRA) reliability and containment programs. These programs were established to provide infrastructure reliability and regulatory compliance throughout the CRA conveyance system.
- $17.7 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to insure long-term reliability of Metropolitan's PCCP lines water delivery.
- $16.7 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $9.1 million for the information technology program, which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.
- $9.0 million for chlorine containment and handling facilities program, which is designed to enhance hazardous chemical safety, prevent a chlorine chemical release, and comply with security and safety regulations.

Metropolitan's fiscal year 2017 capital budget includes plans to spend $246.0 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability and containment programs, the water quality/oxidation retrofit program, and the supply reliability and system expansion program.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. Net capital assets totaled approximately $10.5 billion and increased $228.3 million over the prior year. This increase included $256.1 million PVID land purchase, $239.7 million of new construction activity and a net increase of $106.9 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of $374.4 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $56.0 million for the improvements in infrastructure reliability at the treatment plants.
- $42.7 million for the oxidation retrofit program at the filtration plants.
- $30.7 million for the distribution system's reliability programs.
- $22.6 million for the information technology program.
- $19.7 million for supply reliability and system expansion programs, which are designed to increase the capacity of Metropolitan's water supply and delivery infrastructure to meet projected demand increases.
- $19.0 million for chlorine containment and handling facilities program.
- $15.1 million for the Colorado River Aqueduct (CRA) reliability and containment programs.

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	March 31,		
(Dollars in millions)	**2017**	2016	2015
General obligation bonds *(a)*	**$ 74.9**	$ 92.9	$ 110.4
Revenue bonds *(a)*	**4,310.6**	4,233.5	4,157.1
State revolving loan	**8.6**	9.7	10.7
Other, net *(b)*	**207.3**	215.2	207.7
	$ 4,601.4	$ 4,551.3	$ 4,485.9
Increase (decrease) from prior year	**$ 50.1**	$ 65.4	$ (187.4)
Percent change	**1.1%**	1.5%	(4.0%)

(a) Includes refunding bonds.
(b) Consists of unamortized bond discounts and premiums.

Third Quarter Fiscal 2017 Compared to Third Quarter Fiscal 2016. At March 31, 2017, there was $4.6 billion of outstanding bonds and other long-term obligations, a net increase of $50.1 million or 1.1 percent from the prior year. The increase included new debt issued of $255.0 million offset by scheduled principal payments of $146.3 million and a $49.2 million principal reduction related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, scheduled amortization of bond premiums and discounts was $7.9 million lower.

Third Quarter Fiscal 2016 Compared to Third Quarter Fiscal 2015. At March 31, 2016, there was $4.6 billion of outstanding bonds and other long-term obligations, a net increase of $65.4 million or 1.5 percent from the prior year. The increase was due to the issuance of $208.3 million in new debt partially offset by scheduled principal payments of $144.0 million and $5.3 million of principal reduction related to refunding transactions.

CREDIT RATINGS

Metropolitan's credit ratings at March 31, 2017, are shown below.

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General obligation bonds	Aaa	AAA	AAA
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+

Fitch Ratings (Fitch) has assigned a AA+ Issuer default Rating (IDR) to the Metropolitan Water District of Southern California and changed its long-term credit rating of Metropolitan's waterworks general obligation refunding bonds (GO bonds) from AAA to AA+ effective April 21, 2017. The assignment of an IDR and downgrade of Metropolitan's GO bonds reflect implementation of Fitch's revised 'U.S. Tax-Supported Rating Criteria', published April 18, 2016. Moody's Investors Service and Standard & Poor's ratings were not changed.

CURRENTLY KNOWN FACTS

Oroville Dam, the earth fill embankment dam on the Feather River which impounds Lake Oroville, is operated by DWR as a facility of the State Water Project. On February 7, 2017, the main flood control spillway at Oroville Dam, a gated and concrete lined facility, experienced significant damage as DWR increased releases to 55,000 cubic foot per second (cfs) to manage higher inflows driven by continued precipitation in the Feather River basin. Subsequently, DWR halted releases at the main spillway to inspect the damage and conduct flow tests. After testing, the main spillway was returned to service on February 8 at a reduced flow rate to offset inflows into Lake Oroville. On February 11, the water elevation in Lake Oroville reached 901 feet, leading to flow over the emergency spillway structure, an ungated, 1,730 foot long concrete weir located adjacent to and north of the main flood control spillway structure. Releases from the emergency spillway flowed uncontrolled down an earthen hillside to the Feather River. On February 12, erosion began to progress up the right side of the emergency spillway. Concerns about the erosion at the emergency spillway prompted DWR to increase releases through the damaged main spillway and led the Butte County Sheriff to evacuate downstream communities for two days to ensure the safety of the residents. As of February 14, water levels in Lake Oroville were 13 feet below the crest of the emergency spillway and the mandatory evacuation order was lifted. DWR has begun repairs to the erosion areas below the emergency spillway.

Use of the emergency spillway and damaged main spillway at Oroville Dam during the period following the initial February 7, 2017 damage scoured the hillsides adjacent and below these facilities depositing debris into the Feather River below and limited the ability of DWR to manage Lake Oroville operations. The spillways are a separate structure from the dam itself, which is safe. With a break in the weather during the first half of March, DWR took advantage of the lower inflows into the reservoir and ceased water flows through the damaged main spillway, allowing removal of debris from the diversion pool at the base of the spillway. As of May 10, DWR has removed 1.7 million cubic yards of debris. As a result, DWR is now able to better manage lake levels by utilizing a combination of the damaged main spillway and the Hyatt Powerplant. This flexibility will be needed during the anticipated higher reservoir inflows due to the spring snowmelt and later in the year for water supply deliveries.

State, federal, and local agencies are working collectively to help manage Lake Oroville operations, assess the cause of the damage, and address needed repairs as rapidly as possible. Dam experts with the U.S. Army Corps of Engineers, Federal Energy Regulatory Commission, the State Division of Safety of Dams, and independent dam safety engineers remain actively engaged in managing the situation. Work is being done around the clock and will continue to be expedited through the summer to ensure the spillways are safe by the next winter season.

On April 6, 2017, DWR released details of a recovery plan designed to ensure that by November 1, 2017, a system is in place that can safely accommodate heavy inflows at the Feather River watershed and Lake Oroville next winter (including in the event of a delay resulting in construction work on some components of the repairs and improvements extending beyond November 1). The complete recovery or replacement of both damaged spillway structures will be done in multiple phases due to the scale of the project and the time limitations of the current construction season, which ends November 1. The plan is to restore the gated flood control spillway to a capacity almost twice its highest historical outflow, up to approximately 270,000 cfs. On April 17, 2017, DWR awarded a contract to Kiewit Infrastructure West Co. (Kiewit) for the main portions of the repair work on the spillways. Kiewit's construction bid of $275.4 million was determined by DWR to be the lowest responsive bid. Although the full extent of the repair costs is unknown at this time, DWR has indicated that costs expended as of mid-April are approximately $200.0 million.

The State is seeking federal funding to help offset costs of responding to flood-related damage throughout the State. In April, the Federal Emergency Management Agency (FEMA) approved over $500.0 million in emergency funds, of which approximately $274.0 million will be used to pay for the initial response and repair work performed at Oroville through May 2017. The State has applied for additional funding from FEMA to pay for the remaining repair work called for under the recovery plan. In the interim, DWR has arranged for a separate series of up to $500.0 million in commercial paper notes to be made available to provide capital funding for the ongoing recovery and repair effort. These notes are for a three year term at 35 basis points.

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31, 2017	2016
	(Unaudited)	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: $573,709 and $352,945 for 2017 and 2016, respectively)	**$ 573,386**	$ 355,231
Restricted (cost: $450,525 and $453,750 for 2017 and 2016, respectively)	**450,171**	455,630
Total cash and investments	**1,023,557**	810,861
Receivables:		
Water sales	**108,309**	163,315
Interest on investments	**3,679**	4,081
Other, net (Note 1e)	**72,665**	76,689
Total receivables	**184,653**	244,085
Inventories (Note 1f)	**97,579**	96,783
Deposits, prepaid costs, and other (Note 8)	**61,648**	73,453
Total current assets	**1,367,437**	1,225,182
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 2):		
Unrestricted (cost: $192,255 and $224,675 for 2017 and 2016, respectively)	**192,147**	225,606
Restricted (cost: $139,651 and $151,202 for 2017 and 2016, respectively)	**143,842**	159,439
Total cash and investments	**335,989**	385,045
Capital assets:		
Plant and equipment - non depreciable (Notes 1g and 6g)	**1,980,159**	2,643,679
Plant and equipment - depreciable (Notes 1g and 6g)	**9,543,783**	8,478,562
Participation rights in State Water Project (Notes 1h and 7)	**5,056,522**	4,925,122
Participation rights in other facilities (Note 1h)	**459,709**	459,709
Total capital assets	**17,040,173**	16,507,072
Less accumulated depreciation and amortization	**(6,433,104)**	(6,039,611)
Total capital assets, net	**10,607,069**	10,467,461
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 8)	**200,598**	221,127
Total other assets	**200,598**	221,127
Total noncurrent assets	**11,143,656**	11,073,633
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	**62,672**	77,276
Loss on swap terminations (Note 1p)	**33,020**	36,223
Pension related (Note 1q)	**48,475**	34,306
Effective swaps (Note 1p)	**4,086**	33,021
Total deferred outflows of resources	**148,253**	180,826
Total Assets and Deferred Outflows of Resources	**$ 12,659,346**	$ 12,479,641

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31, 2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 74,600**	$ 153,343
Revolving notes (Note 3a)	**250,000**	—
Current portion of long-term debt	**323,378**	344,490
Current portion of obligations for off-aqueduct power facilities (Note 6f)	**3,265**	3,276
Current portion of accrued compensated absences (Note 1j)	**19,600**	22,100
Current portion of customer deposits and trust funds	**14,867**	10,521
Current portion of workers' compensation and third party claims (Note 11)	**9,500**	8,400
Current portion of other long-term obligations	**72,236**	77,775
Accrued bond interest	**44,803**	47,148
Matured bonds and coupons not presented for payment	**1,768**	1,835
Total current liabilities	**814,017**	668,888
Noncurrent Liabilities:		
Long-term debt, net of current portion	**4,278,068**	4,206,795
Obligations for off-aqueduct power facilities, net of current portion (Note 6f)	**8,630**	12,260
Accrued compensated absences, net of current portion (Note 1j)	**26,912**	25,657
Customer deposits and trust funds, net of current portion	**92,180**	81,590
Net pension liability (Note 4)	**479,555**	406,794
Postemployment benefits other than pensions (Note 5)	**65,158**	67,376
Workers' compensation and third party claims, net of current portion (Note 11)	**11,258**	12,578
Fair value of interest rate swaps (Note 3f)	**68,912**	97,848
Other long-term obligations, net of current portion	**2,229**	2,225
Total noncurrent liabilities	**5,032,902**	4,913,123
Total liabilities	**5,846,919**	5,582,011
Commitments and Contingencies (Note 6)	**—**	—
Deferred Inflows of Resources:		
Pension related (Note 1q)	**40,121**	109,220
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	**5,997,238**	5,915,703
Restricted for:		
Debt service	**215,213**	202,732
Other	**182,788**	234,014
Unrestricted	**377,067**	435,961
Total net position	**6,772,306**	6,788,410
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,659,346**	$ 12,479,641

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Nine Months Ended March 31, 2017	2016
Operating Revenues (Note 1c):	(Unaudited)	
Water sales	**$ 859,840**	$ 856,611
Readiness-to-serve charges	**110,250**	117,244
Capacity charge	**31,292**	33,271
Power sales	**11,332**	4,792
Total operating revenues	**1,012,714**	1,011,918
Operating Expenses:		
Power and water costs	**322,963**	403,057
Operations and maintenance	**366,581**	502,611
Total operating expenses	**689,544**	905,668
Operating income before depreciation and amortization	**323,170**	106,250
Less depreciation and amortization	**(222,173)**	(201,247)
Operating income	**100,997**	(94,997)
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	**84,418**	78,420
Bond interest, net of $11,500 and $18,700 of interest capitalized fiscal year-to-date 2017 and 2016, respectively (Note 1g)	**(99,149)**	(93,182)
Investment income (loss), net	**784**	12,601
Other, net	**1,397**	3,948
Total nonoperating expenses, net	**(12,550)**	1,787
Income Before Contributions	**88,447**	(93,210)
Capital contributions (Note 1l)	**77**	—
Changes in net position	**88,524**	(93,210)
Net position, at June 30, 2016 and 2015	**6,683,782**	6,881,620
Net position, at March 31, 2017 and 2016	**$ 6,772,306**	$ 6,788,410

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended March 31, 2017	2016
Cash Flows from Operating Activities:	(Unaudited)	
Cash received from water sales	**$ 908,861**	$ 858,870
Cash received from readiness-to-serve charges	**91,416**	93,941
Cash received from capacity charge	**27,320**	26,638
Cash received from power sales	**11,521**	5,728
Cash received from other exchange transactions	**66,398**	57,865
Cash paid for operations and maintenance expenses	**(216,648)**	(347,962)
Cash paid to employees for services	**(157,804)**	(162,588)
Cash paid for power and water costs	**(395,869)**	(405,741)
Other cash flows for operating activities	**(1,157)**	(4,453)
Net cash provided by operating activities	**334,038**	122,298
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**6,200**	7,984
Net cash provided by noncapital financing activities	**6,200**	7,984
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(346,525)**	(470,821)
Payments for State Water Project costs	**(143,907)**	(120,202)
Proceeds from short and long-term debt	**300,785**	250,000
Payments for bond issuance costs	**(2,430)**	(1,557)
Principal paid on long-term debt	**(192,515)**	(144,025)
Interest paid on long-term debt	**(160,893)**	(161,704)
Payments for other long-term obligations	**(4,189)**	(4,432)
Proceeds from tax levy	**71,019**	66,379
Transfer to/from escrow trust accounts	**1,515**	13,830
Payments for real estate sales	**(98)**	—
Collection of notes receivable - land sales	**—**	139
Net cash used by capital and related financing activities	**(477,238)**	(572,393)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(8,332,259)**	(8,567,307)
Proceeds from sales and maturities of investment securities	**8,458,232**	8,993,187
Investment income	**11,308**	10,143
Net cash provided by investing activities	**137,281**	436,023
Net change in cash	**281**	(6,088)
Cash at July 1, 2016 and 2015	**39**	6,172
Cash at March 31, 2017 and 2016 (Note 1b)	**$ 320**	$ 84

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
(Dollars in thousands)	**2017**	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	(Unaudited)	
Operating Income (Loss)	**$ 100,997**	$ (94,997)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation and amortization expense	**222,173**	201,247
Decrease in accounts receivable	**117,982**	67,549
Increase in inventories	**(5,033)**	(27,740)
Increase in deposits, prepaid costs, and other	**(63,593)**	(50,200)
Decrease in accounts payable and accrued expenses	**(79,325)**	(35,325)
Increase in other items	**40,838**	61,764
Total Adjustments	**233,042**	217,295
Net cash provided by operating activities	**$ 334,039**	$ 122,298
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 108,721**	$ 194,920
Debt defeased through escrow trust fund with refunding debt	**$ (62,465)**	$ (188,221)

RECONCILIATION OF CASH AND INVESTMENTS TO CASH

Unrestricted cash and investments (at March 31, 2017 and 2016 include $320 and $84 of cash, respectively)	**$ 765,533**	$ 580,837
Restricted cash and investments	**594,013**	615,069
Total cash and investments, at fair value	**1,359,546**	1,195,906
Less: carrying value of investments	**(1,359,226)**	(1,195,822)
Total Cash (Note 1b)	**$ 320**	$ 84

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1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 38-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more than 38 directors. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during the nine months ended March 31, 2017 and 2016. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan operates as a utility enterprise and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

For purposes of the statements of cash flows, Metropolitan defines cash as demand account balances and cash on hand.

Certain amounts reported in fiscal year 2016 have been reclassified to conform to the fiscal year 2017 presentation. Such reclassification had no effect on Metropolitan's net position or change in net position.

(c) Revenue Policies

Metropolitan's principal source of revenue is from water sales, which include revenues received from charges for the sale and availability of water, including water rates and other exchange transactions. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.

Water rates are established by the Board on a biennial basis. Water rates are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan's rate structure includes separate rates for supply, treatment, conveyance and distribution, power, and demand management. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan's general obligation bond debt service and a portion of its obligations under its contract with the state for participation in the State Water Project system, with an entitlement to water service from the Project (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, tax levies in fiscal years 1991 to 2013, other than annexation taxes, were limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. During fiscal years 2016 and 2017, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2016 and 2017 to pay a portion of State Water Contract costs other than debt service.

(e) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(f) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at March 31, 2017 and 2016 were as follows:

	March 31,			
(Dollars in thousands)		**2017**		2016
Water in storage	**$**	**86,526**	$	86,071
Operating supplies		**11,053**		10,712
Total inventories	**$**	**97,579**	$	96,783

(g) Plant and Equipment

Metropolitan's capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed $50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 10 to 80 years for buildings, storage, and distribution facilities, 10 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 80 years for miscellaneous assets. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least five years are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds $250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds $5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(h) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project (SWP) and various storage and water management programs. Metropolitan's participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred. (See Note 7.)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at March 31, 2017 and 2016 were as follows:

	March 31,			
(Dollars in thousands)		**2017**		2016
Department of Water Resources (State Water Project):				
Capital, operating, maintenance, power, replacement, and variable power	**$**	**47,851**	$	110,055
Vendors		**18,490**		29,441
Accrued power costs		**623**		1,245
Accrued salaries		**3,341**		2,384
Conservation credits		**4,295**		10,218
Total accounts payable and accrued expenses	**$**	**74,600**	$	153,343

(j) Compensated Absences

Metropolitan's employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(k) Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

(l) Capital Contributions

Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the statements of revenues, expenses and changes in net position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation, and water storage programs.

(m) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as water sales, readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(n) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Metropolitan's practice to use restricted resources first, then unrestricted resources as they are needed.

(o) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Deferred Outflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63) requires that the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained as is done in the following paragraph.

The unrestricted net position amount of $377.1 million and $436.0 million at March 31, 2017 and 2016, respectively, includes the effect of deferring the recognition of losses from bond refundings, swap terminations resulting in defeasance of debt, and the decline in fair value of Metropolitan's effective interest rate swaps. The deferred outflows from losses on bond refundings at March 31, 2017 and 2016, respectively, were $62.7 million and $77.3 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at March 31, 2017 and 2016, respectively, were $33.0 million and $36.2 million. Both deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows from the decline in fair value of interest rate swaps of $4.1 million and $33.0 million at March 31, 2017 and 2016, respectively, would be recognized as an investment loss upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred outflow also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(q) Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense and Implementation of Accounting Principles

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts.

(r) Fair Value Measurement and Implementation of Accounting Principle

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72) requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. Metropolitan has been reporting its investments and liabilities at fair value using market approach and cost approach therefore, there are no significant changes to its reporting resulting from the implementation of GASB 72 in fiscal year 2016.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan implemented the fair value hierarchy to its assets and liabilities, which are presented in Note 2.

(s) New Accounting Pronouncements

Metropolitan is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that will be implemented in a future fiscal year:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and GASB 57- OPEB Measurements by Agent Multiple-Employer Plans*. GASB 75 is effective for Metropolitan's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 requires the presentation of covered payroll, which is payroll on which contributions to a pension plan are based, and ratios that use that measure in required supplementary information instead of covered-employee payroll. In addition, GASB 82 clarifies that a deviation is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. GASB 82 further clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). GASB 82 is effective for Metropolitan's fiscal year ending June 30, 2017.

The following pronouncements were issued by GASB but were determined to not have an impact on Metropolitan's financial statements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.
- GASB Statement No. 77, *Tax Abatement Disclosure*.
- GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.
- GASB Statement No. 83, *Certain Asset Retirement Obligations*.
- GASB Statement No. 84, *Fiduciary Activities*.

2. CASH AND INVESTMENTS

As a public agency, Metropolitan's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan's statement of investment policy is approved annually by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 2d and 10).

A summary of Metropolitan's deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral.

As of March 31, 2017 and 2016, Metropolitan's cash balances with financial institutions were $315,000 and $79,000 respectively, and cash on hand was $5,000 at each year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, asset and mortgage-backed securities, California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of March 31, 2017 and 2016, Metropolitan had the following investments at fair value:

	March 31,	
(Dollars in thousands)	**2017**	2016
U.S. Treasury securities	**$ 361,315**	$ 343,563
U.S. Guarantees – GNMAs	**4**	5
Federal agency securities	**69,868**	103,248
Prime commercial paper	**293,240**	180,166
Medium-term corporate notes	**171,281**	128,150
Negotiable certificates of deposit	**299,962**	260,162
Shares of beneficial interest	**691**	501
Asset and mortgaged-backed securities	**63,476**	65,809
Municipal bonds	**34,389**	49,218
Local Agency Investment Fund	**65,000**	65,000
Total investments	**$ 1,359,226**	$ 1,195,822

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Metropolitan does not value any of its investments using level 3 inputs.

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of March 31, 2017 and 2016:

	Fair Value Measurement Using							
(Dollars in thousands)	**03/31/17**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Obervable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	03/31/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Obervable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:								
U.S. Treasury securities	**$ 361,315**	**$ 361,315**	**$ —**	**$ —**	$ 343,563	$ 343,563	$ —	$ —
U.S. Guarantees – GNMAs	**4**	**4**	**—**	**—**	5	5	—	—
Federal agency securities	**48,905**	**48,905**	**—**	**—**	86,259	86,259	—	—
Prime commercial paper	**293,240**	**46,521**	**246,719**	**—**	180,166	31,357	148,809	—
Medium-term corporate notes	**171,281**	**171,281**	**—**	**—**	128,150	128,150	—	—
Negotiable certificates of deposit	**299,962**	**299,962**	**—**	**—**	260,162	233,544	26,618	—
Shares of beneficial interest (1)	**691**	**—**	**—**	**691**	501	—	—	501
Asset and mortgaged-backed securities	**63,476**	**63,476**	**—**	**—**	65,809	65,809	—	—
Municipal bonds	**34,389**	**34,389**	**—**	**—**	49,218	49,218	—	—
Total investments by fair value level	**$ 1,273,263**	**$ 1,025,853**	**$ 246,719**	**$ 691**	$ 1,113,833	$ 937,905	$ 175,427	$ 501
Investments not subject to fair value level:								
Federal agency securities	**20,963**				16,989			
Local Agency Investment Fund	**65,000**				65,000			
Total investments	**$ 1,359,226**				$ 1,195,822			

(1) As of December 31, 2016 and 2015, the balance was invested in BlackRock Treasury Trust (TTTXX) and Dreyfus Treasury & Agency Cash Management (DTVXX), respectively.

Investments classified in Level 1 of the fair value hierarchy, valued $1.0 billion and $937.9 million as of March 31, 2017 and 2016, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling $246.7 million and $148.8 million as of March 31, 2017 and 2016, respectively, and negotiable certificates of deposit of $26.6 million as of March 31, 2016, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Shares of beneficial interest totaling $691,000 and $501,000 as of March 31, 2017 and 2016, respectively, classified in Level 3 of the fair value hierarchy was valued at Fund's share price of $1.00.

Interest rate risk. In accordance with Metropolitan's investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).

Internally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For March 31, 2017 and 2016, the benchmark duration was 0.24, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,			
	2017		2016	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 133,737**	**0.55**	$ 108,871	0.64
Federal agency securities	**59,867**	**0.20**	88,047	0.16
Prime commercial paper	**292,807**	**0.27**	180,166	0.12
Medium-term corporate notes	**102,257**	**0.14**	69,877	0.18
Negotiable certificates of deposit	**299,962**	**0.19**	260,162	0.10
Municipal bonds	**3,568**	**0.30**	—	—
Local Agency Investment Fund	**65,000**	**—**	65,000	—
Portfolio duration		**0.25**		0.18

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For March 31, 2017 and 2016, the benchmark durations were 2.70 and 2.69, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,			
	2017		2016	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 205,959**	**2.67**	$ 212,735	2.81
U.S. Guarantees – GNMAs	**4**	**4.55**	5	5.19
Federal agency securities	**7,152**	**5.50**	7,511	6.33
Medium-term corporate notes	**66,697**	**1.86**	56,572	2.35
Shares of beneficial interest	**687**	**—**	501	—
Asset and mortgaged-backed securities	**63,476**	**2.30**	65,809	1.88
Portfolio duration		**2.49**		2.63

Bond Reserves and Lake Mathews Segment

Investments in the bond reserves were managed based on the requirements of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.

As of March 31, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,					
	2017			2016		
(Dollars in thousands)		**Fair value**	**Duration**		Fair value	Duration
U.S. Treasury securities	**$**	**21,619**	**4.58**	$	21,957	5.56
Federal agency securities		**2,849**	**0.57**		7,690	1.12
Prime commercial paper		**433**	**0.29**		—	—
Medium-term corporate notes		**2,327**	**0.19**		1,701	0.19
Municipal bonds		**30,821**	**4.92**		49,218	6.88
Shares of beneficial interest		**4**	**—**		—	—
Weighted average duration			**4.36**			5.83

Credit risk. Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan's investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities' credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan's investment policy and State law:

Investment Type	**Minimum Rating**
U.S. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Medium-term corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
Asset and mortgage-backed securities	Issuer's debt must be rated 'A' or higher as provided by a nationally recognized rating agency and the security must be rated in a category of 'AAA' by a nationally recognized rating agency.
Local Agency Investment Fund	Not applicable.
Shares of beneficial interest	Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.
California local agency securities Municipal bonds	Securities with a maturity in excess of five years must have a credit rating of at least 'AA' (may be insured) and an underlying credit rating of 'A' or better by a nationally recognized rating agency.

Metropolitan's minimum rating for assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At March 31, 2017 and 2016, Metropolitan's portfolio was invested in the following securities by rating:

		March 31,	
		2017	2016
(Dollars in thousands)	Rating	**Fair value**	Fair value
U.S. Treasury securities	AAA[1]	**$ 361,315**	$ 343,563
U.S. Guarantees – GNMAs	AAA	**4**	5
Federal agency securities	AAA[1]	**69,868**	103,248
Shares of beneficial interest	AAA	**691**	501
Asset and mortgaged-backed securities	AAA	**63,476**	65,809
Medium-term corporate notes	A[2]	**171,281**	128,150
Prime commercial paper	A1/P1[2]	**293,240**	180,166
Negotiable certificates of deposit	F1[2]	**299,962**	260,162
Municipal bonds	A[2]	**34,389**	49,218
Local Agency Investment Fund	[3]	**65,000**	65,000
Total portfolio		**$ 1,359,226**	$ 1,195,822

(1) *United States Treasuries and Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.*

(2) *A or better e.g. F1+, A1+, AA, or AAA.*

(3) *Local Agency Investment Fund is not rated.*

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent, for asset and mortgage-backed securities, to 100 percent for U.S. Treasury and agency securities. The percentages of investments that can be purchased by a single issuer, within each security type, ranged from 5 percent, for asset-backed securities, to 10 percent for bankers' acceptances.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of March 31, 2017 and 2016:

	Investment Policy Limits	Percent of Portfolio 2017	Percent of Portfolio 2016
U.S. Treasury securities	100%	**26.58 %**	28.73 %
U.S. Guarantees – GNMAs	100%	**—**	—
Federal agency securities	100%	**5.14**	8.63
Shares of beneficial interest	20%	**0.05**	0.04
Asset and mortgaged-backed securities	20%	**4.67**	5.50
Medium-term corporate notes	30%	**12.60**	10.72
Prime commercial paper	25%	**21.58**	15.07
Negotiable certificates of deposit	30%	**22.07**	21.76
Municipal bonds	30%	**2.53**	4.12
Local Agency Investment Fund	N/A	**4.78**	5.43
Total portfolio		**100.00 %**	100.00 %

At March 31, 2017 and 2016, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

(Dollars in thousands)	March 31, 2017		March 31, 2016	
Federal National Mortgage Association (1)	**$ —**	**— %**	$ 84,599	7.15 %
Federal Home Loan Bank	**$ —**	**— %**	$ 65,000	5.49 %

(1) March 31, 2016 was previously reported using Book Value.

Custodial credit risk. At March 31, 2017 and 2016, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exception was $65.0 million in deposits in the California State managed LAIF as of March 31, 2017 and 2016.

The LAIF, created by California statute, is part of a pooled money investment account (PMIA). The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative.

The total amount invested by all public agencies in LAIF as of March 31, 2017 and 2016 was $21.4 billion and $21.1 billion, respectively. At March 31, 2017 and 2016, the PMIA portfolio balance was $71.9 billion and $67.7 billion, respectively, of which, 2.24 percent and 1.88 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as March 31, 2017 and 2016 was 180 days and 146 days, respectively.

(c) Reverse Repurchase Agreements

Metropolitan was permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the two years ended March 31, 2017 and 2016.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts were classified as "restricted." Most restricted accounts had the minimum cash and investment balance requirements and all were nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provided for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

3. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of $4.851 billion and $4.551 billion at March 31, 2017 and 2016, respectively, represents less than one percent of the June 30, 2016 and 2015 total taxable assessed valuation of $2,583 billion and $2,451 billion, respectively.

Metropolitan's long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan's net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Short-term Debt

Metropolitan may issue up to $400.0 million in commercial paper to fund a portion of its capital plan. During the nine months ended March 31, 2017 and 2016, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 3c).

In April 2016, Metropolitan entered into a noteholder's agreement with RBC Municipal Products, LLC (RBC) for the purchase by RBC and sale by Metropolitan of Metropolitan's Index Notes, Series 2016 (RBC Facility). Also in April 2016, Metropolitan entered into a note purchase and continuing covenant agreement with U.S. Bank National Association (US Bank), for the purchase by US Bank and sale by Metropolitan of Metropolitan's Flexible Rate Revolving Notes, Series 2016 (US Bank Facility, and together with the RBC Facility, the Short-Term Revolving Credit Facilities). Both series of Notes mature on April 6, 2017. Metropolitan is permitted to sell up to $200 million of notes under each of the Short-Term Revolving Credit Facilities during the term of the respective bank's commitment to purchase notes thereunder, which currently extends to April 5, 2019, for an aggregate amount of available borrowings of $400 million. Metropolitan may borrow, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. As of March 31, 2017, Metropolitan has outstanding $250.0 million of notes under the Short-Term Revolving Credit Facilities ($125.0 million under the RBC Facility and $125.0 million under the US Bank Facility).

Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility bears interest at a basis point spread to one-month London interbank offering rate (LIBOR) for taxable borrowings or to 70 percent of one-month LIBOR for tax-exempt borrowings, while the RBC Facility bears interest at a spread to one-month LIBOR for taxable borrowings or to the SIFMA Municipal Swap Index for tax-exempt borrowings. Under the Short-Term Revolving Credit Facilities, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, each bank could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the Short-Term Credit Facilities as Senior Parity Obligations.

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to $850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at March 31, 2017 and 2016. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $74.9 million and $92.9 million in general obligation bonds and general obligation refunding bonds were outstanding at March 31, 2017 and 2016, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 4.0 percent to 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption premiums.

No general obligation bonds were issued during the twelve months ended March 31, 2017 and 2016.

(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of $4.311 billion and $4.234 billion of revenue bonds and revenue refunding bonds were outstanding at March 31, 2017 and 2016, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2045 at interest rates ranging from 1.49 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption premiums.

Revenue bond issued during the twelve months ended March 31, 2017 was as follows:

- On December 20, 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (BANA, and the 2016 BANA Agreement), for the purchase by BANA and sale by Metropolitan of Metropolitan's $175.0 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the Subordinate 2016 Series A Bonds), which is the first series of bonds issued under the Subordinate Debt Resolution. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Wetlands Properties in the San Francisco Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan's reserves in July 2016. The Subordinate 2016 Series A Bonds are Index Tender Bonds and bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

  The Subordinate 2016 Series A Bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or, if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction.

Revenue bond issued during the twelve months ended March 31, 2016 was as follows:

- On December 17, 2015, Metropolitan issued $208.3 million of Water Revenue Bonds, 2015 Authorization Series A, at a true interest cost of 3.11 percent, to finance a portion of the capital investment plan. The maturities extend to July 1, 2045 and are subject to mandatory and optional redemption provisions.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

(e) Other Long-term Debt

In November 2003, Metropolitan received $20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At March 31, 2017 and 2016, the outstanding balance was $8.6 million and $9.7 million, respectively.

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of March 31, 2017. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into eight separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At March 31, 2017 and 2016, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of March 31, 2017 and 2016, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of March 31, 2017 and 2016.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of March 31, 2017 and 2016, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $216.0 million or 43.8 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa3/A+/AA- by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of March 31, 2017, the interest rates of the variable rate debt associated with these swap transactions range from 0.80 percent to 1.52 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.57 percent to 0.81 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.80 percent to 1.52 percent as of March 31, 2017 and 0.34 percent to 0.78 percent as of March 31, 2016. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bonds, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, the 2013 Flexible Index Bonds, Series E, and the Subordinate 2016 Series A Bonds, the bondholders have the right to tender bonds to the paying agent on any business day with either same day or seven days' prior notice. The current terms of the 2009 SIFMA Index Bond Series A-2 and the 2011 SIFMA Index Bonds Series A-1 and A-3, provide bondholders a right to tender bonds to the paying agent every 340 days, the 2013 Flexible Index Bond Series E every 270 days, and for the 2011 SIFMA Index Bonds Series A-2 and A-4 and the 2012 SIFMA Index Bonds Series 2012 B-1 and B-2, every three years. The Subordinate 2016 Series A Bonds were issued as a direct purchase to BANA under the terms of the 2016 BANA Agreement. The Subordinate 2016 Series A Bonds are subject to mandatory tender for purchase on the scheduled mandatory tender date of December 21, 2018, or if directed by BANA upon the occurrence and continuance of an event of default under the 2016 BANA Agreement, five business days after receipt of such direction. Metropolitan has entered into standby bond purchase agreements (SBPA) with several commercial banks to provide liquidity for four and two separate variable rate bond issues in the amount of $272.5 million and $151.3 million as of March 31, 2017 and 2016, respectively. In addition, Metropolitan has thirteen and twelve series of variable rate bonds in the amounts of $1.026 billion and $876.4 million as of March 31, 2017 and 2016, respectively that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA would bear interest that is payable at a rate, depending on the agreement, that is the higher of 7.0 percent or the "base rate", which is based on the prime rate or Federal Funds rate or LIBOR, plus a spread, as designated in each SBPA. The base rate is then adjusted upwards by 2.0 percent, or LIBOR plus 7.5 percent. The principal of the Bank Bonds would be payable, depending on the agreement, in either ten equal semi-annual installments commencing 180 days after purchase by the bank and in two installments, one commencing six months after purchase by the bank and then seven months thereafter.

The $103.7 million 2016 Series B-1 and B-2, Special Variable Rate Water Revenue Refunding Bonds, has an SBPA that will expire on September 19, 2019. The $88.8 million 2000 Series B-3, Water Revenue Bonds and the $80 million 2017 Authorization Series A, Water Revenue Bonds, have SBPAs that will expire on March 27, 2020. According to the provisions of the Paying Agent Agreement for the bonds, the Paying Agent will draw on the SBPA two business days prior to the SBPA expiration to redeem all outstanding bonds.

For eight series of variable rate bonds not supported by SBPA in the amount of $536.0 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The four series of self-liquidity variable rate bonds that were not supported by a SBPA at March 31, 2017 were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the $38.5 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. At March 31, 2016, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the $63.6 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at March 31, 2017 and 2016 had no long-term take out provisions therefore, the entire principal amount of $314.8 million and $339.9 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013 and July 1, 2015, Metropolitan entered into separate Revolving Credit Agreements (RCAs), by which Metropolitan may borrow up to $96.5 million and $180.0 million, respectively, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCAs permits repayment of any borrowed funds over a term-out period beginning 90 days after the RCA's stated expiration date of March 31, 2016 and 120 days after the stated expiration date of June 24, 2018. As a result of the RCA, only $134.8 million and $159.9 million of these self-liquidity bonds have been classified as current liabilities as of March 31, 2017 and 2016, respectively.

4. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Employees hired prior to January 1, 2013 (Classic members) with five years of total service are eligible to retire at age 50 with statutorily reduced benefits; employees hired after January 1, 2013 (PEPRA members) with at least five years of credited service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CalPERS California Employers' Retiree Trust (CERBT) Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. This benefit was provided to 1,650 and 1,570 retired Metropolitan employees at March 31, 2017 and 2016, respectively. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During the nine months ended March 31, 2017, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. Metropolitan contributed, net of participant contributions as determined by CalPERS, $37.9 million and $31.0 million, as of March 31, 2017 and 2016, respectively.

The contribution as of March 31, 2017 included a single payment of $29.3 million for the fiscal year 2017 annual required contribution (ARC). The contribution as of March 31, 2016 included a single payment of $23.1 million for the fiscal year 2016 ARC.

6. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 7)

Estimates of Metropolitan's share of the projected fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

	State Water Contract Payments
Year ending June 30:	
2017	$ 449,842,301
2018	443,092,297
2019	452,968,871
2020	448,787,174
2021	442,790,708

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments, other than the $14.3 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 6f), are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and decisions.

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long-term. The Delta Vision is anticipated to broaden the focus of past efforts and recommend actions that will address the full array of natural resource, infrastructure, land use, and governance issues necessary to achieve a sustainable Delta. The BRTF released its final Delta Vision Strategic Plan in October 2008. The Delta Vision Committee considered the BRTF's final strategic plan and submitted its final implementation report to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted, which created the Delta Stewardship Council (DSC), a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision, which the DSC completed on September 1, 2013. The DSC formed an Implementation Committee of agency representatives in 2014 to coordinate activities and actions with the goal of achieving successful implementation of the Delta Plan. In 2016, priorities include implementation of the Delta Plan, development of a Delta levee improvement prioritization plan, and implementation of Delta Science Program recommendations. In addition, the DSC has adapted the 19 Principles for Water Conveyance in the Delta, Storage Systems, and for the Operation of Both to Achieve the Coequal Goals.

The Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta. In addition, the BDCP would provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identified sources of funding, and an adaptive management and monitoring program. A public draft Environmental Impact Report/Environmental Impact Statement was released in December 2013 for comment through July 2014. Comments were received on this public draft, and on April 30, 2015, intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore were announced. Under the California WaterFix, the new water conveyance facilities with proposed design changes would be constructed and operated. With the California EcoRestore, the focus would be on environmental restoration programs. The environmental impact analysis for the proposed conveyance facilities in the California WaterFix, along with alternatives, was released for public review and comment from July 10, 2015 through October 30, 2015 in the partially Recirculated Draft Environmental Impact Report/Environmental Impact Statement (EIR/EIS). The final environmental document for the California WaterFix was released on December 22, 2016. This document ultimately concluded that the California WaterFix was the best option for meeting the State's co-equal goals and ensuring water supply reliability and ecosystem restoration while minimizing environmental impact. With the completion of the EIR/EIS, the Delta Smelt and Salmon Biological Opinions are expected to be finalized in 2017. On March 10, the final Independent Review Panel Report for the 2016-2017 California WaterFix Scientific Peer Review was released to the public. Staff is reviewing the panel report and is continuing to evaluate the analytical tools and scientific information used in developing the California WaterFix Biological Opinions. This review is a step toward completing the Biological Opinions.

(c) Imperial Irrigation District

As of March 31, 2017, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $318.2 million for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive 85,000-105,000 acre-feet in 2018 and annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 85,000 and 90,374 acre-feet will be/was available in calendar years 2017 and 2016, respectively, for diversion by Metropolitan.

(d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (QSA) (see Note 6e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to provide for delivery of water directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract (the Exchange Agreement), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower price is paid by SDCWA for the Exchange Agreement water delivered by Metropolitan. The price payable by SDCWA is based on the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 6h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation below.

(e) Quantification Settlement Agreement

The Quantification Settlement Agreement (QSA) is part of the California Plan, which is a plan to reduce California's use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan's service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID, the Coachella Valley Water District (CVWD), and Metropolitan. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

(f) Abandoned Off-Aqueduct Power Facilities

The California Department of Water Resources (DWR) has financed the construction of certain off- aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years.

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2017 through 2021 totals approximately $1.46 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdown constraints, anticipated spending is forecasted at $200.0 million per year for the next 5 years.

Over the next three years, approximately $735.0 million is budgeted in the capital program, with over $400.0 million planned for major efforts such as seismic retrofits, mechanical and electrical improvements to components of the Colorado River Aqueduct, seismic retrofits and process component replacements at the Diemer and Weymouth treatment plants, completion of construction and startup of the Weymouth Oxidation Retrofit Program (ORP), Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment.

The capital program over the next 3 years also includes $40.0 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 6i).

(h) Claims and Litigation

SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate certain State Water Contract costs to the System Access Rate and the System Power Rate, and thus affect charges for transportation of water, resulting in an alleged overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with the State Water Contract and the Water Stewardship Rate to water supply charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach. Nevertheless, to the extent that a final court ruling invalidates Metropolitan's adopted rates, Metropolitan will be obligated to reconsider and modify rates to comply with any final ruling related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such ruling, Metropolitan expects that aggregate rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the Exchange Agreement between Metropolitan and SDCWA (see Note 6d) due to a price based on allegedly illegal rates; improper exclusion of SDCWA's payments under this Exchange Agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of a "rate structure integrity" provision in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting Metropolitan's rates, adopted in April 2012, violate Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach.

SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. On December 4, 2013, the court granted Metropolitan's motion for summary adjudication of the cause of action alleging illegality of the "rate structure integrity" provision in conservation and local resources incentive agreements, dismissing this claim in the first lawsuit.

Trial of the first phase of both lawsuits concluded January 23, 2014. This phase concerned the challenges to Metropolitan's rates. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. The court found that there was not sufficient evidence in the administrative record to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of 100 percent of (1) payments it makes to the California Department of Water Resources for transportation charges related to the State Water Project, or (2) the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the Exchange Agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision finds in favor of SDCWA on both claims and that SDCWA is entitled to contract damages in the amount of nearly $188.3 million. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment is $46.6 million. After entry of judgment, post-judgment interest began accruing at the statutory rate of 7 percent. On November 18, 2015, the court issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. On January 21, 2016, the court awarded $320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the court awarded $8.9 million in attorneys' fees to SDCWA, rejecting its demand for over $17.0 million. Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case and SDCWA filed a Notice of Cross-Appeal of the court's ruling on the rate structure integrity claim and the attorneys' fees order. Appellate briefing by the parties was completed on October 28, 2016. Oral arguments are scheduled for May 10, 2017. Metropolitan is unable to assess at this time the likelihood of success of this appeal or any future claims. Further, as the estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. On February 9, 2015, pursuant to stipulation by the parties, the court ordered that the case be stayed. The stay may be lifted upon motion by any party. On November 20, 2015, SDCWA filed a motion to partially lift the stay. On December 21, 2015, the trial court denied that motion and the case remains stayed. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On April 13, 2016, SDCWA filed a new lawsuit that alleges all rates and charges for 2017 and 2018 adopted by Metropolitan's Board on April 12, 2016 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts misallocation of costs as alleged in the previous cases listed above and additional claims of over-collection and misallocation of costs and procedural violations. On June 30, 2016, the nine member agencies that are interested parties to the 2010, 2012, and 2014 cases filed answers to also join the 2016 case as interested parties in support of Metropolitan. On October 27, 2016, SDCWA filed a Motion for Leave to File Amended Complaint alleging the same Exchange Agreement breach alleged in the previous cases listed above and breach of a provision that requires Metropolitan to set aside disputed amounts, relating to the manner in which Metropolitan has set aside the amounts. The proposed amended petition/complaint also requests a judicial declaration that, if a judgment is owed to SDCWA under the Exchange Agreement, SDCWA will not be required to pay any portion of that judgment; and requests a refund to SDCWA of any amount Metropolitan has collected in excess of the reasonable costs of the services provided or, alternatively, a reduction in SDCWA's future fees. On November 10, 2016, pursuant to stipulation by the parties, the court ordered that the case be stayed pending final resolution of the appeals of the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan's General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan's financial position, changes in net position, or liquidity.

(i) Drinking Water Quality Standards

Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Diemer, Jensen, Mills, and Skinner plants. Construction of ozonation facilities at the Weymouth plant is on-going and should be completed in 2017. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(j) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, the California Department of Water Resources (DWR) entered in to a Participation Agreement to import power from the Plant to serve the State Water Project energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan paid approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(k) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately $2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. No expenses were incurred for postclosure maintenance and monitoring activities during the nine months ended March 31, 2017 and 2016,

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability.

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 6a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 28 percent and 26 percent of Metropolitan's total expenses during the nine months ended March 31, 2017 and 2016, respectively, pertained to its net payment obligations for the State Water Project. These costs were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated (see Note 6f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h, and 6a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate. Amortization expense totaled $97.6 million and $84.1 million for the nine months ended March 31, 2017 and 2016, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at March 31, 2017 and 2016 were as follows:

	March 31,	
(Dollars in thousands)	**2017**	2016
Prepaid water costs	**$ 112,376**	$ 135,836
Prepaid costs-Delta Habitat conservation and conveyance	**58,627**	59,097
Prepaid costs-Bay/Delta	**2,665**	2,252
Prepaid expenses	**12,902**	12,333
Preliminary design/reimbursable projects	**10,662**	7,869
Other	**65,014**	77,193
Total deposits, prepaid costs, and other	**262,246**	294,580
Less current portion	**(61,648)**	(73,453)
Noncurrent portion	**$ 200,598**	$ 221,127

(a) Prepaid Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and State Water Project water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At March 31, 2017 and 2016, prepaid water costs totaled approximately $112.4 million and $135.8 million, respectively, based on volumes of 438,000 acre-feet and 616,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with the California Department of Water Resources (DWR). The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately $35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. If the BDCP is approved, including construction of new Delta water conveyance facilities, DWR intends to issue revenue bonds in an amount sufficient to reimburse Metropolitan for funds advanced through these agreements for planning and environmental studies. If the BDCP is not approved to proceed with construction, no reimbursement will occur.

(c) Prepaid Costs—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund $60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee $10.0 million annually for three years, for a total of $30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its $30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as prepaid costs that are charged to expense based on expenses by the restoration fund. No expenses were incurred for the nine months ended March 31, 2017 and 2016. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $2.7 million and $2.3 million at March 31, 2017 and 2016, respectively.

(d) Preliminary Design/Reimbursable Projects

Metropolitan engages in preliminary design activities prior to obtaining Board approval of capital projects. The costs of these designs are recorded as prepaid costs. Once Board approval is obtained, these costs are added to the cost of the relevant construction project.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

9. DEFERRED COMPENSATION AND SAVINGS PLANS

For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Investment of the funds is managed by a third-party administrator, accordingly, at March 31, 2017 and 2016, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

The third-party administrator coordinates the investment of the deferred amounts in available investment vehicles per the instructions of each participant. Metropolitan's Treasurer serves as Trustee for the deferred compensation plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The Treasurer serves as Trustee for the savings plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established a matching contribution program on behalf of each participating employee in the savings plan. Metropolitan's contribution is subject to a maximum of 4.5 percent of the employee's total cash compensation.

10. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and related deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Note 1g), participation rights in State Water Project (Notes 1h and 7), and participation rights in other facilities. Net investment in capital assets, including State Water Project costs were approximately $6.0 billion and $5.9 billion at March 31, 2017 and 2016, respectively.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled $398.0 million and $436.7 million at March 31, 2017 and 2016, respectively, of which $215.2 million and $202.7 million, respectively, represents principal and interest set aside for the next bond payment. The remaining $182.8 million and $234.0 million, respectively, relate to estimated operating and maintenance expense for January and February of the subsequent fiscal quarter. Each of these requirements is related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled $377.1 million and $436.0 million at March 31, 2017 and 2016, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first $25.0 million for general liability and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage and $50.0 million excess workers' compensation insurance. Metropolitan also carries coverage limits of $60.0 million for fiduciary liability and $65.0 million for directors' and officers' liability. Special insurance policies purchased include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2017 were unchanged from fiscal year 2016. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5% annual interest rate over the life of the claims.

11. SUBSEQUENT EVENT

On April 5, 2017, the $125.0 million Taxable Rate Revolving Notes, Series 2016 A-1 and the $125.0 million Taxable Series 2016 B-1 Notes were refunded by the $125.0 million Taxable Flexible Rate Refunding Notes, Series A-1 and the $125.0 million Index Notes (Taxable and Refunding), Subseries B-1, respectively. The refunding notes were issued pursuant to two Short-Term Revolving Credit Facilities with US Bank, and Royal Bank of Canada (RBC). The refunding notes have maturity dates of April 5, 2019 and April 5, 2020, respectively.