METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

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June 30, 2018 and 2017

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
The Metropolitan Water District of Southern California:

We have audited the accompanying basic financial statements of The Metropolitan Water District of Southern California (Metropolitan) as of and for the year ended June 30, 2018, and the related notes to the basic financial statements, which collectively comprise Metropolitan's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Metropolitan as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Predecessor Auditor

The accompanying basic financial statements of Metropolitan as of June 30, 2017 and for the year then ended were audited by other auditors whose report, dated October 13, 2017, on those basic financial statements was unmodified and included an emphasis of matter paragraph that described that various lawsuits filed by the San

Diego County Water Authority against Metropolitan challenging Metropolitan's rates and charges effective 2011 to 2018 as discussed in note 9(h) to the 2017 financial statements.

Adoption of New Accounting Procurement

As discussed in Note 1(s) to the basic financial statements, in 2018, Metropolitan adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–16 and the pension and other postemployment benefits supplementary information on pages 92-96 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Los Angeles, California
October 10, 2018

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 fiscal years ended June 30, 2018 and 2017. 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 year 2017 have been reclassified to conform to the fiscal year 2018 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2018, Metropolitan implemented Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). Metropolitan did not restate the financial statements for the fiscal years ended June 30, 2017 and 2016 because the necessary actuarial information was not provided to Metropolitan by the California Public Employees' Retirement System (CalPERS) for the prior years presented. As of July 1, 2017, Metropolitan restated the beginning net position in the amount of $138.9 million to record the beginning deferred OPEB contributions and net OPEB liability.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	June 30, 2018	2017	2016
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,410.0**	$ 10,534.1	$ 10,339.4
Other assets	**1,818.2**	1,901.8	2,046.4
Total assets	**12,228.2**	12,435.9	12,385.8
Deferred outflows of resources	**239.6**	224.5	191.5
Total assets and deferred outflows of resources	**12,467.8**	12,660.4	12,577.3
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**5,235.0**	5,063.2	5,011.3
Other liabilities	**502.9**	817.6	842.1
Total liabilities	**5,737.9**	5,880.8	5,853.4
Deferred inflows of resources	**43.4**	21.9	40.1
Total liabilities and deferred inflows of resources	**5,781.3**	5,902.7	5,893.5
Net position			
Net investment in capital assets, including State Water Project costs	**5,890.7**	5,947.1	5,772.4
Restricted	**407.0**	406.8	382.8
Unrestricted	**388.8**	403.8	528.6
Total net position	**$ 6,686.5**	$ 6,757.7	$ 6,683.8

Capital Assets, Net

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

Fiscal Year 2018 Compared to 2017. At June 30, 2018, net capital assets totaled $10.4 billion, or 83.5 percent, of total assets and deferred outflows of resources, and were $124.1 million lower than the prior year. The decrease included depreciation and amortization of $323.0 million and $135.0 million retirement of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred. These decreases were offset by Metropolitan's continued expenditures on the capital investment plan of $207.8 million (including $15.6 million of capitalized interest), and net capital payments for participation rights in the State Water Project and other facilities of $126.1 million. See the capital assets section on pages 14-15 for additional information.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, net capital assets totaled $10.5 billion, or 83.2 percent, of total assets and deferred outflows of resources, and were $194.7 million higher than the prior year. The increase was primarily due to a $174.1 million Board approved land purchase of the Delta Wetlands in July 2016. Additional increases included Metropolitan's continued expenditures on the capital investment plan of $268.5 million (including $13.8 million of capitalized interest) and net capital payments for participation rights in the State Water Project and other facilities of $134.3 million. The increase was offset by depreciation and amortization of $268.2 million and $114.0 million retirement of capital assets and write-off of Mills Modules 1 and 2. See the capital assets section on pages 14-15 for additional information.

Other Assets

Other assets include accounts receivable, inventories, prepaid costs, and cash and investments.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, other assets totaled $1.8 billion and were $83.6 million lower than the prior year. Cash and investments were $184.0 million lower primarily due to the $250.0 million repayment of short-term revolving notes, offset by $64.3 million proceed from the issuance of the Subordinate Water Revenue Bond 2018, Series B in June 2018. This decrease was partially offset by $74.6 million higher deposits, prepaid costs, and other primarily due to $73.0 million more of prepaid water costs, which included $42.4 million or 315.7 thousand acre-feet (TAF) of higher supply storage and $25.3 million more of PVID land fallowing costs. In addition, water sales receivable were $23.4 million higher as May and June 2018 water sales were 57.6 TAF more than prior year's comparable months.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, other assets totaled $1.9 billion and were $144.6 million lower than the prior year. Included in the decrease were $120.5 million of lower cash and investments, $26.6 million of lower water sales receivable as May and June 2017 sales were 78.0 TAF less than the prior year's comparable months, and $10.2 million of lower other receivables primarily due to the $13.9 million OPEB reimbursement accrual in fiscal year 2016 was received prior to June 30 in fiscal year 2017. These decreases were offset by $17.6 million more of water inventory due to an increase in water storage of 279.9 TAF.

Deferred Outflows of Resources

Deferred outflows of resources include deferred outflows related to loss on bond refundings and swap terminations, deferred outflows related to the net pension liability and net OPEB liability, and deferred outflows for effective interest rate swaps.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, deferred outflows totaled $239.6 million and were $15.1 million higher than the prior year. The increase was primarily due to $34.7 million deferred OPEB contributions due to the implementation of GASB 75. This increase was offset by $20.9 million lower deferred loss on bond refundings due to $14.4 million of refunding transactions and $6.5 million of scheduled amortization.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, deferred outflows totaled $224.5 million and were $33.0 million higher than the prior year. The increase was primarily due to $82.0 million net difference in projected and actual earnings related to the net pension liability. This increase was offset by $34.9 million lower deferred outflows on effective swaps due to rising interest rates.

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, net OPEB liability, postemployment benefits other than pensions, 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.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, long-term liabilities, net of current portion, totaled $5.2 billion and were $171.8 million higher than the prior year. The implementation of GASB 75 resulted in net OPEB liability that was $157.2 million more than the obligation for OPEB recorded in fiscal year 2017. The increase also included $73.3 million higher net pension liability due to $156.7 million of interest on total pension liability plus $125.7 million related to changes of assumptions from a 7.65 percent discount rate to 7.15 percent, offset by $171.6 million of pension plan investment earnings and $42.8 million of employer contributions. These increases were offset by $26.5 million of lower long-term debt, net of current portion primarily due to $164.1 million principal payments, a $62.6 million decrease related to bond refundings, as the new debt issued was less than the amount of debt refunded, offset by $144.3 million of new bonds issued, $9.7 million amortization of bond premium and discounts and $46.2 million less current portion of long-term debt as compared to prior year. See the other liabilities section below for additional information. Additionally, there was a $22.4 million decrease in the fair value of interest rate swaps due to higher interest rates as compared to prior year. See the long-term debt section below for additional information.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, long-term liabilities, net of current portion, totaled $5.1 billion and were $51.9 million higher than the prior year. The increase included $108.1 million more of net pension liability due to the decrease of actual pension plan investment earnings as compared to the prior year, offset by $38.4 million of employer contributions. In addition, long-term debt, net of current portion was $25.7 million higher due to the issuance of $255.0 million revenue bonds offset by $147.3 million paydown of bond principal, $21.8 million related to bond refundings, as the new debt issued was less than the amount of debt refunded, $29.6 million of scheduled amortization of bond premiums and discounts and $30.6 million more current portion of long-term debt than in prior year. See the other liabilities section below for more information. These increases were offset by $43.1 million of lower customer deposits and trust funds, net of current portion primarily due to $50.4 million termination of a trust agreement related the San Luis Rey Indian Water Rights Settlement Act and $36.5 million of lower fair value of interest rate swaps due to higher interest rates as compared to prior year. See the long-term debt section below for additional information.

Other Liabilities

Other liabilities represent current liabilities that are due within one year. Current liabilities include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, other liabilities totaled $502.9 million, and were $314.7 million lower than the prior year primarily due to a $250.0 million repayment of short-term revolving notes and $46.2 million lower current portion of long-term debt due to required principal payments for some bond issues were lower than the prior year. In addition, the $180.0 million revolving credit agreement (RCA) that expired in June 2018 was replaced by a $200.0 million RCA increasing the self-liquidity bonds coverage by $20.0 million.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, other liabilities totaled $817.6 million, and were $24.5 million lower than the prior year primarily due to $57.9 million of lower accounts payable and accrued expenses, primarily due to $45.8 million of lower State Water Projects costs, which included $18.0 million of Flex Storage paydown, $16.1 million of lower operating and maintenance costs resulting from the accrual of credit from the State Water Project (SWP) in fiscal year 2017, and $14.3 million of lower variable costs due to a $9.0 million credit for prior year adjustments. This decrease was offset by $30.6 million of higher current portion of long-term debt as the required principal payments for some bond issues were higher than the prior year.

Deferred Inflows of Resources

Deferred inflows of resources represent deferred inflows related to the net pension liability and deferred inflows for effective interest rate swaps.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, deferred inflows of resources totaled $43.4 million, and were $21.5 million higher than the prior year primarily due to an $18.6 million increase in effective swaps due to higher interest rates.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, deferred inflows of resources totaled $21.9 million, and were $18.2 million lower than the prior year. This pension related decrease included $16.1 million lower net difference between projected and actual earnings and $10.9 million due to change in assumptions offset by $8.8 million higher difference between actual and expected experience.

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.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, net investment in capital assets, including State Water Project costs totaled $5.9 billion and was $56.4 million lower than the prior year. This decrease included $124.1 million net decrease in capital assets offset by $72.7 million decrease in outstanding debt. See discussions of these items in the capital assets and long-term debt sections.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, net investment in capital assets, including State Water Project costs totaled $5.9 billion and was $174.7 million more than the prior year. This increase included $194.7 million net increase in capital assets offset by $56.3 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.

Fiscal Year 2018 Compared to 2017. At June 30, 2018, restricted net position totaled $407.0 million which was $.2 million higher than fiscal year 2017.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, restricted net position totaled $406.8 million which was $24.0 million higher than fiscal year 2016 primarily due to $25.1 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.

Fiscal Year 2018 Compared to 2017. Unrestricted net position of $388.8 million decreased $15.0 million from the prior year. Metropolitan implemented GASB 75 in 2018, which resulted in the recording of beginning deferred OPEB contributions and net OPEB liability of $138.9 million. The decrease was offset by fiscal year 2018 changes in net position before contributions of $66.2 million and $56.4 million of lower net investment in capital assets, including State Water Project costs.

Fiscal Year 2017 Compared to 2016. Unrestricted net position of $403.8 million decreased $124.8 million from the prior year, which included $174.7 million net investment in capital assets and $24.0 million of higher restricted net position requirements for debt service and operating expenses partially offset by the fiscal year 2017 changes in net position before contributions of $73.9 million.

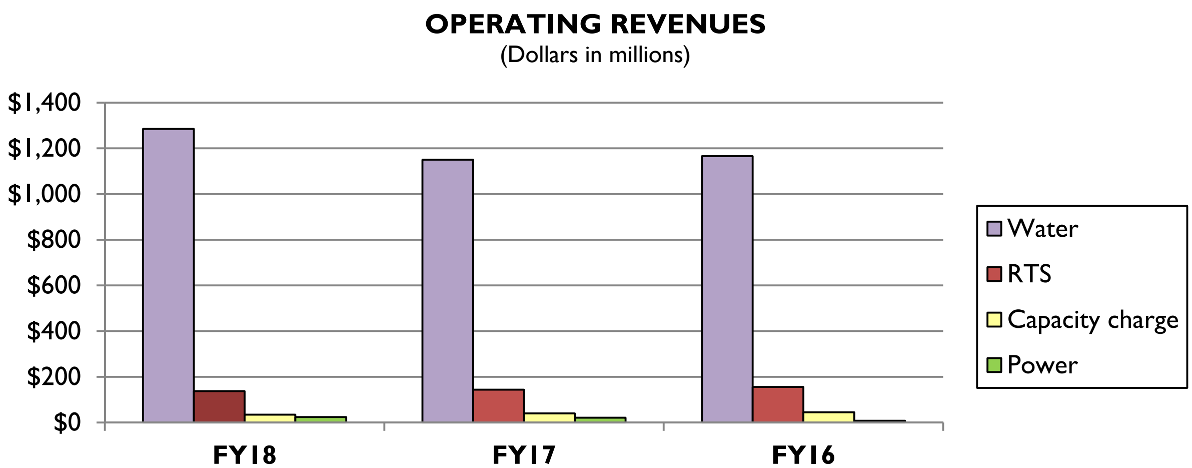
CHANGES IN NET POSITION

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

	Fiscal Year Ended June 30,		
(Dollars in millions)	**2018**	2017	2016
Water revenue	**$ 1,285.2**	$ 1,150.5	$ 1,166.0
Readiness-to-serve charges	**137.5**	144.0	155.5
Capacity charge	**34.6**	39.7	44.7
Power sales	**23.7**	20.9	7.5
Operating revenues	**1,481.0**	1,355.1	1,373.7
Taxes, net	**127.3**	115.4	107.9
Investment income	**10.6**	6.2	19.4
Other	**12.9**	7.3	10.2
Nonoperating revenues	**150.8**	128.9	137.5
Total revenues	**1,631.8**	1,484.0	1,511.2
Power and water costs	**(446.5)**	(455.4)	(552.3)
Operations and maintenance	**(507.4)**	(487.5)	(650.1)
Depreciation and amortization	**(330.3)**	(301.7)	(376.5)
Operating expenses	**(1,284.2)**	(1,244.6)	(1,578.9)
Bond interest, net of amount capitalized	**(124.5)**	(134.6)	(126.9)
Loss on disposal of plant assets	**(88.7)**	(20.9)	—
Other	**(68.2)**	(10.0)	(5.4)
Nonoperating expenses	**(281.4)**	(165.5)	(132.3)
Total expenses	**(1,565.6)**	(1,410.1)	(1,711.2)
Changes in net position before contributions	**66.2**	73.9	(200.0)
Capital contributions	**1.5**	—	2.1
Changes in net position	**67.7**	73.9	(197.9)
Net Position			
Beginning of year, as previously reported	**6,757.7**	6,683.8	6,881.7
Cumulative effect of change in accounting principle	**(138.9)**	—	—
Beginning of year, as restated	**6,618.8**	6,683.8	6,881.7
Net position, end of year	**$ 6,686.5**	$ 6,757.7	$ 6,683.8

Operating Revenues

Metropolitan's principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, 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.



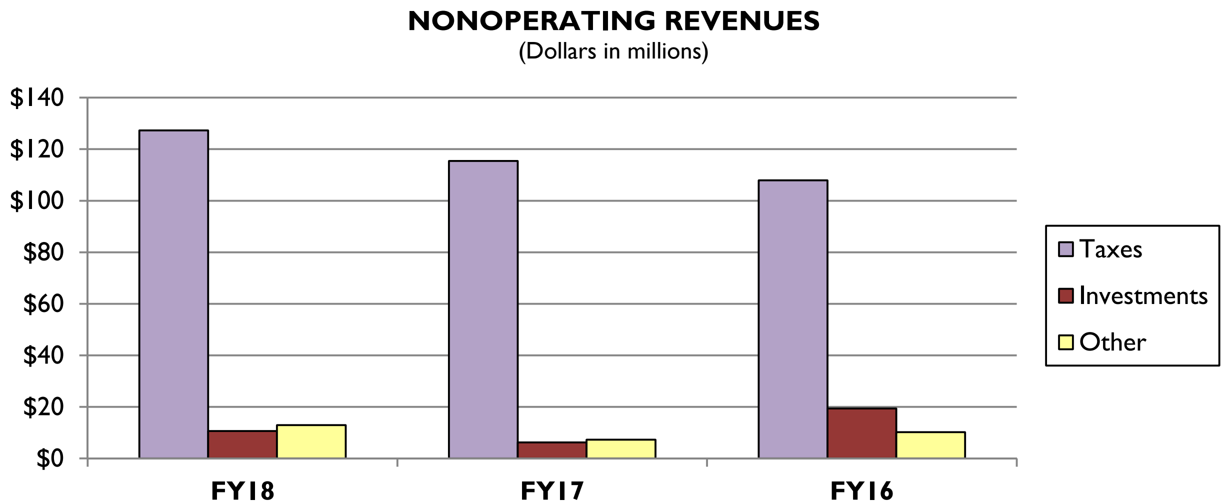
Analytical Review of Operating Revenues

Fiscal Year 2018 Compared to 2017. Fiscal year 2018 operating revenues were $1.5 billion or $125.9 million more than the prior year. The increase was primarily due to $134.7 million of higher water sales, of which $82.4 million related to higher water rates and $52.3 million or 70.1 TAF of higher volumes sold. This increase was offset by $6.5 million lower readiness-to-serve charges as the Board approved amount was lower in fiscal year 2018 as compared to prior year.

Fiscal Year 2017 Compared to 2016. Fiscal year 2017 operating revenues were $1.4 billion or $18.6 million less than the prior year. The decrease included $15.5 million of lower water sales, of which $60.3 million related to 84.0 TAF of lower volumes sold offset by $44.8 million from higher rates and $11.5 million of lower readiness-to-serve charges as the Board approved amount was lower in fiscal year 2017 as compared to prior year. These decreases were offset by $13.4 million more of power recoveries revenue due to higher SWP allocation resulting in higher power generation.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



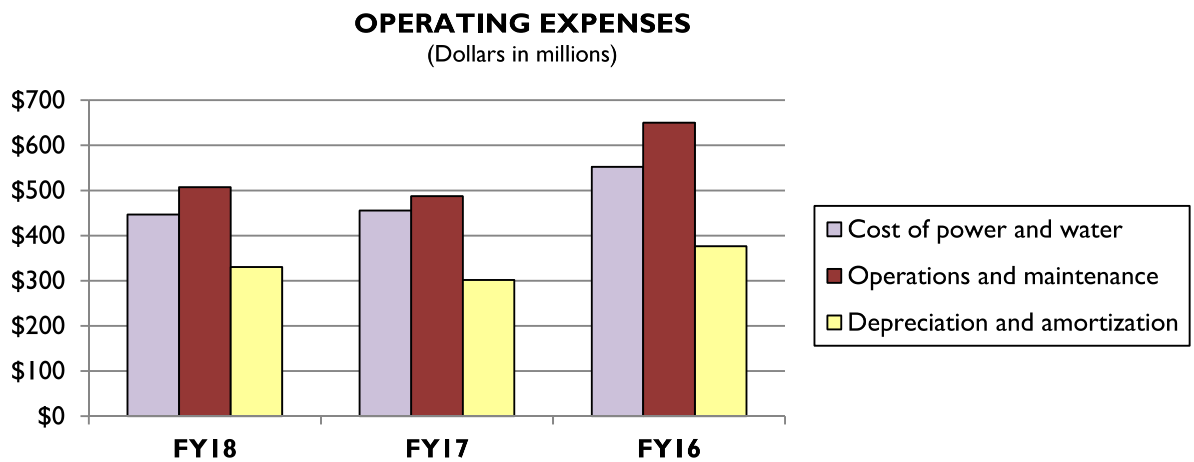
Analytical Review of Nonoperating Revenues

Fiscal Year 2018 Compared to 2017. Nonoperating revenues for fiscal year 2018 totaled $150.8 million and were $21.9 million higher than the prior year. The increase was primarily due to $11.9 million of higher property tax revenue due to lower delinquencies and higher assessments resulting from increased property values, as well as a $4.4 million increase in investment income due to $3.9 million higher interest on investments.

Fiscal Year 2017 Compared to 2016. Nonoperating revenues for fiscal year 2017 totaled $128.9 million and were $8.6 million lower than the prior year. Investment income was $13.2 million lower primarily due to $13.0 million unfavorable change in fair value. This decrease was offset by $7.5 million of higher property tax revenue due to lower delinquencies and higher assessments resulting from increased property values.

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

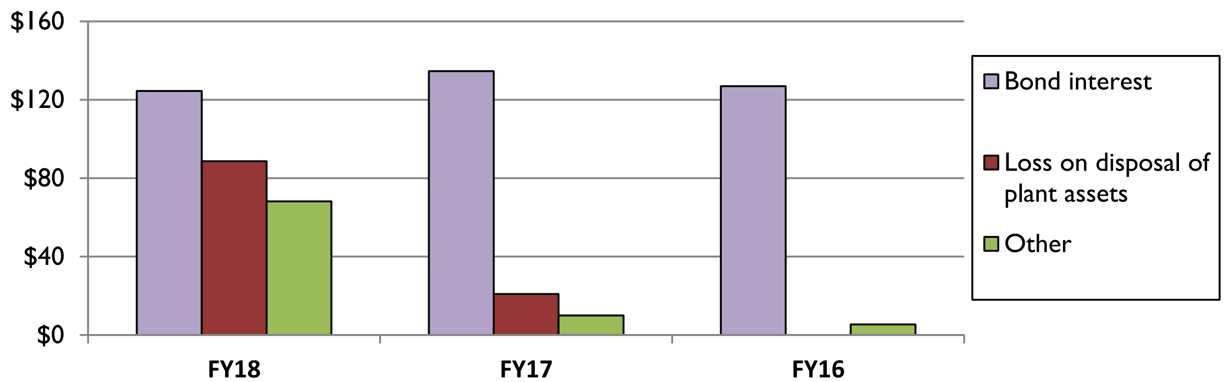
Fiscal Year 2018 Compared to 2017. Fiscal year 2018 operating expenses of $1.3 billion were $39.6 million higher than prior year. The increase included $28.6 million of depreciation and amortization due to a net increase in depreciable capital assets of $343.0 million, and $19.9 million of higher operations and maintenance costs primarily related to higher labor costs resulting from the negotiations with bargaining units which concluded in fiscal year 2018. These increases were offset by $8.9 million lower power and water costs due to lower minimum State Water Project operation, maintenance, power and replacement (OMP&R) costs related to an over collection of prior year's charges.

Fiscal Year 2017 Compared to 2016. Fiscal year 2017 operating expenses of $1.2 billion were $334.3 million lower than prior year. The decrease included $162.6 million of lower operations and maintenance costs primarily due to $175.8 million lower conservation credits expenses as the $450.0 million budget approved in fiscal year 2015 is spent down, $96.9 million less of power and water costs due to the $44.4 million purchase of water from Southern Nevada Water Authority in fiscal year 2016, which had a higher per acre-foot cost, did not occur in fiscal year 2017 and Metropolitan received $37.0 million of credit related to the SWP in fiscal year 2017. In addition, depreciation and amortization decreased $74.8 million due to the fact that the catch-up depreciation in fiscal year 2016 did not occur in fiscal year 2017.

Nonoperating Expenses

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

NONOPERATING EXPENSES
(Dollars in millions)



Analytical Review of Nonoperating Expenses

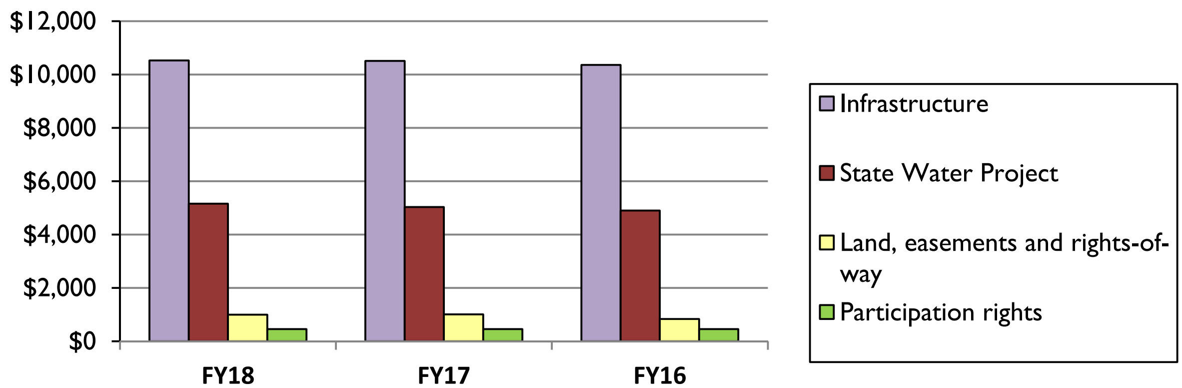
Fiscal Year 2018 Compared to 2017. Fiscal year 2018 nonoperating expenses of $281.4 million were $115.9 million higher than the prior year. The increase was primarily due to $67.8 million more of loss on disposal of plant assets related to the write-off of Skinner Modules 4, 5 and 6. In addition, other expenses increased $58.2 million, of which $18.8 million related to an increase in write-off of construction in progress programs upon determination that no operational asset would result from the costs incurred and $40.0 million related to a recalculation of previously capitalized interest on construction. The increase was offset by a $10.1 million reduction in bond interest, net of amount capitalized due to bond refunding transactions to take advantage of lower interest rates.

Fiscal Year 2017 Compared to 2016. Fiscal year 2017 nonoperating expenses of $165.5 million were $33.2 million higher than the prior year. The increase was primarily due to a $20.9 million loss on disposal of assets related to the write-off of Mills Modules 1 and 2 and an increase of $7.7 million in bond interest, net of amount capitalized due to a $10.9 million decrease in capitalized interest on assets constructed.

CAPITAL ASSETS

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs. More detailed information on capital assets and commitments for construction contracts are presented in Note 2 and Note 9 (g) to the basic financial statements, respectively.

GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	June 30, 2018	2017	2016
Land, easements and rights-of-way	**$ 994.8**	$ 1,009.9	$ 833.7
Construction in progress	**691.8**	1,018.8	870.8
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**216.2**	196.9	180.3
Other dams and reservoirs	**1,560.7**	1,549.8	1,542.2
Water transportation facilities	**3,820.7**	3,744.1	3,708.9
Pumping plants and facilities	**302.4**	294.3	293.5
Treatment plants and facilities	**2,969.8**	2,796.5	2,867.9
Buildings	**162.5**	138.9	136.1
Other plant assets	**745.1**	713.8	701.0
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**5,160.7**	5,034.4	4,900.1
Participation rights in other facilities	**459.5**	459.7	459.7
Gross capital assets	**17,141.8**	17,014.7	16,551.8
Less accumulated depreciation and amortization	**(6,731.8)**	(6,480.6)	(6,212.4)
Capital assets, net	**$ 10,410.0**	$ 10,534.1	$ 10,339.4
Net increase (decrease) from prior year	**$ (124.1)**	$ 194.7	$ 241.3
Percent change	**(1.2%)**	1.9%	2.4%

Fiscal Year 2018 Compared to 2017. Net capital assets totaled approximately $10.4 billion and decreased $124.1 million over the prior year. The decrease included depreciation and amortization of $323.0 million, and a $135.0 million retirement of capital assets and write-off of construction in progress upon determination that no operating assets would result from the cost incurred, offset by $207.8 million of construction spending, and a net increase of $126.1 million in participation rights in State Water Project and other facilities.

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

- $44.6 million for the distribution system's rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan's distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.
- $40.8 million for the pre-stressed concrete cylinder pipe reliability (PCCP) program; this program identifies pipelines whose age, location and condition warrant refurbishment/replacement to ensure long-term reliability of Metropolitan's PCCP lines water delivery.
- $30.0 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan's five water treatment plants in order to continue to reliably meet water demands.
- $24.3 million for the supply reliability and system expansion program; this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other State Water Project delivery constraints.
- $16.9 million for the system reliability program, which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.
- $14.5 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.

Metropolitan's fiscal year 2019 capital investment plan includes $254.7 million principally for the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability programs, the PCCP feeders upgrade, systems and information technology improvements, and water treatment plants upgrades program.

Fiscal Year 2017 Compared to 2016. Net capital assets totaled approximately $10.5 billion and increased $194.7 million over the prior year. This increase included $174.1 million Delta Wetlands purchase, $268.5 million of new construction activity, and a net increase of $134.3 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of $268.2 million and $114.0 million retirement of capital assets and write-off of Mills Modules 1 and 2.

The major capital asset additions for fiscal year 2017, excluding capitalized interest, included:

- $58.7 million for the improvements in infrastructure reliability at the treatment plants.
- $45.9 million for the distribution system's rehabilitation program.
- $26.8 million for the supply reliability and system expansion program.
- $22.7 million for the oxidation retrofit program at the filtration plants.
- $8.6 million for the PCCP program.
- $8.0 million for the system reliability program.

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)		June 30, 2018		2017		2016
General obligation bonds *(a)*	**$**	**60.6**	$	74.9	$	92.9
Revenue bonds *(a)*		**4,233.9**		4,302.0		4,188.9
State revolving loan		**—**		—		9.1
Other, net *(b)*		**212.5**		202.8		232.5
	$	**4,507.0**	$	4,579.7	$	4,523.4
Increase (decrease) from prior year	**$**	**(72.7)**	$	56.3	$	45.2
Percent change		**(1.6%)**		1.2%		1.0%

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

Fiscal Year 2018 Compared to 2017. At June 30, 2018, outstanding bonds and other long-term obligations totaled $4.5 billion, a net decrease of $72.7 million or 1.6 percent from the prior year. The decrease was due to $164.1 million of scheduled principal payments and $62.6 million related to bond refundings, as the new debt issued was less than the amount of debt refunded. These decreases were offset by the issuance $144.3 million in revenue bonds, and $9.7 million of scheduled amortization of bond premiums and discounts.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, outstanding bonds and other long-term obligations totaled $4.6 billion, a net increase of $56.3 million or 1.2 percent from the prior year. The increase was due to the issuance of $255.0 million in revenue bonds. This increase was offset by $147.3 million of scheduled principal payments, $21.8 million decrease related to bond refundings, as the new debt issued was less than the amount of debt refunded, and $29.6 million of scheduled amortization of bond premiums and discounts.

Additional information on Metropolitan's long-term debt can be found in Notes 5 and 6 to the basic financial statements.

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2018, are shown below.

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

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STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $282,354 and $613,633 for 2018 and 2017, respectively)	**$ 281,000**	$ 613,937
Restricted (cost: $492,097 and $437,092 for 2018 and 2017, respectively)	**489,737**	437,309
Total cash and investments	**770,737**	1,051,246
Receivables:		
Water sales	**221,301**	197,928
Interest on investments	**4,402**	3,675
Other, net (Note 1e)	**34,629**	20,020
Total receivables	**260,332**	221,623
Inventories (Note 1f)	**97,727**	110,533
Deposits, prepaid costs, and other (Note 11)	**1,611**	2,606
Total current assets	**1,130,407**	1,386,008
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $354,448 and $230,081 for 2018 and 2017, respectively)	**352,748**	230,195
Restricted (cost: $66,214 and $90,545 for 2018 and 2017, respectively)	**67,985**	94,014
Total cash and investments	**420,733**	324,209
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1g and 9g)	**1,686,602**	2,028,721
Plant and equipment - depreciable (Notes 1g and 9g)	**9,834,905**	9,491,865
Participation rights in State Water Project (Notes 1h and 10)	**5,160,746**	5,034,375
Participation rights in other facilities (Notes 1h and 4)	**459,489**	459,709
Total capital assets	**17,141,742**	17,014,670
Less accumulated depreciation and amortization	**(6,731,791)**	(6,480,571)
Total capital assets, net	**10,409,951**	10,534,099
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	**267,103**	191,525
Total other assets	**267,103**	191,525
Total noncurrent assets	**11,097,787**	11,049,833
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1q)	**39,050**	59,929
Loss on swap terminations (Note 1q)	**27,446**	30,665
Pension related (Notes 1k, 1q and 7)	**138,405**	130,346
OPEB related (Notes 1l, 1q and 8)	**34,674**	—
Effective swaps (Note 1q)	**—**	3,588
Total deferred outflows of resources	**239,575**	224,528
Total Assets and Deferred Outflows of Resources	**$ 12,467,769**	$ 12,660,369

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 103,192**	$ 99,318
Revolving notes (Note 5a)	**—**	262,250
Current portion of long-term debt (Notes 5 and 6)	**297,422**	343,681
Current portion of obligations for off-aqueduct power facilities (Notes 6 and 9f)	**—**	1,203
Current portion of accrued compensated absences (Notes 1j and 6)	**19,700**	19,800
Current portion of customer deposits and trust funds (Note 6)	**6,312**	5,455
Current portion of workers' compensation and third party claims (Notes 6 and 14)	**4,083**	5,109
Current portion of other long-term liabilities (Note 6)	**2,871**	2,907
Accrued bond interest	**67,577**	76,086
Matured bonds and coupons not presented for payment	**1,760**	1,768
Total current liabilities	**502,917**	817,577
Noncurrent Liabilities:		
Long-term debt, net of current portion (Note 5 and 6)	**4,209,537**	4,236,057
Obligations for off-aqueduct power facilities, net of current portion (Notes 6 and 9f)	**—**	9,629
Accrued compensated absences, net of current portion (Notes 1j and 6)	**27,945**	26,523
Customer deposits and trust funds, net of current portion	**39,860**	40,302
Net pension liability (Note 7)	**660,917**	587,662
Net OPEB liability (Note 8)	**240,569**	—
Postemployment benefits other than pensions (Note 8)	**—**	83,396
Workers' compensation and third party claims, net of current portion (Notes 6 and 14)	**9,496**	10,568
Fair value of interest rate swaps (Notes 5f and 6)	**44,411**	66,848
Other long-term liabilities, net of current portion (Note 6)	**2,219**	2,226
Total noncurrent liabilities	**5,234,954**	5,063,211
Total liabilities	**5,737,871**	5,880,788
Commitments and Contingencies (Note 9)	**—**	—
Deferred Inflows of Resources:		
Effective swaps (Note 1q)	**18,649**	—
Pension related (Notes 1k, 1q and 7)	**17,836**	21,896
OPEB related (Notes 1l, 1q, and 8)	**6,928**	—
Total deferred inflows of resources	**43,413**	21,896
Total Liabilities and Deferred Inflows of Resources	**5,781,284**	5,902,684
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	**5,890,685**	5,947,122
Restricted for:		
Debt service	**201,361**	224,625
Other	**205,639**	182,177
Unrestricted	**388,800**	403,761
Total net position	**6,686,485**	6,757,685
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,467,769**	$ 12,660,369

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Fiscal Year Ended June 30, 2018	2017
Operating Revenues (Note 1c):		
Water revenues	**$ 1,285,164**	$ 1,150,533
Readiness-to-serve charges	**137,500**	144,000
Capacity charge	**34,653**	39,717
Power sales	**23,694**	20,835
Total operating revenues	**1,481,011**	1,355,085
Operating Expenses:		
Power and water costs	**446,486**	455,444
Operations and maintenance	**507,450**	487,538
Total operating expenses	**953,936**	942,982
Operating income before depreciation and amortization	**527,075**	412,103
Less depreciation and amortization (Note 2)	**(330,262)**	(301,741)
Operating income	**196,813**	110,362
Nonoperating Revenues (Expenses) (Note 1n):		
Taxes, net (Note 1d)	**127,367**	115,417
Bond interest, net of $15,600 and $13,800 of interest capitalized in fiscal years 2018 and 2017, respectively (Note 1g)	**(124,523)**	(134,594)
Investment income, net	**10,577**	6,182
Loss on disposal of plant assets	**(88,690)**	(20,946)
Other, net	**(55,357)**	(2,518)
Total nonoperating expenses, net	**(130,626)**	(36,459)
Changes in Net Position Before Contributions	**66,187**	73,903
Capital contributions (Note 1m)	**1,496**	—
Changes in net position	**67,683**	73,903
Net Position		
Beginning of year, as previously reported	**6,757,685**	6,683,782
Less: Cumulative effect of change in accounting principle (Note 1s)	**(138,883)**	—
Beginning of year, as restated	**6,618,802**	6,683,782
Net Position, End of Year	**$ 6,686,485**	$ 6,757,685

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	June 30, 2018	2017
Cash Flows from Operating Activities:		
Cash received from water sales	**$ 1,164,017**	$ 1,082,747
Cash received from readiness-to-serve charges	**137,580**	145,614
Cash received from capacity charge	**34,560**	40,562
Cash received from power sales	**27,325**	17,193
Cash received from other exchange transactions	**88,274**	93,583
Cash paid for operations and maintenance expenses	**(248,014)**	(273,198)
Cash paid to employees for services	**(220,220)**	(205,690)
Cash paid for power and water costs	**(481,271)**	(513,992)
Other cash flows for operating activities	**(2,638)**	(1,640)
Net cash provided by operating activities	**499,613**	385,179
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**7,675**	7,923
Net cash provided by noncapital financing activities	**7,675**	7,923
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(217,444)**	(390,447)
Payments for State Water Project costs	**(126,371)**	(131,641)
Proceeds from short and long-term debt	**159,833**	301,203
Payments for bond issuance costs	**(2,113)**	(2,996)
Principal paid on debt	**(414,125)**	(192,515)
Interest paid on debt	**(181,006)**	(172,403)
Payments for other long-term obligations	**(10,832)**	(5,396)
Proceeds from tax levy	**129,666**	115,137
Transfer to escrow trust accounts	**(37,027)**	(39,908)
Payments for real estate sales	**—**	(98)
Net cash used by capital and related financing activities	**(699,419)**	(519,064)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(7,571,221)**	(10,621,702)
Proceeds from sales and maturities of investment securities	**7,909,354**	10,733,292
Investment income	**15,475**	15,235
Net cash provided by investing activities	**353,608**	126,825
Net change in cash	**161,477**	863
Cash at July 1, 2017 and 2016	**902**	39
Cash at June 30, 2018 and 2017 (Note 1b)	**$ 162,379**	$ 902

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)		June 30, 2018		2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income	**$**	**196,813**	$	110,362
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and amortization expense		**330,262**		301,741
(Increase) decrease in accounts receivable		**(34,976)**		38,693
Decrease (Increase) in inventories		**12,807**		(17,987)
(Increase) decrease in deposits, prepaid costs, and other		**(66,832)**		5,122
Increase (decrease) in accounts payable, and accrued expenses		**6,884**		(33,834)
Increase (decrease) in other items		**54,655**		(18,918)
Total Adjustments		**302,800**		274,817
Net cash provided by operating activities	**$**	**499,613**	$	385,179
Significant Noncash Investing, Capital and Financing Activities				
Refunding bonds proceeds received in escrow trust fund	**$**	**956,810**	$	366,116
Debt defeased through escrow trust fund with refunding debt	**$**	**(741,240)**	$	(309,095)

RECONCILIATION OF CASH AND INVESTMENTS TO CASH				
Unrestricted cash and investments (at June 30, 2018 and 2017 includes $162,379 and $902 of cash, respectively)	**$**	**633,748**	$	844,132
Restricted cash and investments		**557,722**		531,323
Total cash and investments, at fair value		**1,191,470**		1,375,455
Less: carrying value of investments		**(1,029,091)**		(1,374,553)
Total Cash (Note 1b)	**$**	**162,379**	$	902

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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 or fewer 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 fiscal years 2018 or 2017. 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.

(c) Revenue Policies

Water revenues, which include funds received from charges for the sale and availability of water, including water rates and other exchange and wheeling transactions, is the principal source of Metropolitan's revenues. 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 consists of unbundled rate elements (supply, treatment, conveyance and distribution, power, and demand management) designed to provide transparency regarding the cost of specific functions to member agencies. 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 effective as of July 1, using a lien date of January 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 a water supply (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, commencing with the fiscal year ended June 30, 1991, tax levies , other than annexation taxes, are 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. The Board made such a finding for fiscal years ended June 30, 2014 through 2019, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 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 June 30, 2018 and 2017 were as follows:

	June 30,	
(Dollars in thousands)	**2018**	2017
Water in storage	**$ 84,813**	$ 99,152
Operating supplies	**12,914**	11,381
Total inventories	**$ 97,727**	$ 110,533

(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 Notes 2, 4, and 10.)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at June 30, 2018 and 2017 were as follows:

(Dollars in thousands)	June 30, **2018**	June 30, 2017
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 46,407**	$ 55,852
Vendors	**36,128**	26,617
Accrued power costs	**4,542**	1,277
Accrued salaries	**8,569**	8,358
Readiness-to-serve overcollection	**1,381**	1,291
Conservation credits	**6,165**	5,923
Total accounts payable and accrued expenses	**$ 103,192**	$ 99,318

(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 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.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2016
Measurement Date (MD): June 30, 2017
Measurement Period: July 1, 2016 to June 30, 2017

(l) OPEB Accounting

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Metropolitan's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2017
Measurement Date (MD): June 30, 2017
Measurement Period: July 1, 2016 to June 30, 2017

(m) 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.

(n) 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 revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes 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.

(o) 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.

(p) 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.

(q) Deferred Outflows/Inflows 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 net investment in capital assets, including State Water Project costs of $5.9 billion at June 30, 2018 and 2017, includes the effect of deferring the recognition of losses from bond refundings. The deferred outflows from losses on bond refundings at June 30, 2018 and 2017 were $39.1 million and $59.9 million, respectively. This is amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of $388.8 million and $403.8 million at June 30, 2018 and 2017, respectively, includes the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension and OPEB. The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2018 and 2017, respectively, were $27.4 million and $30.7 million. Both of these 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 related to pension at June 30, 2018 and 2017, respectively, were $138.4 million and $130.3 million. The deferred inflows related to pension at June 30, 2018 and 2017 were $17.8 million and $21.9 million, respectively. See notes 7(d) and (e) for additional information.

The deferred outflows and deferred inflows related to OPEB at June 30, 2018 were $34.7 million and $6.9 million, respectively. See notes 8(n) and (o) for additional information.

The deferred inflow from the increase in fair value of interest rate swaps of $18.6 million at June 30, 2018 and the deferred outflows from the decline in fair value of interest rate swaps of $3.6 million at June 30, 2017 would be recognized as an investment gain or loss, respectively, 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 inflow and the deferred outflow also would be recognized as an investment gain or loss, respectively, if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred inflow or the deferred outflow would be reduced and the deferred gain or loss on refunding, respectively, would be increased by the same amount. The deferred gain or 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.

(r) Fair Value Measurement

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 reports its investments and liabilities at fair value using market approach and cost approach.

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—that are observable for identical assets or liabilities, 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. The fair value hierarchy to Metropolitan's assets and liabilities are presented in Notes 3 and 5.

(s) New Accounting Pronouncements

Metropolitan implemented the following GASB Statements in fiscal year 2018:

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 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 45). As a result of the implementation of GASB 75, Metropolitan restated beginning net position for 2018 in the amount of $138.9 million to record the beginning deferred OPEB contributions and net OPEB liability. Metropolitan didn't restate the financial statements for the year ended June 30, 2017 because the necessary actuarial information was not available.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB).

Specifically, this Statement addresses the following topics: (1) Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) Reporting amounts previously reported as goodwill and "negative" goodwill, (3) Classifying real estate held by insurance entities, (4) Measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (5) Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus (6) Recognizing on-behalf payments for pensions or OPEB in employer financial statements, (7) Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (8) Classifying employer-paid member contributions for OPEB, (9) Simplifying certain aspects of the alternative measurement method for OPEB, (10) Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. Implementation of GASB 85 in fiscal year 2018 didn't impact any previously reported balances in the Statement of Net Position or the Statement of Revenues, Expenses and Changes in Net Position. The effect of implementing GASB 85 is reflected in the Required Supplementary Information section.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasances of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirement of this statement are effective for fiscal year 2018 but there were no impacts on previously reported balances in the Statements of Net Position or the Statements of Revenues, Expenses and Changes in Net Position and there was no impact on note disclosures for the current year.

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:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*.
- GASB Statement No. 87, *Leases*.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

The following pronouncements were issued by GASB but were determined to not be applicable to Metropolitan's financial statements:

- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.
- GASB Statement No. 84, *Fiduciary Activities*.

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2018 and 2017 was as follows:

(Dollars in thousands)	June 30, 2016	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	$ 833,723	$ 176,210
Construction in progress	870,814	230,016
Total capital assets not being depreciated	1,704,537	406,226
Other capital assets:		
Parker Power Plant and Dam	13,009	—
Power recovery plants	180,301	17,175
Other dams and reservoirs	1,542,180	14,554
Water transportation facilities	3,708,905	41,814
Pumping plants and facilities	293,511	2,921
Treatment plants and facilities	2,867,916	16,046
Power lines and communciation facilities	33,807	—
Computer systems software	116,693	1,915
Buildings	136,096	3,212
Miscellaneous	453,041	18,468
Major equipment	97,400	4,324
Pre-operating interest and other expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	4,900,137	174,230
Participation rights in other facilities (Note 4)	459,709	—
Total other capital assets at historical cost	14,847,300	294,659
Accumulated depreciation and amortization:		
Parker Power Plant and Dam	(11,974)	(163)
Power recovery plants	(93,228)	(5,542)
Other dams and reservoirs	(342,024)	(38,481)
Water transportation facilities	(911,637)	(55,609)
Pumping plants and facilities	(93,320)	(4,994)
Treatment plants and facilities	(733,795)	(65,878)
Power lines and communciation facilities	(10,563)	(413)
Computer systems software	(107,439)	(2,424)
Buildings	(28,816)	(2,195)
Miscellaneous	(123,767)	(9,781)
Major equipment	(79,292)	(5,689)
Pre-operating interest and other expenses of original aqueduct	(39,418)	(1,036)
Participation rights in State Water Project (Note 10)	(3,460,685)	(127,419)
Participation rights in other facilities (Note 4)	(176,443)	(13,820)
Total accumulated depreciation and amortization	(6,212,401)	(333,444)
Other capital assets, net	8,634,899	(38,785)
Total capital assets, net	$ 10,339,436	$ 367,441

Depreciation and amortization was charged as follows:
Depreciation of water related assets
Amortization of State Water Project entitlements (Note 10)
Amortization of participation rights (Note 4)
Depreciation and amortization expense related to capital assets
Plus: Net retirements adjusted to expense
Total depreciation and amortization expense

Reductions	June 30, 2017	**Additions**	**Reductions**	**June 30, 2018**
$ —	$ 1,009,933	**$ 2,109**	**$ (17,205)**	**$ 994,837**
(82,042)	1,018,788	**200,845**	**(527,868)**	**691,765**
(82,042)	2,028,721	**202,954**	**(545,073)**	**1,686,602**
—	13,009	**—**	**—**	**13,009**
(595)	196,881	**19,656**	**(383)**	**216,154**
(6,901)	1,549,833	**10,887**	**(17)**	**1,560,703**
(6,641)	3,744,078	**80,433**	**(3,830)**	**3,820,681**
(2,170)	294,262	**8,084**	**—**	**302,346**
(87,469)	2,796,493	**334,011**	**(160,726)**	**2,969,778**
(1,129)	32,678	**—**	**—**	**32,678**
(3,552)	115,056	**—**	**—**	**115,056**
(371)	138,937	**23,966**	**(357)**	**162,546**
(5,219)	466,290	**28,805**	**(51)**	**495,044**
(1,971)	99,753	**4,943**	**(2,381)**	**102,315**
—	44,595	**—**	**—**	**44,595**
(39,992)	5,034,375	**172,289**	**(45,918)**	**5,160,746**
—	459,709	**—**	**(220)**	**459,489**
(156,010)	14,985,949	**683,074**	**(213,883)**	**15,455,140**
—	(12,137)	**(163)**	**—**	**(12,300)**
532	(98,238)	**(4,406)**	**377**	**(102,267)**
1,204	(379,301)	**(22,844)**	**17**	**(402,128)**
5,241	(962,005)	**(56,317)**	**3,548**	**(1,014,774)**
1,350	(96,964)	**(7,219)**	**—**	**(104,183)**
49,187	(750,486)	**(69,533)**	**72,036**	**(747,983)**
281	(10,695)	**(400)**	**—**	**(11,095)**
3,552	(106,311)	**(3,087)**	**—**	**(109,398)**
329	(30,682)	**(4,098)**	**71**	**(34,709)**
1,627	(131,921)	**(10,295)**	**82**	**(142,134)**
1,971	(83,010)	**(5,389)**	**2,370**	**(86,029)**
—	(40,454)	**(1,035)**	**—**	**(41,489)**
—	(3,588,104)	**(131,121)**	**—**	**(3,719,225)**
—	(190,263)	**(13,814)**	**—**	**(204,077)**
65,274	(6,480,571)	**(329,721)**	**78,501**	**(6,731,791)**
(90,736)	8,505,378	**353,353**	**(135,382)**	**8,723,349**
$ (172,778)	$ 10,534,099	**$ 556,307**	**$ (680,455)**	**$ 10,409,951**
	$ 192,205			**$ 184,786**
	127,419			**131,121**
	13,820			**13,814**
	333,444			**329,721**
	(31,703)			**541**
	$ 301,741			**$ 330,262**

3. 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 3d and 13).

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 June 30, 2018 and 2017, Metropolitan's cash balances with financial institutions were $162,374,000 and $897,000 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 June 30, 2018 and 2017, Metropolitan had the following investments at fair value:

	June 30,	
(Dollars in thousands)	**2018**	2017
U.S. Treasury securities	**$ 253,645**	$ 366,159
U.S. Guarantees – GNMAs	**3**	4
Federal agency securities	**82,090**	104,053
Prime commercial paper	**173,600**	289,029
Medium-term corporate notes	**102,553**	109,567
Negotiable certificates of deposit	**281,978**	368,239
Shares of beneficial interest	**355**	240
Government-sponsored enterprise (GSE)	**61,470**	64,327
Municipal bonds	**10,324**	22,935
Local Agency Investment Fund	**63,073**	50,000
Total investments	**$ 1,029,091**	$ 1,374,553

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.

The following is the summary of the fair value hierarchy of the fair value of investments of Metropolitan as of June 30, 2018 and 2017:

	Fair Value Measurement Using							
(Dollars in thousands)	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Obervable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	6/30/2017	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	$ 253,645	$ 253,645	$ —	$ —	$ 366,159	$ 366,159	$ —	$ —
U.S. Guarantees – GNMAs	3	3	—	—	4	4	—	—
Federal agency securities	82,090	82,090	—	—	104,053	104,053	—	—
Prime commercial paper	173,600	36,078	137,522	—	289,029	58,015	231,014	—
Medium-term corporate notes	102,553	102,553	—	—	109,567	109,567	—	—
Negotiable certificates of deposit	281,978	251,978	30,000	—	368,239	303,236	65,003	—
Shares of beneficial interest (1)	355	—	—	355	240	—	—	240
Government-sponsored enterprise (GSE)	61,470	61,470	—	—	64,327	64,327	—	—
Municipal bonds	10,324	10,324	—	—	22,935	22,935	—	—
Total investments by fair value level	$ 966,018	$ 798,141	$ 167,522	$ 355	$ 1,324,553	$ 1,028,296	$ 296,017	$ 240
Investments not subject to fair value level:								
Local Agency Investment Fund	63,073				50,000			
Total investments	$ 1,029,091				$ 1,374,553			

(1) As of June 30, 2018 and 2017, 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 at $798.1 million and $1,028.3 million as of June 30, 2018 and 2017, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling $137.5 million and $231.0 million and negotiable certificates of deposit totaling $30.0 million and $65.0 million, as of June 30, 2018 and 2017, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Shares of beneficial interest totaling $0.4 million and $0.2 million as of June 30, 2018 and 2017, respectively, classified in Level 3 of the fair value hierarchy were valued at the 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 fiscal years 2018 and 2017, 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 June 30, 2018 and 2017, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2018		2017	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 28,397**	**1.66**	$ 143,361	0.64
Federal agency securities	**75,662**	**0.12**	83,095	0.08
Prime commercial paper	**173,236**	**0.09**	288,594	0.04
Medium-term corporate notes	**30,588**	**0.06**	39,308	0.11
Negotiable certificates of deposit	**281,978**	**0.06**	367,604	0.20
Municipal bonds	**722**	**6.02**	1,759	3.20
Local Agency Investment Fund	**63,073**	**—**	50,000	—
Portfolio duration		**0.15**		0.20

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 fiscal years 2018 and 2017, the benchmark durations were 2.63 and 2.70, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2018 and 2017, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2018		2017	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 208,251**	**2.56**	$ 205,651	2.59
U.S. Guarantees – GNMAs	**3**	**3.79**	4	4.40
Federal agency securities	**5,620**	**9.40**	7,175	5.33
Medium-term corporate notes	**69,667**	**2.73**	67,866	3.28
Shares of beneficial interest	**355**	**—**	236	—
Government-sponsored enterprise (GSE)	**61,470**	**2.19**	64,327	2.37
Portfolio duration		**2.64**		2.74

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 June 30, 2018 and 2017, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2018		2017	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 16,997**	**3.33**	$ 17,147	4.34
Federal agency securities	**808**	**0.11**	13,783	0.01
Prime commercial paper	**364**	**0.06**	435	0.04
Medium-term corporate notes	**2,298**	**0.08**	2,393	0.12
Negotiable certificates of deposit	**—**	**—**	635	0.16
Shares of beneficial interest	**—**	**—**	4	—
Municipal bonds	**9,602**	**7.61**	21,176	5.63
Weighted average duration		**4.32**		3.49

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 Global 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.
Government-sponsored enterprise (e.g., FannieMae, FreddieMac)	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 government-sponsored enterprises (GSE) of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At June 30, 2018 and 2017, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	June 30, 2018 Fair value	June 30, 2017 Fair value
U.S. Treasury securities	N/A[1]	**$ 253,645**	$ 366,159
U.S. Guarantees – GNMAs	N/A[1]	**3**	4
Federal agency securities	AAA[2]	**82,090**	104,053
Prime commercial paper	A1/P1[3]	**173,600**	289,029
Medium-term corporate notes	A[3]	**102,553**	109,567
Negotiable certificates of deposit	F1[3]	**281,978**	368,239
Shares of beneficial interest	AAA	**355**	240
Government-sponsored enterprise (GSE)	AAA	**61,470**	64,327
Municipal bonds	A[3]	**10,324**	22,935
Local Agency Investment Fund	[4]	**63,073**	50,000
Total portfolio		**$ 1,029,091**	$ 1,374,553

[1] *Credit ratings are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.*
[2] *Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.*
[3] *A or better e.g. F1+, A1+, AA, or AAA.*
[4] *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 GSE, 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 June 30, 2018 and 2017.

	Investment Policy Limits	Percent of Portfolio 2018	2017
U.S. Treasury securities	100%	**24.65 %**	26.64 %
Federal agency securities	100%	**7.98**	7.57
Prime commercial paper	25%	**16.87**	21.02
Medium-term corporate notes	30%	**9.97**	7.97
Negotiable certificates of deposit	30%	**27.40**	26.79
Shares of beneficial interest	20%	**0.03**	0.02
Government-sponsored enterprise (GSE)	20%	**5.97**	4.68
Municipal bonds	30%	**1.00**	1.67
Local Agency Investment Fund	N/A	**6.13**	3.64
Total portfolio		**100.00 %**	100.00 %

At June 30, 2018 and 2017, 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)	June 30, 2018		June 30, 2017	
Local Agency Investment Fund	**$ 63,073**	**6.13 %**	$ —	— %
Mizuho Bank [1]	**$ 55,847**	**5.43 %**	$ —	— %

[1] *Invested in commerical paper and certificates of deposit*

Custodial credit risk. At June 30, 2018 and 2017, 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 exceptions were $63.1 million and $50.0 million in deposits in the California State managed LAIF as of June 30, 2018 and 2017, respectively.

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 June 30, 2018 and 2017 was $22.5 billion and $22.8 billion, respectively. At June 30, 2018 and 2017, the PMIA had a balance of $88.8 billion and $77.6 billion, respectively, of which, 2.67 percent and 2.89 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as June 30, 2018 and 2017 was 193 days and 194 days, respectively.

(c) Reverse Repurchase Agreements

Metropolitan is 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 fiscal years ended June 30, 2018 and 2017.

(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 are classified as "restricted." Most restricted accounts have the minimum cash and investment balance requirements and all are nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provide 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.

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4. PARTICIPATION RIGHTS

Participation rights activity, excluding participation rights in the State Water Project, for the fiscal years ended June 30, 2018 and 2017 was as follows:

(Dollars in thousands)	June 30, 2016	Additions
Participation rights:		
Imperial Irrigation District	$ 112,313	$ —
Palo Verde Irrigation District	82,804	—
Kern Water District	39,007	—
South County Pipeline	72,371	—
Semitropic Water Storage District	34,919	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	459,709	—
Accumulated amortization:		
Imperial Irrigation District	(54,422)	(2,270)
Palo Verde Irrigation District	(26,389)	(2,342)
Kern Water District	(12,943)	(2,172)
South County Pipeline	(21,283)	(912)
Semitropic Water Storage District	(15,954)	(981)
Arvin-Edison Water Storage District	(18,820)	(1,467)
Chino Basin	(10,538)	(1,456)
Orange County	(8,663)	(1,195)
Conjunctive Use Programs	(7,431)	(1,025)
Total	(176,443)	(13,820)
Participations rights, net	$ 283,266	$ (13,820)

Reductions	June 30, 2017	**Additions**	**Reductions**	**June 30, 2018**
$ —	$ 112,313	**$ —**	**$ —**	**$ 112,313**
—	82,804	**—**	**—**	**82,804**
—	39,007	**—**	**—**	**39,007**
—	72,371	**—**	**—**	**72,371**
—	34,919	**—**	**(220)**	**34,699**
—	47,187	**—**	**—**	**47,187**
—	27,500	**—**	**—**	**27,500**
—	23,000	**—**	**—**	**23,000**
—	20,608	**—**	**—**	**20,608**
—	459,709	**—**	**(220)**	**459,489**
—	(56,692)	**(2,270)**	**—**	**(58,962)**
—	(28,731)	**(2,343)**	**—**	**(31,074)**
—	(15,115)	**(2,172)**	**—**	**(17,287)**
—	(22,195)	**(912)**	**—**	**(23,107)**
—	(16,935)	**(976)**	**—**	**(17,911)**
—	(20,287)	**(1,467)**	**—**	**(21,754)**
—	(11,994)	**(1,454)**	**—**	**(13,448)**
—	(9,858)	**(1,195)**	**—**	**(11,053)**
—	(8,456)	**(1,025)**	**—**	**(9,481)**
—	(190,263)	**(13,814)**	**—**	**(204,077)**
$ —	$ 269,446	**$ (13,814)**	**$ (220)**	**$ 255,412**

(a) Imperial Irrigation District

In December 1988, Metropolitan and the Imperial Irrigation District (IID) entered into a water conservation agreement that became effective in December 1989. Under the terms of the conservation agreement, Metropolitan paid for capital costs and continues to pay annual costs for specific conservation projects within IID. From 1998 to 2003, Metropolitan diverted from the Colorado River a quantity of water equal to the amount of water conserved by the conservation projects, which totaled between 104,940 and 109,460 acre-feet annually. Under the October 2003 amendment to an agreement and at the request of the Coachella Valley Water District (CVWD), up to 20,000 acre-feet of the total conserved volume was made available to CVWD. Under the May 2007 amendment to the agreement and a December 2014 letter agreement, at least 85,000 and 105,000 acre-feet will be/was available in calendar years 2018 and 2017, respectively (see Note 9c). The water must be used in the calendar year the water is conserved, unless stored in a Colorado River reservoir pursuant to a separate agreement.

As capital projects were completed, the costs contributed by Metropolitan were capitalized as participation rights in Metropolitan's accounting records. The construction phase of this program was completed as of September 30, 1998, and the operation and maintenance phase commenced on October 1, 1998. The October 2003 amendment to the agreement extended the term through December 31, 2041 or 270 days beyond the termination of the Quantification Settlement Agreement plus any extension applicable over the agreement (see Note 9e).

Participation rights for this project totaled $112.3 million as of June 30, 2018 and 2017, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2.3 million in fiscal years 2018 and 2017.

(b) Palo Verde Irrigation District

In August 2004, Metropolitan entered into an agreement with Palo Verde Valley Irrigation District (PVID) to implement a 35-year land management and crop rotation program. This fallowing program commenced in January 2005 and will extend through July 2040 and will make available up to 130,000 acre-feet of water in certain years for transfer to Metropolitan from PVID.

Under the terms of the agreement, Metropolitan paid for all program start-up costs that have been capitalized as participation rights. These costs included sign-up payments to individual landowners, funding for a community improvement program and program setup costs.

Participation rights for this program totaled $82.8 million as of June 30, 2018 and 2017, and are being amortized using the straight-line method over 35 years. Amortization expense totaled $2.3 million in fiscal years 2018 and 2017.

(c) Kern Delta Water District

Metropolitan entered into an agreement with the Kern Delta Water District for the development of a water management program. The agreement includes a Regulation Program and a Transportation Program. Under the terms of the Regulation Program, Kern Delta will regulate the storage and delivery for Metropolitan of up to 250,000 acre-feet of water and currently has 138,422 acre-feet in the program. The program is intended to provide a minimum recharge and return capability of 50,000 acre-feet annually. Construction of infrastructure is required in order to meet the program's dry year minimum return. The transportation program provides Metropolitan with priority rights to convey water acquired by Metropolitan from third parties through the Kern-Delta facilities to the California Aqueduct for ultimate delivery to Metropolitan. This program terminates on December 31, 2029. The facilities became operational in June 2010.

Participation rights for the Kern Delta totaled $39.0 million as of June 30, 2018 and 2017, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2.2 million in fiscal years 2018 and 2017.

(d) South County Pipeline

In 1989, Metropolitan entered into an agreement with two member agencies and one of their subagencies to participate in the construction of an upsized version of a 26-mile long pipeline serving the south Orange County portion of its service area. Participation in this project provides Metropolitan capacity to transport its water in the central part of its service area.

Participation rights for this project totaled $72.4 million as of June 30, 2018 and 2017. These participation rights are amortized using the straight-line method over 80 years, which is the life of the agreement. Amortization expense totaled $0.9 million in fiscal years 2018 and 2017.

(e) Semitropic Water Storage District

In December 1994, Metropolitan entered into a water banking and exchange program with Semitropic Water Storage District and its improvement districts that entitles it to storage, withdrawal, and exchange rights for its State Water Project supplies. The agreement terminates in November 2035.

In 1999, Metropolitan became fully vested for 35 percent of the one million acre-foot banking project. Metropolitan has a storage allocation of 350,000 acre-feet and currently has 187,433 acre-feet in the program. Metropolitan is entitled to a minimum of 31,500 acre-feet per year of pump back capacity. In addition, assuming a 100 percent State Water Project allocation, Metropolitan is entitled to a minimum of 46,550 acre-feet per year of entitlement exchange rights. Finally, Metropolitan has the ability to use other banking partners' rights when they are not being used. As a result, the potential maximum return capability for Metropolitan is estimated at 223,000 acre-feet per year assuming a 100 percent State Water Project allocation and usage of the other banking partners' rights. In fiscal year 2015, Metropolitan spent $5.8 million to increase the return capacity by 13,200 acre-feet per year. Since then, the additional return capacity has been reduced to 7,700 acre-feet per year after Metropolitan received reimbursement of $2.2 million.

Participation rights for this program totaled $34.7 million and $34.9 million as of June 30, 2018 and 2017, respectively. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1.0 million in fiscal years 2018 and 2017.

(f) Arvin-Edison Water Storage District

In December 1997, Metropolitan entered into an agreement for a water management program with Arvin-Edison Water Storage District (Arvin-Edison). The agreement includes a regulation program, a transportation program, and a water quality exchange program. Under the terms of the regulation program, Arvin-Edison will regulate the storage and delivery for Metropolitan of up to 350,000 acre-feet of water and currently has 155,233 acre-feet in the program. The minimum estimated return capability for the Arvin-Edison program varies from 40,000 acre-feet per year to 75,000 acre-feet per year depending on hydrologic/groundwater conditions. Return water will be delivered to Metropolitan upon request through a new intertie pipeline to the California Aqueduct and by exchange of existing Arvin-Edison supplies in the California Aqueduct. In 2008, Metropolitan amended the agreement to construct the south canal improvement project that will improve the operational flexibility of the program as well as increase the ability to return high quality water to the California Aqueduct. The project was completed in early 2009. The agreement terminates on November 4, 2035 with provisions for automatic extension if all stored water has not been returned.

The agreement also provides a transportation program whereby Metropolitan is provided priority rights to convey water acquired by Metropolitan from third parties through the Arvin-Edison facilities to the California Aqueduct for ultimate delivery to Metropolitan.

Participation rights for the Arvin-Edison program totaled $47.2 million as of June 30, 2018 and 2017. These participation rights are amortized using the straight-line method over the longer life of the transportation program. Amortization expense totaled $1.5 million in fiscal years 2018 and 2017.

(g) Chino Basin

In June 2003, Metropolitan entered into a groundwater storage agreement with Inland Empire Utilities Agency, Three Valleys Municipal Water District, and the Chino Basin Watermaster. Under the terms of the agreement, Metropolitan may store up to 25,000 acre-feet per year to a maximum of 100,000 acre-feet and may withdraw up to 33,000 acre-feet per year for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2018, Metropolitan had 41,729 acre-feet water in storage. The agreement terminates on March 1, 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Chino basin groundwater storage program totaled $27.5 million as of June 30, 2018 and 2017. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1.5 million in fiscal years 2018 and 2017.

(h) Orange County

In 2003, Metropolitan entered into a groundwater storage agreement with the Orange County Water District and the Municipal Water District of Orange County to allow Metropolitan to store 66,000 acre-feet in the Orange County Basin. Metropolitan may store up to 16,500 acre-feet per year and withdraw up to 22,000 acre-feet for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2018, Metropolitan had 315 acre-feet in storage. The program included the construction of wells and barrier improvements for protection of groundwater supplies from seawater intrusion. The agreement terminates in June 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Orange County groundwater storage program totaled $23.0 million as of June 30, 2018 and 2017. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1.2 million in fiscal years 2018 and 2017.

(i) Conjunctive Use Programs

Conjunctive use is the operation of a groundwater basin in coordination with a surface water system to increase total water supply availability, thus improving the overall reliability of supplies. Metropolitan has entered into seven agreements with its member agencies for conjunctive use programs whereby Metropolitan provides funding for construction of water storage and related facilities in exchange for water storage and withdrawal rights. The conjunctive use programs were funded with State Proposition 13 grant dollars. The seven projects are with Long Beach, Long Beach-Lakewood, Compton, Three Valleys, Three Valleys MWD-La Verne, Foothill MWD, and Western MWD-Elsinore Valley MWD. Collectively, these seven projects allow Metropolitan to store up to 45,889 acre-feet with storage of 11,472 acre-feet per year and withdrawal of 15,296 acre-feet per year for overlying demand during dry, drought, or emergency conditions. As of June 2018, Metropolitan had a total of 5,420 acre-feet in storage in these seven accounts. The term of each agreement is 25 years, unless the parties agree to extend for an additional maximum period of 25 years. Termination dates range from July 2027 to December 2031. The programs became operational during fiscal year 2009.

Participation rights in these projects totaled $20.6 million at June 30, 2018 and 2017. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled $1.0 million in fiscal years 2018 and 2017.

5. 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 $4.507 billion and $4.842 billion at June 30, 2018 and 2017, respectively, represents less than one percent of the June 30, 2018 and 2017 total taxable assessed valuation of $2,741 billion and $2,583 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 $200.0 million in commercial paper to fund a portion of its capital plan, as approved by Metropolitan's Board. There was no commercial paper issued in fiscal years 2018 and 2017 and no commercial paper was outstanding at June 30, 2018 and 2017. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes (see Note 5c and 5i).

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"). Metropolitan was permitted to sell up to $200.0 million of notes under each of the Short-Term Revolving Credit Facilities for an aggregate amount of available borrowings of $400.0 million. Metropolitan may borrow, paydown and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. Each of the Short-Term Revolving Credit Facilities bears interest at a variable rate of interest. The US Bank Facility resulted in 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 through December 17, 2017 and starting December 18, 2017 at a spread to the SIFMA Municipal Swap Index, 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.

Short-term notes issued and refunded during the fiscal year ended June 30, 2018 were as follows:

- On November 1, 2017, Metropolitan prepaid the $250.0 million Short-Term Revolving Credit Facilities notes issued in April 2017.

- In December 2017, Metropolitan sold $198.3 million of notes under the US Bank facility, which was paid down in June 2018. See note 5(d) for additional information.

On June 27, 2018, Metropolitan terminated the US Bank Short-Term Revolving Credit Facility.

Short-term notes issued and refunded during the fiscal year ended June 30, 2017 were as follows:

- On July, 1 2016, Metropolitan sold $45.8 million of Notes under the US Bank Facility to refund $31.2 million of Water Revenue Refunding Bonds, 2012 Series E-3 and $14.6 million of Water Revenue Refunding Bonds, 2014 Series G-1. The Notes were refunded on September 20, 2016. See note 5(d) for additional information.

- On April 3, 2017, Metropolitan sold $250.0 million of notes under the Short-Term Revolving Credit Facilities, $125.0 million Taxable Flexible Rate Refunding Notes, Series A-1 and $125.0 million Taxable and Refunding Subseries 2017 Series B-1 Notes, to refund the notes outstanding as of fiscal year ended June 30, 2016 of $250.0 million. The $125.0 million note issued in 2017 under the RBC Facility had a maturity date of April 5, 2020 and the $125.0 million note issued in 2017 under the US Bank Facility had a maturity date of April 5, 2019.

  The Short-Term Revolving Credit Facilities requires RBC to purchase refunding notes, subject to certain terms and conditions, through the RBC Facilities expiration date of April 5, 2019. The maturity date of April 5, 2020 for the RBC Note will only be effective if RBC agrees, at its option, to extend the expiration of its Credit Facility to April 5, 2020.

- On June 1, 2017, Metropolitan sold $12.3 million of notes under the US Bank Facility, to refund $12.3 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E. These notes were refunded on July 3, 2017. See note 5(d) for additional information.

(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 June 30, 2018 and 2017. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $60.6 million and $74.9 million in general obligation bonds and general obligation refunding bonds were outstanding at June 30, 2018 and 2017, 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 3.5 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.

No general obligation bonds were issued during the fiscal years ended June 30, 2018 and 2017.

(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 $4.234 billion and $4.302 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2018 and 2017, 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 2047 at interest rates ranging from 1.6 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 any interest payment dates, and subject to early redemption.

Revenue bonds issued during the fiscal year ended June 30, 2018 were as follows:

- On July 3, 2017, Metropolitan issued $80.0 million of Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), to finance a portion of Metropolitan's capital expenditures. The maturities extend to July 1, 2047 and are subject to an unscheduled mandatory redemption at Metropolitan's option.

- On June 28, 2018, Metropolitan issued $64.3 million of Subordinate Water Revenue Bonds, 2018 Series B, to finance a portion of Metropolitan's capital expenditures. The maturities extend to September 1, 2028 and are not subject to optional and mandatory redemption provisions.

Revenue bond issued during the fiscal year ended June 30, 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.

  On June 25, 2018, the 2016 BANA Agreement and the related Paying Agent Agreement were amended, and, among other changes, the scheduled mandatory tender was amended to December 21, 2020.

  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.

- On March 1, 2017, Metropolitan issued $80.0 million of Water Revenue Bonds, 2017 Authorization Series A, at variable rates, to finance a portion of Metropolitan's capital expenditures. The maturities extend to July 1, 2047 and are subject to optional and mandatory redemption provisions.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and short-term notes to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, Water Revenue Refunding Bonds, Special Variable Rate Water Revenue Refunding Bonds, and revolving notes 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.

Refunding and defeasance transactions during fiscal year 2018 were as follows:

- On July 3, 2017 Metropolitan issued $178.2 million of Subordinate Water Revenue Refunding Bonds, 2017 Series B, to refund $137.4 million of Water Revenue Bonds, 2006 Authorization, Series A, $12.2 million of Water Revenue Refunding Bonds, 2009 Series A2, $52.4 million of Water Revenue Refunding Bonds, 2011 Series A1 and A3, and $12.3 million of Tax-Exempt Flexible Rate Revolving Notes, Series 2017 B-1. The maturity extends to August 1, 2024 and is subject to optional redemption provisions. Metropolitan also issued $95.6 million of Subordinate Water Revenue Refunding Bonds, 2017 Series D (SIFMA Index Mode), and $95.6 million of Subordinate Water Revenue Refunding Bonds, 2017 Series E (SIFMA Index Mode), to refund $119.9 million of Water Revenue Bonds, 2006 Authorization Series A, $63.9 million of Water Revenue Refunding Bonds, 2011 Series A1 and A3, and $14.3 million of Water Revenue Refunding Bonds, 2014 Series G-2. The maturities extend to July 1, 2037 and are subject to an unscheduled mandatory redemption at Metropolitan's option.

- On December 18, 2017, Metropolitan sold $198.3 million of tax-exempt variable rate parity obligations under the Short-Term Revolving Credit Facility with US Bank to refund $49.8 million of Water Revenue Refunding Bonds, 2011 Series A-2, $49.8 million of Water Revenue Refunding Bonds, 2011 Series A-4, $49.3 million of Water Revenue Refunding Bonds, 2012 Series B-1, and $49.3 million of Water Revenue Refunding Bonds, 2012 Series B-2.

- On June 27, 2018, Metropolitan issued $210.0 million of Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1 and A-1, to prepay $198.3 million of Tax-Exempt Flexible Rate Revolving Notes, 2016 Series B-2, and refund $11.2 million of Water Revenue Refunding Bonds, 2014 Series G-3. The maturities extend to July 1, 2037, and the bonds are subject to optional and mandatory redemption provisions.

- On June 28, 2018, Metropolitan issued $99.1 million, Subordinate Water Revenue Refunding Bonds, 2018 Series A, to refund $112.3 million, Water Revenue Refunding Bonds, 2008 Series B, and $19.5 million, Water Revenue Refunding Bonds, 2008 Series C. The maturities extend to July, 1, 2023, and the bonds are not subject to optional or mandatory redemption provisions.

Refunding and defeasance transactions during fiscal year 2017 were as follows:

- On September 20, 2016, Metropolitan issued $103.7 million Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and series B-2, at variable rates, to refund $62.5 million of Water Revenue Refunding Bonds, 2008 Series A-2 and $45.8 million Tax-Exempt Flexible Rate Revolving Notes, Series 2016 B-1. The maturities of the 2016 Series B-1 and B-2 bonds extend to July 1, 2037 and are subject to optional and mandatory redemption provisions.

- On June 1, 2017, Metropolitan issued $238.0 million of Subordinate Water Revenue Refunding Bonds, 2017 Series A, to refund $37.8 million Water Revenue Bonds, 2006 Authorization, Series A, $92.0 million of Water Revenue Refunding Bonds, 2009 Series A-2, $6.0 million of Water Revenue Refunding Bonds, 2011 Series A-1, $6.0 million of Water Revenue Refunding Bonds, 2011 Series A-3, $92.6 million of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E, and $8.6 million State of California Department of Water Resources Revolving Fund loan. The maturities of the 2017 Series A bonds extend to July 1, 2027 and are not subject to optional or mandatory redemption provisions.

These refundings and defeasances were accomplished to take advantage of lower interest rates, to realize economic savings or to eliminate or mitigate certain risks associated with managing its variable rate debt. The transactions resulted in cash flow savings of $198.9 million and $27.8 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $131.6 million and $23.4 million for fiscal years 2018 and 2017, respectively. The net carrying amount of the old debt exceeded the reacquisition price by $14.4 million which, is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. Deferred outflows of loss on bond refundings at June 30, 2018 and 2017 were $39.1 million and $59.9 million, respectively, and the deferred outflows on swap terminations for the same periods were $27.4 million and $30.7 million, respectively.

(e) Other Long-term Debt

In November 2003, Metropolitan received $20.0 million through the State Department of Water Resources (DWR) 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. The loan was paid off in fiscal year 2017.

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2018. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Metropolitan's interest rate swap portfolio as of June 30, 2018, 2017, and 2016 are summarized on the following table.

(Dollars in thousands)

Associated Bond Issue [1]		Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating[2]
2002 A Payor	$	75,838	09/12/02	3.300%	57.74% of 1MoLIBOR[4]	A3/BBB+/A
2002 B Payor		28,372	09/12/02	3.300%	57.74% of 1MoLIBOR	Aa3/A+/AA
2003 Payor C-1 C-3		158,597	12/18/03	3.257%	61.20% of 1MoLIBOR	Aa2/A+/AA-
2003 Payor C-1 C-3		158,597	12/18/03	3.257%	61.20% of 1MoLIBOR	Aa3/A+/AA
2004 C Payor		7,760	11/16/04	2.980%	61.55% of 1MoLIBOR	A3/BBB+/A
2004 C Payor		6,350	11/16/04	2.980%	61.55% of 1MoLIBOR	Baa1/BBB+/A
2005 Payor		29,058	07/06/05	3.360%	70.00% of 1MoLIBOR	Aa3/A+/AA
2005 Payor		29,058	07/06/05	3.360%	70.00% of 1MoLIBOR	Baa1/BBB+/A
Total swaps	$	493,630				

1 These swaps lock in a fixed rate for an equivalent amount of variable rate debt.

2 Credit Ratings - Moody's Investors Service, Standard & Poor's, Fitch Ratings, respectively.

3 Excludes accrued interest.

4 London Interbank Offered Rate.

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2018 and 2017

Swap	Fair Value as of 6/30[3]			Change in Fair Value in FY	
Termination	**2018**	2017	2016	**2018**	2017
07/01/25	$ **(4,977)**	$ (7,991)	$ (12,421)	**$ 3,014**	$ 4,430
07/01/25	**(1,863)**	(2,989)	(4,646)	**1,126**	1,657
07/01/30	**(15,259)**	(22,570)	(34,653)	**7,311**	12,083
07/01/30	**(15,260)**	(22,570)	(34,653)	**7,310**	12,083
10/01/29	**(658)**	(996)	(1,592)	**338**	596
10/01/29	**(538)**	(816)	(1,283)	**278**	467
07/01/30	**(2,928)**	(4,458)	(7,088)	**1,530**	2,630
07/01/30	**(2,928)**	(4,458)	(6,971)	**1,530**	2,513
	$ **(44,411)**	$ (66,848)	$ (103,307)	**$ 22,437**	$ 36,459

As with its investments, Metropolitan categorizes its liabilities using fair value measurements within the fair value hierarchy established by generally accepted accounting principles and are discussed in Note 3.

Metropolitan has the following recurring fair value measurements as of June 30, 2018 and 2017:

(Dollars in thousands)

		Fair Value Measurements Using		
Associated Bond Issue	**6/30/2018**	**Significant Other Observable Inputs (Level 2)**	6/30/2017	Significant Other Observable Inputs (Level 2)
2002 A Payor	**$ (4,977)**	**$ (4,977)**	$ (7,991)	$ (7,991)
2002 B Payor	**(1,863)**	**(1,863)**	(2,989)	(2,989)
2003 Payor C-1 C-3	**(15,259)**	**(15,259)**	(22,570)	(22,570)
2003 Payor C-1 C-3	**(15,260)**	**(15,260)**	(22,570)	(22,570)
2004 C Payor	**(658)**	**(658)**	(996)	(996)
2004 C Payor	**(538)**	**(538)**	(816)	(816)
2005 Payor	**(2,928)**	**(2,928)**	(4,458)	(4,458)
2005 Payor	**(2,928)**	**(2,928)**	(4,458)	(4,458)
Total swaps	**$ (44,411)**	**$ (44,411)**	$ (66,848)	$ (66,848)

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using an income approach that considers benchmark interest rates, yield curves and credit spreads.

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 June 30, 2018, 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 June 30, 2018, 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 June 30, 2018.

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 June 30, 2018, 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 June 30, 2018, the interest rates of the variable rate debt associated with these swap transactions range from 0.55 percent to 2.48 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 1.21 percent to 1.63 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.

(g) Swap Payments and Associated Debt

Using rates as of June 30, 2018, debt service requirements on Metropolitan's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds		Interest Rate	
(Dollars in thousands)	Principal	Interest	Swaps, Net	Total
Year ending June 30:				
2019	$ —	$ 9,696	$ 6,773	$ 16,469
2020	—	9,696	6,773	16,469
2021	54,965	8,990	6,298	70,253
2022	32,715	8,056	5,652	46,423
2023	33,260	7,449	5,234	45,943
2024-2028	300,300	20,410	14,560	335,270
2029-2031	72,390	1,744	1,283	75,417
Total	$ 493,630	$ 66,041	$ 46,573	$ 606,244

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.55 percent to 2.48 percent as of June 30, 2018 and 0.77 percent to 1.77 percent as of June 30, 2017. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. For the Water Revenue Bonds, 2000 Series B-3, Special Variable Water Revenue Refunding Bonds, 2016 Series B-1 and B-2, Water Revenue Bonds, 2017 Series A and Special Variable Water Revenue Refunding Bonds, 2018 Series A-1 and A-2, bondholders have the right to tender bonds to the paying agent on any business day with same day notice. The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), provide bondholders a right to tender bonds to the paying agent every 397 days. Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for six and four separate variable rate bond issues in the amount of $482.5 million and $272.5 million as of June 30, 2018 and 2017, respectively. In addition, Metropolitan has eight and twelve series of variable rate bonds in the amounts of $761.1 million and $817.0 million as of June 30, 2018 and 2017, 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 LIBOR plus 7.50 percent; the "base rate", which is higher of the Fed Funds Rate plus 2.0 percent per annum, the Prime Rate plus 1.0 percent per annum, plus a spread of 7.0 percent, plus one percent; the "base rate" which is the higher of the Fed Funds Rate plus 2.0 percent per annum, the Prime Rate plus 1.0 percent per annum, or 7.0 percent. The principal of the Bank Bonds would be payable, depending on the agreement, either ten equal semi-annual installments commencing 180 days after purchase by the bank, or in two equal semi-annual installments commencing six months after purchase by the bank.

The $103.7 million 2016 Series B-1 and B-2 bonds have SBPAs that expire on September 19, 2019, the $80.0 million Water Revenue Bonds, 2017 Authorization, Series A, and the $88.8 million 2000 Series B-3, Water Revenue Bonds, have SBPAs that expire on March 27, 2020, and the $210.0 million Special Variable Rate Water Revenue Refunding Bonds, 2018 Series A-1 and A-2 have SBPAs that expire on June 25, 2021. 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.

The six and four separate variable-rate bonds supported by SBPAs at June 30, 2018 and 2017, respectively, have been classified as long term in the statements of net position, as the liquidity facilities give Metropolitan the ability to refinance on a long-term basis and Metropolitan intends to either renew the facility or exercise its right to tender the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was $129.8 million and $94.8 million at June 30, 2018 and 2017, respectively.

For three series of variable rate bonds not supported by SBPA, the Subordinate Water Revenue Bonds, 2017 Series C and Subordinate Water Revenue Refunding Bonds, 2017 Series D and 2017 Series E in the amount of $271.3 million, if the purchase price is not paid from the proceeds of remarketing or other funds, for a period of five business days following written notice by any Owner of such bonds, will constitute an event of default under the Subordinate Debt Resolutions, upon the occurrence and continuance of which the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

At June 30, 2018, 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 $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. These variable rate bonds outstanding at June 30, 2018 and 2017 had no long-term take out provisions therefore, the entire principal amount of $314.8 million, may be tendered for purchase upon one week's notice from bondholders. However, on June 25, 2018, Metropolitan entered into a Revolving Credit Agreement (RCA), by which Metropolitan may borrow up to $200.0 million, to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCA permits repayment of any borrowed funds over ten semi-annual installments beginning 180 days after the funds are borrowed. The RCA has a stated expiration date of June 23, 2023. As a result of the RCA, $114.8 million was reported as current liabilities as of June 30, 2018 and the full $314.8 million was reported as current liabilities as of June 30, 2017.

(i) Long-term Debt Obligation Summary

Interest rates at June 30, 2018 on all outstanding fixed-rate obligations range from 1.49 percent to 6.947 percent. Interest on the variable rate debt is reset either daily or weekly based upon market conditions. Future principal and interest payments in accordance with the debt agreements as of June 30, 2018 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2019	$ 148,930	$ 161,717	$ 310,647
2020	158,925	155,024	313,949
2021	185,040	146,305	331,345
2022	194,770	137,254	332,024
2023	191,980	128,107	320,087
2024-2028	960,835	519,024	1,479,859
2029-2033	790,960	340,802	1,131,762
2034-2038	965,635	210,114	1,175,749
2039-2043	435,505	71,069	506,574
2044-2048	261,880	9,543	271,423
	$ 4,294,460	$ 1,878,959	$ 6,173,419

Unamortized bond discount and premium, net	212,499
Total debt	4,506,959
Less current portion	(297,422)
Long-term portion of debt	$ 4,209,537

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2018 and 2017 is shown on the following table. Payments on the bonds are made from the restricted debt service funds; other long-term debt, the off-aqueduct power facilities obligation, and the compensated absences liability will be liquidated primarily with water revenues.

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2018 and 2017

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2016	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2009 Series A	3/1/16-3/1/28	3.75%-5.00%	$ 30,745	$ —
2010 Series A	3/1/16-3/1/37	1.50%-5.00%	23,065	—
2014 Series A	3/1/16-3/1/21	2.00%-5.00%	39,055	—
Total general obligation and general obligation refunding bonds			92,865	—
Water revenue bonds (Note 5c):				
2000 Series B-1-B-4	7/1/29-7/1/35	Variable	88,800	—
2006 Series A	7/1/15-7/1/37	4.00%-5.00%	304,235	—
2008 Series A	1/1/16-1/1/39	3.00%-5.00%	179,115	—
2008 Series B	7/1/15-7/1/20	2.50%-4.00%	12,735	—
2008 Series C	7/1/26-7/1/39	5.752%-6.250%	78,385	—
2008 Series D	7/1/21-7/1/39	5.906%-6.538%	250,000	—
2010 Series A	7/1/40	6.947%	250,000	—
2015 Series A	7/1/18-7/1/45	4.00%--5.00%	208,255	—
2016 Subordinate Series A	7/01/41-7/1/45	Variable	—	175,000
2017 Series A	7/1/41-7/1/47	Variable	—	80,000
2017 Subordinate Series C	7/1/45-7/1/47	Variable	—	—
2018 Subordinate Series B	9/1/23-9/1/28	5.000%	—	—
Water revenue refunding bonds (Note 5d):				
1993 Series A-B	8/14/15-7/1/21	5.75%	86,540	—
2008 Series A-1-A-2	7/1/17-7/1/37	Variable	62,465	—
2008 Series B	7/1/15-7/1/22	4.00%-5.00%	126,980	—
2008 Series C	7/1/15-7/1/23	3.40%-5.00%	34,700	—
2009 Series A-1-A-2	7/1/20-7/1/30	Variable	104,180	—
2009 Series B	7/1/20-7/1/30	4.00%-5.25%	106,690	—
2009 Series C	7/1/29-7/1/35	5.00%	91,165	—
2009 Series D	7/1/15-7/1/21	2.75%-5.00%	58,860	—
2009 Series E	7/1/15-7/1/20	3.875%-5.00%	15,590	—
2010 Series B	7/1/15-7/1/28	2.25%-5.00%	79,330	—
2011 Series A-1-A-4	7/1/16-7/1/36	Variable	228,875	—
2011 Series B	7/1/15-7/1/20	3.00%-5.00%	35,760	—
2011 Series C	10/1/15-10/1/36	2.25%-4.00%	147,935	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series B	7/1/23-7/1/27	Variable	98,585	—
2012 Series C	7/1/16-7/1/21	3.00%-5.00%	190,600	—
2012 Series D	7/1/15-7/1/16	0.943%-1.28%	605	—
2012 Series E	7/1/27-7/1/37	2.50%-3.50%	31,220	—
2012 Series F	7/1/15-7/1/28	3.00%-5.00%	59,335	—
2012 Series G	7/1/20-7/1/31	3.00%-5.00%	111,890	—
2013 Series D	7/1/29-7/1/35	Variable	87,445	—
2013 Series E	7/1/20-7/1/30	Variable	104,820	—
2014 Series A	7/1/18-7/1/21	4.00%-5.00%	95,935	—
2014 Series B	7/1/18	1.49%	10,575	—
2014 Series C	7/1/22-7/1/27	3.00%	30,335	—
2014 Series D	7/1/15-7/1/32	Variable	63,575	—
2014 Series E	7/1/21-7/1/24	3.50%-5.00%	86,060	—
2014 Series G	7/1/37	2.00%-3.00%	57,840	—
2015 Series A-1, A-2	7/1/35	Variable	188,900	—
2016 Series A	7/1/28-7/1/37	2.00%-5.00%	239,455	—
2016 Series B-1, B-2	7/1/25-7/1/37	Variable	—	103,670
2017 Subordinate Series A	7/1/20-7/1/27	2.00%-2.50%	—	238,015
2017 Subordinate Series B	8/1/20-8/1/24	3.00%-5.00%	—	—
2017 Subordinate Series D	7/1/33-7/1/37	Variable	—	—
2017 Subordinate Series E	7/1/33-7/1/37	Variable	—	—
2018 Series A1, A-2	7/1/19-7/1/28	Variable	—	—
2018 Subordinate Series A	7/1/19-7/1/23	5.00%	—	—
Total water revenue and water revenue refunding bonds			4,188,950	596,685
Other long-term debt (Note 5e):				
State revolving fund loans	7/1/16-7/1/24	2.39%	9,153	—
Unamortized bond discount and premiums, net			232,467	3,815
Total long-term debt			4,523,435	600,500
Other long-term liabilities (see table next page)			282,462	49,305
Total long-term liabilities			$ 4,805,897	$ 649,805

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2018 and 2017

Reductions	June 30, 2017	**Additions**	**Reductions**	**June 30, 2018**	**Amounts Due Within One Year**
$ (3,745)	$ 27,000	**$ —**	**$ (6,135)**	**$ 20,865**	**$ (2,055)**
(4,330)	18,735	**—**	**—**	**18,735**	**—**
(9,885)	29,170	**—**	**(8,170)**	**21,000**	**(8,440)**
(17,960)	74,905	**—**	**(14,305)**	**60,600**	**(10,495)**
—	88,800	**—**	**—**	**88,800**	**—**
(39,760)	264,475	**—**	**(264,475)**	**—**	**—**
(4,585)	174,530	**—**	**(4,735)**	**169,795**	**(4,880)**
(2,375)	10,360	**—**	**(2,455)**	**7,905**	**(2,540)**
—	78,385	**—**	**—**	**78,385**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	208,255	**—**	**—**	**208,255**	**(1,990)**
—	175,000	**—**	**—**	**175,000**	**—**
—	80,000	**—**	**—**	**80,000**	**—**
—	—	**80,000**	**—**	**80,000**	**—**
—	—	**64,345**	**—**	**64,345**	**—**
(16,200)	70,340	**—**	**(21,200)**	**49,140**	**(27,300)**
(62,465)	—	**—**	**—**	**—**	**—**
(7,150)	119,830	**—**	**(119,830)**	**—**	**—**
(7,445)	27,255	**—**	**(27,255)**	**—**	**—**
(92,010)	12,170	**—**	**(12,170)**	**—**	**—**
—	106,690	**—**	**—**	**106,690**	**—**
—	91,165	**—**	**—**	**91,165**	**—**
(8,855)	50,005	**—**	**(9,265)**	**40,740**	**(9,710)**
(2,875)	12,715	**—**	**(2,985)**	**9,730**	**(3,105)**
(5,005)	74,325	**—**	**(5,170)**	**69,155**	**(5,355)**
(12,460)	216,415	**—**	**(216,415)**	**—**	**—**
(30,680)	5,080	**—**	**(1,195)**	**3,885**	**(1,245)**
(500)	147,435	**—**	**(9,155)**	**138,280**	**(9,530)**
—	181,180	**—**	**—**	**181,180**	**—**
—	98,585	**—**	**(98,585)**	**—**	**—**
(14,965)	175,635	**—**	**(70,705)**	**104,930**	**(50,135)**
(605)	—	**—**	**—**	**—**	**—**
(31,220)	—	**—**	**—**	**—**	**—**
—	59,335	**—**	**—**	**59,335**	**—**
—	111,890	**—**	**—**	**111,890**	**—**
—	87,445	**—**	**—**	**87,445**	**—**
(104,820)	—	**—**	**—**	**—**	**—**
—	95,935	**—**	**—**	**95,935**	**(12,070)**
—	10,575	**—**	**—**	**10,575**	**(10,575)**
—	30,335	**—**	**—**	**30,335**	**—**
(25,110)	38,465	**—**	**—**	**38,465**	**—**
—	86,060	**—**	**—**	**86,060**	**—**
(14,565)	43,275	**—**	**(25,465)**	**17,810**	**—**
—	188,900	**—**	**—**	**188,900**	**(114,810)**
—	239,455	**—**	**—**	**239,455**	**—**
—	103,670	**—**	**—**	**103,670**	**—**
—	238,015	**—**	**—**	**238,015**	**—**
—	—	**178,220**	**—**	**178,220**	**—**
—	—	**95,630**	**—**	**95,630**	**—**
—	—	**95,625**	**—**	**95,625**	**—**
—	—	**210,040**	**—**	**210,040**	**—**
—	—	**99,075**	**—**	**99,075**	**—**
(483,650)	4,301,985	**822,935**	**(891,060)**	**4,233,860**	**(253,245)**
(9,153)	—	**—**	**—**	**—**	**—**
(33,434)	202,848	**50,891**	**(41,240)**	**212,499**	**(33,682)**
(544,197)	4,579,738	**873,826**	**(946,605)**	**4,506,959**	**(297,422)**
(141,197)	190,570	**50,706**	**(84,379)**	**156,897**	**(32,966)**
$ (685,394)	$ 4,770,308	**$ 924,532**	**$ (1,030,984)**	**$ 4,663,856**	**$ (330,388)**

(Dollars in thousands)	June 30, 2016	Additions	Reductions	June 30, 2017	**Additions**	**Reductions**	**June 30, 2018**	**Amounts Due Within One Year**
Off-aqueduct power facilities (Note 9f)	$ 14,344	$ —	$ (3,512)	$ 10,832	**$ —**	**$ (10,832)**	**$ —**	**$ —**
Compensated absences	46,897	19,353	(19,927)	46,323	**20,616**	**(19,294)**	**47,645**	**19,700**
Customer deposits and trust funds	93,758	24,414	(72,415)	45,757	**23,950**	**(23,535)**	**46,172**	**6,312**
Workers' Compensation and third party claims (Note 14)	20,047	4,514	(8,884)	15,677	**6,140**	**(8,238)**	**13,579**	**4,083**
Fair value of interest rate swaps (Note 5f)	103,307	—	(36,459)	66,848	**—**	**(22,437)**	**44,411**	**—**
Other long-term liabilities	4,109	1,024	—	5,133	**—**	**(43)**	**5,090**	**2,871**
Total other long-term liabilities	$ 282,462	$ 49,305	$ (141,197)	$ 190,570	**$ 50,706**	**$ (84,379)**	**$ 156,897**	**$ 32,966**

7. 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.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Metropolitan is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Metropolitan's total employer contributions were $31.4 million and $42.8 million for the fiscal years ended June 30, 2018 and 2017, respectively. The employee contribution rate was 6.0 percent and 6.75 percent of annual pay for PEPRA members for the fiscal years ended June 30, 2018 and 2017, respectively, and 7.0 percent of annual pay for Classic members in both years. Metropolitan contributes the full 7.0 percent for Classic members while PEPRA members contribute the full 6.0 percent. At June 30, 2018 and 2017, Metropolitan's pickup of the employee's 7.0 percent share were $12.5 million and $12.0 million, respectively. Payments made by Metropolitan to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

The Plans' provisions and benefits in effect at June 30, 2018 and 2017 are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	36 months
Sick leave credit	Yes	Yes
Retirement age	50-67	52-67
Monthly benefits as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Cost of living adjustment	2.0%	2.0%
Required employee contribution rates		
2018	7.0%	6.00%
2017	7.0%	6.75%
Required employer contribution rates		
2018	22.888%	22.888%
2017	20.747%	20.747%

At June 30, 2016 and 2015, the valuation dates for fiscal years 2018 and 2017, respectively, the following current and former employees were covered by the benefit terms:

	2018	2017
Valuation date	**6/30/16**	6/30/15
Inactive employees (or their beneficiaries) currently receiving benefits	**2,040**	1,976
Inactive employees entitled to but not yet receiving benefits	**949**	978
Active members	**1,782**	1,767
Total	**4,771**	4,721

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Metropolitan's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability at June 30, 2018 and 2017 was measured as of June 30, 2017 and 2016, respectively, using an annual actuarial valuation as of June 30, 2016 and 2015, respectively. The actuarial valuations as of June 30, 2016 and 2015 were rolled forward to June 30, 2017 and 2016, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2017 and 2016 were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial assumptions	
Discount rate	7.15% in 2017 and 7.65% in 2016
Inflation	2.75%
Salary increases	Varies by entry age and service
Mortality rate table[1]	Derived using CalPERS' Membership Data for all Funds
Post-retirement benefit increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

[1] *The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.*

All other actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

For the measurement date of June 30, 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. There was no change of assumptions for the measurement date June 30, 2016.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 measurement dates was 7.15 percent and 7.65 percent, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the discount rate used at June 30, 2017 and 2016 measurement dates was appropriate and the use of the municipal bond rate calculation was not deemed necessary. The long-term expected discount rate of 7.15 percent and 7.65 percent at June 30, 2017 and 2016 measurement dates, respectively, was applied to all plans in the Public Employees Retirement Fund. The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the funds' asset classes (which includes the agent plan and two cost-sharing plans), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2016.

	Current Target Allocation		**Real Return Years 1-10** [1]		**Real Return Years 11+** [2]	
Asset Class	**2017**	2016	**2017**	2016	**2017**	2016
Global Equity	**47.0 %**	51.0 %	**4.90 %**	5.25 %	**5.38 %**	5.71 %
Global Fixed Income	**19.0**	20.0	**0.80**	0.99	**2.27**	2.43
Inflation Sensitive	**6.0**	6.0	**0.60**	0.45	**1.39**	3.36
Private Equity	**12.0**	10.0	**6.60**	6.83	**6.63**	6.95
Real Estate	**11.0**	10.0	**2.80**	4.50	**5.21**	5.13
Infrastructure and Forestland	**3.0**	2.0	**3.90**	4.50	**5.36**	5.09
Liquidity	**2.0**	1.0	**(0.40)**	(0.55)	**(0.90)**	(1.05)
Total	**100.0 %**	100.0 %				

[1] *An expected inflation of 2.5 percent used for this period*

[2] *An expected inflation of 3.0 percent used for this period*

(c) Changes in the Net Pension Liability

The following tables show the changes in net pension liability recognized over the measurement periods of June 30, 2017 and 2016:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
(Dollars in thousands)	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2016 (VD)[1]	**$ 2,115,064**	**$ 1,527,402**	**$ 587,662**
Changes recognized for the measurement period:			
Service cost	33,685	—	33,685
Interest on the total pension liability	156,661	—	156,661
Differences between expected and actual experience	(15,804)	—	(15,804)
Changes of assumptions	125,734	—	125,734
Contributions from the employer	—	42,819	(42,819)
Contributions from employees	—	14,895	(14,895)
Net investment income	—	171,562	(171,562)
Benefit payments, including refunds of employee contributions	(100,092)	(100,092)	—
Administrative expenses	—	(2,255)	2,255
Net Changes	**$ 200,184**	**$ 126,929**	**$ 73,255**
Balance at June 30, 2017 (MD)[1]	**$ 2,315,248**	**$ 1,654,331**	**$ 660,917**

[1] *The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, and fiduciary self-insurance.*

(Dollars in thousands)	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2015 (VD)[1]	**$ 2,038,577**	**$ 1,559,022**	**$ 479,555**
Changes recognized for the measurement period:			
Service cost	29,142	—	29,142
Interest on the total pension liability	152,500	—	152,500
Differences between expected and actual experience	(12,754)	—	(12,754)
Contributions from the employer	—	38,393	(38,393)
Contributions from employees	—	15,034	(15,034)
Net investment income	—	8,304	(8,304)
Benefit payments, including refunds of employee contributions	(92,401)	(92,401)	—
Administrative expenses	—	(950)	950
Net Changes	**$ 76,487**	**$ (31,620)**	**$ 108,107**
Balance at June 30, 2016 (MD)[1]	**$ 2,115,064**	**$ 1,527,402**	**$ 587,662**

[1] *The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, and fiduciary self-insurance.*

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the June 30, 2017 and 2016 measurement dates, calculated using the discount rate of 7.15 percent and 7.65 percent. The table also shows what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

(Dollars in thousands)	**2017**	2016
Discount Rate -1%	**6.15 %**	6.65 %
Net Pension Liability	**$ 960,984**	$ 856,334
Current Discount Rate	**7.15 %**	7.65 %
Net Pension Liability	**$ 660,917**	$ 587,662
Discount Rate +1%	**8.15 %**	8.65 %
Net Pension Liability	**$ 409,894**	$ 362,255

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) for the Plan for the period ending June 30, 2017 measurement date is 3.2 years, which was obtained by dividing the total service years of 15,347 (the sum of remaining service lifetimes of the active employees) by 4,771 (the total number of participants: active, inactive, and retired). The EARSL for the Plan for the June 30, 2016 measurement date is 3.2 years, which was calculated by dividing the total service years of 15,059 by the total number of participants of 4,721. Inactive employees and retirees have remaining service lifetimes equal to zero and total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

(d) Pension Expense, Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2018 and 2017, Metropolitan recognized pension expense of $92.5 million and $50.8 million, respectively. At June 30, 2018 and 2017, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
(Dollars in thousands)	**2018**	2017	**2018**	2017
Pension contributions subsequent to measurement date	**$ 31,404**	$ 42,820	**$ —**	$ —
Differences between expected and actual experience	**917**	5,500	**(15,648)**	(8,768)
Changes of assumptions	**86,442**	—	**(2,188)**	(13,128)
Net difference between projected and actual earnings on pension plan investments	**19,642**	82,026	**—**	—
Total	**$ 138,405**	$ 130,346	**$ (17,836)**	$ (21,896)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal years ended June 30, 2018 and 2017. At June 30, 2018 and 2017, the deferred outflows of resources related to contributions subsequent to the measurement date of $31.4 million and $42.8 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2019 and 2018, respectively.

The net differences between projected and actual earnings on pension plan investments, difference between expected and actual experience, and changes of assumptions will be recognized in future pension expense as follows:

(Dollars in thousands)	Deferred Outflows/(Inflows) of Resources
Fiscal year ending June 30,	
2019	$ 27,213
2020	58,978
2021	15,827
2022	(12,853)
2023	—
Thereafter	—

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description and Benefits Provided

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. For employees hired on or after January 1, 2012, retirees must have a minimum of 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. This benefit was provided to 1,706 and 1,655 retired Metropolitan employees at June 30, 2018 and 2017, 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 and Contributions

Contribution requirements are established by Memorandum of Understandings negotiated between Metropolitan and its various bargaining units. During fiscal year 2018, 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. During fiscal years 2018 and 2017, Metropolitan contributed, net of participant contributions as determined by CalPERS, the full actuarially determined contribution rate of 15.2 percent or $30.1 million and 15.3 percent or $29.3 million, respectively. Employees are not required to contribute to the plan.

(c) New Standard – GASB 75

Effective June 30, 2018, the District adopted GASB 75 which replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The information contained in notes 8(d)-(e) is presented for fiscal year 2017 in accordance with the requirements of GASB 45 for comparative financial statement presentation purposes. The information contained in notes 8(f)-(o) is presented for fiscal year 2018 in accordance with the requirements of GASB 75.

(d) Annual OPEB Cost and Net OPEB Obligation

Metropolitan's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45, which is redefined as actuarially determined contribution (ADC) under GASB 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a defined period. In fiscal year 2008, a 30-year fresh start amortization replaced the previous fiscal year's 20-year amortization period. Gains and losses were amortized over an open 15-year period.

The annual OPEB cost and net OPEB obligation at June 30, 2017 was as follows:

(Dollars in thousands)		June 30, 2017
Annual required contribution	$	29,272
Interest on net OPEB obligation		6,057
Adjustment to annual required contribution		(6,205)
Annual OPEB cost		29,124
Contributions made		(29,272)
(Decrease) increase in net OPEB obligation		(148)
Net OPEB obligation, beginning of year		83,544
Net OPEB obligation, end of year	$	83,396

For fiscal year 2017, Metropolitan's annual OPEB cost was $29.1 million and Metropolitan's contribution to the OPEB trust, which included the pay-as-you-go amount of $15.2 million, was $29.3 million. This contribution represented 100.5 percent of the annual OPEB cost in fiscal year 2017. Adjustments to the ARC include amortization of the unfunded UAAL and actuarial gains and losses. The amortization period for the unfunded UAAL is 23 years closed and the amortization period of actuarial gains and losses is 15 years closed. The required contribution for fiscal year 2017 was based on the June 30, 2015 actuarial valuation using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a 3.0 percent inflation component, and (c) healthcare cost trend rates as follows: (i) Medicare – starting at 7.2 percent, grading down to 5.0 percent over five years, (ii) Non-Medicare – starting at 7.0 percent, grading down to 5.0 percent over five years.

(e) Funded Status and Funding Progress

The funded status of the plan at June 30, 2015, the valuation date for fiscal year 2017, was as follows:

(Dollars in thousands)		
Actuarial accrued liability (AAL)	$	423,420
Actuarial value of plan assets		164,669
Unfunded actuarial accrued liability (UAAL)	$	258,751
Funded ratio (actuarial value of plan assets/AAL)		38.9%
Covered payroll (active plan members)	$	214,476
UAAL as a percentage of covered payroll		120.6%

Actuarial valuations of the ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The schedule of funding progress, presented as RSI following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(f) Employees Covered

At June 30, 2017, the measurement date for fiscal year 2018, the following current and former employees were covered by the benefit terms:

Inactives currently receiving benefits	1,658
Inactives entitled to benefit payments	137
Active employees	1,747
Total	3,542

(g) Net OPEB Liability

Metropolitan's net OPEB liability as of June 30, 2018 was measured as of June 30, 2017.

(Dollars in thousands)		
Total OPEB liability	$	448,095
Fiduciary net position		(207,526)
Net OPEB liability	$	240,569
Funded status		46.3%

(h) Actuarial Assumptions Used to Determine Total OPEB Liability

The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal cost
Actuarial assumptions	
Funding policy	Metropolitan pre-funds full ADC
Discount rate	6.75% at June 30, 2017
Long-term investment rate of return	6.75%, net of investment expenses
General inflation	2.75% per annum
Crossover test assumptions	Employer contributes full ADC
	Administrative expenses = .05% of assets
	Assets are projects to always exceed benefit
Salary increases	3.0% per annum
Mortality, disability, termination, retirement[1]	Derived using CalPERS Membership Data
Mortality improvement	Mortality projected full generational with Society of Actuaries mortality improvement Scale MP-17
Healthcare cost trend rate	Pre-Medicare: 7.5% for 2019 decreasing to 4.0% for 2076 and later
	Medicare: 6.5% for 2019, decreasing to 4.0% for 2076 and later
Healthcare participation for future retirees	Currently covered: 100%; Currently waived: 90%
ACA excise tax	Estimated by 2% load on retiree medical premium subsidy

[1] Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The pre-retirement turnover information was developed based on CalPERS' specific data collected during the 2007 to 2011 Experience Study Report.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	**Target Allocation**	**Long-term expected real rate of return**
Global equity	57.0%	4.82%
Fixed income	27.0%	1.47%
TIPS	5.0%	1.29%
Commodities	3.0%	0.84%
REITs	8.0%	3.76%
Total	100.0%	

(i) Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Metropolitan contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

(j) Changes in the OPEB Liability

The following table shows the changes in the net OPEB liability for the year ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
(Dollars in thousands)	(a)	(b)	(c) = (a) - (b)
Balance at June 30, 2016 (MD)	**$ 428,645**	**$ 172,720**	**$ 255,925**
Changes recognized for the measurement period:			
Service cost	10,024	—	10,024
Interest	28,951	—	28,951
Changes of benefit terms	—	—	—
Difference between expected and actual experience	—	—	—
Changes of assumptions	—	—	—
Contributions - employer	—	33,646	(33,646)
Contributions - employee	—	—	—
Net investment income	—	20,792	(20,792)
Benefit payments	(19,525)	(19,525)	—
Administrative expense	—	(107)	107
Net changes	**$ 19,450**	**$ 34,806**	**$ (15,356)**
Balance at June 30, 2017 (MD)	**$ 448,095**	**$ 207,526**	**$ 240,569**

(k) Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the OPEB Plan as of the June 30, 2017 measurement date, calculated using the discount rate of 6.75 percent. This table also shows what the net OPEB liability would if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

(Dollars in thousands)		
Discount Rate -1%		**5.75 %**
Net OPEB Liability	**$**	**299,261**
Current Discount Rate		**6.75 %**
Net OPEB Liability	**$**	**240,569**
Discount Rate +1%		**7.75 %**
Net OPEB Liability	**$**	**192,021**

(l) Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the OPEB Plan if it were calculated using a healthcare trend rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

(Dollars in thousands)		
Healthcare Trend Rate -1%		**6.5%/5.5 % decreasing to 3.0 %**
Net OPEB Liability	**$**	**188,057**
Current Healthcare Trend Rate		**7.5%/6.5 % decreasing to 4.0 %**
Net OPEB Liability	**$**	**240,569**
Healthcare Trend Rate +1%		**8.5%/7.5 % decreasing to 5.0 %**
Net OPEB Liability	**$**	**304,532**

(m) OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued California Employer's Retiree Benefit Trust (CERBT) Fund financial reports.

(n) Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

(o) OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, Metropolitan recognized OPEB expense of $25.2 million. At June 30, 2018, Metropolitan has deferred outflows and inflows of resources related to OPEB as follows:

(Dollars in thousands)	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 34,674	$ —
Net difference between projected and actual earnings on OPEB plan investments	—	6,928
Total	$ 34,674	$ 6,928

The $34.7 million reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. The $6.9 million reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

(Dollars in thousands)		Deferred Inflows of Resources
Fiscal year ending June 30,		
2019	$	(1,732)
2020		(1,732)
2021		(1,732)
2022		(1,732)
2023		—
Thereafter		—

9. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 10)

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:

(Dollars in thousands)		State Water Contract Payments
Year ending June 30:		
2019	$	407,410
2020		420,264
2021		448,024
2022		449,645
2023		450,968

According to the State's latest estimates, Metropolitan's long-term commitments under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

(Dollars in thousands)		State Water Long-Term Commitments
Transportation facilities	$	3,718,255
Conservation facilities		2,277,097
Off-aqueduct power facilities (see Note 9f) (1)		6,771
East Branch enlargement		392,804
Revenue bond surcharge		872,424
Total long-term SWP contract commitments	$	7,267,351

(1) *These commitments represent operations and maintenance costs. Metropolitan was relieved of it's obligation for capital costs in 2018.*

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. 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 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 which addressed a full array of issues, including land use, infrastructure, flood protection, and natural resources including water supply. The BRTF released its final Delta Vision Strategic Plan in October 2008 and a final implementation report was submitted 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 Delta Plan anticipated the need for periodic reviews and updates in response to changing circumstances and conditions in the Delta. The DSC amended the Delta Plan in February 2016 to include an initial set of performance measures in September 2016 to exempt single-year water transfers from consideration as covered actions. DSC adopted three amendments to the Delta Plan in April 2018, including Chapter 3 updating the section on Conveyance, Storage and Operations, Chapter 7 updating the section on the Delta Levee Investment Strategy and Appendix E updating performance measures. A fourth proposed update on Ecosystem which calls for agencies to restore aquatic habitat and improve water quality while respecting local land uses and expanding opportunities for nature-based recreation and tourism is currently being developed.

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. On April 30, 2015, the state announced its intent to include new alternatives separating the conveyance facilities and habitat restoration measures into two separate permitting efforts namely: California WaterFix and California EcoRestore. 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. On October 10, 2017, the Board of Directors approved Metropolitan's participation in the project for a defined 25.9 percent share of a 9,000 cubic foot per second (cfs) facility. On February 8, 2018 however, DWR announced that the California WaterFix would potentially be constructed in two stages. The potential direction was based on the funding commitments made available by the public water agencies at that time. The first stage would meet the needs of water agencies that voted to fund the project while the second stage would be constructed at a time when additional agencies choose to participate in the project. On April 10, 2018, the Board approved supporting the full 9,000 cfs facility with increased financial support for the unsubscribed portion of the project up to 64.6 percent of the total project costs. However, Metropolitan rescinded its April 10th action and took a new vote at the Board's July 10, 2018 meeting following a notice received from two organizations alleging violations of the Brown Act in connection with the April 10th meeting. The revote on July 10, 2018, approved the additional Metropolitan financing and funding arrangements for California WaterFix up to 64.6 percent or approximately $10.8 billion of total project costs estimated to be $16.7 billion.

(c) Imperial Irrigation District

As of June 30, 2018, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $324.4 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 105,000 acre-feet will be/was available in calendar years 2018 and 2017, respectively, for diversion by Metropolitan (see Note 4a).

(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 9e). 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 from IID to SDCWA. In 2003, 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 calculated using 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's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 9h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan's Board 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's Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 8, 2018, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. 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 and the Coachella Valley Water District (CVWD). 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

DWR 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 were 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. Metropolitan's estimated remaining long-term contractual obligations as of June 30, 2017, was $9.6 million which was based on the State's latest estimates, including average interest of 5.2 percent through the year 2027. However, the State relieved Metropolitan of its obligation during the year ended June 30, 2018.

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2019 through 2023 totals approximately $1.41 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdowns constraints, anticipated expenditures are forecasted at $200 million per year for the next 2 years and $250 million per year in fiscal years 2021 through 2023.

Over the next three years, Capital Investment Plan spending totals approximately $797 million with over $650 million targeted for major efforts such as seismic retrofits and mechanical and electrical refurbishments to major components of the Colorado River Aqueduct and Metropolitan's water treatment plants, rehabilitation through relining of the Prestressed Concrete Cylinder Pipe portions of the Allen McColloch and Rialto Pipelines, and Calabasas, Second Lower, and Sepulveda feeders, replacement/upgrade to the Supervisory Control and Data Acquisition (SCADA) system, and the Los Angeles headquarters building seismic and security upgrades.

With the completion of all major construction under the Oxidation Retrofit Program, estimated capital costs for new facilities and/or improvements that may be required to meet current water quality standards over the next 3 years are $3.3 million (see Note 9i).

Metropolitan had commitments under construction contracts in force as follows:

	June 30,	
(Dollars in thousands)	**2018**	2017
Furnishing steel pipe for Second Lower Feeder PCCP rehabilitation - reaches 2 and 4	**$ 12,069**	$ —
Orange County Region service center	**8,726**	—
Advanced Water Treatment Demonstration Facility	**6,774**	—
Intake pumping plant 2.4kV power line relocation	**5,554**	—
Furnishing valve actuators for Diemer water treatment plant	**5,413**	—
Furnishing butterfly valves for Weymouth water treatment plant	**4,866**	—
Palos Verdes reservoir cover and liner replacement	**4,021**	20,148
Diemer filter outlet conduit seismic upgrade	**3,998**	—
Weymouth domestic water systems improvement	**3,740**	—
Colorado River Aqueduct surge chambers discharge line bypass covers	**2,471**	—
Weymouth west washwater tank seismic upgrades	**2,428**	—
Mills electrical upgrades - stage 1A	**2,308**	—
Furnishing lubricated plug valves for Second Lower Feeder	**2,247**	—
Furnishing horizontal axially split centrifugal pumps for the Greg Avenue pump station	**1,419**	1,419
Eagle Mountain pumping plant reservoir spillway radial gate replacement	**986**	—
Jensen inlet water quality instrumentation enclosure	**949**	—
Colorado River Aqueduct uninterruptible power supply replacement	**920**	—
Colorado River Aqueduct pumping plants seismic retrofit 6.9 kV switch houses	**853**	5,575
Second Lower Feeder PCCP rehabilitation - reach 1	**497**	—
Jensen solar power facility	**145**	1,681
Diemer administration building seismic upgrades	**118**	3,536
Weymouth chemical upgrades	**88**	1,461
Colorado River Aqueduct whitewater siphon erosion protection	**42**	5,175
Employee housing rehabilitation at Iron Mountain and Gene pumping plants	**37**	1,220
Jensen electrical upgrades - stage 1A	**24**	3,510
Employee housing rehabilitation at Julian Hinds and Eagle Mountain pumping plants	**7**	1,220
Furnishing steel pipe for Second Lower Feeder PCCP - reach 1	**—**	9,134
Diamond Valley Lake inlet/outlet tower fish screen replacement	**—**	1,359
Colorado River Aqueduct pumping plants delivery pipe expansion joint repairs phase 2	**—**	1,049
Colorado River Aqueduct sand trap equipment replacement	**—**	695
Chemical unloading facility chlorine containment and handling facilities	**—**	191
Other	**4,242**	2,919
Total	**$ 74,942**	$ 62,072

These commitments are being financed with operating revenues and debt financing.

(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 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 rates and not to transportation rates. Rates in effect in prior years are not challenged in this lawsuit.

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 were for breach of the Exchange Agreement between Metropolitan and SDCWA (see Note 9d) 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 contained 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 contained 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.

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, expressly ruling that SDCWA may not allege a violation of Proposition 26 in its challenge to the rates adopted in April 2010. This ruling did not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations.

Following trial of both lawsuits in two phases, concluding on January 23, 2014 and April 30, 2015, respectively, the Superior Court of the State of California, County of San Francisco (the "Superior Court"), issued its Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. Metropolitan appealed the trial court's decision in each case, and SDCWA filed a cross-appeal of the court's ruling on the rate structure integrity claim and an attorneys' fees order.

On June 21, 2017, the California Court of Appeal released its decision in the appeals and cross-appeal filed by Metropolitan and SDCWA, respectively. The Court of Appeal ruled that Metropolitan may lawfully include its State Water Project transportation costs in the System Access Rate and System Power Rate that are part of the Exchange Agreement's price term, and may also lawfully include the System Access Rate in the wheeling rate, reversing the trial court decision on this issue. The Court held Metropolitan's allocation of the State Water Project transportation costs as its own transportation costs is proper and does not violate the wheeling statutes (Water Code, § 1810, et seq.), Proposition 26 (Cal. Const., art. XIII C, §1, subd. (e)), Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the administrative record before it for the rates in calendar years 2011 through 2014 did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and wheeling statutes. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. The court did not address the allocation of the Water Stewardship Rate in subsequent years based on a different record. The court noted, and in a subsequent modification confirmed, that its holding does not preclude Metropolitan from including the Water Stewardship Rate in Metropolitan's full service rate.

The Court of Appeal held that because the Water Stewardship Rate was included in the Exchange Agreement price, there was a breach by Metropolitan of the agreement in 2011 through 2014. The court remanded the case to the trial court for a redetermination of damages in light of its ruling concerning the Water Stewardship Rate. The Court of Appeal agreed with the trial court that statutory prejudgment interest applies with respect to any damages award, not a lesser contractual interest. The court reversed the trial court by finding that the Exchange Agreement may entitle SDCWA to attorneys' fees for the second phase of the case concerning breach of contract, but directed the trial court on remand to make a new determination of the prevailing party, if any. The cases were therefore remanded to the trial court for a review of both damages and attorneys' fees.

With respect to other issues considered on appeal, the Court of Appeal upheld the trial court's ruling that Metropolitan improperly excludes SDCWA's payments under the Exchange Agreement in Metropolitan's calculation of SDCWA's preferential rights. The court also ruled that SDCWA had the constitutional right to challenge the rate structure integrity provision in Metropolitan's conservation and local resources incentive agreements, and found that the rate structure integrity provision was invalid and unenforceable as an unconstitutional condition on the provision of a public benefit.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final. On July 25, 2018, the Superior Court issued an order regarding the scope of the matters to be reconsidered by the Superior Court on remand pursuant to the Court of Appeal decision.

With respect to the Superior Court's re-determination of damages in light of the Court of Appeal's ruling that the administrative record for calendar years 2011 through 2014 did not support Metropolitan's inclusion of its demand management costs in the Exchange Agreement price, the Superior Court ruled that it will award SDCWA $28,678,190.90 in contract damages for breach of the Exchange Agreement, plus prejudgment interest at 10 percent per annum. The Superior Court determined that Metropolitan is not entitled in the remand proceedings to show what it could have lawfully charged SDCWA for demand management costs and to deduct that amount from SDCWA's damages. The Superior Court further ruled that SDCWA is not entitled to litigate the issue of "offsetting benefits" under the wheeling statutes for the parties' Exchange Agreement. The Superior Court found that such claim is both outside the scope of remand and waived.

The Superior Court also ruled that SDCWA is entitled to judgment on its declaratory relief cause of action declaring the rate structure integrity provision invalid and unenforceable, SDCWA is entitled to further proceedings to litigate the issue of an entitlement to monetary restitution for 2011 through 2014, and the parties shall also litigate in further proceedings the issue of what prospective relief SDCWA may be entitled to in connection with this cause of action.

Finally, the Superior Court confirmed, as the parties agreed, that it will conduct further proceedings for a redetermination of the prevailing party and attorneys' fees in this matter.

On September 14, 2018, Metropolitan filed a Petition for Writ of Mandate with the California Court of Appeal, requesting the court to require the Superior Court to recalculate contract damages for breach of the Exchange Agreement, to include a set-off for the additional sums SDCWA would have paid had Metropolitan collected the Water Stewardship Rate through the price charged to water purchasers as SDCWA argued was correct.

Due to SDCWA's litigation challenging Metropolitan's rates, and pursuant to the Exchange Agreement between Metropolitan and SDCWA, as of September 30, 2018, Metropolitan held $55.2 million in a designated fund, the Exchange Agreement Set-Aside Fund. See "–Financial Reserve Policy." This amount contains the disputed Water Stewardship Rate payments for calendar years 2011 through the present, and interest earned by Metropolitan thereon. The amount held does not include statutory prejudgment interest or any post-judgment interest, attorneys' fees, or costs the Court may award. The Set-Aside Fund also does not include any amounts applicable to the rate structure integrity declaratory relief cause of action, because that claim does not involve disputed payments under the Exchange Agreement.

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 San Francisco Superior Court ordered that the case be 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. Following a stipulated order issued by the court on November 10, 2016, SDCWA filed a First Amended Petition for Writ of Mandate and Complaint and the court ordered the case stayed pending final resolution of the 2010 and 2012 SDCWA v. Metropolitan cases' appeals. The amended petition/complaint adds allegations of the same Exchange Agreement breach as 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; 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. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 9, 2017, SDCWA filed a new Petition for Writ of Mandate and Complaint challenging the Readiness-to-Serve (RTS) Charge and Capacity Charge for 2018 adopted by Metropolitan's Board on April 11, 2017. These two charges are set annually, and SDCWA's 2016 lawsuit included a challenge to these two charges for 2017. The new lawsuit similarly alleges the 2018 RTS Charge and Capacity Charge violate the California Constitution, statutes, and common law. The petition/complaint asserts misallocation of costs. Metropolitan was served with the petition/complaint on June 20, 2017. On July 18, 2017, SDCWA filed a first amended petition/complaint to add the Metropolitan's Board action of July 11, 2017 to make minor corrections to the RTS Charge. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

On June 8, 2018, SDCWA filed a new lawsuit in Los Angeles Superior Court that alleges all rates and charges for 2019 and 2020 adopted by Metropolitan's Board on April 10, 2018 violate the California Constitution, statutes, and common law. The Petition for Writ of Mandate and Complaint asserts the Water Stewardship Rate is unlawful per se and its collection in transportation charges is also unlawful; failure to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, *et seq.*, which SDCWA contends (and Metropolitan disputes) applies to the parties' Exchange Agreement; over-collection and misallocation of costs, including misallocation of Metropolitan's California WaterFix costs as its transportation costs; and specified procedural violations. SDCWA states in the Petition and Complaint that it intends to amend its complaint to allege additional claims against Metropolitan, including but not limited to a claim for breach of contract. 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 was completed in October 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, 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 fiscal year 2017. During fiscal year 2018, approximately $10,000 was expended for postclosure maintenance and monitoring activities.

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. At June 30, 2018 and 2017, approximately $800,000 and $810,000 net of interest receipts and disbursements were available, respectively, in this account.

10. 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 9a). 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 34 percent and 31 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2018 and 2017, respectively, pertained to its net payment obligations for the State Water Project. These payments 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 2085, under similar terms, based on the Agreement in Principle reached in 2014. This corresponds to an estimated 125-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 9f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h, 2, and 9a). 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 as previous estimates of total production were less reliable than expected. Amortization expense totaled $131.1 million and $127.4 million in fiscal years 2018 and 2017, respectively.

11. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2018 and 2017 were as follows:

	June 30,	
(Dollars in thousands)	**2018**	2017
Prepaid water costs	**$ 173,736**	$ 107,024
Prepaid costs-Delta Habitat conservation and conveyance	**58,627**	58,627
Prepaid expenses	**9,486**	9,353
Preliminary design/reimbursable projects	**13,413**	11,771
Other	**13,452**	7,356
Total deposits, prepaid costs, and other	**268,714**	194,131
Less current portion	**(1,611)**	(2,606)
Noncurrent portion	**$ 267,103**	$ 191,525

(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 June 30, 2018 and 2017, prepaid water costs totaled approximately $173.7 million and $107.0 million, respectively, based on volumes of 856,000 acre-feet and 540,000 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 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 which was later on adapted as California WaterFix (see Note 9b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. With the approval of the California WaterFix, DWR intends to refund Metropolitan for funds advanced through these agreement for planning and environmental studies through bond financing actions.

(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. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $2.3 million at June 30, 2017. In July, 2017, the remaining unspent fund was returned to Metropolitan and the project was closed out.

(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.

12. 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 June 30, 2018 and 2017, 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. At June 30, 2018 and 2017, 1,626 and 1,624 employees participated in the consolidated 401(k) plan. 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.

Contributions to the savings plan were as follows:

	June 30,	
(Dollars in thousands)	**2018**	2017
Employees	**$ 20,543**	$ 20,828
Metropolitan	**8,803**	8,644
	$ 29,346	$ 29,472
Eligible payroll	**$ 222,089**	$ 217,145
Employee contributions as percent of eligible payroll	**9.2%**	9.6%

13. 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 deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Notes 1g and 2), participation rights in State Water Project (Notes 1h, 2, and 10), and participation rights in other facilities (Notes 2 and 4). Net investment in capital assets, including State Water Project costs were approximately $5.9 billion at June 30, 2018 and 2017.

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 $407.0 million and $406.8 million at June 30, 2018 and 2017, respectively, of which $201.4 million and $224.6 million, respectively, represents principal and interest set aside for the next bond payment. The remaining $205.6 million and $182.2 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year. 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 $388.8 million and $403.8 million at June 30, 2018 and 2017, respectively.

14. 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, fiduciary liability and directors' and officers' liability, and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage, $60.0 million excess fiduciary liability coverage, $65.0 million excess for directors' and officers' liability coverage, and statutory limits excess workers' compensation coverage. Special insurance policies carried 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 2018 were unchanged from fiscal year 2017. 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 percent annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past three fiscal years were as follows:

	June 30,		
(Dollars in Thousands)	**2018**	2017	2016
Unpaid claims, beginning of fiscal year	**$ 15,677**	$ 20,047	$ 19,798
Incurred claims (including IBNR)	**6,140**	4,514	5,321
Claim payments and adjustments	**(8,238)**	(8,884)	(5,072)
Unpaid claims, end of fiscal year	**13,579**	15,677	20,047
Less current portion	**(4,083)**	(5,109)	(9,500)
Noncurrent portion	**$ 9,496**	$ 10,568	$ 10,547

15. SUBSEQUENT EVENT

On July 19, 2018, Metropolitan replaced the SBPA supporting the $103.7 million, Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2, with a new SBPA. The Bank Bonds that would be issued under the new SBPA would bear interest at a rate that is the "base rate", which is the higher of the Fed Funds Rate plus 2.00 percent per annum, the Prime Rate plus 1.00 percent per annum, or 7.00 percent, plus one percent. The principal of the Bank Bonds would be payable in ten equal semi-annual installments commencing 180 days after purchase by the bank. 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.

On August 1, 2018, Metropolitan entered into a Note Purchase and Continuing Covenant Agreement with Bank of America, N.A. (BANA, and the 2018 BANA Agreement), for the purchase by BANA and sale by Metropolitan of up to $86.0 million of Metropolitan's Short-Term Revenue Certificates, 2018 Series A (the Series 2018 Notes). Proceeds were used to provide funding for costs related to the California WaterFix. The Series 2018 Notes will bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2018 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 2018 BANA Agreement as a Subordinate Lien Parity Obligation. The 2018 Notes are subject to mandatory tender for purchase on the scheduled mandatory tender date of July 31, 2020, 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.

On August 16, 2018, Metropolitan amended the RBC Facilities to extend the expiration date from April 5, 2019 to April 5, 2022.

In August 2018, Metropolitan entered into an advance funding agreement with DWR for preconstruction planning costs of the California WaterFix. The agreement provides funding of approximately $41.5 million for Metropolitan's share (33 percent). The first disbursement of $23.4 million was remitted on October 1, 2018. The full funding amount will be remitted by December 2018. DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions.

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

June 30, 2018 and 2017

(Dollars in thousands)	2018	2017	2016	2015
TOTAL PENSION LIABILITY				
Service cost	**$ 33,685**	$ 29,142	$ 28,890	$ 28,505
Interest on total pension liability	**156,661**	152,500	146,852	139,190
Changes of assumptions	**125,734**	—	(35,008)	—
Difference between expected and actual experience	**(15,804)**	(12,754)	14,665	—
Benefit payments, including refunds of employee contributions	**(100,092)**	(92,401)	(86,154)	(81,391)
Net change in total pension liability	**200,184**	76,487	69,245	86,304
Total pension liability - beginning	**2,115,064**	2,038,577	1,969,332	1,883,028
Total pension liability - ending (a)	**$ 2,315,248**	$ 2,115,064	$ 2,038,577	$ 1,969,332
PLAN FIDUCIARY NET POSITION				
Contribution - Employer	**$ 42,819**	$ 38,393	$ 34,306	$ 33,853
Contribution - Employee	**14,895**	15,034	14,787	15,185
Net investment income[1]	**171,562**	8,304	35,301	236,746
Benefit payments, including refunds of employee contributions	**(100,092)**	(92,401)	(86,154)	(81,391)
Administrative expense	**(2,255)**	(950)	(1,756)	—
Net change in fiduciary net position	**126,929**	(31,620)	(3,516)	204,393
Plan fiduciary net position - beginning	**1,527,402**	1,559,022	1,562,538	1,358,145
Plan fiduciary net position - ending (b)	**$ 1,654,331**	$ 1,527,402	$ 1,559,022	$ 1,562,538
Plan net pension liability - ending (a) - (b)	**$ 660,917**	$ 587,662	$ 479,555	$ 406,794
Plan fiduciary net position as a percentage of the total pension liability	**71.45%**	72.22%	76.48%	79.34%
Covered payroll	**$ 199,186**	$ 195,878	$ 190,423	$ 186,850
Plan net pension liability as a percentage of covered payroll	**331.81%**	300.01%	251.84%	217.71%

[1] *2015 amount was net of administrative expenses of $1,972.*

[2] *GASB 68 requires ten years of information be presented but only four years are available at this time. Additional years' information will be displayed as it becomes available.*

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: In 2018, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2017, there were no changes. In 2016, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2015, amounts reported were based on the 7.5 percent discount rate.

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

(CONTINUED)

June 30, 2018 and 2017

(Dollars in thousands)	**2018**	2017	2016	2015
Actuarially determined contribution	**$ 31,404**	$ 42,820	$ 38,393	$ 34,305
Contributions in relation to the actuarially determined contribution	**(31,404)**	(42,820)	(38,393)	(34,305)
Contribution deficiency (excess)	**$ —**	$ —	$ —	$ —
Covered payroll	**$ 204,635**	$ 199,186	$ 195,878	$ 190,423
Contributions as a percentage of covered payroll	**15.35%**	21.50%	19.60%	18.02%

[1] *GASB 68 requires ten years of information be presented but only four years are available at this time. Additional years' information will be displayed as it becomes available.*

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2018:

Valuation date: June 30, 2015

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 20 year period
Asset Valuation Method	Investment gains/losses spread over 5 year rolling period with 20% market value corridor
Discount rate	7.25%
Inflation	3.00%
Mortality, disability, termination, retirement	CalPERS 1997-2011 Experience Study
Medical trend	Pre-Medicare - 7.0% for 2017, decreasing to 5.0% for 2021 and later Medicare - 7.2% for 2017, decreasing to 5.0% for 2021 and later
Mortality improvement	Mortality projected fully generational with Scale MP-2014, modified to converge to ultimate improvement rates in 2022

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
(CONTINUED)
June 30, 2018 and 2017

(Dollars in thousands)		2018
TOTAL OPEB LIABILITY		
Service cost	$	10,024
Interest on total OPEB liability		28,951
Benefit payments		(19,525)
Net change in total OPEB liability		19,450
Total OPEB liability - beginning		428,645
Total OPEB liability - ending (a)	$	448,095
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	$	33,646
Net investment income		20,792
Benefit payment		(19,525)
Administrative expense		(107)
Net change in fiduciary net position		34,806
Plan fiduciary net position - beginning		172,720
Plan fiduciary net position - ending (b)	$	207,526
Plan net OPEB liability - ending (a) - (b)	$	240,569
Plan fiduciary net position as a percentage of the total OPEB liability		46.31%
Covered payroll	$	199,186
Plan net OPEB liability as a percentage of covered payroll		120.78%

[1] *Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.*

Schedule of Plan Contributions

(Dollars in thousands)		**2018**
Actuarially determined contribution	**$**	**30,086**
Contributions in relation to the actuarially determined contribution		**(34,674)**
Contribution deficiency (excess)	**$**	**(4,588)**
Covered payroll	**$**	**204,635**
Contributions as a percentage of covered payroll		**16.94%**

[1] *Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.*

Notes to Schedule:

Methods and assumptions used to set the actuarially determined contribution rates for fiscal year 2018 were from the June 30, 2015 actuarial valuation:

Actuarial Cost Method	Entry age, level percentage of payroll
Amortization Method/Period	Level percentage of payroll over 20 year period
Asset Valuation Method	Investment gains/losses spread over 5 year rolling period with 20% market value corridor
Discount rate	7.25%
Inflation	3.00%
Mortality, disability, termination, retirement	CalPERS 1997-2011 Experience Study
Medical trend	Pre-Medicare - 7.0% for 2017, decreasing to 5.0% for 2021 and later Medicare - 7.2% for 2017, decreasing to 5.0% for 2021 and later
Mortality improvement	Mortality projected fully generational with Scale MP-2014, modified to converge to ultimate improvement rates in 2022

Funding Progress of Other Postemployment Benefits

The table below provides a history of the funded status of Metropolitan's OPEB obligation. The information reflects the most recent biennial actuarial valuation and the preceding biennial valuations.

(Dollars in thousands)

Actuarial Valuation Date	Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/13	$ 315,326	$ —	$ 315,326	—	$ 182,937	172.4%
6/30/15	$ 423,420	$ 164,669	$ 258,751	38.89%	$ 190,423	135.9%
6/30/17*	$ 448,095	$ 212,612	$ 235,483	47.45%	$ 199,186	118.2%

* Most recent actuarial valuation date.