THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA

Basic Financial Statements

Years ended June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

Certified
Public
Accountants

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June 30, 2017 and 2016

MGO Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Metropolitan Water District of Southern California (Metropolitan) as of and for the year ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Metropolitan's basic financial statements 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Water District of Southern California, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 9(h) to the basic financial statements, the San Diego County Water Authority (SDCWA) has filed various lawsuits against Metropolitan challenging Metropolitan's rates and charges effective 2011 to 2018. On November 18, 2015, the Superior Court of California, County of San Francisco (the Court) issued a final judgment and a peremptory writ of mandate in favor of SDCWA with respect to certain of these cases awarding SDCWA $188.3 million in damages and $46.6 million of prejudgment interest for a total judgment of $234.9 million plus $8.9 million of attorney fees. Metropolitan filed a Notice of Appeal and on June 21, 2017, the California Court of Appeal ruled that Metropolitan may lawfully include its State Water Project transportation costs in the System Access Rate and System Power Rate and may lawfully include the System Access Rate in the wheeling rate but may not include its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rates. The Court also ruled that inclusion of the Water Stewardship Rate in the Exchange Agreement price was a breach by Metropolitan of the Agreement. On July 31, 2017, SDCWA filed a petition for review with the California Supreme Court and on September 27, 2017, the California Supreme Court denied the petition. The 2010 and 2012 cases will now be returned to the trial court for a redetermination of damages. As the estimated liability is indeterminable at this time, no amounts have been presently recorded in the financial statements. Further, Metropolitan is unable to assess at this time the likelihood of success of the litigation or appeals on the rates and charges that became effective in 2013 to 2017 and on the rates and charges that will become effective in 2018. Metropolitan is also unable to assess at this time the likelihood of success of future claims. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and information related to the pension and other postemployment benefits plans on pages 3-15 and 84-86, respectively, 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 audit 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.

Macias Gini & O'Connell LLP

Newport Beach, California
October 13, 2017

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, 2017 and 2016. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

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

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

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	June 30, 2017	2016	2015 As Adjusted [1]
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,534.1**	$ 10,339.4	$ 10,098.1
Other assets	**1,901.8**	2,046.4	2,209.7
Deferred outflows of resources	**224.5**	191.5	178.3
Total assets and deferred outflows of resources	**12,660.4**	12,577.3	12,486.1
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**5,063.2**	5,011.3	4,950.9
Other liabilities	**817.6**	842.1	544.3
Deferred inflows of resources	**21.9**	40.1	109.2
Total liabilities and deferred inflows of resources	**5,902.7**	5,893.5	5,604.4
Net position			
Net investment in capital assets, including State Water Project costs	**5,947.1**	5,772.4	5,572.5
Restricted	**406.8**	382.8	442.0
Unrestricted	**403.8**	528.6	867.2
Total net position	**$ 6,757.7**	$ 6,683.8	$ 6,881.7

[1] *Related to the adoption of GASB 68 and GASB 71.*

Capital Assets, Net

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

Fiscal Year 2017 Compared to 2016. At June 30, 2017, net capital assets totaled $10.5 billion, or 82.8 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 Mods 1 and 2. See the capital assets section below for additional information.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, net capital assets totaled $10.3 billion, or 82.2 percent, of total assets and deferred outflows of resources, and were $241.3 million higher than the prior year. The increase was primarily due to a $256.4 million Board approved land purchase in the Palo Verde Irrigation District (PVID) in July 2015. Additional increases included Metropolitan's continued expenditures on the capital investment plan of $254.5 million (including $24.7 million of capitalized interest) and net capital payments for participation rights in the State Water Project and other facilities of $103.0 million. These increases were offset by depreciation and amortization of $372.6 million. See the capital assets section below for additional information.

Other Assets

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

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 thousand acre-feet (TAF) less than the prior year's comparable months, and $10.2 million of lower other receivables primarily due to the $13.9 million postemployment benefits other than pensions (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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, other assets totaled $2.0 billion and were $163.3 million lower than the prior year. Included in the decrease were $129.2 million of lower cash and investments and $45.7 million of lower deposits, prepaid costs, and other primarily due to $42.6 million of lower prepaid water costs or 227.2 TAF. These decreases were offset by $22.8 million more of water inventory due to an increase in water storage of 144.5 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 deferred outflows for effective interest rate swaps.

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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, deferred outflows totaled $191.5 million and were $13.2 million higher than the prior year. Included in the increase were $22.8 million more of deferred outflows on effective swaps due to lower interest rates and $14.2 million higher deferred outflows related to the net pension liability due to a $10.1 million difference between expected versus actual experience. These increases were offset by $20.6 million less of deferred outflows related to loss on bond refundings due to $11.1 million of refunding transactions and $9.5 million of scheduled amortization.

Long-term Liabilities, Net of Current Portion

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

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 the San Luis Rey trust 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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, long-term liabilities, net of current portion, totaled $5.0 billion and were $60.4 million higher than the prior year. The increase included $72.8 million more of net pension liability due to $82.3 million decrease of actual pension plan investment earnings as compared to the prior year and $38.7 million of pension expense, offset by $34.3 million of employer contributions. In addition, fair value of interest rate swaps increased $22.8 million due to lower interest rates as compared to the prior year. These increases were offset by $39.8 million of lower long-term debt, net of current portion as $87.4 million of self-liquidity bonds became current when the Revolving Credit Agreement (RCA) expired in March 2016. 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 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 pay down, $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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, other liabilities totaled $842.1 million, and were $297.8 million higher than the prior year primarily due to $250.0 million of revolving notes issued by Metropolitan in fiscal year 2016. In addition, current portion of long-term debt increased $85.0 million as the RCA that covered the $87.4 million 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds expired in March 2016. Offsetting these increases was $28.3 million lower accounts payable and accrued expenses, which included $14.9 million less of various vendor costs and $14.9 million less of conservation credits due to lower participation in the non-turf related conservation program.

Deferred Inflows of Resources

Deferred inflows of resources represent deferred inflows related to the net pension liability.

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 decrease included $16.1 related to 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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, deferred inflows of resources totaled $40.1 million, and were $69.1 million lower than the prior year due to $93.2 million lower actual pension plan investment earnings as compared to prior year partially offset by $24.1 million of deferred pension expenses due to change in assumptions.

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 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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, net investment in capital assets, including State Water Project costs totaled $5.8 billion and was $199.9 million more than the prior year. This increase included $241.3 million net increase in capital assets offset by $45.2 million 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 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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, restricted net position totaled $382.8 million which was $59.2 million lower than fiscal year 2015 primarily due to $63.7 million of lower 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 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 net income before contributions of $73.9 million.

Fiscal Year 2016 Compared to 2015. Unrestricted net position of $528.6 million decreased $338.6 million from the prior year, which included $199.9 million net investment in capital assets and the fiscal year 2016 net loss before contributions of $200.0 million partially offset by $59.2 million of lower restricted net position requirements for debt service and operating expenses.

CHANGES IN NET POSITION

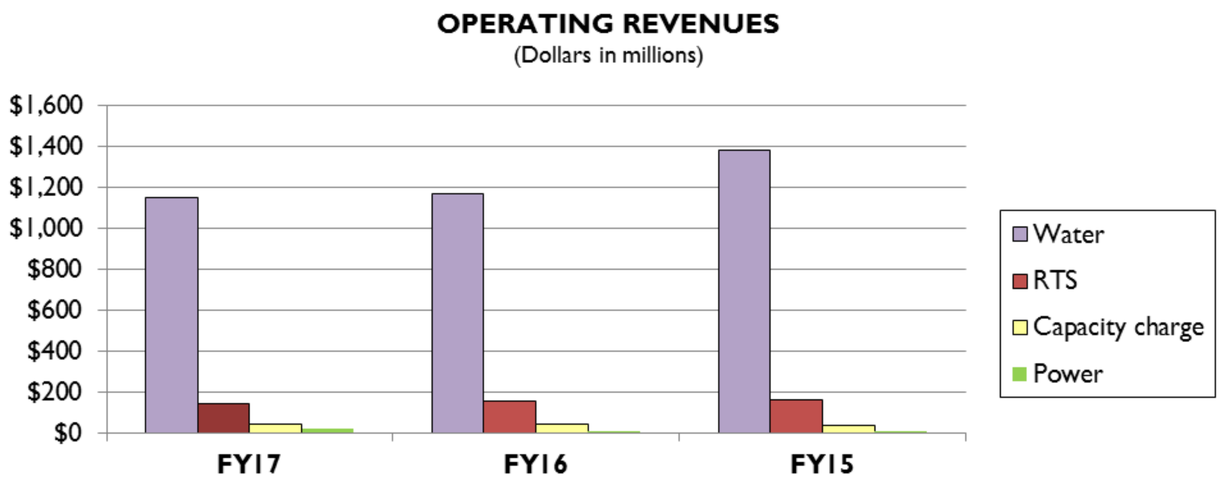
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30,		
	2017	2016	2015
(Dollars in millions)			As Adjusted [1]
Water sales	**$ 1,150.5**	$ 1,166.0	$ 1,382.9
Readiness-to-serve charges	**144.0**	155.5	162.0
Capacity charge	**39.7**	44.7	37.5
Power sales	**20.9**	7.5	8.4
Operating revenues	**1,355.1**	1,373.7	1,590.8
Taxes, net	**115.4**	107.9	102.3
Investment income (loss)	**6.2**	19.4	(3.6)
Other	**7.3**	10.2	5.4
Nonoperating revenues	**128.9**	137.5	104.1
Total revenues	**1,484.0**	1,511.2	1,694.9
Power and water costs	**(455.4)**	(552.3)	(473.6)
Operations and maintenance	**(487.5)**	(650.1)	(543.4)
Depreciation and amortization	**(301.7)**	(376.5)	(374.8)
Operating expenses	**(1,244.6)**	(1,578.9)	(1,391.8)
Bond interest, net of amount capitalized	**(134.6)**	(126.9)	(132.5)
Other	**(30.9)**	(5.4)	(1.2)
Nonoperating expenses	**(165.5)**	(132.3)	(133.7)
Total expenses	**(1,410.1)**	(1,711.2)	(1,525.5)
Income (loss) before contributions	**73.9**	(200.0)	169.4
Capital contributions	**—**	2.1	2.3
Changes in net position	**73.9**	(197.9)	171.7
Net Position			
Beginning of year, as previously reported	**6,683.8**	6,881.7	7,201.0
Cumulative effect of change in accounting principle	**—**	—	(491)
Beginning of year, as restated	**6,683.8**	6,881.7	6,710.0
Net position, end of year	**$ 6,757.7**	$ 6,683.8	$ 6,881.7

[1] *Related to the adoption of GASB 68 and GASB 71.*

Operating Revenues

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



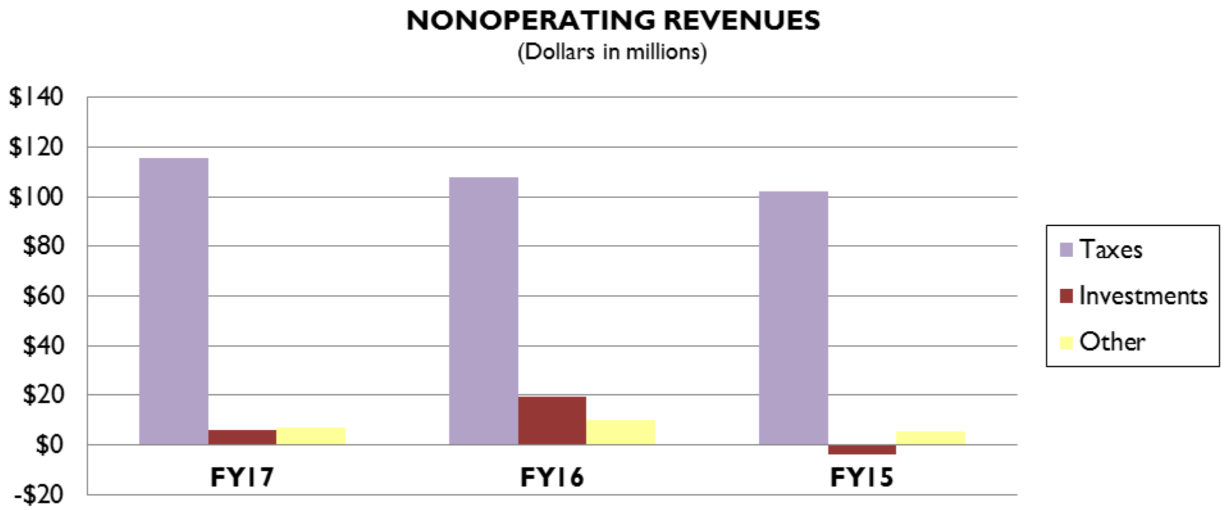
Analytical Review of Operating Revenues

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.

Fiscal Year 2016 Compared to 2015. Fiscal year 2016 operating revenues were $1.4 billion or $217.1 million less than the prior year primarily due to $216.9 million of lower water sales, of which $249.2 million related to 310.7 TAF of lower volumes sold offset by $32.3 million from higher rates. The reduction in water sales was primarily due to the Governor's requirement that retail water agencies implement conservation programs to reduce water consumption by an average of 25 percent statewide.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



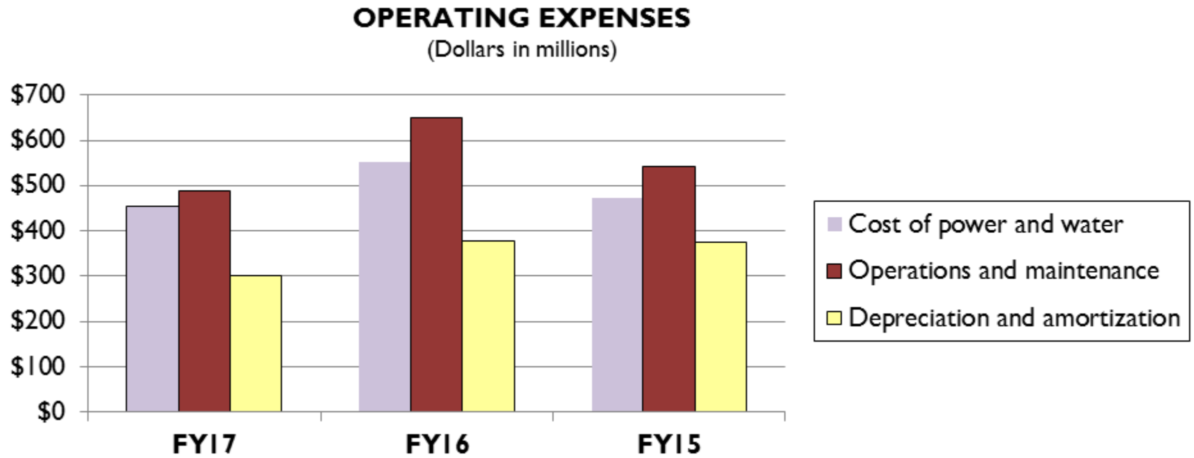
Analytical Review of Nonoperating Revenues

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.

Fiscal Year 2016 Compared to 2015. Nonoperating revenues for fiscal year 2016 totaled $137.5 million and were $33.4 million higher than the prior year. Included in the increase was $23.0 million of higher investment income primarily due to an $18.7 million loss on swap termination that did not occur in the current year. In addition, property tax revenue increased $5.6 million from the collection of delinquent taxes and other, net was $4.8 million more primarily due to $2.5 million of higher property rental revenue.

Operating Expenses

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



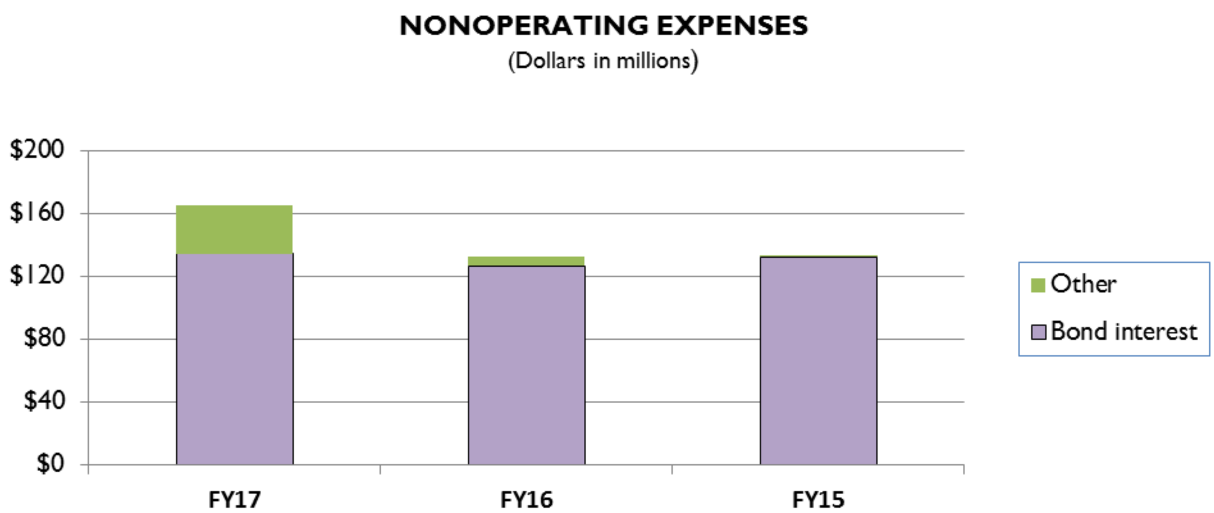
Analytical Review of Operating Expenses

Fiscal Year 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, which had a higher per acre-foot cost, did not occur in the current year 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 the current year.

Fiscal Year 2016 Compared to 2015. Fiscal year 2016 operating expenses of $1.6 billion were $187.1 million higher than prior year. The increase included $106.7 million of higher operations and maintenance costs primarily due to $84.8 million higher conservation credits expenses as a result of the Board approving a historic $450.0 million budget in fiscal year 2015 for conservation spending in response to the continued drought. In addition, power and water costs increased $78.7 million primarily due to $48.0 million higher State Water Project operation, maintenance, power and replacement (OMP&R) costs related to the Fish Restoration Program Agreement, biological opinions, and increased labor costs.

Nonoperating Expenses

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



Analytical Review of Nonoperating Expenses

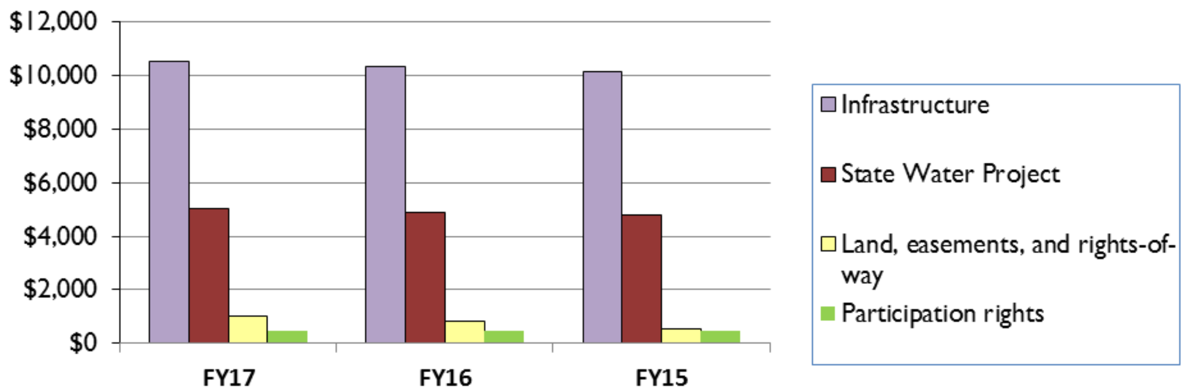
Fiscal Year 2017 Compared to 2016. Fiscal year 2017 nonoperating expenses of $165.5 million were $33.2 million higher than the prior year. The increase was primarily due to $25.5 million more of other expenses of which, $20.4 million related to the write-off of construction in progress programs upon determination by the Engineering Services Group that no operational asset would result from the costs incurred. In addition, bond interest, net of amount capitalized increased $7.7 million due to a $10.9 million decrease in capitalized interest on assets constructed.

Fiscal Year 2016 Compared to 2015. Fiscal year 2016 nonoperating expenses of $132.3 million were $1.4 million lower than the prior year primarily due to lower interest expense on bonds as a result of bond refunding transactions to take advantage of lower interest rates.

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

	June 30,		
(Dollars in millions)	**2017**	2016	2015
Land, easements and rights-of-way	**$ 1,009.9**	$ 833.7	$ 557.6
Construction in progress	**1,018.8**	870.8	1,644.9
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**196.9**	180.3	178.7
Other dams and reservoirs	**1,549.8**	1,542.2	1,541.7
Water transportation facilities	**3,744.1**	3,708.9	3,504.0
Pumping plants and facilities	**294.3**	293.5	240.7
Treatment plants and facilities	**2,796.5**	2,867.9	2,138.6
Buildings	**138.9**	136.1	136.1
Other plant assets	**713.8**	701.0	681.2
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**5,034.4**	4,900.1	4,794.9
Participation rights in other facilities	**459.7**	459.7	461.9
Gross capital assets	**17,014.7**	16,551.8	15,937.9
Less accumulated depreciation and amortization	**(6,480.6)**	(6,212.4)	(5,839.8)
Capital assets, net	**$ 10,534.1**	$ 10,339.4	$ 10,098.1
Net increase from prior year	**$ 194.7**	$ 241.3	$ (6.5)
Percent change	**1.9%**	2.4%	(0.1%)

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 Mods 1 and 2.

The major capital asset additions for the current year, 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; this program is designed to improve the reliability and flexibility of delivering Colorado River water during drought or other State Water Project delivery constraints.
- $22.7 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $8.6 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.
- $8.0 million for the information technology program, which is designed to ensure the reliability and efficiency of the information technology infrastructure in support of Metropolitan's operational and business applications.

Metropolitan's fiscal year 2018 capital budget includes plans to spend $240.0 million principally for the water treatment plants improvements program, the distribution system and rehabilitation projects, the Colorado River Aqueduct reliability and containment programs, the water quality/oxidation retrofit program, and the supply reliability and system expansion program.

Fiscal Year 2016 Compared to 2015. Net capital assets totaled approximately $10.3 billion and increased $241.3 million over the prior year. This increase included $256.4 million PVID land purchase, $254.5 million of new construction activity, and a net increase of $103.0 million in participation rights in State Water Project and other facilities. The increase was offset by depreciation and amortization of $372.6 million.

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

- $61.5 million for the improvements in infrastructure reliability at the treatment plants.
- $31.7 million for the oxidation retrofit program at the filtration plants.
- $24.5 million for the supply reliability and system expansion program.
- $23.4 million for the distribution system's rehabilitation program.
- $18.2 million for chlorine containment and handling facilities program, program which is designed to enhance hazardous chemical safety, prevent a chlorine chemical release, and comply with security and safety regulations.
- $17.7 million for the information technology program.
- $15.5 million for the PCCP program.

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	June 30,		
(Dollars in millions)	**2017**	2016	2015
General obligation bonds *(a)*	**$ 74.9**	$ 92.9	$ 110.4
Revenue bonds *(a)*	**4,302.0**	4,188.9	4,157.1
State revolving loan	**—**	9.1	10.7
Other, net *(b)*	**202.8**	232.5	200.0
	$ 4,579.7	$ 4,523.4	$ 4,478.2
Increase (decrease) from prior year	**$ 56.3**	$ 45.2	$ (138.2)
Percent change	**1.2%**	1.0%	(3.0%)

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

Fiscal Year 2017 Compared to 2016. At June 30, 2017, there was $4.6 billion of outstanding bonds and other long-term obligations, 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 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.

Fiscal Year 2016 Compared to 2015. At June 30, 2016, there was $4.5 billion of outstanding bonds and other long-term obligations, a net increase of $45.2 million or 1.0 percent from the prior year. The increase included the issuance of $208.3 million in revenue bonds and $75.2 million of related bond premiums offset by $144.0 million of scheduled principal payments, $49.9 million principal reduction related to refunding transactions, and $42.8 million of scheduled amortization of bond premiums and discounts.

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

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2017, are shown below.

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

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $613,633 and $734,735 for 2017 and 2016, respectively)	**$ 613,937**	$ 737,877
Restricted (cost: $437,092 and $399,088 for 2017 and 2016, respectively)	**437,309**	400,795
Total cash and investments	**1,051,246**	1,138,672
Receivables:		
Water sales	**197,928**	224,571
Interest on investments	**3,675**	4,481
Other, net (Note 1e)	**20,020**	30,256
Total receivables	**221,623**	259,308
Inventories (Note 1f)	**110,533**	92,545
Deposits, prepaid costs, and other (Note 11)	**2,606**	1,726
Total current assets	**1,386,008**	1,492,251
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $230,081 and $211,088 for 2017 and 2016, respectively)	**230,195**	211,991
Restricted (cost: $90,545 and $138,338 for 2017 and 2016, respectively)	**94,014**	145,262
Total cash and investments	**324,209**	357,253
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1g and 9g)	**2,028,721**	1,704,537
Plant and equipment - depreciable (Notes 1g and 9g)	**9,491,865**	9,487,454
Participation rights in State Water Project (Notes 1h and 10)	**5,034,375**	4,900,137
Participation rights in other facilities (Notes 1h and 4)	**459,709**	459,709
Total capital assets	**17,014,670**	16,551,837
Less accumulated depreciation and amortization	**(6,480,571)**	(6,212,401)
Total capital assets, net	**10,534,099**	10,339,436
Other assets, net of current portion:		
Deposits, prepaid costs, and other (Note 11)	**191,525**	196,927
Total other assets	**191,525**	196,927
Total noncurrent assets	**11,049,833**	10,893,616
Deferred Outflows of Resources:		
Loss on bond refundings (Note 1p)	**59,929**	69,090
Loss on swap terminations (Note 1p)	**30,665**	35,422
Pension related (Notes 1q and 7)	**130,346**	48,475
Effective swaps (Note 1p)	**3,588**	38,480
Total deferred outflows of resources	**224,528**	191,467
Total Assets and Deferred Outflows of Resources	**$ 12,660,369**	$ 12,577,334

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 99,318**	$ 157,237
Revolving notes (Note 5a)	**262,250**	250,000
Current portion of long-term debt (Notes 5 and 6)	**343,681**	313,093
Current portion of obligations for off-aqueduct power facilities (Notes 6 and 9f)	**1,203**	3,265
Current portion of accrued compensated absences (Notes 1j and 6)	**19,800**	19,600
Current portion of customer deposits and trust funds (Note 6)	**5,455**	10,387
Current portion of workers' compensation and third party claims (Notes 6 and 14)	**5,109**	9,500
Current portion of other long-term liabilities (Note 6)	**2,907**	1,880
Accrued bond interest	**76,086**	75,363
Matured bonds and coupons not presented for payment	**1,768**	1,835
Total current liabilities	**817,577**	842,160
Noncurrent Liabilities (Note 6):		
Long-term debt, net of current portion (Note 5)	**4,236,057**	4,210,342
Obligations for off-aqueduct power facilities, net of current portion (Note 9f)	**9,629**	11,079
Accrued compensated absences, net of current portion (Note 1j)	**26,523**	27,297
Customer deposits and trust funds, net of current portion	**40,302**	83,371
Net pension liability (Note 7)	**587,662**	479,555
Postemployment benefits other than pensions (Note 8)	**83,396**	83,544
Workers' compensation and third party claims, net of current portion (Note 14)	**10,568**	10,547
Fair value of interest rate swaps (Note 5f)	**66,848**	103,307
Other long-term liabilities, net of current portion	**2,226**	2,229
Total noncurrent liabilities	**5,063,211**	5,011,271
Total liabilities	**5,880,788**	5,853,431
Commitments and Contingencies (Note 9)	**—**	—
Deferred Inflows of Resources:		
Pension related (Notes 1q and 7)	**21,896**	40,121
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	**5,947,122**	5,772,364
Restricted for:		
Debt service	**224,625**	199,476
Other	**182,177**	183,340
Unrestricted	**403,761**	528,602
Total net position	**6,757,685**	6,683,782
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 12,660,369**	$ 12,577,334

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended June 30,	
(Dollars in thousands)	**2017**	2016
Operating Revenues (Note 1c):		
Water sales	**$ 1,150,533**	$ 1,166,040
Readiness-to-serve charges	**144,000**	155,493
Capacity charge	**39,717**	44,705
Power sales	**20,835**	7,477
Total operating revenues	**1,355,085**	1,373,715
Operating Expenses:		
Power and water costs	**455,444**	552,306
Operations and maintenance	**487,538**	650,127
Total operating expenses	**942,982**	1,202,433
Operating income before depreciation and amortization	**412,103**	171,282
Less depreciation and amortization (Note 2)	**(301,741)**	(376,522)
Operating income (loss)	**110,362**	(205,240)
Nonoperating Revenues (Expenses) (Note 1m):		
Taxes, net (Note 1d)	**115,417**	107,922
Bond interest, net of $13,800 and $24,700 of interest capitalized in fiscal years 2017 and 2016, respectively (Note 1g)	**(134,594)**	(126,945)
Investment income (loss), net	**6,182**	19,384
Other, net	**(23,464)**	4,863
Total nonoperating revenues (expenses), net	**(36,459)**	5,224
Income (Loss) Before Contributions	**73,903**	(200,016)
Capital contributions (Note 1l)	—	2,178
Changes in net position	**73,903**	(197,838)
Net position, beginning of year	**6,683,782**	6,881,620
Net position, End of Year	**$ 6,757,685**	$ 6,683,782

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	June 30, 2017	2016
Cash Flows from Operating Activities:		
Cash received from water sales	**$ 1,082,747**	$ 1,087,566
Cash received from readiness-to-serve charges	**145,614**	155,283
Cash received from capacity charge	**40,562**	44,662
Cash received from power sales	**17,193**	7,413
Cash received from other exchange transactions	**93,583**	77,323
Cash paid for operations and maintenance expenses	**(279,909)**	(446,871)
Cash paid to employees for services	**(198,979)**	(185,137)
Cash paid for power and water costs	**(513,992)**	(517,080)
Other cash flows for operating activities	**(1,640)**	(4,853)
Net cash provided by operating activities	**385,179**	218,306
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**7,923**	8,880
Net cash provided by noncapital financing activities	**7,923**	8,880
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(390,447)**	(551,436)
Payments for State Water Project costs	**(131,641)**	(108,637)
Proceeds from short and long-term debt	**301,203**	500,009
Payments for bond issuance costs	**(2,996)**	(1,762)
Principal paid on long-term debt	**(192,515)**	(144,025)
Interest paid on long-term debt	**(172,403)**	(174,801)
Payments for other long-term obligations	**(5,396)**	(5,486)
Proceeds from tax levy	**115,137**	110,654
Transfer to/from escrow trust accounts	**(39,908)**	909
Payments for real estate sales	**(98)**	—
Collection of notes receivable - land sales	**—**	139
Net cash used by capital and related financing activities	**(519,064)**	(374,436)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(10,621,702)**	(13,178,652)
Proceeds from sales and maturities of investment securities	**10,733,292**	13,303,690
Investment income	**15,235**	16,079
Net cash provided by investing activities	**126,825**	141,117
Net change in cash	**863**	(6,133)
Cash at July 1, 2016 and 2015	**39**	6,172
Cash at June 30, 2017 and 2016 (Note 1b)	**$ 902**	$ 39

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	June 30, 2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	**$ 110,362**	$ (205,240)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	**301,741**	376,522
Decrease in accounts receivable	**38,693**	9,578
Increase in inventories	**(17,987)**	(23,502)
Decrease in deposits, prepaid costs, and other	**3,833**	37,668
Decrease in accounts payable and accrued expenses	**(33,834)**	(36,151)
(Decrease) Increase in other items	**(17,629)**	59,431
Total Adjustments	**274,817**	423,546
Net cash provided by operating activities	**$ 385,179**	$ 218,306
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 366,116**	$ 489,219
Debt defeased through escrow trust fund with refunding debt	**$ (309,095)**	$ (460,375)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at June 30, 2017 and 2016 include $902 and $39 of cash, respectively)	**$ 844,132**	$ 949,868
Restricted cash and investments	**531,323**	546,057
Total cash and investments, at fair value	**1,375,455**	1,495,925
Less: carrying value of investments	**(1,374,553)**	(1,495,886)
Total Cash (Note 1b)	**$ 902**	$ 39

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1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

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

(b) Principles of Presentation

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

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

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

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

(c) Revenue Policies

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

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

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

(d) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board as of July 1, using a lien date of 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, tax levies in fiscal years 1991 to 2013, other than annexation taxes, were limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. During fiscal years 2017 and 2016, the Board suspended the tax rate limitations and maintained the fiscal year 2013 tax rate for fiscal years 2017 and 2016 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, 2017 and 2016 were as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Water in storage	**$ 99,152**	$ 81,593
Operating supplies	**11,381**	10,952
Total inventories	**$ 110,533**	$ 92,545

(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, 2017 and 2016 were as follows:

	June 30,			
(Dollars in thousands)		**2017**		2016
Department of Water Resources (State Water Project):				
Capital, operating, maintenance, power, replacement, and variable power	**$**	**55,852**	$	101,665
Vendors		**26,617**		38,524
Accrued power costs		**1,277**		2,160
Accrued salaries		**8,358**		7,232
Readiness-to-serve overcollection		**1,291**		1,182
Conservation credits		**5,923**		6,474
Total accounts payable and accrued expenses	**$**	**99,318**	$	157,237

(j) Compensated Absences

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

(k) Pension Accounting

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

(l) Capital Contributions

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

(m) Operating and Nonoperating Revenues and Expenses

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

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

(n) Restricted and Unrestricted Resources

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

(o) Use of Estimates

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

(p) Deferred Outflows/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 unrestricted net position amount of $403.8 million and $528.6 million at June 30, 2017 and 2016, respectively, includes the effect of deferring the recognition of losses from bond refundings, swap terminations resulting in defeasance of debt, and the decline in fair value of Metropolitan's effective interest rate swaps. The deferred outflows from losses on bond refundings at June 30, 2017 and 2016, respectively, were $59.9 million and $69.1 million, respectively. The deferred outflows from losses on swap terminations resulting in debt defeasance at June 30, 2017 and 2016, respectively, were $30.7 million and $35.4 million. Both deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows from the decline in fair value of interest rate swaps of $3.6 million and $38.5 million at June 30, 2017 and 2016, respectively, would be recognized as an investment loss upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred outflow also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

The deferred outflows and inflows related to pension are discussed in detail in Note 7.

(q) Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense

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

(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 has been reporting its investments and liabilities at fair value using market approach and cost approach therefore, there are no significant changes to its reporting resulting from the implementation of GASB 72 in fiscal year 2016.

Additionally, GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. This hierarchy has three levels which are: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security. 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 Statement in fiscal year 2017:

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

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

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

In March 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 other postemployment benefits (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. GASB 85 is effective for Metropolitan's fiscal year ending June 30, 2018.

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

- GASB Statement No. 83, *Certain Asset Retirement Obligations.*
- GASB Statement No. 84, *Fiduciary Activities*.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues.*
- GASB Statement No. 87, *Leases.*

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2017 and 2016 was as follows:

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2017 and 2016

(Dollars in thousands)	June 30, 2015	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	$ 557,583	$ 276,140
Construction in progress	1,644,948	229,419
Total capital assets not being depreciated	2,202,531	505,559
Other capital assets:		
Parker Power Plant and Dam	13,009	—
Power recovery plants	178,636	1,665
Other dams and reservoirs	1,541,696	484
Water transportation facilities	3,504,032	205,118
Pumping plants and facilities	240,677	52,834
Treatment plants and facilities	2,138,579	729,770
Power lines and communciation facilities	33,807	—
Computer systems software	108,245	9,505
Buildings	136,096	—
Miscellaneous	445,718	7,323
Major equipment	93,462	6,170
Pre-operating interest and other expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	4,794,958	186,737
Participation rights in other facilities (Note 4)	461,909	—
Total other capital assets at historical cost	13,735,419	1,199,606
Accumulated depreciation and amortization:		
Parker Power Plant and Dam	(11,811)	(163)
Power recovery plants	(88,985)	(4,243)
Other dams and reservoirs	(322,528)	(19,496)
Water transportation facilities	(837,666)	(74,165)
Pumping plants and facilities	(78,917)	(14,403)
Treatment plants and facilities	(637,347)	(96,636)
Power lines and communciation facilities	(10,149)	(414)
Computer systems software	(100,194)	(7,888)
Buildings	(27,000)	(1,816)
Miscellaneous	(118,027)	(5,740)
Major equipment	(75,739)	(5,776)
Pre-operating interest and other expenses of original aqueduct	(38,382)	(1,036)
Participation rights in State Water Project (Note 10)	(3,330,533)	(130,152)
Participation rights in other facilities (Note 4)	(162,550)	(13,893)
Total accumulated depreciation and amortization	(5,839,828)	(375,821)
Other capital assets, net	7,895,591	823,785
Total capital assets, net	$ 10,098,122	$ 1,329,344

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, 2016	Additions	Reductions	June 30, 2017
$ —	$ 833,723	$ **176,210**	**$ —**	**$ 1,009,933**
(1,003,553)	870,814	**230,016**	**(82,042)**	**1,018,788**
(1,003,553)	1,704,537	**406,226**	**(82,042)**	**2,028,721**
—	13,009	**—**	**—**	**13,009**
—	180,301	**17,175**	**(595)**	**196,881**
—	1,542,180	**14,554**	**(6,901)**	**1,549,833**
(245)	3,708,905	**41,814**	**(6,641)**	**3,744,078**
—	293,511	**2,921**	**(2,170)**	**294,262**
(433)	2,867,916	**16,046**	**(87,469)**	**2,796,493**
—	33,807	**—**	**(1,129)**	**32,678**
(1,057)	116,693	**1,915**	**(3,552)**	**115,056**
—	136,096	**3,212**	**(371)**	**138,937**
—	453,041	**18,468**	**(5,219)**	**466,290**
(2,232)	97,400	**4,324**	**(1,971)**	**99,753**
—	44,595	**—**	**—**	**44,595**
(81,558)	4,900,137	**174,230**	**(39,992)**	**5,034,375**
(2,200)	459,709	**—**	**—**	**459,709**
(87,725)	14,847,300	**294,659**	**(156,010)**	**14,985,949**
—	(11,974)	**(163)**	**—**	**(12,137)**
—	(93,228)	**(5,542)**	**532**	**(98,238)**
—	(342,024)	**(38,481)**	**1,204**	**(379,301)**
194	(911,637)	**(55,609)**	**5,241**	**(962,005)**
—	(93,320)	**(4,994)**	**1,350**	**(96,964)**
188	(733,795)	**(65,878)**	**49,187**	**(750,486)**
—	(10,563)	**(413)**	**281**	**(10,695)**
643	(107,439)	**(2,424)**	**3,552**	**(106,311)**
—	(28,816)	**(2,195)**	**329**	**(30,682)**
—	(123,767)	**(9,781)**	**1,627**	**(131,921)**
2,223	(79,292)	**(5,689)**	**1,971**	**(83,010)**
—	(39,418)	**(1,036)**	**—**	**(40,454)**
—	(3,460,685)	**(127,419)**	**—**	**(3,588,104)**
—	(176,443)	**(13,820)**	**—**	**(190,263)**
3,248	(6,212,401)	**(333,444)**	**65,274**	**(6,480,571)**
(84,477)	8,634,899	**(38,785)**	**(90,736)**	**8,505,378**
$ (1,088,030)	$ 10,339,436	$ **367,441**	**$ (172,778)**	**$ 10,534,099**
	$ 231,776			**$ 192,205**
	130,152			**127,419**
	13,893			**13,820**
	375,821			**333,444**
	701			**(31,703)**
	$ 376,522			**$ 301,741**

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, 2017 and 2016, Metropolitan's cash balances with financial institutions were $897,000 and $34,000 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, 2017 and 2016, Metropolitan had the following investments at fair value:

	June 30,	
(Dollars in thousands)	**2017**	2016
U.S. Treasury securities	**$ 366,159**	$ 389,382
U.S. Guarantees – GNMAs	**4**	5
Federal agency securities	**104,053**	213,794
Prime commercial paper	**289,029**	309,112
Medium-term corporate notes	**109,567**	185,661
Negotiable certificates of deposit	**368,239**	221,050
Shares of beneficial interest	**240**	288
Government-sponsored enterprise (GSE)	**64,327**	67,288
Municipal bonds	**22,935**	44,306
Local Agency Investment Fund	**50,000**	65,000
Total investments	**$ 1,374,553**	$ 1,495,886

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, 2017 and 2016:

	Fair Value Measurement Using							
(Dollars in thousands)	**6/30/2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Obervable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	6/30/2016	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	**$ 366,159**	**$ 366,159**	**$ —**	**$ —**	$ 389,382	$ 389,382	$ —	$ —
U.S. Guarantees – GNMAs	**4**	**4**	**—**	**—**	5	5	—	—
Federal agency securities	**104,053**	**104,053**	**—**	**—**	165,805	165,805	—	—
Prime commercial paper	**289,029**	**58,015**	**231,014**	**—**	309,112	—	309,112	—
Medium-term corporate notes	**109,567**	**109,567**	**—**	**—**	185,661	185,661	—	—
Negotiable certificates of deposit	**368,239**	**303,236**	**65,003**	**—**	221,050	—	221,050	—
Shares of beneficial interest (1)	**240**	**—**	**—**	**240**	288	—	—	288
Government-sponsored enterprise (GSE)	**64,327**	**64,327**	**—**	**—**	67,288	67,288	—	—
Municipal bonds	**22,935**	**22,935**	**—**	**—**	44,306	44,306	—	—
Total investments by fair value level	**$ 1,324,553**	**$ 1,028,296**	**$ 296,017**	**$ 240**	$ 1,382,897	$ 852,447	$ 530,162	$ 288
Investments not subject to fair value level:								
Federal agency securities	**—**				47,989			
Local Agency Investment Fund	**50,000**				65,000			
Total investments	**$ 1,374,553**				$ 1,495,886			

(1) As of June 30, 2017 and 2016, 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 $1,028.3 million and $852.4 million as of June 30, 2017 and 2016, respectively, are valued using quoted prices in active markets.

Prime commercial paper totaling $231.0 million and $309.1 million and negotiable certificates of deposit totaling $65.0 million and $221.1 million, as of June 30, 2017 and 2016, respectively, classified in Level 2 of the fair value hierarchy were valued using matrix pricing.

Shares of beneficial interest totaling $0.2 million and $0.3 million as of June 30, 2017 and 2016, respectively, classified in Level 3 of the fair value hierarchy were valued at the Fund's share price of $1.00.

Federal agency securities totaling $0 and $48.0 million as of June 30, 2017 and 2016, respectively, were valued using cost.

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 2017 and 2016, the benchmark durations were 0.24 and 0.25, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 0.20. As of June 30, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2017		2016	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 143,361**	**0.64**	$ 153,685	0.52
Federal agency securities	**83,095**	**0.08**	203,416	0.19
Prime commercial paper	**288,594**	**0.04**	309,112	0.06
Medium-term corporate notes	**39,308**	**0.11**	125,158	0.15
Negotiable certificates of deposit	**367,604**	**0.20**	221,050	0.15
Municipal bonds	**1,759**	**3.20**	7,663	0.19
Local Agency Investment Fund	**50,000**	**—**	65,000	—
Portfolio duration		**0.20**		0.18

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2017 and 2016, the benchmark durations were 2.70 and 2.71, respectively, and the portfolio duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2017 and 2016, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2017		2016	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 205,651**	**2.59**	$ 213,453	2.83
U.S. Guarantees – GNMAs	**4**	**4.40**	5	5.04
Federal agency securities	**7,175**	**5.33**	7,595	6.25
Medium-term corporate notes	**67,866**	**3.28**	57,530	2.22
Shares of beneficial interest	**236**	**—**	288	—
Government-sponsored enterprise (GSE)	**64,327**	**2.37**	67,288	1.82
Portfolio duration		**2.74**		2.61

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

	June 30,			
	2017		2016	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 17,147**	**4.34**	$ 22,244	5.35
Federal agency securities	**13,783**	**0.01**	2,783	1.20
Negotiable certificates of deposit	**635**	**0.16**	—	—
Medium-term corporate notes	**2,393**	**0.12**	2,973	0.17
Municipal bonds	**21,176**	**5.63**	36,643	5.82
Prime commercial paper	**435**	**0.04**	—	—
Shares of beneficial interest	**4**	**—**	—	—
Weighted average duration		**3.49**		5.20

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

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

Investment Type	**Minimum Rating**
U.S. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Medium-term corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
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 assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At June 30, 2017 and 2016, Metropolitan's portfolio was invested in the following securities by rating:

		June 30,	
		2017	2016
(Dollars in thousands)	Rating	**Fair value**	Fair value
U.S. Treasury securities	AAA[(1)]	**$ 366,159**	$ 389,382
U.S. Guarantees – GNMAs	AAA	**4**	5
Federal agency securities	AAA[(1)]	**104,053**	213,794
Shares of beneficial interest	AAA	**240**	288
Government-sponsored enterprise (GSE)	AAA	**64,327**	67,288
Medium-term corporate notes	A[(2)]	**109,567**	185,661
Prime commercial paper	A1/P1[(2)]	**289,029**	309,112
Negotiable certificates of deposit	F1[(2)]	**368,239**	221,050
Municipal bonds	A[(2)]	**22,935**	44,306
Local Agency Investment Fund	[(3)]	**50,000**	65,000
Total portfolio		**$ 1,374,553**	$ 1,495,886

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

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

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

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

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2017 and 2016.

	Investment Policy Limits	Percent of Portfolio 2017	2016
U.S. Treasury securities	100%	**26.64 %**	26.03 %
Federal agency securities	100%	**7.57**	14.29
Shares of beneficial interest	20%	**0.02**	0.02
Government-sponsored enterprise (GSE)	20%	**4.68**	4.50
Medium-term corporate notes	30%	**7.97**	12.41
Prime commercial paper	25%	**21.02**	20.66
Negotiable certificates of deposit	30%	**26.79**	14.78
Municipal bonds	30%	**1.67**	2.96
Local Agency Investment Fund	N/A	**3.64**	4.35
Total portfolio		**100.00 %**	100.00 %

At June 30, 2017, there were no investments representing five percent or more of total investments. At June 30, 2016, Metropolitan had the following investment (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, 2016	
Federal National Mortgage Association	$ 89,912	6.06 %

Custodial credit risk. At June 30, 2017 and 2016, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exceptions were $50.0 million and $65.0 million in deposits in the California State managed LAIF as of June 30, 2017 and 2016, 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, 2017 and 2016 was $22.8 billion and $22.7 billion, respectively. At June 30, 2017 and 2016, the PMIA had a balance of $77.6 billion and $75.4 billion, respectively, of which, 2.89 percent and 2.81 percent were invested in medium-term and short-term notes and asset-backed securities, respectively. The average maturity of LAIF investments as June 30, 2017 and 2016 was 194 days and 167 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, 2017 and 2016.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts 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 for the fiscal years ended June 30, 2017 and 2016 was as follows:

(Dollars in thousands)	June 30, 2015	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	37,119	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive Use Programs	20,608	—
Total	461,909	—
Accumulated amortization:		
Imperial Irrigation District	(52,152)	(2,270)
Palo Verde Irrigation District	(24,046)	(2,343)
Kern Water District	(10,771)	(2,172)
South County Pipeline	(20,371)	(912)
Semitropic Water Storage District	(14,898)	(1,056)
Arvin-Edison Water Storage District	(17,353)	(1,467)
Chino Basin	(9,085)	(1,453)
Orange County	(7,468)	(1,195)
Conjunctive Use Programs	(6,406)	(1,025)
Total	(162,550)	(13,893)
Participations rights, net	$ 299,359	$ (13,893)

Reductions	June 30, 2016	**Additions**	**Reductions**	**June 30, 2017**
$ —	$ 112,313	**$ —**	**$ —**	**$ 112,313**
—	82,804	**—**	**—**	**82,804**
—	39,007	**—**	**—**	**39,007**
—	72,371	**—**	**—**	**72,371**
(2,200)	34,919	**—**	**—**	**34,919**
—	47,187	**—**	**—**	**47,187**
—	27,500	**—**	**—**	**27,500**
—	23,000	**—**	**—**	**23,000**
—	20,608	**—**	**—**	**20,608**
(2,200)	459,709	**—**	**—**	**459,709**
—	(54,422)	**(2,270)**	**—**	**(56,692)**
—	(26,389)	**(2,342)**	**—**	**(28,731)**
—	(12,943)	**(2,172)**	**—**	**(15,115)**
—	(21,283)	**(912)**	**—**	**(22,195)**
—	(15,954)	**(981)**	**—**	**(16,935)**
—	(18,820)	**(1,467)**	**—**	**(20,287)**
—	(10,538)	**(1,456)**	**—**	**(11,994)**
—	(8,663)	**(1,195)**	**—**	**(9,858)**
—	(7,431)	**(1,025)**	**—**	**(8,456)**
—	(176,443)	**(13,820)**	**—**	**(190,263)**
$ (2,200)	$ 283,266	**$ (13,820)**	**$ —**	**$ 269,446**

(a) Imperial Irrigation District

In December 1988, Metropolitan and the Imperial Irrigation District (lID) 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 2015 letter agreement, at least 85,000 and 90,374 acre-feet will be/was available in calendar years 2017 and 2016, 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, 2017 and 2016, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2.3 million in fiscal years 2017 and 2016.

(b) Palo Verde Irrigation District

In August 2004, Metropolitan entered into an agreement with Palo Verde 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, 2017 and 2016, and are being amortized using the straight-line method over 35 years. Amortization expense totaled $2.3 million in fiscal years 2017 and 2016.

(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 102,841 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, 2017 and 2016, 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 2017 and 2016.

(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, 2017 and 2016. 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 2017 and 2016.

(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 146,688 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. In fiscal year 2016, that return capacity was reduced by 5,000 acre-feet per year to 8,200 acre-feet per year when Metropolitan received reimbursement of $2.2 million.

Participation rights for this program totaled $34.9 million as of June 30, 2017 and 2016. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1.0 million and $1.1 million in fiscal years 2017 and 2016, respectively.

(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 108,125 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, 2017 and 2016. 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 2017 and 2016.

(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 2017, Metropolitan had 6,319 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, 2017 and 2016. 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 2017 and 2016.

(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 2017, Metropolitan had 1,190 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, 2017 and 2016. 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 2017 and 2016.

(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 2017, Metropolitan had a total of 667 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, 2017 and 2016. 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 2017 and 2016.

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 $4.842 billion and $4.773 billion at June 30, 2017 and 2016, respectively, represents less than one percent of the June 30, 2017 and 2016 total taxable assessed valuation of $2,583 billion and $2,451 billion, respectively.

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

(a) Short-term Debt

Metropolitan may issue up to $400.0 million in commercial paper to fund a portion of its capital plan. During the fiscal years ended June 30, 2017 and 2016, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 5c).

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 is 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, pay down and re-borrow amounts under each of the Short-Term Revolving Credit Facilities. As of June 30, 2016, Metropolitan has sold $250.0 million of notes under the Short-Term Revolving Credit Facilities ($125.0 million under the RBC Facility and $125.0 million under the US Bank Facility). On April 3, 2017, Metropolitan sold $250.0 million of notes under the Short-Term Revolving Credit Facility ($125.0 million under the RBC Facility and $125.0 million under the US Bank Facility), to refund the notes issued in 2016. The $125.0 million note issued in 2017 under the RBC Facility has a maturity date of April 5, 2020 and the $125.0 million note issued in 2017 under the US Bank Facility has a maturity date of April 5, 2019. 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 from proceeds of $103.7 million of Special Variable Rate Water Revenue Refunding Bonds, 2016 Series B-1 and B-2. 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. The notes mature on May 31, 2018.

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

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to $850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at June 30, 2017 and 2016. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $74.9 million and $92.9 million in general obligation bonds and general obligation refunding bonds were outstanding at June 30, 2017 and 2016, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 1.5 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, 2017 and 2016.

(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of $4.302 billion and $4.189 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2017 and 2016, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2047 at interest rates ranging from 0.62 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

Revenue bonds issued during the fiscal year ended June 30, 2017 were as follows:

- On December 20, 2016, Metropolitan entered into a Continuing Covenant Agreement with Bank of America, N.A. (BANA, and the 2016 BANA Agreement), for the purchase by BANA and sale by Metropolitan of Metropolitan's $175.0 million Subordinate Water Revenue Bonds, 2016 Authorization Series A (the Subordinate 2016 Series A Bonds), which is the first series of bonds issued under the Subordinate Debt Resolution. Proceeds were used to reimburse Metropolitan for the purchase of the Delta Wetlands Properties in the San Francisco

Bay\Sacramento-San Joaquin River Delta that was funded from Metropolitan's reserves in July 2016. The Subordinate 2016 Series A Bonds are Index Tender Bonds and bear interest at a variable rate of interest, at a spread to one-month LIBOR. Under the 2016 BANA Agreement, upon a failure by Metropolitan to perform or observe its covenants, a default in other specified indebtedness of Metropolitan, or other specified events of default, BANA could terminate its commitments and declare all amounts then outstanding to be immediately due and payable. Metropolitan has secured its obligation to pay principal and interest under the 2016 BANA Agreement as a Subordinate Lien Parity Obligation.

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

- 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.

Revenue bond issued during the fiscal year ended June 30, 2016 was as follows:

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

(d) Bond Refundings and Defeasances

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

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.

Refunding and defeasance transactions during fiscal year 2016 were as follows:

- On July, 1, 2015, Metropolitan issued $188.9 million Special Variable Rate Water Revenue Refunding Bonds, 2015 Series A-1 and A-2, at variable rates, to refund $88.8 million of Water Revenue Bonds, 2000 Authorization, Series B-4, $75.6 million of Water Revenue Bonds, 2005 Authorization, Series A, and $29.8 million of Water Revenue Refunding Bonds, 2012 Series E-2 (Term Mode). The maturities of the 2015 Series A-1 and A-2 bonds extend to July 1, 2035 and are subject to optional and mandatory redemption provisions.

- On June 30, 2016, Metropolitan issued $239.5 million Water Revenue Refunding Bonds, 2016 Series A, to refund $175.0 million of Water Revenue Bonds, 2005 Authorization, Series C, $85.0 million of Water Revenue Bonds, 2006 Authorization, Series A, and $24.1 million of Water Revenue Refunding Bonds, 2006 Series B. The maturities of the 2016 Series A bonds extend to July 1, 2037 and are subject to optional and 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 $27.8 million and $48.2 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $23.4 million and $34.7 million for fiscal years 2017 and 2016, respectively. The difference between the book value of the old debt and the amount required to retire the debt 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, 2017 and 2016 were $59.9 million and $69.1 million, respectively, and the deferred outflows on swap terminations for the same periods were $30.7 million and $35.4 million, respectively.

(e) Other Long-term Debt

In November 2003, Metropolitan received $20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At June 30, 2017 and 2016, the outstanding balance was $0 and $9.1 million, respectively.

(f) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of June 30, 2017. 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, 2017, 2016, and 2015 are summarized on the following table.

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(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/AA-/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 3MoLIBOR	Aa3/A+/AA-
2005 Payor		29,058	07/06/05	3.360%	70.00% of 3MoLIBOR	Baa1/A-/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, 2017 and 2016

Swap Termination	Fair Value as of 6/30[3] 2017	2016	2015	Change in Fair Value in FY 2017	2016
07/01/25	**$ (7,991)**	$ (12,421)	$ (10,962)	**$ 4,430**	$ (1,459)
07/01/25	**(2,989)**	(4,646)	(4,097)	**1,657**	(549)
07/01/30	**(22,570)**	(34,653)	(26,897)	**12,083**	(7,756)
07/01/30	**(22,570)**	(34,653)	(26,897)	**12,083**	(7,756)
10/01/29	**(996)**	(1,592)	(1,156)	**596**	(436)
10/01/29	**(816)**	(1,283)	(938)	**467**	(345)
07/01/30	**(4,458)**	(7,088)	(4,805)	**2,630**	(2,283)
07/01/30	**(4,458)**	(6,971)	(4,761)	**2,513**	(2,210)
	$ (66,848)	$ (103,307)	$ (80,513)	**$ 36,459**	$ (22,794)

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, 2017 and 2016:

(Dollars in thousands)

	Fair Value Measurements Using			
Associated Bond Issue	**6/30/2017**	**Significant Other Observable Inputs (Level 2)**	6/30/2016	**Significant Other Observable Inputs** (Level 2)
2002 A Payor	**$ (7,991)**	**(7,991)**	$ (12,421)	$ (12,421)
2002 B Payor	**(2,989)**	**(2,989)**	(4,646)	(4,646)
2003 Payor C-1 C-3	**(22,570)**	**(22,570)**	(34,653)	(34,653)
2003 Payor C-1 C-3	**(22,570)**	**(22,570)**	(34,653)	(34,653)
2004 C Payor	**(996)**	**(996)**	(1,592)	(1,592)
2004 C Payor	**(816)**	**(816)**	(1,283)	(1,283)
2005 Payor	**(4,458)**	**(4,458)**	(7,088)	(7,088)
2005 Payor	**(4,458)**	**(4,458)**	(6,971)	(6,971)
Total swaps	**$ (66,848)**	**$ (66,848)**	$ (103,307)	$ (103,307)

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, 2017, 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, 2017, 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, 2017.

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, 2017, 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, 2017, the interest rates of the variable rate debt associated with these swap transactions range from 0.77 percent to 1.77 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.71 percent to 0.82 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, 2017, 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:				
2018	$ —	$ 5,825	$ 12,396	$ 18,221
2019	—	5,825	12,396	18,221
2020	—	5,825	12,396	18,221
2021	54,965	5,416	11,512	71,893
2022	32,715	4,861	10,327	47,903
2023-2027	270,020	16,106	34,084	320,210
2028-2031	135,930	2,019	4,207	142,156
Total	$ 493,630	$ 45,877	$ 97,318	$ 636,825

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.77 percent to 1.77 percent as of June 30, 2017 and 0.36 percent to 1.00 percent as of June 30, 2016. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bonds, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, the bondholders have the right to tender bonds to the paying agent on any business day with same day notice. The current terms of the 2009 SIFMA Index Bond Series A-2, and the 2011 SIFMA Index Bonds Series A-1 and A-3, provide bondholders a right to tender bonds to the paying agent every 340 days and for the 2011 SIFMA Index Bonds Series A-2 and A-4, and the 2012 SIFMA Index Bonds Series 2012 B-1 and B-2, every three years. Metropolitan has entered into standby bond purchase agreements (SBPA) with commercial banks to provide liquidity for three and two separate variable rate bond issues in the amount of $272.5 million and $151.3 million as of June 30, 2017 and 2016, respectively. In addition, Metropolitan has ten and eleven series of variable rate bonds in the amounts of $642.0 million and $876.4 million as of June 30, 2017 and 2016, respectively that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA would bear interest that is payable at a rate, depending on the agreement, that is the higher of the "base rate", which is based on the Fed Funds Rate plus 2.00% per annum, or the Prime Rate plus 1.00% per annum, plus a spread of 7.0 percent, or LIBOR, plus a spread of 7.5 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 and 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. 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. Metropolitan is required to repay the bank in either ten or two semi-annual installments commencing either 180 days or six months after the draw on the facility.

For seven series of variable rate bonds not supported by SBPA in the amount of $537.3 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The three series of self-liquidity variable rate bonds that were not supported by a SBPA at June 30, 2017 were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, the $38.5 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $188.9 million, 2015 Series A-1 and A-2, Special Variable Rate Water Revenue Refunding Bonds. At June 30, 2016, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds and the $63.6 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at June 30, 2017 and 2016 had no long-term take out provisions therefore, the entire principal amount of $314.8 million and $339.9 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on July 1, 2015, Metropolitan entered into a Revolving Credit Agreement (RCA), by which Metropolitan may borrow up to $180.0 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 a term-out period beginning 120 days after the stated expiration date of June 24, 2018. As a result of the RCA, only $134.8 million and $159.9 million of these self-liquidity bonds have been classified as current liabilities as of June 30, 2017 and 2016, respectively.

Metropolitan has two series of taxable variable rate parity obligations, at June 30, 2017, the $125.0 million Taxable Flexible Rate Refunding Notes, Series A-1 and the $125.0 million Taxable and Refunding Subseries 2017 Series B-1 Notes, pursuant to two Short-Term Revolving Credit Facilities with US Bank, and RBC. Both Notes pay a variable rate at a basis point spread to One Month LIBOR. The US Bank Notes have maturity dates of April 5, 2019 and April 5, 2020. The Short-Term Revolving Credit Facilities require US Bank and RBC to purchase refunding notes, subject to certain terms and conditions, through the 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. In addition, at June 30, 2017, Metropolitan has one series of tax-exempt variable rate parity obligations, the $12.3 million Tax-Exempt Flexible Rate Revolving Note, Series 2017 B-1, that pay a variable rate at a basis point spread to 70 percent of One Month LIBOR, and matures on May 31, 2018.

(i) Long-term Debt Obligation Summary

Interest rates at June 30, 2017 on all outstanding fixed-rate obligations range from 0.943 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, 2017 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2018	$ 164,125	$ 177,391	$ 341,516
2019	161,155	171,792	332,947
2020	162,795	163,909	326,704
2021	153,375	154,899	308,274
2022	163,245	146,198	309,443
2023-2027	859,845	607,183	1,467,028
2028-2032	887,530	406,456	1,293,986
2033-2037	1,040,240	237,791	1,278,031
2038-2042	554,795	80,539	635,334
2043-2047	214,280	7,969	222,249
2048	15,505	27	15,532
	$ 4,376,890	$ 2,154,154	$ 6,531,044

Unamortized bond discount and premium, net	202,848
Total debt	4,579,738
Less current portion	(343,681)
Long-term portion of debt	$ 4,236,057

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2017 and 2016 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.

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NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2017 and 2016

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2015	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2009 Series A	3/1/16-3/1/28	3.75%-5.00%	33,485	—
2010 Series A	3/1/16-3/1/37	1.50%-5.00%	27,290	—
2014 Series A	3/1/16-3/1/21	2.00%-5.00%	49,645	—
Total general obligation and general obligation refunding bonds			110,420	—
Water revenue bonds (Note 5c):				
2000 Series B-1-B-4	7/1/29-7/1/35	Variable	177,600	—
2005 Series A	7/1/28-7/1/35	5.00%	75,620	—
2005 Series C	7/1/28-7/1/35	4.50%-5.00%	175,000	—
2006 Series A	7/1/15-7/1/37	4.00%-5.00%	391,355	—
2008 Series A	1/1/16-1/1/39	3.00%-5.00%	183,525	—
2008 Series B	7/1/15-7/1/20	2.50%-4.00%	15,035	—
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	—	—
2017 Series A	7/1/41-7/1/47	Variable	—	—
Water revenue refunding bonds (Note 5d):				
1993 Series A-B	8/14/15-7/1/21	5.75%	101,840	—
2006 Series B	7/1/30-7/1/37	4.375%-5.00%	24,055	—
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%	127,200	—
2008 Series C	7/1/15-7/1/23	3.40%-5.00%	41,800	—
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%	64,740	—
2009 Series E	7/1/15-7/1/20	3.875%-5.00%	18,355	—
2010 Series B	7/1/15-7/1/28	2.25%-5.00%	84,175	—
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%	73,230	—
2011 Series C	10/1/15-10/1/36	2.25%-4.00%	156,100	—
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%	19,605	—
2012 Series E	7/1/27-7/1/37	2.50%-3.50%	61,040	—
2012 Series F	7/1/15-7/1/28	3.00%-5.00%	60,035	—
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	79,770	—
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	—	—
2017 Subordinate Series A	7/1/20-7/1/27	2.00%-2.50%	—	—
Total water revenue and water revenue refunding bonds			4,157,105	636,610
Other long-term debt (Note 5e):				
State revolving fund loans	7/1/15-7/1/24	2.39%	10,684	—
Unamortized bond discount and premiums, net			200,028	75,220
Total long-term debt			4,478,237	711,830
Other long-term liabilities (see table next page)			258,382	84,386
Total long-term liabilities			$ 4,736,619	$ 796,216

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2017 and 2016

Reductions	June 30, 2016	Additions	Reductions	June 30, 2017	Amounts Due Within One Year
(2,740)	30,745	—	(3,745)	27,000	(6,135)
(4,225)	23,065	—	(4,330)	18,735	—
(10,590)	39,055	—	(9,885)	29,170	(8,170)
(17,555)	92,865	—	(17,960)	74,905	(14,305)
(88,800)	88,800	—	—	88,800	—
(75,620)	—	—	—	—	—
(175,000)	—	—	—	—	—
(87,120)	304,235	—	(39,760)	264,475	(7,245)
(4,410)	179,115	—	(4,585)	174,530	(4,735)
(2,300)	12,735	—	(2,375)	10,360	(2,455)
—	78,385	—	—	78,385	—
—	250,000	—	—	250,000	—
—	250,000	—	—	250,000	—
—	208,255	—	—	208,255	—
—	—	175,000	—	175,000	—
—	—	80,000	—	80,000	—
(15,300)	86,540	—	(16,200)	70,340	(21,200)
(24,055)	—	—	—	—	—
—	62,465	—	(62,465)	—	—
(220)	126,980	—	(7,150)	119,830	(7,485)
(7,100)	34,700	—	(7,445)	27,255	(7,785)
—	104,180	—	(92,010)	12,170	(12,170)
—	106,690	—	—	106,690	—
—	91,165	—	—	91,165	—
(5,880)	58,860	—	(8,855)	50,005	(9,265)
(2,765)	15,590	—	(2,875)	12,715	(2,985)
(4,845)	79,330	—	(5,005)	74,325	(5,170)
—	228,875	—	(12,460)	216,415	(440)
(37,470)	35,760	—	(30,680)	5,080	(1,195)
(8,165)	147,935	—	(500)	147,435	(9,155)
—	181,180	—	—	181,180	—
—	98,585	—	—	98,585	—
—	190,600	—	(14,965)	175,635	(70,705)
(19,000)	605	—	(605)	—	—
(29,820)	31,220	—	(31,220)	—	—
(700)	59,335	—	—	59,335	—
—	111,890	—	—	111,890	—
—	87,445	—	—	87,445	(87,445)
—	104,820	—	(104,820)	—	—
—	95,935	—	—	95,935	—
—	10,575	—	—	10,575	—
—	30,335	—	—	30,335	—
(16,195)	63,575	—	(25,110)	38,465	(38,465)
—	86,060	—	—	86,060	—
—	57,840	—	(14,565)	43,275	—
—	188,900	—	—	188,900	(8,900)
—	239,455	—	—	239,455	—
—	—	103,670	—	103,670	—
—	—	238,015	—	238,015	—
(604,765)	4,188,950	596,685	(483,650)	4,301,985	(296,800)
(1,531)	9,153	—	(9,153)	—	—
(42,781)	232,467	3,815	(33,434)	202,848	(32,576)
(666,632)	4,523,435	600,500	(544,197)	4,579,738	(343,681)
(60,306)	282,462	49,305	(141,197)	190,570	(34,474)
$ (726,938)	$ 4,805,897	$ 649,805	$ (685,394)	$ 4,770,308	$ (378,155)

(Dollars in thousands)	June 30, 2015	Additions	Reductions	June 30, 2016	**Additions**	**Reductions**	**June 30, 2017**	**Amounts Due Within One Year**
Off-aqueduct power facilities (Note 9f)	$ 17,993	$ —	$ (3,649)	$ 14,344	**$ —**	**$ (3,512)**	**$ 10,832**	**$ 1,203**
Compensated absences	46,464	20,060	(19,627)	46,897	**19,353**	**(19,927)**	**46,323**	**19,800**
Customer deposits and trust funds	89,505	36,211	(31,958)	93,758	**24,414**	**(72,415)**	**45,757**	**5,455**
Workers' Compensation and third party claims (Note 14)	19,798	5,321	(5,072)	20,047	**4,514**	**(8,884)**	**15,677**	**5,109**
Fair value of interest rate swaps (Note 5f)	80,513	22,794	—	103,307	**—**	(36,459)	**66,848**	**—**
Other long-term liabilities	4,109	—	—	4,109	**1,024**	**—**	**5,133**	**2,907**
Total other long-term liabilities	$ 258,382	$ 84,386	$ (60,306)	$ 282,462	**$ 49,305**	**$ (141,197)**	**$ 190,570**	**$ 34,474**

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 $38.4 million and $34.3 million for the fiscal years ended June 30, 2017 and 2016, respectively. The employee contribution rate was 7.0 percent of annual pay for Classic members and 6.75 percent for PEPRA members for the measurement periods ended June 30, 2016 and 2015. Metropolitan contributes the full 7.0 percent for Classic members while PEPRA members contribute the full 6.75 percent. At June 30, 2017 and 2016, Metropolitan's pickup of the employee's 7.0 percent share were $12.0 million and $12.4 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, 2017 and 2016 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		
2017	7.0%	6.75%
2016	7.0%	6.75%
Required employer contribution rates		
2017	20.747%	20.747%
2016	19.738%	19.738%

The following employees were covered by the benefit terms at June 30, 2017 and 2016:

	2017	2016
Inactive employees (or their beneficiaries) currently receiving benefits	**1,976**	1,907
Inactive employees entitled to but not yet receiving benefits	**978**	1,020
Active members	**1,767**	1,756
Total	**4,721**	4,683

(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, 2017 and 2016 was measured as of June 30, 2016 and 2015, respectively, using an annual actuarial valuation as of June 30, 2015 and 2014, respectively. The actuarial valuations as of June 30, 2015 and 2014 were rolled forward to June 30, 2016 and 2015, respectively, using standard update procedures.

The total pension liabilities for the measurement dates of June 30, 2016 and 2015 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	7.65%
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, 2015 and 2014 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

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016 and 2015 measurement dates was 7.65 percent. 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, 2016 and 2015 measurement dates was appropriate and the use of the municipal bond rate calculation was not deemed necessary. The long-term expected discount rate of 7.65 percent at June 30, 2016 and 2015 measurement dates 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, 2015.

	Current Target Allocation		**Real Return Years 1-10** [1]		**Real Return Years 11+** [2]	
Asset Class	**2016**	2015	**2016**	2015	**2016**	2015
Global Equity	**51.0 %**	51.0 %	**5.25 %**	5.25 %	**5.71 %**	5.71 %
Global Fixed Income	**20.0**	19.0	**0.99**	0.99	**2.43**	2.43
Inflation Sensitive	**6.0**	6.0	**0.45**	0.45	**3.36**	3.36
Private Equity	**10.0**	10.0	**6.83**	6.83	**6.95**	6.95
Real Estate	**10.0**	10.0	**4.50**	4.50	**5.13**	5.13
Infrastructure and Forestland	**2.0**	2.0	**4.50**	4.50	**5.09**	5.09
Liquidity	**1.0**	2.0	**(0.55)**	(0.55)	**(1.05)**	(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, 2016 and 2015:

	Increase (Decrease)		
(Dollars in thousands)	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)
Changes of assumptions	—	—	-
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, fiduciary self-insurance and OPEB expense.*

(Dollars in thousands)	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at June 30, 2014 (VD)[1]	**$ 1,969,332**	**$ 1,562,538**	**$ 406,794**
Changes recognized for the measurement period:			
Service cost	28,890	—	28,890
Interest on the total pension liability	146,852	—	146,852
Differences between expected and actual experience	14,665	—	14,665
Changes of assumptions	(35,008)	—	(35,008)
Contributions from the employer	—	34,306	(34,306)
Contributions from employees	—	14,787	(14,787)
Net investment income	—	35,301	(35,301)
Benefit payments, including refunds of employee contributions	(86,154)	(86,154)	—
Administrative expenses	—	(1,756)	1,756
Net Changes	**$ 69,245**	**$ (3,516)**	**$ 72,761**
Balance at June 30, 2015 (MD)[1]	**$ 2,038,577**	**$ 1,559,022**	**$ 479,555**

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

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, 2016 and 2015 measurement dates, calculated using the discount rate of 7.65 percent. The table also shows what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

(Dollars in thousands)	**2016**	2015
Discount Rate -1%	**6.65 %**	6.65 %
Net Pension Liability	**$ 856,334**	$ 743,272
Current Discount Rate	**7.65 %**	7.65 %
Net Pension Liability	**$ 587,662**	$ 479,555
Discount Rate +1%	**8.65 %**	8.65 %
Net Pension Liability	**$ 362,255**	$ 258,415

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 penson plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected 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) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the Plan for the period ending June 30, 2016 is 3.2 years, which was obtained by dividing the total service years of 15,059 (the sum of remaining service lifetimes of the active employees) by 4,721 (the total number of participants: active, inactive, and retired). The EARSL for the Plan for the June 30, 2015 measurement date is 3.2 years, which was obtained by dividing the total service years of 14,924 by the total number of participants of 4,683. 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 year ended June 30, 2017 and 2016, Metropolitan recognized pension expense of $6.7 million and $23.7 million, respectively. At June 30, 2017 and 2016, Metropolitan has deferred outflows and inflows of resources related to pensions as follows:

(Dollars in thousands)	Deferred Outflows of Resources 2017	Deferred Outflows of Resources 2016	Deferred Inflows of Resources 2017	Deferred Inflows of Resources 2016
Pension contributions subsequent to measurement date	**$ 42,820**	$ 38,393	**$ —**	$ —
Differences between expected and actual experience	**5,500**	10,082	**(8,768)**	—
Changes of assumptions	**—**	—	**(13,128)**	(24,068)
Net difference between projected and actual earnings on pension plan investments	**82,026**	—	**—**	(16,053)
Total	**$ 130,346**	$ 48,475	**$ (21,896)**	$ (40,121)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2017 and 2016. At June 30, 2017 and 2016, the deferred outflows of resources related to contributions subsequent to the measurement date of $42.8 million and $38.4 million, respectively, will be/was recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2018 and 2017, 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:

	Deferred Outflows/(Inflows) of Resources
Fiscal year ending June 30,	
2018	$ 627,759
2019	5,713,430
2020	37,478,386
2021	21,809,992
2022	—

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents under the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Metropolitan participates in the CalPERS California Employers' Retiree Trust (CERBT) Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. This benefit was provided to 1,655 and 1,572 retired Metropolitan employees at June 30, 2017 and 2016, respectively. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During fiscal year 2017, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. During fiscal years 2017 and 2016, Metropolitan contributed, net of participant contributions as determined by CalPERS, $29.3 million and $23.1 million, respectively.

(c) Annual OPEB Cost and Net OPEB Obligation

Metropolitan's annual other postemployment benefit (OPEB) cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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, and the two preceding fiscal years, were as follows:

	June 30,		
(Dollars in Thousands)	**2017**	2016	2015
Annual required contribution	**$ 29,272**	$ 23,096	$ 29,457
Interest on net OPEB obligation	**6,057**	6,098	13,317
Adjustment to annual required contribution	**(6,205)**	(6,068)	(15,126)
Annual OPEB cost	**29,124**	23,126	27,648
Contributions made	**(29,272)**	(23,096)	(79,457)
(Decrease) increase in net OPEB obligation	**(148)**	30	(51,809)
Net OPEB obligation, beginning of year	**83,544**	83,514	135,323
Net OPEB obligation, end of year	**$ 83,396**	$ 83,544	$ 83,514

For fiscal years 2017 and 2016, Metropolitan's annual OPEB cost was $29.1 million and $23.1 million, respectively. In fiscal years 2017 and 2016, Metropolitan contributed $29.3 million and $23.1 million to the OPEB trust, which included the pay-as-you-go amounts of $15.2 million and $13.9 million, respectively. In fiscal year 2015, Metropolitan contributed $66.5 million to the OPEB trust in addition to the pay-as-you-go amount of $13.0 million. These contributions represented 100.5, 99.9, and 287.4 percent of the annual OPEB cost in fiscal years 2017, 2016, and 2015, respectively. 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. The required contribution for fiscal year 2016 was based on the June 30, 2013 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 7.8 percent, grading down to 5.0 percent over six years, (ii) Non-Medicare – starting at 7.50 percent, grading down to 5.0 percent over six years. The assumptions used in the actuarial valuations are subject to future revisions as actual results are compared to past expectations and new assumptions are made about the future.

(d) Funded Status and Funding Progress

The funded status of the plan at June 30, 2015, 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.

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:

	State Water Contract Payments
Year ending June 30:	
2018	$ 432,439,455
2019	448,303,024
2020	463,444,213
2021	458,433,243
2022	455,875,879

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:

	State Water Long-Term Commitments
Transportation facilities	$ 4,262,467,697
Conservation facilities	2,390,270,508
Off-aqueduct power facilities (see Note 9f)	9,264,191
East Branch enlargement	409,869,817
Revenue bond surcharge	741,194,673
Total long-term SWP contract commitments	$ 7,813,066,886

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments, other than the $10.8 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 9f), 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. Currently, the DSC is considering amendments to the Delta Plan in areas of Delta Conveyance, System Storage, and the Operation of Both. Also, the DSC proposed Delta Levees prioritization strategy is being advanced as a Delta Plan amendment. All proposed Delta Plan amendments are now undergoing the environmental review process.

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. After two public review drafts and extensive public comment periods, the final environmental document for the California WaterFix was released on December 22, 2016. This document ultimately proposed the California WaterFix as the best option for meeting the State's co-equal goals and ensuring water supply reliability and ecosystem restoration while minimizing environmental impact. After extensive consultation with the California Department of Water Resources (DWR) and U.S. Bureau of Reclamation (Reclamation), the National Marine Fisheries Service (NOAA Fisheries) and U.S. Fish and Wildlife Service (USFWS) have released their biological opinions for the proposed construction and operation of California WaterFix. These agencies are responsible for the protection of species listed under the U.S. Endangered Species Act (ESA). Both biological opinions found the construction and operation of California WaterFix as proposed would not jeopardize the continued existence of ESA-listed species or destroy or adversely modify critical habitat for those species. Action on the final Environmental Impact Report/Environmental Impact Statement (EIR/EIS) is expected in 2017, since the action follows the approval of the biological opinions. The permits under the State Endangered Species Act are expected shortly after the State action on the EIR.

(c) Imperial Irrigation District

As of June 30, 2017, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $318.2 million for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive 85,000-105,000 acre-feet in 2018 and annually thereafter depending upon the amount used by the Coachella Valley Water District. A total of at least 85,000 and 90,374 acre-feet will be/was available in calendar years 2017 and 2016, respectively, for diversion by Metropolitan (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 directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract (the Exchange Agreement), pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower price is paid by SDCWA for the Exchange Agreement water delivered by Metropolitan. The price payable by SDCWA is based on the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 9h). On May 30, 2014, SDCWA filed a lawsuit challenging the rates adopted by Metropolitan on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a new lawsuit challenging the rates and charges adopted by Metropolitan on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation below.

(e) Quantification Settlement Agreement

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

(f) Abandoned Off-Aqueduct Power Facilities

The California Department of Water Resources (DWR) has financed the construction of certain off-aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years. Metropolitan's estimated remaining long-term contractual obligations for these facilities as of June 30, 2017, which are based on the State's latest estimates, including average interest of 5.2 percent through the year 2027, are shown in the following table (see Note 6):

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2018	$ 1,203	$ 467	$ 1,670
2019	1,236	428	1,664
2020	1,447	383	1,830
2021	1,973	328	2,301
2022	1,894	244	2,138
2023-2027	3,079	264	3,343
Total obligations	10,832	$ 2,114	$ 12,946
Less current portion	(1,203)		
Long-term portion of obligations	$ 9,629		

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2018 through 2022 totals approximately $1.22 billion. However, due to various uncertainties such as lower than anticipated construction bids, permitting delays, and facility shutdowns constraints, anticipated spending is forecasted at $200 million per year for the next 4 years and $205 million in fiscal year 2022.

Over the next three years, approximately $731 million is budgeted in the capital program, with over $600 million planned for major efforts such as seismic retrofits and mechanical and electrical refurbishments to major components of the Colorado River Aqueduct and three of Metropolitan's oldest treatment plants, rehabilitation through relining of the Prestressed Concrete Cylinder Pipe portions of the Second Lower and Sepulveda feeders, replacement/upgrade to the Supervisory Control and Data Acquisition (SCADA) system, and construction of the Advanced Water Treatment Demonstration Plant, a pilot effort to evaluate the feasibility of developing a regional wastewater recycling facility as an additional source of water supply to Southern California.

With the completion of all major construction under the Oxidation Retrofit Program, over the next 3 years the capital budget includes $7.6 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 9i).

Metropolitan had commitments under construction contracts in force as follows:

(Dollars in thousands)	June 30, 2017	June 30, 2016
Weymouth Oxidation retrofit project	**$ —**	$ 2,116
Weymouth solar power facilities	**—**	21
Diemer electrical improvements	**—**	1,357
Chemical unloading facility chlorine containment and handling facilities	**191**	3,370
Weymouth filter rehabilitation	**862**	15,271
Diemer east filter upgrades	**—**	1,032
Jensen module 1 filter valve replacement	**—**	598
LADWP lagoon replacement	**88**	884
Mills industrial wastewater handling improvement	**—**	1,124
Hinds and Eagle mountain pumping plants washwater system replacement	**—**	12
Diemer south slope revegetation and mitigation	**—**	20
Jensen solids transfer system	**—**	12
Diemer east basin rehabilitation	**830**	12,244
Weymouth chemical upgrades	**1,461**	8,146
Colorado River Aqueduct sand trap equipment replacement	**695**	7,996
Colorado River Aqueduct erosion protection curbing	**—**	1,732
Palos Verdes reservoir cover and liner replacement	**20,148**	26,026
Jensen electrical upgrades - stage 1A	**3,510**	10,669
Etiwanda pipeline north, liner repair phase 2	**—**	9,365
Diamond Valley Lake inlet/outlet tower fish screen replacement	**1,359**	1,885
Jensen solar power facility	**1,681**	—
Second Lower Feeder PCCP Rehabilitation	**9,134**	—
Colorado River Aqueduct whitewater siphon erosion protection	**5,175**	—
Colorado River Aqueduct pumping plants delivery pipe expansion joint repairs phase 2	**1,049**	—
Furnishing horizontal axially split centrifugal pumps for the Greg Avenue pump station	**1,419**	—
Employee housing rehabilitation at Julian Hinds and Eagle Mountain pumping plants	**1,220**	—
Employee housing rehabilitation at Iron Mountain and Gene pumping plants	**1,220**	—
Diemer administration building seismic upgrades	**3,536**	—
Colorado River Aqueduct pumping plants seismic retrofit 6.9 kV switch houses	**5,575**	—
Other	**2,919**	2,982
Total	**$ 62,072**	$ 106,862

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 alleged overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

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

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the Exchange Agreement between Metropolitan and SDCWA (see Note 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 contains additional allegations but no new causes of action.

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

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

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

SDCWA's claims asserting breach of the Exchange Agreement and miscalculation of preferential rights were tried in a second phase of the case which concluded April 30, 2015. On August 28, 2015, the trial court issued a final statement of decision for the second phase. The decision found in favor of SDCWA on both claims and that SDCWA is entitled to contract damages in the amount of nearly $188.3 million. On October 9 and 30, 2015, the trial court granted SDCWA's motion for prejudgment interest at the statutory rate of 10 percent on these damages. The prejudgment interest award through entry of judgment was $46.6 million. Based on the trial court decision, after entry of judgment, post-judgment interest began accruing at the statutory rate of 7 percent. On November 18, 2015, the court issued the Final Judgment and a Peremptory Writ of Mandate in the 2010 and 2012 SDCWA v. Metropolitan cases. On January 21, 2016, the court awarded $320,084 in costs to SDCWA, after deducting amounts based on Metropolitan's motion. On March 24, 2016, the court awarded $8.9 million in attorneys' fees to SDCWA, rejecting its demand for over $17.0 million. Metropolitan filed a Notice of Appeal of the Judgment and Writ in each case and SDCWA filed a Notice of Cross-Appeal of the court's ruling on the rate structure integrity claim and the attorneys' fees order.

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 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, based on the record, Metropolitan may not include its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the wheeling statutes and the common law. Having made that determination, the Court of Appeal stated it need not evaluate the issue under any other law. 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. 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 July 6, 2017, SDCWA filed a petition for rehearing with the Court of Appeal. On July 18, 2017, the Court of Appeal modified the opinion to add one sentence, without a change in the judgment, and denied the petition. On July 31, 2017, SDCWA filed a petition for review with the California Supreme Court on the issue "Whether a state agency may charge its transportation-only customers costs associated with a service those customers do not purchase." Metropolitan filed its answer to SDCWA's petition on August 21, 2017. On September 27, 2017, the California Supreme Court denied SDCWA's petition, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final. The 2010 and 2012 cases will now be returned to the trial court for a redetermination of damages, interest, and attorney's fees, including the question of whether there is a "prevailing party" entitled to fees, as ordered by the Court of Appeal. Metropolitan is unable to assess at this time the outcome of the matters to be redetermined by the trial court on remand.

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

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

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 Board's action of July 11, 2017 to make minor corrections to the RTS Charge.

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

(i) Drinking Water Quality Standards

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

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

(j) Reid Gardner Generating Station

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

(k) Landfill Obligation

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

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability. At June 30, 2017 and 2016, approximately $810,000 and $811,000 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 31 percent and 20 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2017 and 2016, 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 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated (see Note 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. Amortization expense totaled $127.4 million and $130.2 million in fiscal years 2017 and 2016, respectively.

11. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at June 30, 2017 and 2016 were as follows:

	June 30,	
(Dollars in thousands)	**2017**	2016
Prepaid water costs	**$ 107,024**	$ 111,143
Prepaid costs-Delta Habitat conservation and conveyance	**58,627**	58,940
Prepaid costs-Bay/Delta	**—**	2,252
Prepaid expenses	**9,353**	12,875
Preliminary design/reimbursable projects	**11,771**	8,705
Other	**7,356**	4,738
Total deposits, prepaid costs, and other	**194,131**	198,653
Less current portion	**(2,606)**	(1,726)
Noncurrent portion	**$ 191,525**	$ 196,927

(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, 2017 and 2016, prepaid water costs totaled approximately $107.0 million and $111.1 million, respectively, based on volumes of 540,000 acre-feet and 547,000 acre-feet, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

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

(c) Prepaid Costs—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund $60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee $10.0 million annually for three years, for a total of $30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its $30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as prepaid costs that are charged to expense based on expenses by the restoration fund. The amount charged to expense totaled $2.3 million and $0 for fiscal years ended June 30, 2017 and 2016, respectively. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $0 and $2.3 million at June 30, 2017 and 2016, respectively.

(d) Preliminary Design/Reimbursable Projects

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

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

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, 2017 and 2016, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

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

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. At June 30, 2017 and 2016, 1,770 and 1,667 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)	**2017**	2016
Employees	**$ 20,828**	$ 21,203
Metropolitan	**8,644**	8,669
	$ 29,472	$ 29,872
Eligible payroll	**$ 214,476**	$ 214,639
Employee contributions as percent of eligible payroll	**9.7%**	9.9%

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 related 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 and $5.8 billion at June 30, 2017 and 2016, respectively.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled $406.8 million and $382.8 million at June 30, 2017 and 2016, respectively, of which $224.6 million and $199.5 million, respectively, represents principal and interest set aside for the next bond payment. The remaining $182.2 million and $183.3 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 $403.8 million and $528.6 million at June 30, 2017 and 2016, 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, and $5.0 million for workers’ compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage, and statutory limits excess workers’ compensation coverage. Metropolitan also carries coverage limits of $60.0 million for fiduciary liability, and $65.0 million for directors’ and officers’ liability. 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 2017 were unchanged from fiscal year 2016. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5 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)	**2017**	2016	2015
Unpaid claims, beginning of fiscal year	**$ 20,047**	$ 19,798	$ 27,352
Incurred claims (including IBNR)	**4,514**	5,321	7,951
Claim payments and adjustments	**(8,884)**	(5,072)	(15,505)
Unpaid claims, end of fiscal year	**15,677**	20,047	19,798
Less current portion	**(5,109)**	(9,500)	(9,500)
Noncurrent portion	**$ 10,568**	$ 10,547	$ 10,298

15. SUBSEQUENT EVENT

On July 3, 2017, Metropolitan issued, $178.2 million Subordinate Water Revenue Refunding Bonds, 2017 Series B to refund $137.3 million of Water Revenue Bonds, 2006 Authorization, Series A, $12.2 million of Water Revenue Refunding Bonds, 2009 Series A-2, and $52.4 million of Water Revenue Refunding Bonds, 2011 Series A-1 and 2011 A-3, and $12.3 million Tax-Exempt Flexible Rate Revolving Note, Series 2017 B-1. The maturity extends to August 1, 2024 and is subject to optional redemption provisions; $80 million of Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), proceeds will fund a portion of Metropolitan's capital expenditures. The maturity extends to July 1, 2047 and is subject to optional and mandatory redemption provisions; $95.6 million of Subordinate Water Revenue Refunding Bonds, 2017 Series D (SIFMA Index Bonds) and $95.6 million of Subordinate Water Revenue Refunding Bonds, 2017 Series E (SIFMA Index Bonds), to refund $119.9 million of Water Revenue Bonds, 2006 Authorization, Series A, $63.9 million of Water Revenue Refunding Bonds, 2011 Series A-1 and 2011 A-3, and $14.3 million of Water Revenue Refunding Bonds, 2015 Series G-2. The maturities extend to July 1, 2037 and are subject to optional and mandatory redemption provisions.

On October 10, 2017, Metropolitan's Board voted to support the California WaterFix, a plan to modernize the State Water Project and help improve water supply reliability. The Board approved Metropolitan's participation in the construction of California WaterFix, including the payment of costs limited to its 25.9% share of total project costs, as well as moving forward on a governance structure and related documents to build and finance the estimated $17.0 billion project. Metropolitan's 25.9% share equals approximately $4.3 billion. The California WaterFix would modernize the decades-old delivery system by building three new intakes in the northern Delta along with two tunnels to carry water to the existing aqueduct system in the southern Delta.

Schedule of Changes in Net Pension Liability and Related Ratios

(Dollars in thousands)	2017	2016	2015
TOTAL PENSION LIABILITY			
Service cost	**$ 29,142**	$ 28,890	$ 28,505
Interest on total pension liability	**152,500**	146,852	139,190
Changes in benefit terms	**—**	—	—
Changes of assumptions	**—**	(35,008)	—
Difference between expected and actual experience	**(12,754)**	14,665	—
Benefit payments, including refunds of employee contributions	**(92,401)**	(86,154)	(81,391)
Net change in total pension liability	**76,487**	69,245	86,304
Total pension liability - beginning	**2,038,577**	1,969,332	1,883,028
Total pension liability - ending (a)	**$ 2,115,064**	$ 2,038,577	$ 1,969,332
PLAN FIDUCIARY NET POSITION			
Contribution - Employer	**$** 38,393	$ 34,306	$ 33,853
Contribution - Employee	15,034	14,787	15,185
Net investment income[1]	**8,304**	35,301	236,746
Benefit payments, including refunds of employee contributions	**(92,401)**	(86,154)	(81,391)
Administrative expense	**(950)**	(1,756)	—
Net change in fiduciary net position	**(31,620)**	(3,516)	204,393
Plan fiduciary net position - beginning	**1,559,022**	1,562,538	1,358,145
Plan fiduciary net position - ending (b)	**$ 1,527,402**	$ 1,559,022	$ 1,562,538
Plan net pension liability - ending (a) - (b)	**$ 587,662**	$ 479,555	$ 406,794
Plan fiduciary net position as a percentage of the total pension liability	**72.22%**	76.48%	79.34%
Covered payroll	**$ 214,476**	$ 214,639	$ 207,512
Plan net pension liability as a percentage of covered payroll	**274.00%**	223.42%	196.03%

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

[2] *GASB 68 requires ten years of information be presented but only three 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 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.

Schedule of Plan Contributions

(Dollars in thousands)		**2017**		2016		2015
Actuarially determined contribution	**$**	**42,820**	$	38,393	$	34,305
Contributions in relation to the actuarially determined contribution		**(42,820)**		(38,393)		(34,305)
Contribution deficiency (excess)	**$**	**—**	$	—	$	—
Covered payroll	**$**	**214,476**	$	214,639	$	207,512
Contributions as a percentage of covered payroll		**19.96%**		17.89%		16.53%

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

Notes to Schedule:

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2017:

Valuation date: June 30, 2014

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	For details, see June 30, 2014 Funding Valuation Report
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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
6/30/11	$ 367,719	$ —	$ 367,719	0.00%	$ 179,242	205.2%
6/30/13	$ 315,326	$ —	$ 315,326	0.00%	$ 182,937	172.4%
6/30/15*	$ 423,420	$ 164,669	$ 258,751	38.89%	$ 214,476	120.6%

* Most recent actuarial valuation date.