THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Nine Months Ended March 31, 2024 and 2023

(Unaudited)

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UNAUDITED
March 31, 2024 and 2023

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the nine months ended March 31, 2024 and 2023. 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 United States generally accepted accounting principles (U.S. GAAP) 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 (SWP) costs, and principal and interest payments on borrowed money. Certain amounts reported in fiscal year 2023 have been reclassified to conform to the fiscal year 2024 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2023, Metropolitan implemented GASB Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements*, which requires Metropolitan to recognize a subscription asset and liability for contracts which provide Metropolitan a right-to-use vendor-provided information technology. Balances for March 31, 2023 were adjusted as discussed in Note 1(u) of the basic financial statements. Balances as of March 31, 2022 within this Management's Discussion and Analysis were not adjusted for the implementation of this GASB statement.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

(Dollars in millions)	March 31, 2024	2023 As adjusted	2022
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,772.6**	$ 10,577.4	$ 10,569.5
Other assets	**2,082.0**	2,193.7	2,318.0
Total assets	**12,854.6**	12,771.1	12,887.5
Deferred outflows of resources	**308.0**	141.0	159.7
Total assets and deferred outflows of resources	**13,162.6**	12,912.1	13,047.2
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**4,350.9**	4,429.7	4,909.2
Other liabilities	**1,240.9**	593.5	692.6
Total liabilities	**5,591.8**	5,023.2	5,601.8
Deferred inflows of resources	**156.3**	421.2	90.3
Total liabilities and deferred inflows of resources	**5,748.1**	5,444.4	5,692.1
Net position			
Net investment in capital assets, including State Water Project costs	**6,550.2**	6,457.9	6,333.1
Restricted	**656.8**	553.2	512.6
Unrestricted	**207.5**	456.6	509.4
Total net position	**$ 7,414.5**	$ 7,467.7	$ 7,355.1

Capital Assets, Net

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

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, net capital assets totaled $10.8 billion, or 81.8 percent of total assets and deferred outflows of resources, and were $195.2 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of $379.0 million and a net increase of $216.7 million in participation rights primarily related to SWP and Antelope Valley-East Kern High Desert Water Banking project (AVEK Water Banking project), offset by depreciation and amortization of $360.8 million and $39.7 million retirements of capital assets. See the capital assets section on pages 15-16 for additional information.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, net capital assets totaled $10.6 billion, or 81.9 percent of total assets and deferred outflows of resources, and were $7.9 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of $255.8 million, a net increase of $140.4 million in participation rights in SWP, and a $9.1 million increase in subscription and lease assets, offset by depreciation and amortization of $384.9 million and $12.5 million retirements of capital assets. See the capital assets section on pages 15-16 for additional information.

Other Assets

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

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, other assets totaled $2.1 billion and were $111.7 million lower than the prior year. Cash and investments were $203.0 million lower due to lower water revenues resulting from unprecedented record rainfall and higher operating costs. The decrease was partially offset by $46.1 million higher deposits, prepaid costs, and other items primarily due to $64.5 million funding for the Delta Conveyance Project planning and pre-construction costs, $15.6 million increase in water rights inventory, $13.1 million increase in deferred land fallowing operating cost, $5.3 million increase in Readiness-to-Serve receivable, and $2.6 million in water conservation program costs, offset by $55.8 million AVEK Water Banking project capitalization. Water revenues receivable also increased $26.4 million due to $16.1 million or 16.2 thousand acre-feet (TAF) higher volume and $10.3 million higher price compared to the same period in prior year. In addition, other receivables increased $12.7 million of which $14.5 million was related to property taxes resulting from higher property assessed values, offset by $2.5 million lower miscellaneous receivables, water inventory was $3.7 million higher due to 210 TAF more water in storage, and lease receivable increased $2.9 million.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, other assets totaled $2.2 billion and were $124.3 million lower than the prior year primarily due to $123.7 million lower cash and investments as a result of lower water revenues.

Deferred Outflows of Resources

Deferred outflows of resources include deferred outflows related to loss on bond refundings, swap terminations, net pension liability and net OPEB liability.

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, deferred outflows totaled $308.0 million and were $167.0 million higher than the prior year primarily due to $149.1 million higher deferred outflows related to pension, which included $100.6 million higher net difference between projected and actual earnings on pension plan investments and $48.2 million higher changes of assumptions. Also contributing to the increase was $19.8 million higher deferred outflows related to OPEB due to $30.2 million higher net difference between projected and actual earnings on OPEB plan, offset by $9.2 million OPEB contributions subsequent to the measurement date.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, deferred outflows totaled $141.0 million and were $18.7 million lower than the prior year. The decrease included $12.1 million lower deferred outflows related to pension, which comprised of $13.1 million lower net difference between projected and actual earnings on pension plan investments and $6.2 million lower difference between expected and actual experience, offset by $7.2 million pension contributions subsequent to the measurement date. Also contributing to the decrease was $7.1 million lower deferred loss on bond refundings due to scheduled amortization and refunding transactions which resulted in a deferred gain on bond refundings, see deferred inflows of resources section on pages 7-8 for more information on the deferred gain on bond refundings. Additionally, deferred loss on swap terminations decreased $2.0 million due to higher interest rates. These decreases were offset by $2.5 million higher deferred outflows related to OPEB due to $4.8 million higher difference between expected and actual experience and $3.6 million OPEB contributions subsequent to the measurement date, offset by $5.9 million lower net difference between projected and actual earning on OPEB plan investments.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion includes long-term debt, customer deposits and trust funds, leases, subscriptions, net pension liability, net OPEB liability, accrued compensated absences, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, long-term liabilities, net of current portion totaled $4.4 billion and were $78.8 million lower than the prior year primarily due to $483.7 million decrease in long-term debt, net of current portion. The decrease included $544.5 million higher current portion of long-term debt as compared to prior year, $149.9 million principal payments, $35.6 million repayment of short-term notes, and $12.1 million decrease in premiums and discounts, offset by $258.4 million of new debt issued to fund Metropolitan's capital programs. For additional information, see other liabilities and long-term debt sections on pages 7 and 17, respectively. Also contributing to the decrease in long-term debt, net of current portion was $2.4 million decrease in fair value of interest rate swaps due to higher interest rates as compared to prior year. These decreases were offset by $350.0 million higher net pension liability due to $184.3 million higher interest on total pension liability, $167.7 million less pension plan investment earnings, $66.0 million changes of assumptions, and $44.1 million of service costs, offset by $99.4 million employer and employee contributions to the pension plan and $14.1 million of differences between expected and actual experience. Net OPEB liability was also $61.9 million higher due to $53.8 million lower investment income, $28.8 million interest on the total OPEB liability, and $10.1 million of service costs, offset by $30.6 million of employer contributions.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, long-term liabilities, net of current portion, totaled $4.4 billion and were $479.5 million lower than the prior year. The decrease included $284.0 million of lower net pension liability due to $417.4 million of pension plan investment earnings and $91.9 million employer and employee contributions to the pension plan, offset by $181.2 million interest on the total pension liability and $38.6 million in service costs. Net OPEB liability was $106.6 million lower due to $85.2 million of net investment income, $48.4 million changes of assumptions, and $27.0 million of employer contributions, offset by $30.6 million interest on total OPEB liability, $11.5 million of service costs, and $6.0 million difference between expected and actual experience. Long-term debt, net of current portion decreased $78.8 million, which included $175.6 million of scheduled principal payments, $40.1 million decrease in premiums and discounts, and $15.4 million of bond refundings, as the new debt issued was less than the amount of debt refunded, offset by $152.3 million lower current portion of long-term debt. For additional information, see other liabilities and long-term debt sections on pages 7 and 17, respectively. In addition, the fair value of interest rate swaps was $20.2 million lower due to higher interest rates.

Other Liabilities

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

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, other liabilities totaled $1.2 billion and were $647.4 million higher than the prior year. Current portion of long-term debt increased $544.5 million, which included the addition of $271.8 million Special Variable Rate Water Revenue Refunding Bonds, 2020 Series B with a mandatory tender date of July 1, 2024, $191.3 Subordinate Water Revenue Refunding Bonds, 2017 Series D and E and $80.0 million Subordinate Water Revenue Bonds, 2017 Series C, each of which have a mandatory tender date of May 21, 2024. In addition, revolving notes increased $176.4 million due to the issuance of $120.0 million and $38.4 million tax-exempt notes and $18.0 million taxable notes to fund the cost of capital improvements to Metropolitan's water delivery system, certain capital costs of the AVEK Water Banking project, and conservation programs, respectively. These increases were offset by $66.3 million lower accounts payable and accrued expenses as Metropolitan did not participate in the Department of Water Resources Flex Storage program in fiscal year 2024 and $16.1 million lower other long-term obligations primarily due to $14.3 million lower deferred water sales resulting from the delivery of 17.3 TAF of water prepaid by member agencies from the Reverse-Cyclic Program.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, other liabilities totaled $593.5 million and were $99.1 million lower than the prior year. Current portion of long-term debt decreased $152.3 million primarily due to the refunding of $78.9 million of Water Revenue Bonds, 2000 Series B-3 and the partial refunding of $55.7 million of Water Revenue Bonds, 2017 Series A. This decrease was offset by $36.8 million higher current portion of other long-term obligations, which included $21.0 million higher deferred water sales due to the Reverse-Cyclic Program wherein member agencies paid for water in advance in calendar year 2022 that Metropolitan will deliver within 5 years from the date of purchase and $10.7 million higher deferred delivery of exchange water. The decrease was also offset by $11.0 million higher accounts payable and accrued expenses and implementation of GASB 96 standards that recognized $3.3 million of subscription assets.

Deferred Inflows of Resources

Deferred inflows of resources represent deferred inflows related to the net pension liability, net OPEB liability, leases, bond refundings and effective interest rate swaps.

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, deferred inflows of resources totaled $156.3 million and were $264.9 million lower than the prior year primarily due to $197.6 million lower deferred inflows related to pension, which included $207.9 million lower net difference between projected and actual earnings on pension plan investments, offset by $10.3 million increase in differences between expected and actual experience. In addition, deferred inflows related to OPEB decreased $65.9 million, which included $45.6 million lower net difference between projected and actual earnings on OPEB plan investments, $10.5 million lower changes of assumptions, and $9.8 million lower differences between expected and actual experience. Also contributing to the decrease in deferred inflows of resources was $6.6 million lower deferred gain on bond refundings due to amortization. These decreases were offset by $2.9 million of new leases and $2.3 million higher deferred inflows on effective swaps due to higher interest rates.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, deferred inflows of resources totaled $421.2 million and were $330.9 million higher than the prior year primarily due to $206.3 million higher deferred inflows related to pension, which included $207.9 million higher net difference between projected and actual earnings on pension plan investments, offset by $1.0 million lower changes of assumptions. Additionally, deferred inflows related to OPEB increased $73.7 million, which included $45.6 million higher net difference between projected and actual earnings on OPEB plan investments and $37.9 million higher changes of assumptions, offset by $9.8 million lower differences between expected and actual experience. Also contributing to the increase in deferred inflows of resources was $31.8 million higher deferred gain on bond refundings as the new debt was less than the debt refunded and $20.2 million higher deferred inflows on effective swaps due to higher interest rates.

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, SWP, and other intangible assets including participation rights in other facilities, lease assets, and subscription assets, offset by accumulated depreciation and amortization and outstanding debt issued for these purposes as well as lease and subscription payables.

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, net investment in capital assets, including State Water Project costs totaled $6.6 billion and was $92.3 million higher than the prior year. The increase included $195.2 million net increase in capital assets, offset by $102.9 million increase in net outstanding debt. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, net investment in capital assets, including State Water Project costs totaled $6.5 billion and was $124.8 million higher than the prior year. The increase included $116.9 million decrease in net outstanding debt and $7.9 million net increase in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

Restricted Net Position

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

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, restricted net position totaled $656.8 million, which was $103.6 million higher than prior year due to $72.6 million restricted funds for the Pure Water Southern California program, $20.7 million higher restricted for debt service resulting from higher principal and interest payment requirements, and $10.3 million higher restricted for operating expenses primarily due to higher anticipated power and water costs in fiscal year 2024.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, restricted net position totaled $553.2 million, which was $40.6 million higher than prior year. The increase included $27.2 million higher restricted for operating expenses primarily due to higher anticipated power and water costs for fiscal year 2023 and $13.4 million higher restricted for debt service resulting from higher principal and interest payment requirements.

Unrestricted Net Position

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

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. Unrestricted net position of $207.5 million at March 31, 2024, was $249.1 million lower than prior year which included $103.6 million higher restricted net position primarily due to the Pure Water Southern California grant funds, $92.3 million higher net investment in capital assets, including State Water Project costs, and negative changes in net position for the twelve months ended March 31, 2024 of $53.2 million.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. Unrestricted net position of $456.6 million at March 31, 2023, was $52.8 million lower than the prior year which included $124.8 million higher net investment in capital assets, including State Water Project costs, and $40.6 million higher restricted for debt service and operating expenses partially offset by changes in net position for the twelve months ended March 31, 2023 of $112.6 million.

CHANGES IN NET POSITION

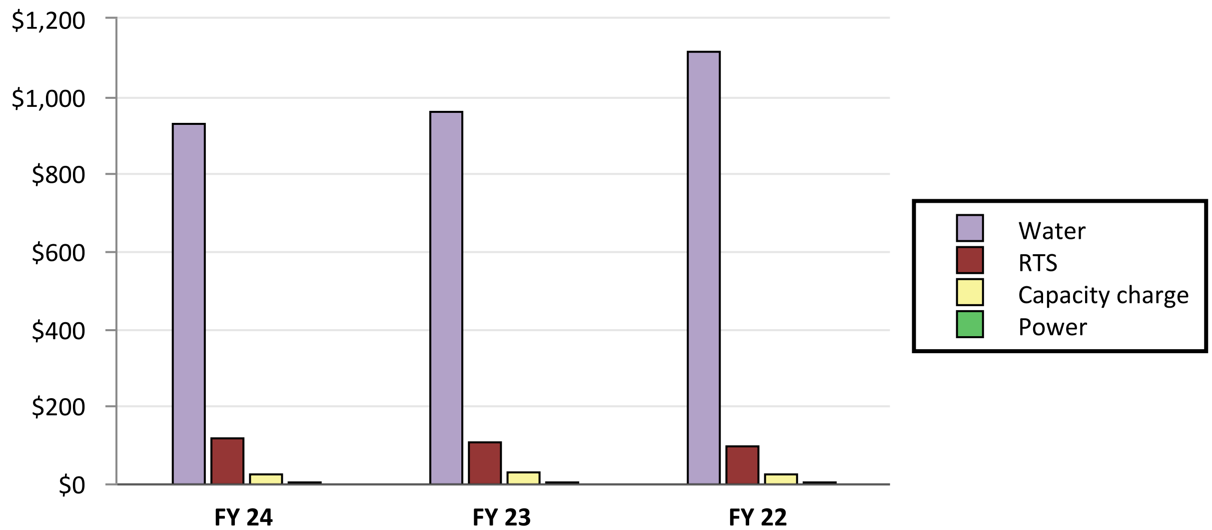
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Nine Months Ended March 31,		
(Dollars in millions)	**2024**	2023 As Adjusted Note 1u	2022
Water revenues	**$ 928.7**	$ 961.4	$ 1,118.1
Readiness-to-serve charges	**118.7**	108.5	100.0
Capacity charge	**26.7**	28.6	27.1
Power sales	**7.7**	5.3	6.6
Operating revenues	**1,081.8**	1,103.8	1,251.8
Taxes, net	**146.8**	132.4	123.3
Investment income, net	**43.3**	27.2	—
Gain on disposal of plant assets	**—**	6.1	8.8
Other revenues	**14.6**	11.8	7.2
Nonoperating revenues	**204.7**	177.5	139.3
Total revenues	**1,286.5**	1,281.3	1,391.1
Power and water costs	**(466.3)**	(486.8)	(434.4)
Operations and maintenance	**(488.1)**	(427.9)	(394.0)
Litigation payments	**—**	—	(50.5)
Depreciation and amortization	**(279.3)**	(278.3)	(266.3)
Operating expenses	**(1,233.7)**	(1,193.0)	(1,145.2)
Bond interest	**(85.4)**	(71.3)	(70.2)
Investment loss, net	**—**	—	(10.1)
Loss on disposal of plant assets	**(0.4)**	—	—
Other expenses	**(3.0)**	(6.5)	(5.3)
Nonoperating expenses	**(88.8)**	(77.8)	(85.6)
Total expenses	**(1,322.5)**	(1,270.8)	(1,230.8)
Changes in net position	**(36.0)**	10.5	160.3
Net position at June 30, 2023, 2022 and 2021	**7,450.5**	7,457.2	7,194.8
Net position at March 31, 2024, 2023 and 2022	**$ 7,414.5**	$ 7,467.7	$ 7,355.1

Operating Revenues

Metropolitan's principal source of revenue is derived from the sale and availability of water, including water rates and other exchange and wheeling transactions, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the State Water Project.

Third Quarter
OPERATING REVENUES
(Dollars in millions)



Analytical Review of Operating Revenues

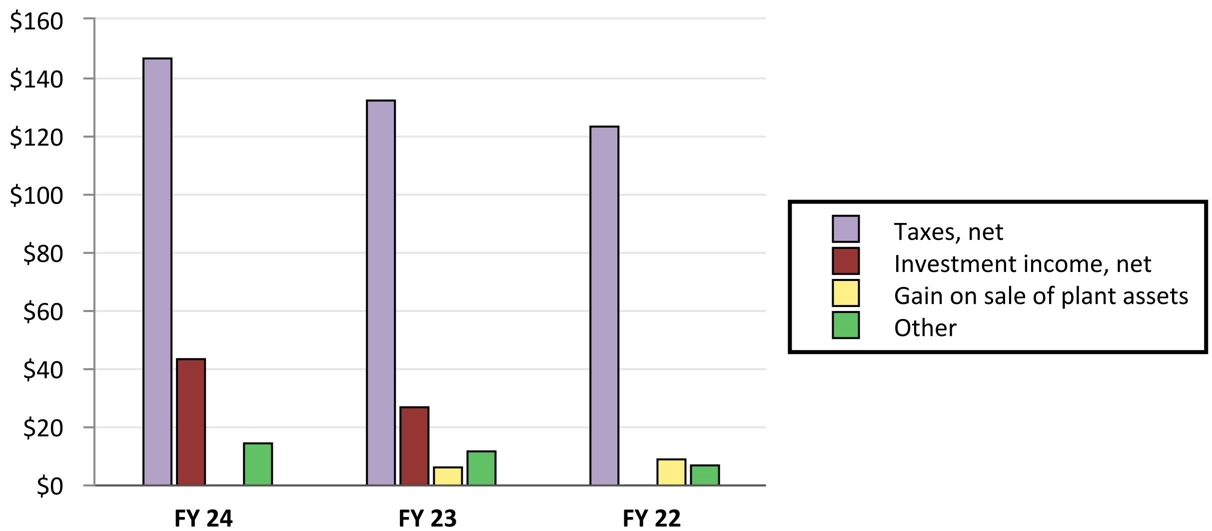
Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. For the nine months ended March 31, 2024 operating revenues were $1.1 billion or $22.0 million less than the prior year. The decrease was primarily due to $32.7 million of lower water revenues, which included $100.2 million or 107.6 TAF of lower volumes sold, offset by $67.5 million of higher price. The decrease in water revenues was partially offset by $10.3 million higher readiness-to-serve charges adopted by the Board.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. For the nine months ended March 31, 2023, operating revenues were $1.1 billion or $148.0 million less than the prior year. The decrease was primarily due to $156.7 million of lower water revenues, which included $180.2 million or 198.5 TAF of lower volumes sold, offset by $23.5 million of higher price. The decrease in water revenues was partially offset by $8.5 million higher readiness-to-serve charges as the Board approved amount was higher in fiscal year 2023 as compared to prior year.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.

Third Quarter
NONOPERATING REVENUES
(Dollars in millions)



Analytical Review of Nonoperating Revenues

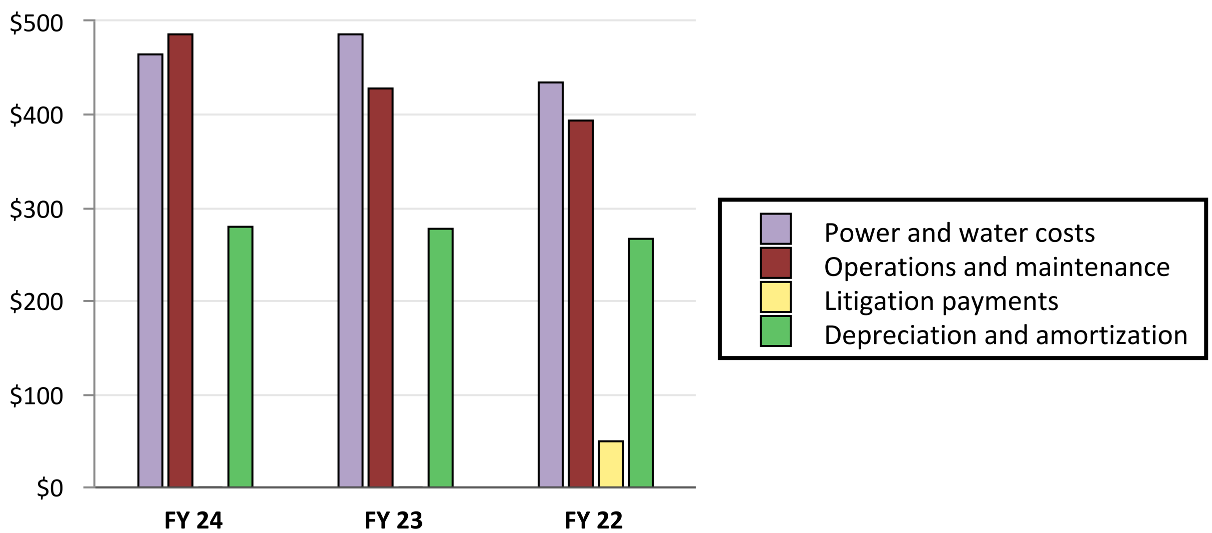
Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. Nonoperating revenues for the nine months ended March 31, 2024, totaled $204.7 million and were $27.2 million higher than the prior year. The increase included $16.1 million of investment income primarily due to higher interest rates, $14.4 million higher property tax revenues resulting from higher assessed values, and $2.8 million higher other revenues. These increases were offset by $6.1 million lower proceeds on land sales as the disposal of asset in fiscal 2024 resulted in a loss.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. Nonoperating revenues for the nine months ended March 31, 2023, totaled $177.5 million and were $38.2 million higher than the prior year. The increase included $27.2 million of investment income primarily due to higher interest rates, $9.1 million higher property tax revenues resulting from higher assessed values, and $4.6 million more other revenues primarily due to $3.2 million higher lease revenues. These increases were offset by $2.7 million lower proceeds on land sales.

Operating Expenses

Operating expenses fall into four primary cost areas: power and water, operations and maintenance (O&M), depreciation and amortization, and litigation payments.

Third Quarter
OPERATING EXPENSES
(Dollars in millions)



Analytical Review of Operating Expenses

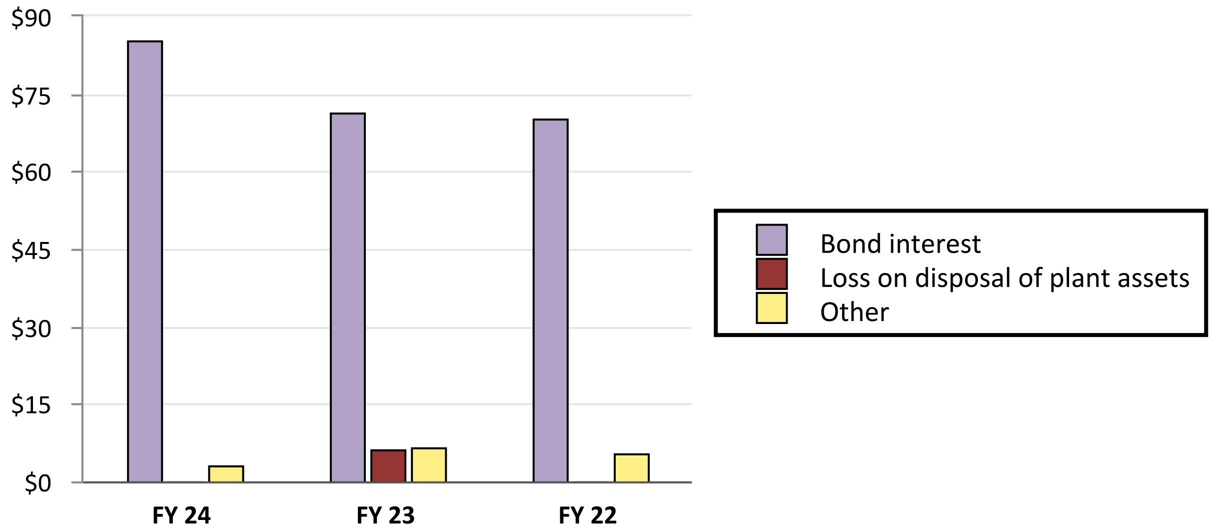
Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. For the nine months ended March 31, 2024, operating expenses of $1.2 billion were $40.7 million higher than the prior year primarily due to $60.2 million higher O&M costs due to increased labor costs, materials and supplies, and outside services, offset by lower power and water costs of $20.5 million primarily due to decline in water transactions.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. For the nine months ended March 31, 2023, operating expenses of $1.2 billion were $47.8 million higher than the prior year. The increase included $52.4 million more power and water costs as a result of higher minimum SWP operation, maintenance, power and replacement costs, $33.9 million higher O&M costs due to increased labor costs, materials and supplies, and conservation credits, and $12.0 million higher depreciation and amortization expense due to a net increase in capital assets. These increases were offset by $50.5 million lower litigation payments as the expense did not occur in fiscal year 2023.

Nonoperating Expenses

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

Third Quarter
NONOPERATING EXPENSES
(Dollars in millions)



Analytical Review of Nonoperating Expenses

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. For the nine months ended March 31, 2024, nonoperating expenses of $88.8 million were $11.0 million higher than the prior year primarily due to $14.1 million more bond interest expense resulting from higher variable interest rates offset by $3.5 million lower other expenses due to lower bond issuance costs.

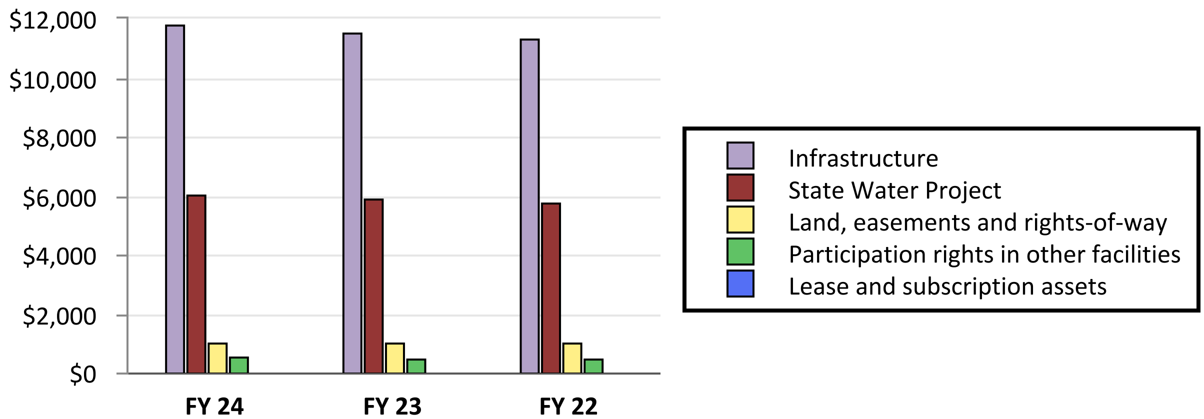
Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. For the nine months ended March 31, 2023, nonoperating expenses of $77.8 million were $7.8 million lower than the prior year primarily due to $10.1 million less investment loss due to an increase in interest rates. This decrease was partially offset by $1.2 million more other expense primarily due to higher bond issuance costs and $1.1 million more bond interest expense resulting from higher variable interest rates.

CAPITAL ASSETS

Capital assets include Metropolitan's water infrastructure, land and buildings, participation rights in SWP and various other water programs, as well as lease and subscription assets. More detailed information on commitments for construction contracts are presented in Note 6(f) to the basic financial statements.

Metropolitan's fiscal year 2024 capital investment plan includes $300.0 million principally for the Colorado River Aqueduct (CRA) reliability programs, systems and information technology improvements, distribution system rehabilitation projects, water treatment plants reliability program, system flexibility and supply reliability projects and the pre-stressed concrete cylinder pipe reliability (PCCP) rehabilitation program.

Third Quarter
GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	March 31, 2024	2023	2022
Land, easements and rights of way	**$ 990.0**	$ 989.7	$ 988.3
Construction in progress	**880.9**	894.3	799.8
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**225.5**	223.6	220.7
Other dams and reservoirs	**1,868.9**	1,847.5	1,837.9
Water transportation facilities	**4,208.3**	4,100.1	4,003.1
Pumping plants and facilities	**384.6**	378.1	360.2
Treatment plants and facilities	**3,227.5**	3,190.6	3,139.5
Buildings	**237.0**	180.7	179.1
Miscellaneous	**719.6**	643.6	693.7
Pre-operating expenses of original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**6,031.3**	5,904.8	5,764.4
Participation rights in other facilities	**549.3**	459.0	459.0
Lease assets	**11.2**	11.2	10.6
Subscription assets	**8.5**	8.5	—
Gross capital assets	**19,400.2**	18,889.3	18,513.9
Less accumulated depreciation and amortization	**(8,627.6)**	(8,311.9)	(7,944.4)
Total capital assets, net	**$ 10,772.6**	$ 10,577.4	$ 10,569.5
Net increase (decrease) from prior year	**$ 195.2**	$ 7.9	$ (10.7)
Percent change	**1.8%**	0.1%	(0.1%)

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. Net capital assets totaled approximately $10.8 billion and increased $195.2 million over the prior year. The increase included $379.0 million of construction spending and a net increase of $216.7 million in participation rights primarily related to SWP and AVEK Water Banking project, offset by depreciation and amortization of $360.8 million and $39.7 million retirements of capital assets.

The major capital asset additions for the twelve months ended March 31, 2024, included:

- $70.8 million for the 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.
- $68.4 million for the improvements in infrastructure reliability at the treatment plants; this program will replace or refurbish facilities and components at Metropolitan's five water treatment plants in order to continue to reliably meet water demands.
- $55.0 million for the supply reliability program; this program will enhance the flexibility and/or increase the capacity of Metropolitan's water supply and delivery infrastructure to meet current and projected service demands.
- $50.3 million for the system reliability program, which is designed to improve or modify facilities throughout Metropolitan's service area in order to utilize new processes and/or technologies, and to improve facility safety and overall reliability.
- $49.7 million for the distribution system's rehabilitation program; this program will replace or refurbish existing facilities within Metropolitan's distribution system including reservoirs, pressure control structures, hydroelectric power plants, and pipelines in order to reliably meet water demands.
- $49.2 million for the CRA 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 SWP delivery constraints.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. Net capital assets totaled approximately $10.6 billion and increased $7.9 million over the prior year. The increase included $255.8 million of construction spending, a net increase of $140.4 million in participation rights in SWP, and a $9.1 million increase in subscription and lease assets, offset by depreciation and amortization of $384.9 million and $12.5 million retirements of capital assets.

The major capital asset additions for the twelve months ended March 31, 2023, included:

- $66.3 million for the distribution system's rehabilitation program.
- $45.2 million for the improvements in infrastructure reliability at the treatment plants.
- $37.5 million for the CRA supply reliability and system expansion program.
- $31.5 million for the system reliability program.
- $27.3 million for the PCCP program.
- $17.2 million for the supply reliability program.

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	March 31,		
(Dollars in millions)	**2024**	2023	2022
General obligation bonds *(a)*	**$ 18.2**	$ 19.2	$ 20.2
Revenue bonds *(a)*	**3,732.3**	3,658.4	3,848.4
Other, net *(b)*	**386.0**	398.1	438.2
	$ 4,136.5	$ 4,075.7	$ 4,306.8
Increase (decrease) from prior year	**$ 60.8**	$ (231.1)	$ (191.8)
Percent change	**1.5%**	(5.4%)	(4.3%)

(a) Includes refunding bonds.

(b) Consists of unamortized bond discounts and premiums.

Third Quarter Fiscal 2024 Compared to Third Quarter Fiscal 2023. At March 31, 2024, outstanding bonds and other long-term obligations totaled $4.1 billion, a net increase of $60.8 million or 1.5 percent from the prior year. The increase was due to the issuance of $258.4 million Water Revenue and Refunding Bonds, 2023 Series A. This increase was offset by $149.9 million of scheduled principal payments, $35.6 million repayment of the Wells Fargo Revolving Credit Facility, and $12.1 million decrease in premiums and discounts, which included $47.2 million related to scheduled amortization, offset by $35.1 million increase related to bond refundings, as the premiums on new debt issued were more than the premiums outstanding on the debt refunded.

Third Quarter Fiscal 2023 Compared to Third Quarter Fiscal 2022. At March 31, 2023, outstanding bonds and other long-term obligations totaled $4.1 billion, a net decrease of $231.1 million or 5.4 percent from the prior year. The decrease included $175.6 million of scheduled principal payments and $40.1 million decrease in premiums and discounts, which included $49.5 million related to scheduled amortization, offset by $9.4 million increase related to bond refundings, as the premiums on new debt issued were more than the premiums outstanding on the debt refunded. Also contributing to the decrease was $15.4 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Additional information on Metropolitan's long-term debt can be found in Note 3 to the basic financial statements.

CREDIT RATINGS

Metropolitan's credit ratings at March 31, 2024 are shown below.

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

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31, 2024	March 31, 2023 As adjusted Note 1u
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	(Unaudited)	
Current Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: $1,485 and $299,203 for fiscal years 2024 and 2023, respectively)	**$ 1,485**	$ 296,425
Restricted (cost: $533,658 and $493,447 for fiscal years 2024 and 2023, respectively)	**529,084**	488,865
Total cash and investments	**530,569**	785,290
Receivables:		
Water revenues	**146,892**	120,462
Interest on investments	**6,820**	7,075
Leases (Note 1j)	**858**	845
Other, net (Note 1f)	**104,824**	92,174
Total receivables	**259,394**	220,556
Inventories (Note 1g)	**166,653**	162,986
Deposits, prepaid costs, and other (Note 8)	**123,101**	149,358
Total current assets	**1,079,717**	1,318,190
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: $413,494 and $402,283 for fiscal years 2024 and 2023, respectively)	**409,959**	398,548
Restricted (cost: $94,939 and $54,366 for fiscal years 2024 and 2023, respectively)	**94,127**	53,861
Total cash and investments	**504,086**	452,409
Capital assets:		
Plant and equipment - non depreciable (Notes 1h and 6f)	**1,870,878**	1,884,013
Plant and equipment - depreciable (Notes 1h and 6f)	**10,929,096**	10,621,838
Participation rights in State Water Project (Notes 1i and 7)	**6,031,287**	5,904,804
Participation rights in other facilities (Note 1i)	**549,289**	459,049
Lease assets (Note 1j)	**11,155**	11,155
Subscription assets (Note 1k)	**8,472**	8,472
Total capital assets	**19,400,177**	18,889,331
Less accumulated depreciation and amortization	**(8,627,587)**	(8,311,907)
Total capital assets, net	**10,772,590**	10,577,424
Leases receivable, net of current portion (Note 1j)	**27,363**	24,470
Deposits, prepaid costs, and other, net of current portion (Note 8)	**470,875**	398,539
Total noncurrent assets	**11,774,914**	11,452,842
Total assets	**12,854,631**	12,771,032
Deferred Outflows of Resources (Note 1p):		
Loss on swap terminations	**12,599**	14,528
Pension related (Notes 1n and 4)	**240,137**	91,078
OPEB related (Notes 1o and 5)	**55,223**	35,430
Total deferred outflows of resources	**307,959**	141,036
Total Assets and Deferred Outflows of Resources	**$ 13,162,590**	$ 12,912,068

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	March 31, 2024	2023 As adjusted Note 1u
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1l)	**$ 90,217**	$ 156,502
Revolving notes (Note 3a)	**176,400**	—
Current portion of long-term debt	**775,644**	231,115
Current portion of accrued compensated absences (Note 1m)	**27,900**	26,900
Current portion of customer deposits and trust funds	**2,334**	2,483
Current portion of leases (Note 1j)	**1,543**	1,544
Current portion of subscriptions (Note 1k)	**3,327**	3,320
Current portion of workers' compensation and third party claims (Note 11)	**8,759**	6,013
Current portion of other long-term liabilities	**107,008**	123,054
Accrued bond interest	**46,035**	41,384
Matured bonds and coupons not presented for payment	**1,702**	1,203
Total current liabilities	**1,240,869**	593,518
Noncurrent Liabilities:		
Long-term debt, net of current portion	**3,360,854**	3,844,586
Accrued compensated absences, net of current portion (Note 1m)	**38,715**	33,955
Customer deposits and trust funds, net of current portion	**42,388**	52,564
Leases, net of current portion (Note 1j)	**5,397**	5,789
Subscriptions, net of current portion (Note 1k)	**1,174**	1,321
Net pension liability (Note 4)	**790,626**	440,600
Net OPEB liability (Note 5)	**99,304**	37,379
Workers' compensation and third party claims, net of current portion (Note 11)	**6,090**	4,709
Fair value of interest rate swaps (Note 3e)	**4,245**	6,652
Other long-term liabilities, net of current portion	**2,120**	2,137
Total noncurrent liabilities	**4,350,913**	4,429,692
Total liabilities	**5,591,782**	5,023,210
Deferred Inflows of Resources (Note 1p):		
Effective swaps	**52,655**	50,246
Gain on bond refundings	**25,227**	31,822
Leases (Note 1j)	**27,354**	24,453
Pension related (Notes 1n and 4)	**10,300**	207,915
OPEB related (Notes 1o and 5)	**40,786**	106,726
Total deferred inflows of resources	**156,322**	421,162
Total Liabilities and Deferred Inflows of Resources	**5,748,104**	5,444,372
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	**6,550,189**	6,457,927
Restricted for:		
Debt service	**239,167**	218,437
Other	**417,656**	334,777
Unrestricted	**207,474**	456,555
Total net position	**7,414,486**	7,467,696
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 13,162,590**	$ 12,912,068

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Nine Months Ended March 31, 2024	2023 As adjusted Note 1u
	(Unaudited)	
Operating Revenues (Notes 1c and 1r):		
Water revenues	**$ 928,664**	$ 961,423
Readiness-to-serve charges	**118,750**	108,500
Capacity charge	**26,679**	28,622
Power sales	**7,675**	5,271
Total operating revenues	**1,081,768**	1,103,816
Operating Expenses:		
Power and water costs	**466,279**	486,826
Operations and maintenance	**488,132**	427,850
Total operating expenses	**954,411**	914,676
Operating income before depreciation and amortization	**127,357**	189,140
Less depreciation and amortization	**(279,308)**	(278,310)
Operating loss	**(151,951)**	(89,170)
Nonoperating Revenues (Expenses) (Note 1r):		
Taxes, net (Note 1e)	**146,782**	132,386
Bond interest	**(85,424)**	(71,280)
Investment income, net	**43,333**	27,237
(Loss) gain on disposal of plant assets	**(427)**	6,135
Other, net	**11,646**	5,175
Total nonoperating revenues, net	**115,910**	99,653
Changes in Net Position	**(36,041)**	10,483
Net position at June 30, 2023 and 2022	**7,450,527**	7,457,213
Net position at March 31, 2024 and 2023	**$ 7,414,486**	$ 7,467,696

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31,	
(Dollars in thousands)	**2024**	2023
Cash Flows from Operating Activities:	(Unaudited)	
Cash received from water sales	**$ 829,658**	$ 1,009,589
Cash received from other exchange transactions	**128,215**	118,670
Cash received from readiness-to-serve charges	**95,402**	85,070
Cash received from capacity charge	**21,165**	24,571
Cash received from power sales	**7,839**	5,533
Cash paid for operations and maintenance expenses	**(282,344)**	(247,272)
Cash paid to employees for services	**(232,720)**	(215,368)
Cash paid for power and water costs	**(618,200)**	(550,360)
Cash paid for litigation	**—**	(412)
Other cash flows from operating activities	**8,787**	4,217
Net cash (used) provided by operating activities	**(42,198)**	234,238
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**8,112**	8,772
Net cash provided by noncapital financing activities	**8,112**	8,772
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(300,898)**	(190,109)
Payments for State Water Project costs	**(160,280)**	(170,060)
Advance payments for Delta Conveyance Project costs	**(64,500)**	(34,500)
Proceeds from short and long-term debt	**296,400**	—
Payments for bond issuance costs	**(2,218)**	(1,617)
Principal paid on debt	**(326,265)**	(175,565)
Interest paid on debt	**(129,119)**	(90,385)
Proceeds from tax levy	**119,811**	123,372
Transfer from (to) escrow trust accounts	**1,058**	(35,486)
Payments of rebatable arbitrage	**(75)**	—
Proceeds from sale of capital assets	**—**	8,425
Net cash used by capital and related financing activities	**(566,086)**	(565,925)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(1,893,196)**	(2,666,466)
Proceeds from sales and maturities of investment securities	**2,459,495**	2,992,571
Investment income	**35,300**	14,071
Net cash provided by investing activities	**601,599**	340,176
Net change in cash	**1,427**	17,261
Cash at July 1, 2023 and 2022	**58**	382
Cash at March 31, 2024 and 2023 (Notes 1b and 2)	**$ 1,485**	$ 17,643

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Nine Months Ended March 31, 2024		2023 As Adjusted	
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(Unaudited)			
Operating Loss	**$**	**(151,951)**	$	(89,170)
Adjustments to Reconcile Operating Loss to Net Cash (Used) Provided by Operating Activities:				
Depreciation and amortization expense		**279,308**		278,310
Decrease in accounts receivable		**53,770**		145,891
Decrease (increase) in inventories		**30,162**		(40,440)
Increase in deposits, prepaid costs, and other		**(137,885)**		(95,757)
(Decrease) increase in accounts payable and accrued expenses		**(157,354)**		6,441
Decrease in OPEB		**(15,349)**		(14,903)
Increase in deferred liabilities		**23,298**		59,511
Increase in other items		**33,803**		(15,645)
Total Adjustments		**109,753**		323,408
Net cash (used) provided by operating activities	**$**	**(42,198)**	$	234,238
Significant Noncash Investing, Capital and Financing Activities				
Refunding bonds proceeds received in escrow trust fund	**$**	**—**	$	886,551
Debt defeased through escrow trust fund with refunding debt	**$**	**—**	$	(830,635)
Redemption of notes through transfer from paying agent	**$**	**—**	$	(35,645)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH				
Unrestricted cash and investments (at March 31, 2024 and 2023 includes $1,485 and $17,643 of cash, respectively)	**$**	**411,444**	$	694,973
Restricted cash and investments		**623,211**		542,726
Total cash and investments, at fair value		**1,034,655**		1,237,699
Less: carrying value of investments		**(1,033,170)**		(1,220,056)
Total Cash (Notes 1b and 2)	**$**	**1,485**	$	17,643

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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 pursuant to Sections 52 and 55 of the Act. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more or fewer than 38 directors. However, effective January 1, 2020, no member agency shall have fewer than the number of representatives the agency had as of January 1, 2019. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during the nine months ended March 31, 2024 or 2023. 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.

Fiduciary funds are not included in Metropolitan's proprietary financial statements because the assets of these funds are not available to Metropolitan.

(b) Principles of Presentation

Metropolitan operates as an enterprise fund and applies all applicable GASB pronouncements in its accounting and reporting. 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.

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

Fiduciary funds are used to account for assets held in a trustee or custodial capacity and cannot be used to support Metropolitan's own purpose. Fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting.

(c) Revenue Policies

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

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

Metropolitan's rate structure consists of unbundled rate elements (supply, system access, system power, and treatment) designed to provide transparency regarding the cost of specific functions to member agencies. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Fair Value Measurements

Metropolitan categorizes the fair value measurements for assets and liabilities within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs of assets and liabilities as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date; Level 2 inputs are inputs—other than quoted prices—that are observable for identical assets or liabilities, either directly or indirectly; and Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Metropolitan reports its investments and liabilities using valuation techniques consistent with market and cost approaches to determine the fair value.

(e) Taxing Authority

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

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

As a result of legislation enacted in 1984, commencing with the fiscal year ended June 30, 1991, tax levies, other than annexation taxes, are limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may conclude that this particular restriction is not applicable upon a finding that doing so is essential to Metropolitan's fiscal integrity. The Board made such a finding for fiscal years ended June 30, 2014 through 2022 and in March 2022 extended its applicability to fiscal years ended/ending June 30, 2023 through 2026, and maintained the tax rate for these fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service. See Subsequent Events, Note 12.

(f) Other Receivables

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

(g) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenses are recorded when inventories are used. Components of inventories at March 31, 2024 and 2023 were as follows:

	March 31,			
(Dollars in thousands)		**2024**		2023
Water in storage	**$**	**141,210**	$	140,399
Operating supplies		**25,443**		22,587
Total inventories	**$**	**166,653**	$	162,986

(h) Capital Assets

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 prior to July 1, 2021. Beginning July 1, 2021 and thereafter, interest incurred during construction is no longer capitalized in accordance with GASB 89. 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, distribution facilities, and miscellaneous assets and 10 to 50 years for treatment plants and hydroelectric power recovery facilities. 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.

(i) Participation Rights

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

(j) Leases

Metropolitan is a lessor for various noncancellable leases of land to an outside party and lessee for various noncancellable leases of buildings, equipment, and land from an outside party.

Short-term leases: For leases that have a maximum possible term of 12 months or less at commencement, Metropolitan recognizes a revenue or an expense, respectively, when Metropolitan is a lessor or lessee. The revenue or expense is based on the provisions of the lease contract.

Long-term leases: For leases that have a maximum possible term of more than 12 months at commencement and an individual value of $250,000 or more, Metropolitan recognizes a lease receivable and deferred inflow of resources when Metropolitan is the lessor or a lease liability and a lease asset when Metropolitan is the lessee. For leases that have a maximum possible term of more than 12 months at commencement and an individual value of less than $250,000, Metropolitan recognizes a revenue or an expense when Metropolitan is a lessor or lessee, respectively.

Measurement of lease amounts - lessor

At lease commencement, Metropolitan initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, plus prepayments received, less lease incentives paid at or before the lease commencement date. Subsequently, Metropolitan recognizes lease revenue as a straight-line amortization of the deferred inflow over the shorter of the lease term or the useful life of the underlying asset.

Measurement of lease amounts - lessee

At lease commencement, Metropolitan initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the intangible lease asset is amortized into depreciation and amortization expenses on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Key estimates and judgments related to leases include how Metropolitan determines 1) the discount rate, 2) the lease term and 3) the lease receipts or payments.

- *Discount rate:* Metropolitan uses its estimated incremental borrowing rate as the discount rate for leases, whether Metropolitan is the lessee or the lessor, unless the rate is stated in the lease agreement. The incremental borrowing rate for leases is based on the rate of interest Metropolitan would have to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date. For Metropolitan, this is assumed to be equal to the treasury yield.
- *Lease term:* The lease term includes the noncancellable period of the lease plus any additional periods covered by an option to extend that is reasonably certain to be exercised. Periods in which both the lessor or lessee have an option to terminate, are excluded from the lease term.
- *Lease receipts or payments:* Metropolitan evaluates lease receipts and payments to determine if they should be included in the measurement of the lease, including those receipts or payments that require a determination of whether they are reasonably certain of being received or made. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. Lease payments included in the measurement of the lease liability are composed of fixed payments to the lessor and purchase options reasonably certain to be exercised, if applicable.

(k) Subscription-Based Information Technology Arrangements

Metropolitan has several noncancellable subscription assets for the right-to-use information technology.

Short-term subscription assets: For arrangements that have a maximum possible term of 12 months or less at commencement, Metropolitan recognizes an expense, based on the provisions of the subscription asset contract.

Long-term subscription assets: For arrangements that have a maximum possible term of more than 12 months at commencement and an individual value of $250,000 or more, Metropolitan recognizes a subscription liability and subscription asset. For subscription assets that have a maximum possible term of more than 12 months at commencement and an individual value of less than $250,000, Metropolitan recognizes an expense.

Measurement of subscription assets

At subscription commencement, Metropolitan initially measures the subscription asset at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, less subscription payments made at or before the subscription commencement date, less any vendor incentives received at or before the subscription commencement date, plus the capitalizable implementation costs. The subscription-based IT arrangement asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying software.

Similar to leases, Metropolitan has key estimates and judgments related to 1) discount rate, 2) the subscription asset term and 3) subscription asset payments

- *Discount rate:* Metropolitan uses its estimated incremental borrowing rate as the discount rate for subscription assets, unless the rate is stated in the subscription agreement. The incremental borrowing rate for subscription assets is based on the rate of interest Metropolitan would have to pay if it issued general obligation bonds to borrow an amount equal to the subscription asset under similar terms at the commencement or remeasurement date. For Metropolitan, this is assumed to be equal to the treasury yield.

- *Subscription asset term:* This includes the noncancellable period of the subscription asset plus any additional periods covered by an option to extend that is reasonably certain to be exercised. Periods in which both Metropolitan and the vendor have a unilateral option to terminate, are excluded from the subscription term.
- *Subscription asset payments:* Metropolitan evaluates payments to determine if they should be included in the measurement of the subscription liabilities, including those payments that require a determination of whether they are reasonably certain of being made. Metropolitan monitors subscription assets for possible changes that may require remeasurement if they could materially affect the amount of the liability and the related asset that should be recognized.

(l) Disaggregation of Payable Balances

Accounts payable and accrued expenses at March 31, 2024 and 2023 were as follows:

	March 31,	
(Dollars in thousands)	**2024**	2023[1]
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 44,024**	$ 105,306
Vendors	**29,415**	37,306
Accrued power costs	**1,740**	1,668
Accrued salaries	**12,179**	9,439
Conservation credits	**2,859**	2,783
Total accounts payable and accrued expenses	**$ 90,217**	$ 156,502

[1] Adjustments were made to March 31, 2023 accounts payable and accrued expenses due to the implementation of GASB 96, see Note 1(u).

(m) 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.

(n) 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.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2021
Measurement Date (MD): June 30, 2022
Measurement Period: July 1, 2021 to June 30, 2022

(o) OPEB Accounting

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

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD): June 30, 2021
Measurement Date (MD): June 30, 2022
Measurement Period: July 1, 2021 to June 30, 2022

(p) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of $6.6 billion and $6.5 billion at March 31, 2024 and 2023, respectively, included the effect of deferring the recognition of gains from bond refundings. The deferred inflows from gains on bond refundings at March 31, 2024 and 2023 were $25.2 million and $31.8 million. These are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old or the new debt, whichever is shorter.

The unrestricted net position amount of $207.5 million and $456.6 million at March 31, 2024 and 2023, respectively, included the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension, OPEB, and leases.

The deferred outflows from losses on swap terminations resulting in debt defeasance at March 31, 2024 and 2023 were $12.6 million and $14.5 million, respectively. These deferred outflows of resources are amortized and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The deferred outflows related to pension at March 31, 2024 and 2023 were $240.1 million and $91.1 million, respectively. The deferred inflows related to pension at March 31, 2024 and 2023 were $10.3 million and $207.9 million, respectively.

The deferred outflows related to OPEB at March 31, 2024 and 2023 were $55.2 million and $35.4 million, respectively. The deferred inflows related to OPEB at March 31, 2024 and 2023 were $40.8 million and $106.7 million, respectively.

The deferred inflows from the increase in fair value of interest rate swaps of $52.7 million and $50.2 million at March 31, 2024 and 2023, respectively, would be recognized as an investment gain 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 inflows would also be recognized as an investment gain if the swaps were determined no longer to be effective hedges.

The deferred inflows related to leases at March 31, 2024 and 2023 were $27.4 million and $24.5 million, respectively. These deferred inflows are amortized and recognized as lease revenue, a component of non-operating revenues, on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

(q) 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. These 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.

(r) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as revenues derived from the sale and availability of water, including water rates and other exchange and wheeling transactions. It also includes readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

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

In fiscal year 2023, Metropolitan received $80.0 million from the State Water Resources Control Board (State Board) to fund the Pure Water Southern California program. This contribution was recorded as restricted net position and must be spent by fiscal year 2026. The balance as of March 31, 2024 was $72.6 million.

(s) 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.

(t) Use of Estimates

The preparation of basic financial statements in conformity with U.S. GAAP 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.

(u) New Accounting Pronouncements

Metropolitan implemented the following GASB Statements in fiscal year 2023:

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for governments. A subscription asset is a contract conveying the right-to-use a vendor's information technology software, sometimes in combination with a tangible underlying capital asset, in an exchange or exchange-like transaction. A subscription liability and an intangible asset is recognized in the financial statements. Beginning net position for the quarter ended March 31, 2023 was restated as a result.

The statement of net position for the period ended March 31, 2023 was adjusted as follows:

(Dollars in thousands)	2023 previously reported	GASB 96 adjustment	2023 as adjusted
Noncurrent Assets:			
Subscriptions	—	8,472	8,472
Accumulated depreciation and amortization	(8,309,504)	(2,403)	(8,311,907)
Total change in assets		$ 6,069	
Current Liabilities:			
Accounts payable and accrued expenses	$ 156,445	$ 57	$ 156,502
Current portion of subscriptions	—	3,320	3,320
Noncurrent Liabilities:			
Subscriptions, net of current portion	—	1,321	1,321
Total change in liabilities		4,698	
Net Position:			
Net investment in capital assets, including SWP	6,456,499	1,428	6,457,927
Unrestricted	456,612	(57)	456,555
Total change in net position		1,371	
Total change in liabilities net position		$ 6,069	

The statement of revenues, expenses and changes in net position for the period ended March 31, 2023 was adjusted as follows:

(Dollars in thousands)	2023 previously reported	GASB 96 adjustment	2023 as adjusted
Operating expenses:			
Operations and maintenance	$ 430,358	$ (2,508)	$ 427,850
Less: Depreciation and amortization	(276,499)	(1,811)	(278,310)
Total change in operating expenses		697	
Nonoperating revenues			
Other, net	5,265	(90)	5,175
Net Position			
Beginning of year	7,456,449	764	7,457,213
Total change in net position		$ 1,371	

GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements* effective for fiscal years beginning after June 15, 2022. This statement aims to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Metropolitan did not have any contracts that meet the requirements of GASB 94.

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

- GASB Statement No. 99*, Omnibus 2022* (some components effective in fiscal year 2023 and 2022 did not have a significant impact to Metropolitan, others effective for fiscal year 2024).
- GASB Statement No. 100, *Accounting Changes and Error Corrections*-an amendment of GASB Statement No. 62 (effective for fiscal year 2024).
- GASB Statement No. 101, *Compensated Absences* (effective for fiscal year 2025).

2. CASH AND INVESTMENTS

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

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

Metropolitan's total deposits and investments were reported at fair value in the following funds:

	March 31,			
(Dollars in thousands)		**2024**		2023
Proprietary Funds	**$**	**1,034,655**	$	1,237,699
Fiduciary Funds		**4,634**		4,718
Total deposits and investments	**$**	**1,039,289**	$	1,242,417
Deposits	**$**	**1,485**	$	17,643
Investments		**1,037,804**		1,224,774
Total deposits and investments	**$**	**1,039,289**	$	1,242,417

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

(a) Deposits

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

As of March 31, 2024, Metropolitan's cash balance included $1,480,000 and $5,000 of deposits with financial institutions and cash on hand, respectively. Cash balance as of March 31, 2023 included $17,638,000 and $5,000 of deposits with financial institutions and cash on hand, respectively.

(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, Supranationals, asset-backed, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, Government-sponsored enterprise (GSE), California local agency securities, including securities issued by Metropolitan, medium-term corporate notes, time deposits, investment contracts, money market funds, California Asset Management Program (CAMP), and Local Agency Investment Fund (LAIF).

As of March 31, 2024 and 2023, Metropolitan had the following investments at fair value:

	March 31,			
(Dollars in thousands)		**2024**		2023
Asset-backed securities	**$**	**56,751**	$	66,103
CAMP		**265,344**		221,768
Federal agency securities		**62,499**		138,291
GSE		**45,481**		6,298
LAIF		**25,000**		25,000
Medium-term corporate notes		**219,566**		211,345
Money market funds		**2,045**		599
Municipal bonds		**2,158**		2,109
Negotiable certificates of deposit		**38,549**		184,063
Prime commercial paper		**33,295**		67,795
Supranationals		**7,719**		26,576
U.S. Treasury securities		**279,397**		274,827
Total investments	**$**	**1,037,804**	$	1,224,774

Metropolitan categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the 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 March 31, 2024 and 2023:

		Fair Value Measurement Using				
(Dollars in thousands)	**3/31/2024**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	3/31/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level:						
Asset-backed securities	**$ 56,751**	**$ 53,354**	**$ 3,397**	$ 66,103	$ 64,364	$ 1,739
Federal agency securities	**62,499**	**50,521**	**11,978**	138,291	138,291	—
GSE	**45,481**	**28,514**	**16,967**	6,298	6,298	—
Medium-term corporate notes	**219,566**	**4,990**	**214,576**	211,345	211,345	—
Municipal bonds	**2,158**	**2,158**	**—**	2,109	2,109	—
Negotiable certificates of deposit	**38,549**	**—**	**38,549**	184,063	—	184,063
Prime commercial paper	**33,295**	**—**	**33,295**	67,795	691	67,104
Supranationals	**7,719**	**—**	**7,719**	26,576	26,576	—
U.S. Treasury securities	**279,397**	**9,267**	**270,130**	274,827	274,827	—
Total investments by fair value level	**$ 745,415**	**$ 148,804**	**$ 596,611**	$ 977,407	$ 724,501	$ 252,906
Investments not subject to fair value level:						
CAMP	**265,344**			221,768		
LAIF	**25,000**			25,000		
Money market funds [(1)]	**2,045**			599		
Total investments not subject to fair value level	**292,389**			247,367		
Total investments	**$ 1,037,804**			$ 1,224,774		

[(1)] *As of March 31, 2024 and 2023 the balance was invested in Dreyfus Government Cash Management (DGCXX).*

Investments classified in Level 1 of the fair value hierarchy, valued at $148.8 million and $724.5 million as of March 31, 2024 and 2023, respectively, were valued using quoted prices in active markets.

Investments classified in Level 2 of the fair value hierarchy, valued at $596.6 million and $252.9 million as of March 31, 2024 and 2023, respectively, were valued using Bloomberg Generic, Matrix, Cost, and Generalized Second-Price Manual International Data Corporation.

Metropolitan owns investments utilizing a stable one dollar per-share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share. The total investments reported at a value of one dollar per share were $292.4 million and $247.4 million at March 31, 2024 and 2023, respectively.

CAMP and LAIF are carried at fair value, or the value of each participating dollar as provided by CAMP and LAIF, respectively. The fair value of Metropolitan's position in CAMP and LAIF is the same as the value of the pool shares. The pooled funds are not subject to Levels 1, 2, or 3 of the fair value hierarchy.

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).

Liquidity Segment

This segment of the portfolio was managed against the Intercontinental Exchange Bank of America Merrill Lynch (ICE BoAML) 3-Month Treasury Bill Index. The benchmark durations as of March 31, 2024 and 2023 were 0.24 and 0.23, respectively and the portfolio duration was permitted to vary from the benchmark by plus or minus 0.50. As of March 31, 2024 and 2023, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,			
	2024		2023	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Asset-backed securities	**$ 9,260**	**0.48**	$ 54,669	0.48
CAMP	**249,129**	**—**	221,768	—
Federal agency securities	**9,934**	**0.33**	85,490	0.40
LAIF	**25,000**	**—**	25,000	—
Medium-term corporate notes	**50,020**	**0.54**	134,945	0.67
Money market funds	**1**	**—**	1	—
Negotiable certificates of deposit	**27,937**	**0.55**	175,444	0.52
Prime commercial paper	**26,173**	**0.34**	46,281	0.13
Supranationals	**—**	**—**	18,475	0.16
U.S. Treasury securities	**791**	**0.33**	54,778	0.47
Total portfolio segment	**$ 398,245**		$ 816,851	
Portfolio duration		**0.15**		0.34

Core Segment

This segment of the portfolio was managed against the Benchmark comprised of 20% of the ICE BoAML 0-1 Year, U.S. Treasury Index, and 80% of the ICE BofAML 1-5 Years AAA-A U.S. Corporate and Government Index. The benchmark durations as of March 31, 2024 and 2023 were 2.15 and 2.56, respectively, and the portfolio duration was permitted to vary from the benchmark by plus or minus 1.50. As of March 31, 2024 and 2023, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,			
	2024		2023	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Asset-backed securities	**$ 46,336**	**1.76**	$ 11,434	1.52
Federal agency securities	**52,565**	**1.27**	51,823	1.55
GSE	**43,605**	**2.90**	6,298	1.45
Medium-term corporate notes	**163,753**	**2.14**	76,400	2.51
Money market funds	**764**	**—**	455	—
Municipal Bonds	**2,158**	**1.92**	2,109	2.88
Negotiable certificates of deposit	**10,315**	**1.64**	8,619	0.94
Prime commercial paper	**6,340**	**0.43**	21,514	0.33
Supranationals	**6,922**	**0.77**	8,101	1.46
U.S. Treasury securities	**265,375**	**2.19**	217,600	2.14
Total portfolio segment	**$ 598,133**		$ 404,353	
Portfolio duration		**2.06**		1.97

Bond Reserves and The Endowment Segment

Investments in the bond reserves were managed based on the requirements of each of the bond issues and were closed in September 2022. The Endowment segment was managed in a manner to preserve the principal deposits for as long as possible while meeting the necessary liquidity needs to pay related operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years. As of March 31, 2024 and 2023, Metropolitan's investments and portfolio durations for this segment were as follows:

	March 31,			
	2024		2023	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Asset-backed securities	**$ 1,155**	**2.08**	$ —	—
CAMP	**16,215**	**—**	—	—
Federal agency securities	**—**	**—**	978	0.49
GSE	**1,876**	**3.94**	—	—
Medium-term corporate notes	**5,793**	**3.22**	—	—
Money market funds	**1,280**	**—**	143	—
Negotiable certificates of deposit	**297**	**2.57**	—	—
Prime commercial paper	**782**	**0.40**	—	—
Supranationals	**797**	**2.57**	—	—
U.S. Treasury securities	**13,231**	**3.49**	2,449	2.49
Total portfolio segment	**$ 41,426**		$ 3,570	
Portfolio duration		**1.88**		1.84

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 fair 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. Treasury Federal Agency Obligations GSE	Not applicable.
Bankers' acceptances	'A-1' or its equivalent or better by a Nationally Recognized Statistical Rating Organization (NRSRO).
Prime commercial paper	Highest ranking or highest letter and number rating as provided by a NRSRO.
Negotiable certificates of deposit	'A' (long-term) or 'A-1' (short-term) or their equivalent or better by a NRSRO.
Bank deposits	All deposits must be collateralized as required by California Government Code Sections 53630 et seq. The Treasurer may waive collateral for the portion of any deposits that is insured pursuant to federal law.
Asset-backed securities	Rating category of at least 'AA' or equivalent or better by a NRSRO.
Supranationals	Rating category of at least 'AA' or equivalent or better by a NRSRO.
CAMP	Rating category of 'AAAm' or its equivalent or better by a NRSRO.
Repurchase agreements	Limited to primary dealers or financial institutions in a rating category of 'A' or its equivalent or better by a NRSRO.
Medium-term corporate notes	Rating category of 'A' or its equivalent or better by a NRSRO.
LAIF	Not applicable.
Money market funds	Highest ranking by not less than two NRSROs or must retain an investment advisor that meets specified requirements.
Municipal bonds	'A' (long-term) or 'A-1' (short-term) or their equivalent or better by a NRSRO.

On March 31, 2024 and 2023, Metropolitan's portfolio was invested in the following securities by rating:

		March 31,	
		2024	2023
(Dollars in thousands)	Rating[(1)]	**Fair value**	Fair value
Asset-backed securities	AAA[(2)]	**$ 56,751**	$ 66,103
CAMP	AAAm[(3)]	**265,344**	221,768
Federal agency securities	N/A[(4)]	**62,499**	138,291
GSE	N/A[(4)]	**45,481**	6,298
LAIF	N/A[(5)]	**25,000**	25,000
Medium-term corporate notes	A-[(3)]	**219,566**	211,345
Money market funds	AAAm[(3)]	**2,045**	599
Municipal bonds	AA+[(3)]	**2,158**	2,109
Negotiable certificates of deposit	A-1[(3)]	**38,549**	184,063
Prime commercial paper	A-1[(3)]	**33,295**	67,795
Supranationals	AAA[(2)]	**7,719**	26,576
U.S. Treasury securities	N/A[(4)]	**279,397**	274,827
Total portfolio		**$ 1,037,804**	$ 1,224,774

[(1)]*Minimum actual ratings by sector as of March 31, 2024.*
[(2)]*Standard & Poor's Global Ratings and Moody's Investor Services.*
[(3)]*Standard & Poor's Global Ratings.*
[(4)]*Credit rating disclosures are not applicable to obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government.*
[(5)]*LAIF 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-backed securities and money market funds, to 100 percent for federal agency securities, GSE, and U.S. Treasury securities. The percentages of investments that can be purchased by a single issuer are limited to 5 percent for asset-backed securities, banker's acceptances, medium-term corporate notes, municipal bonds, negotiable certificates of deposit, and prime commercial paper.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of March 31, 2024 and 2023.

	Investment Policy Limits	Percent of Portfolio	
		2024	2023
Asset-backed securities	20 %	**6 %**	5 %
CAMP	40 %	**26 %**	18 %
Federal agency securities	100 %	**6 %**	11 %
GSE	100 %	**4 %**	1 %
LAIF	*	**2 %**	2 %
Medium-term corporate notes	30 %	**21 %**	17 %
Money market funds	20 %	**<1%**	<1%
Municipal bonds	30 %	**<1%**	<1%
Negotiable certificates of deposit	30 %	**4 %**	15 %
Prime commercial paper	40 %	**3 %**	6 %
Supranationals	30 %	**1 %**	2 %
U.S. Treasury securities	100 %	**27 %**	23 %
Total portfolio		**100 %**	100 %

**The current limit set by LAIF for operating accounts.*

At March 31, 2024 and 2023, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its investments:

(Dollars in thousands)	2024		
CAMP	$	265,344	25.6 %
Federal Home Loan Mortgage Corp	$	71,650	6.9 %

(Dollars in thousands)	2023		
CAMP	$	221,768	18.1 %

Custodial credit risk. On March 31, 2024 and 2023, 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 $265.3 million and $221.8 million in deposit in the CAMP as of March 31, 2024 and 2023, respectively, and $25.0 million in deposit in LAIF as of March 31, 2024 and 2023.

CAMP is a program created through a joint powers agency as a pooled short-term portfolio and cash management vehicle for California public agencies under California Government Code Section 53601(p). CAMP is governed by a seven member Board of Trustees comprised of finance directors and treasurers of California public agencies. The total amount invested by all public agencies in CAMP was $18.1 billion and $12.5 billion as of March 31, 2024 and

2023, respectively. Of the amount invested in CAMP, 33.4 percent and 37.3 percent were invested in medium-term and short-term notes and asset-backed securities on March 31, 2024 and 2023, respectively. The average maturity of CAMP investments was 43 days and 30 days as of such dates.

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 Chairwoman is the State Treasurer or her designated representative.

The total amount invested by all public agencies in LAIF as of March 31, 2024 and 2023 was $21.0 billion and $27.0 billion, respectively. On March 31, 2024 and 2023, the PMIA had a balance of $156.5 billion and $191.2 billion, respectively, of which, 2.06 percent and 2.63 percent, respectively, were invested in medium-term and short-term notes and asset-backed securities. The average maturity of LAIF investments as of March 31, 2024 and 2023 was 226 days and 275 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 twelve months ended March 31, 2024 and 2023.

(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; expenses for Pure Water Southern California program; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

3. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of $4.3 billion and $4.1 billion at March 31, 2024 and 2023, respectively, represents less than one percent of the fiscal year 2024 and 2023 total taxable net assessed valuation of $3.9 trillion and $3.6 trillion, 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) Commercial Paper and Revolving Notes

Metropolitan may issue up to $200.0 million in commercial paper to fund a portion of its capital investment plan, as approved by Metropolitan's Board. There was no commercial paper issued through March 31, 2024 and 2023 and no commercial paper was outstanding as of such dates. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes.

Short-term notes issued during the twelve months ended March 31, 2024 was as follows:

- On June 13, 2023, Metropolitan issued certain notes evidencing a draw of $35.6 million from Wells Fargo Bank, N.A., under the Wells Fargo Revolving Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. The notes have a maturity date of May 31, 2024. The notes were repaid on June 21, 2023 from the proceeds of the Water Revenue and Refunding Bonds, 2023 Series A.

- On June 30, 2023, Metropolitan issued certain notes evidencing draws of $38.4 million (Tax-Exempt), and $18.0 million (Taxable) from Wells Fargo Bank, N.A., under the Wells Fargo Revolving Credit Facility. The tax-exempt draw will finance a portion of the costs of construction and other capital costs relating to the AVEK Water Banking program. The taxable draw will fund a portion of Metropolitan's conservation expenses. The taxable and tax-exempt notes have a maturity date of May 31, 2024. The Wells Fargo Notes were fully paid and redeemed from available funds on March 21, 2024.

- On December 18, 2023, Metropolitan issued $120.0 million of the Wells Fargo Tax Exempt Revolving Notes Series 2023A-4, representing a draw, of a like amount, from the Wells Fargo Revolving Credit Facility. The notes have a maturity date of May 31, 2024, unless otherwise amended, in which case the notes' maturity can be extended to December 17, 2024. Proceeds were used to fund a portion of Metropolitan's Capital Investment Program. The Wells Fargo Notes were fully paid and redeemed from available funds on March 21, 2024.

- On March 21, 2024 Metropolitan issued certain notes evidencing draws of $38.4 million (Tax-Exempt), and $18.0 million (Taxable) from Bank of America, N.A., under the Bank of America Revolving Credit Facility. The tax-exempt and taxable draws will repay a like amount of notes drawn from Wells Fargo Bank, N.A., under the Wells Fargo Revolving Credit Facility. The tax-exempt draw financed a portion of the costs of construction and other capital costs relating to the AVEK Water Banking program. The taxable draw will fund a portion of Metropolitan's conservation expenses. The taxable and tax-exempt notes have a maturity date of March 20, 2025.

- On March 21, 2024 Metropolitan issued certain notes evidencing draws of $120.0 million (Tax-Exempt), from Bank of America, N.A., under the Bank of America Revolving Credit Facility. The tax-exempt draw will repay a like amount of notes drawn from Wells Fargo Bank, N.A., under the Wells Fargo Revolving Credit Facility. The tax-exempt draw financed a portion of the Metropolitan's Capital Investment Plan. The tax-exempt notes have a maturity date of March 20, 2025.

Short-term note issued and repaid during the twelve months ended March 31, 2023 was as follows:

- On June 29, 2022, Metropolitan issued certain notes evidencing a draw of $35.6 million from Wells Fargo Bank N.A., under the Wells Fargo Revolving Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. The notes have a maturity date of June 28, 2023. On July 7, 2022, the draw was refunded with proceeds of the Water Revenue Refunding Bonds, 2022 Series A.

A total of $176.4 million short-term revolving notes were outstanding at March 31, 2024. There were no short-term notes outstanding at March 31, 2023.

(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 investment plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $18.2 million and $19.2 million in general obligation refunding bonds were outstanding at March 31, 2024 and 2023, respectively.

The general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates of 5.00 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.

There were no general obligation bonds issued during the twelve months ended March 31, 2024 and 2023.

(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 $3.7 billion of revenue bonds and revenue refunding bonds were outstanding at March 31, 2024 and 2023.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through April 2053 at interest rates ranging from 2.00 percent to 5.00 percent at March 31, 2024 and 2023. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on any interest payment dates, and subject to early redemption.

Revenue bond issued during during the twelve months ended March 31, 2024 was as follows:

- On June 21, 2023, Metropolitan issued $258.4 million of Water Revenue and Refunding Bonds, Series 2023 A, at a true interest cost of 3.87 percent, to fund a portion of Metropolitan's Capital Investment Plan and costs of issuance. The maturities extend to April 1, 2053 and are subject to mandatory and optional redemption provisions.

There was no revenue bond issued during the twelve months ended March 31, 2023.

(d) Bond Refundings and Defeasances

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

(e) Interest Rate Swaps

Metropolitan has eight outstanding interest rate swap agreements as of March 31, 2024. These agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments.

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into 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. Currently, there are eight pay-fixed, receive-variable interest rate swaps outstanding.

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

Fair Values: At March 31, 2024, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of March 31, 2024, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of March 31, 2024.

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 non-defaulting party.

As of March 31, 2024, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $157.4 million or 47.0 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa2/A+/AA by Moody's, Standard & Poor's Global, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of March 31, 2024, the interest rates of the variable rate debt associated with these swap transactions range from 3.79 percent to 5.35 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 3.15 percent to 3.92 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.

(f) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 3.79 percent to 5.35 percent as of March 31, 2024 and 3.03 percent to 4.91 percent as of March 31, 2023. Metropolitan can elect to change the interest rate period of the bonds with certain limitations.

Metropolitan has entered into Standby Bond Purchase Agreements (SBPA) with commercial banks to provide liquidity for five separate variable rate bond issues listed in the table below. Bondholders have the right to tender such variable rate bonds to the paying agent on any business day with same day notice. In the event that tendered bonds are not remarketed, the paying agent will draw on the SBPA to pay such bondholders. The draw on the SBPA creates a new debt obligation between Metropolitan and the Bank, called a Bank Bond.

The Bank Bonds that would be issued under the SBPA would initially bear interest at a per annum interest rate equal to, depending on the applicable SBPA, a Base Rate of either: (a) the highest of the (i) Prime Rate plus one percent, (ii) Federal Funds Rate plus two percent, and (iii) seven percent; or (b) the highest of the (i) Prime Rate, (ii) Federal Funds Rate plus one half of one percent, and (iii) seven and one half percent (with the Base Rate increasing in the case of each of (i), (ii) and (iii) of this clause (b) after 90 days, by one percent). To the extent such bank bonds have not been remarketed or otherwise retired as of the earlier of the 90th day following the draw on the SBPA or the stated expiration date of the related SBPA, Metropolitan's obligation to repay the principal of the Bank Bonds would be payable in semi-annual installments over a period of approximately three or five years, depending on the applicable SBPA. Metropolitan has secured its obligation to repay principal and interest under the SBPAs as a senior lien obligation.

In addition, such bonds are subject to mandatory tender for purchase under certain circumstances, including upon the expiration of the SBPA. Metropolitan intends to either renew the facility or exercise its right to remarket the debt as a long-term financing. The portion that would be due in the next fiscal year in the event that the outstanding variable rate bonds were tendered and purchased by the commercial banks under the standby agreements was $77.5 million at March 31, 2024 and 2023.

Metropolitan has variable rate bonds that are supported by a SBPA as of March 31, 2024 and 2023:

(Dollars in thousands)

	Amount		Expiration	Interest	Current Amount	
Bond Issue	**3/31/2024**	3/31/2023	**Date**	**Rate**	**3/31/2024**	3/31/2023
Water Revenue Bonds						
2017 Series A	**$ 24,275**	$ 24,275	1/26/26	Reset Daily	**$ —**	$ —
Water Revenue Refunding Bonds						
2016 Series B-1, B-2	**25,325**	25,325	1/26/26	Reset Daily	**—**	—
2022 Series C-1, C-2	**282,275**	282,275	1/26/26	Reset Weekly	**—**	—
Subordinate Water Revenue Refunding Bonds						
2021 Series A (Taxable)	**222,160**	222,160	6/13/25	Reset Weekly	**—**	—
Total	**$ 554,035**	$ 554,035			**$ —**	$ —

Metropolitan has variable rate bonds that are not supported by a SBPA as of March 31, 2024 and 2023:

(Dollars in thousands)

Bond Issue	3/31/2024	3/31/2023	Interest Rate
Subordinate Water Revenue Bonds			
2017 Series C	**$ 80,000**	$ 80,000	SIFMA Index plus % spread
Subordinate Water Revenue Refunding Bonds			
2017 Series D	**95,630**	95,630	SIFMA Index plus % spread
2017 Series E	**95,625**	95,625	SIFMA Index plus % spread
Total	**$ 271,255**	$ 271,255	

The current terms of the Subordinate Water Revenue Refunding Bonds, 2017 Series D and Series E (SIFMA Index Mode), and the Subordinate Water Revenue Bonds, 2017 Series C (SIFMA Index Mode), require bondholders to tender their bonds for purchase on the scheduled mandatory tender date of May 21, 2024. A failure by Metropolitan to pay the purchase price from the proceeds of remarketing or other funds, for a period of five business days following written notice by any owner of such bonds, will constitute an event of default under Metropolitan's Subordinate Debt Resolutions. Upon the occurrence and continuance of such events of default, the owners of 25 percent in aggregate principal amount of the Subordinate Revenue Bonds then outstanding may elect a bondholders' committee to exercise rights and powers of such owners under the Subordinate Debt Resolutions, including the right to declare the entire unpaid principal of the Subordinate Revenue Bonds then outstanding to be immediately due and payable.

4. PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Metropolitan employees are required to participate in Metropolitan's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' 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 Annual Comprehensive Financial Report (ACFR) and copies may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

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

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) General Information about the OPEB Plan

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 two PPO plans: PERS Gold and PERS Platinum; and eleven HMO plans through Anthem Blue Cross, Blue Shield, Health Net, Kaiser, Sharp, United Healthcare and Western Health. Metropolitan participates in the CERBT Fund, which is an agent multiple-employer plan available to employers to pre-fund OPEB benefits.

Benefits Provided

Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. For employees hired on or after January 1, 2012, retirees must have a minimum of ten years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. CalPERS issues a separate ACFR that includes financial statements for its CERBT Fund and copies may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

6. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 7)

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

(Dollars in thousands)		State Water Contract Payments
Year ending June 30:		
2025	$	543,019
2026		511,899
2027		510,079
2028		501,137
2029		499,517

Metropolitan intends to exercise its option to extend its agreement with the State through 2085, which will result in annual minimum operations and maintenance costs through 2085. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities

The State 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.

The Delta Stewardship Council (Council) is the California State agency tasked with creating and implementing a comprehensive management plan for the Delta. The Council, created by the 2009 Sacramento-San Joaquin Delta Reform Act, serves as an independent voice for science and policy in the Delta to achieve the state mandated coequal goals for the Delta of ecosystem restoration and water supply reliability. To accomplish its mission, the Council adopted and implements the Delta Plan, which is the state's long-term management plan for the Delta to further the coequal goals, including facilitating, coordinating, and integrating the activities of hundreds of local, state, and federal agencies that have responsibilities directly related to water, ecosystems, land use, recreation, flood control and other functions in the legally defined Delta. The Council is developing a draft climate change adaption plan for the Delta and Suisun Marsh as part of their Delta Adapts: Creating a Climate Resilient Future initiative. The Delta Adapts plan is intended to help inform and assess specific climate risks and vulnerabilities in the Delta and, in coordination with other agencies and stakeholders, develop adaptation strategies to address those vulnerabilities.

To obtain "take" authorization under the California Endangered Species Act (CESA) for the long-term operation of the State Water Project, the Department of Water Resources (DWR) consults with the California Department of Fish and Wildlife (CDFW) and requests an incidental take permit (ITP) of state listed species. To obtain "take" authorization under the Federal Endangered Species Act, DWR consults with the National Marine Fisheries Service (NMFS) and the United States Fish and Wildlife Service (FWS) and requests biological opinions (BiOps) authorizing incidental take of federally listed species. The updated BiOps for the long-term operation of the SWP and the Central Valley Project (CVP) were finalized in October 2019 and Reclamation adopted its long-term operations plan for the CVP in February 2020. CDFW issued its ITP and DWR approved its long-term operations plan in March 2020. The BiOps and the State ITP have been challenged in court by multiple parties including water agencies and non-governmental organization groups. Metropolitan is involved in the BiOp litigation in federal court as part of the State Water Contractors, and in the State ITP litigation in state court as Metropolitan and as a member of the State Water Contractors, in order to protect our interest in SWP supplies, specifically that the SWP's permits are based on best available science and are granted pursuant to correct legal standards. The litigation on the State ITP includes eight cases and has been ordered to be coordinated in Sacramento County Superior Court. The administrative records were certified in March 2022. Metropolitan and other State Water Contractors challenged the completeness of the administrative record and were successful in the Court ordering that a subset of the challenged documents be added to the administrative record. No date has been set for the hearing merits. Reclamation and DWR reinitiated consultation under the federal ESA in September 2021; and in consideration of the reinitiated federal consultation, the BiOp litigation has been stayed and several Interim Operation Plans adopted. The state ITP is also being updated as part of the reinitiated consultation.

The Bay Delta Conservation Plan (BDCP) planning process, which began in 2007, was 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, including new Delta conveyance infrastructure as one of the conservation measures consisting of multiple new intakes on the Sacramento River connected to existing SWP and CVP water facilities in the south Delta by two main tunnels. In addition, the BDCP would have provided the basis for long-term 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, and it would have been incorporated into the Delta Plan if it met the requirements of the federal and state ESAs for a Habitat Conservation Plan/Natural Communities Conservation Plan (HCP/NCCP).

On April 30, 2015, the State announced its intent to study three new conveyance-only alternatives that would not be part of an HCP/NCCP, separating the conveyance facilities and habitat restoration measures into two separate efforts namely: CWF and California EcoRestore. Under the CWF, the new water conveyance facilities with proposed design changes would be constructed and operated, with federal ESA compliance achieved through section 7 consultation instead of an ITP based on an HCP. State and Federal ESA permits were issued in June and July 2017, and the DWR approved CWF on July 21, 2017. Metropolitan and other State Water Contractors approved their respective participation in CWF in 2017 and 2018. On February 12, 2019, Governor Newsom announced that he did not support a two-tunnel Delta Conveyance project, but supports a single tunnel project. On April 29, 2019, Governor Newsom issued Executive Order N-10-19, directing several agencies to, among other things, "inventory and assess current planning to modernize conveyance through the Bay Delta with a new single tunnel project." On May 2, 2019, the DWR rescinded its approval of CWF and decertified the Environmental Impact Report (EIR) and withdrew its permit applications. In January 2020, DWR announced the preparation of an EIR for a new, single-tunnel project called the Delta Conveyance Project.

Eighteen SWP contractors approved their participation in November and December 2020 in the planning and pre-construction costs for the Delta Conveyance Project and authorized the execution of a funding agreement with the DWR for such purpose. At its December 8, 2020, Board meeting, Metropolitan's Board authorized the General Manager to execute a funding agreement and committed funding for a participation level of 47.2 percent of the costs of preliminary design, environmental planning, and other pre-construction activities to assist in the environmental process for the proposed Delta Conveyance Project. Funding agreement costs are approximately $160.8 million for calendar years 2021 through 2024. On July 27, 2022 the DWR released a public Draft Environmental Impact Report (Draft EIR) under the California Environmental Quality Act (CEQA) for the Delta Conveyance Project. On December 8, 2023 DWR released the Final EIR to the public per the CEQA. The Final EIR was certified on December 21, 2023, and DWR approved the proposed project, the Bethany Alternative.

As of January 22, 2024, nine lawsuits were filed challenging DWR's CEQA compliance, and challenging its DCP approval on multiple grounds, including the Delta Reform Act, public trust doctrine, Delta Protection Act, Watershed Protection Act, the fully protected species statute, 1982 California Proposition 9, and the Central Valley Project Act. The cases are at the earliest stages of case management.

(c) Imperial Irrigation District

As of March 31, 2024, Metropolitan had advanced a total of $391.9 million to the IID 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 between 85.0 TAF to 105.0 TAF in 2024 and annually thereafter depending upon the amount used by the Coachella Valley Water District (CVWD). A total of at least 85.0 TAF to 105.0 TAF will be/was available in calendar years 2024 and 2023, respectively, for diversion by Metropolitan.

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

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement, see Note 6(e). The amended Transfer Agreement sets the maximum transfer amount at 205.0 TAF in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200.0 TAF per year beginning in 2023.

No facilities exist to provide for delivery of water from IID to SDCWA. In 1998, Metropolitan and SDCWA entered into an agreement for the exchange of the IID water to be acquired by SDCWA under the Transfer Agreement, with water to be delivered by Metropolitan. In 2003, the boards of directors of Metropolitan and SDCWA agreed to an increase in the price that SDCWA would pay to Metropolitan for this exchange of water, in return for Metropolitan's assignment to SDCWA of Metropolitan's rights to water conserved as a result of the lining of the All-American and Coachella Canals and $235.0 million, as set forth in an amended exchange agreement (Exchange Agreement) and an Allocation Agreement. Under the Exchange Agreement, 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 the conserved canal lining water allocated to SDCWA. In exchange, Metropolitan delivers an equal volume of water from its own sources of supply through its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. SDCWA pays Metropolitan a volumetric price for each delivery by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities, see Note 1(c). 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 separate lawsuit challenging the rates adopted by Metropolitan's Board on April 10, 2012 and effective on January 1, 2013 and January 1, 2014. On May 30, 2014, SDCWA filed a separate lawsuit challenging the rates adopted by Metropolitan's Board on April 8, 2014 and effective on January 1, 2015 and January 1, 2016. On April 13, 2016, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 12, 2016 and effective on January 1, 2017 and January 1, 2018. On June 8, 2018, SDCWA filed a separate lawsuit challenging the rates and charges adopted by Metropolitan's Board on April 10, 2018 and effective on January 1, 2019 and January 1, 2020. The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement. See Claims and Litigation, Note 6(g).

(e) Quantification Settlement Agreement

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

(f) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2024 through 2028 totals approximately $2.4 billion. Capital spending for fiscal year 2024 and 2025 is planned at $300.0 million and $372.0 million, respectively. Planned capital spending for fiscal years 2026 through 2028 includes spending for the Pure Water Southern California program and is $381.0 million, $475.0 million, and $838.0 million for each fiscal year, respectively.

Over the next three years, Capital Investment Plan budget totals approximately $1.053 billion with $206.5 million on refurbishment and replacement (R&R) work at pressure control facilities and pipelines throughout the distribution system; $193.5 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Second Lower and Sepulveda feeders; $123.5 million targeted for R&R projects for the Colorado River Aqueduct; $94.0 million on projects to mitigate drought impacts; over $69.7 million for R&R work at Metropolitan's water treatment plants; and $58.2 million on a variety of information technology projects such as the Supervisory Control and Data Acquisition system.

(g) Claims and Litigation

Through several lawsuits filed by SDCWA since 2010, SDCWA has challenged the rates adopted by Metropolitan's Board in 2010, 2012, 2014, 2016 and 2018. Each of these lawsuits and the status thereof are briefly described below.

The 2010 and 2012 Cases. SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California, et al. on June 11, 2010 challenging the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012 (the "2010 Case"). The complaint requested a court order invalidating the rates adopted April 13, 2010, and that Metropolitan be mandated to allocate certain costs associated with the State Water Contract and the Water Stewardship Rate to water supply rates and not to transportation rates.

The contract price payable by SDCWA under the Exchange Agreement between Metropolitan and SDCWA is Metropolitan's transportation rates. Therefore, SDCWA also alleged that Metropolitan breached the Exchange Agreement by allocating certain costs related to the State Water Contract and the Water Stewardship Rate to its transportation rates because it resulted in an overcharge to SDCWA for water delivered pursuant to the Exchange Agreement.

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 "2012 Case") based on similar claims, and further alleging that Metropolitan's rates adopted in 2012 violated Proposition 26.

Following a trial of both lawsuits in two phases and subsequent trial court ruling, the parties appealed. 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 that are part of the Exchange Agreement's price term, and that Metropolitan may also lawfully include the System Access Rate in its 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., Article XIIIC, §1, subd.(e)), whether or not that Proposition applies to Metropolitan's rates, California Government Code section 54999.7, the common law, or the terms of the parties' Exchange Agreement.

The Court of Appeal also ruled that the record did not support Metropolitan's inclusion of its Water Stewardship Rate as a transportation cost in the Exchange Agreement price or the wheeling rate, under the common law and the wheeling statutes. The court noted 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 Exchange Agreement in 2011 through 2014 and 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 also found that the Exchange Agreement may entitle the prevailing party to attorneys' fees for both phases of the case, and directed the trial court on remand to make a new determination of the prevailing party, if any.

On September 27, 2017, the California Supreme Court denied SDCWA's petition for review, declining to consider the Court of Appeal's decision. The Court of Appeal's decision is therefore final.

After tendering payment in 2019 which SDCWA rejected, in February 2021, Metropolitan paid to SDCWA the same amount previously tendered of $44.4 million for contract damages for SDCWA's Water Stewardship Rate payments from 2011 to 2014 and pre-judgment and post-judgment interest. In September 2021, following a 2021 Court of Appeal opinion clarifying that its Water Stewardship Rate ruling applies to later years, Metropolitan paid to SDCWA the amount of $35.9 million for SDCWA's Water Stewardship Rate payments from 2015 to 2017 and pre-judgment interest. These payments included all amounts sought related to breach of the Exchange Agreement resulting from the inclusion of the Water Stewardship Rate in the contract price for Exchange Agreement transactions occurring from 2010 until the Water Stewardship Rate was no longer charged in the contract price for Exchange Agreement transactions, beginning in 2018. The payments included $58.1 million withdrawn from the Exchange Agreement Set-Aside Fund and $22.1 million withdrawn from reserves (the remainder of the statutory interest).

Following the issuance of an order of the Superior Court and Metropolitan's appeal, on March 17, 2022, the Court of Appeal held that SDCWA was the prevailing party in the 2010 and 2012 cases and was therefore entitled to attorney's fees under the parties' Exchange Agreement and litigation costs. On March 21, 2022, Metropolitan paid to SDCWA $14,296,864.99 ($13,397,575.66 fees award, plus statutory interest) and $352,247.79 for costs ($326,918.34 costs award, plus statutory interest).

On July 27, 2022, Metropolitan paid SDCWA $411,888.36 for attorneys' fees on appeals of post-remand orders.

The 2014, 2016 and 2018 Cases. SDCWA has also filed lawsuits challenging the rates adopted in 2014, 2016 and 2018 and asserting breach of the Exchange Agreement. Metropolitan filed cross-complaints in the three cases, asserting claims relating to rates and the Exchange Agreement, including reformation.

The operative Petitions for Writ of Mandate and Complaints allege the same Water Stewardship Rate claim and breach of the Exchange Agreement as in the 2010 and 2012 cases, but because Metropolitan paid the amounts sought to SDCWA, and the writ in the 2010 and 2012 cases encompasses these claims, Metropolitan contended that these claims and cross-claims are moot. The cases also alleged that in 2020 and 2021, Metropolitan misallocated its California WaterFix costs as transportation costs and breached the Exchange Agreement by including those costs in the transportation rates charged. In April 2022, the parties requested the court's dismissal with prejudice of the claims and cross-claims relating to California WaterFix. The cases also claim Metropolitan's wheeling rate fails to provide wheelers a reasonable credit for "offsetting benefits" pursuant to Water Code Section 1810, et seq., and that Metropolitan breached the Exchange Agreement by failing to reduce the price for an "offsetting benefits" credit. The cases additionally requested a judicial declaration that Proposition 26 applies to Metropolitan's rates and charges, and a judicial declaration that SDCWA is not required to pay any portion of a judgment in the litigation. Metropolitan filed cross-complaints in each of these cases, asserting claims relating to rates and the Exchange Agreement.

The cases were stayed pending resolution of the 2010 and 2012 cases, but the stays were subsequently lifted and the cases were consolidated in the San Francisco Superior Court. Metropolitan and SDCWA each filed motions for summary adjudication of certain issues in the 2014, 2016 and 2018 cases with the court. Summary adjudication is a procedure by which a court may determine the merits of a particular claim or affirmative defense, a claim for damages, and/or an issue of duty before trial.

On May 4, 2022, the San Francisco Superior Court issued an order granting Metropolitan's motion for summary adjudication on its cross-claim for declaratory relief that the conveyance facility owner, Metropolitan, determines fair compensation, including any offsetting benefits; and denying its motion on certain other cross-claims and an affirmative defense.

On May 11, 2022, the San Francisco Superior Court issued an order granting SDCWA's motion for summary adjudication on: Metropolitan's cross-claim in the 2018 case for a declaration with respect to the lawfulness of the Water Stewardship Rate's inclusion in the wheeling rate and transportation rates in 2019 and 2020; certain Metropolitan cross-claims and affirmative defenses on the ground that Metropolitan has a duty to charge no more than fair compensation, which includes reasonable credit for any offsetting benefits pursuant to Water Code section 1811(c), with the court also stating that whether that duty arose and whether Metropolitan breached that duty were issues to be resolved at trial; Metropolitan's affirmative defenses that SDCWA's claims were untimely and SDCWA had not satisfied claims presentation requirements; Metropolitan's affirmative defense in the 2018 case that SDCWA had not satisfied dispute resolution requirements under the Exchange Agreement; SDCWA's claim, Metropolitan's cross-claims, and Metropolitan's affirmative defenses regarding the applicability of Proposition 26, finding that Proposition 26 applies to Metropolitan's rates and charges, with the court also stating that whether Metropolitan violated Proposition 26 is a separate issue; and Metropolitan's cross-claims and affirmative defenses regarding the applicability of Government Code section 54999.7, finding that section 54999.7 applies to Metropolitan's rates. The court denied SDCWA's motion on certain other Metropolitan cross-claims and affirmative defenses.

Damages sought by SDCWA in connection with its claims for offsetting benefits credit under the Exchange Agreement exceed $334.0 million for the six years (2015 through 2020) at issue in these cases. In the event that SDCWA were to prevail in a final adjudication of this issue, a determination of offsetting benefits credit due to SDCWA, if any, could impact the Exchange Agreement price in future years.

Trial of the 2014, 2016 and 2018 cases occurred May 16 to July 1, 2022. and the parties filed post-trial briefs on August 19, 2022.

On December 27, 2022, the court entered the parties' stipulation memorializing the earlier resolution of the Water Stewardship Rate claims in SDCWA's favor based on the 2021 Court of Appeal decision in the 2010 and 2012 cases.

On March 14, 2023, the court issued an order on SDCWA's motion for partial judgment to address Metropolitan's request for a declaration on it's cost-causation obligations when setting rates. The court ruled that this is not a proper subject for declaratory relief.

On April 25, 2023, the court issued its final statement of decision concerning the trial in the 2014, 2016, and 2018 cases. For each claim litigated at trial, the court ruled in favor of Metropolitan or found the claim to be moot based on the rulings in Metropolitan's favor. In particular, the court concluded: (1) the duty to include a reasonable credit for any offsetting benefits pursuant to the Wheeling Statutes did not arise and Metropolitan did not breach the Exchange Agreement by failing to calculate a reasonable credit for any offsetting benefits; (2) because Metropolitan did not breach the Exchange Agreement, the court need not address damages; (3) Metropolitan's conditional claims to reform the Exchange Agreement, if SDCWA prevailed, are moot; (4) Metropolitan's conditional claim for a declaration of its rights and duties under the Wheeling Statutes, if SDCWA prevailed on its claim that the Wheeling Statutes apply to the Exchange Agreement is moot (the court stated that while it finds offsetting benefits under the Wheeling Statutes do not apply to the Exchange Agreement's price term, the court "has made no express finding whether the Wheeling Statutes apply"); (5) SDCWA's rate challenges are rejected; and (6) SDCWA's request for a declaration that it could not be required to contribute to a damages, fees, or costs award in the cases is moot.

The court will issue a final judgment in the 2014, 2016, and 2018 cases. The parties dispute the appropriate form of final judgment and whether a writ should be issued. Following briefing, a hearing on the matter was set for

March 13, 2024. Thereafter, the court will determine the prevailing party, if any, for purposes of fees and costs. Either party may appeal from the final judgment. See Subsequent Event, Note 12.

Metropolitan is unable to assess at this time the likelihood of success of the pending cases, any possible appeals, settlements or any future claims.

(h) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, DWR entered into a Participation Agreement to import power from the Plant to serve the SWP 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.

(i) 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. Approximately $7,300 and $15,100 were expended for post closure maintenance and monitoring activities during the nine months ended March 31, 2024 and 2023, respectively.

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.

(j) Mining Obligation

State laws and regulations require that mined lands are reclaimed to a usable condition to prevent environmental effects and ensure public health and safety. They further require that Metropolitan, as a user of borrow pits, demonstrate its financial ability to ensure reclamation activities occur in accordance with a reclamation plan through the approval of a financial assurance mechanism. In November 2023, Metropolitan's Board approved the creation of a trust account in the initial amount of $900,000 to comply with reclamation requirements. No amounts were expended for reclamation activities during the nine months ended March 31, 2024.

The actual cost of reclamation may change due to increase or decrease of mining operations, inflation, changes in labor rates, or changes in applicable laws or regulations. Metropolitan's Board approved the funding of up to $2.5 million, as needed, to meet the reclamation requirements. Funding of these costs will be derived from a separate trust account that will be established for reclamation costs.

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project, see Note 6(a). 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 32 percent and 31 percent of Metropolitan's total expenditures during the nine months ended March 31, 2024 and 2023, 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.

The State Water Contract provides Metropolitan rights to water through 2052 but Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2085, under similar terms, based on the Agreement in Principle reached in 2014. This corresponds to an estimated 125-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

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

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State, see Notes 1(i) and 6(a). 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 maximum annual contracted deliveries provided by the State of California. Amortization expense totaled $105.1 million and $112.9 million for the nine months ended March 31, 2024 and 2023, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at March 31, 2024 and 2023 were as follows:

	March 31,	
(Dollars in thousands)	**2024**	2023
Prepaid water costs	**$ 216,389**	$ 245,771
Prepaid costs-Delta Habitat Conservation and Conveyance	**58,627**	58,627
Prepaid costs-Delta Conveyance Project	**149,000**	84,500
Prepaid costs-California WaterFix	**7,494**	7,494
Prepaid expenses	**21,505**	18,254
Preliminary design/reimbursable projects	**38,749**	44,087
Other	**102,212**	89,164
Total deposits, prepaid costs, and other	**593,976**	547,897
Less current portion	**(123,101)**	(149,358)
Noncurrent portion	**$ 470,875**	$ 398,539

(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 SWP water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as prepaid costs and are charged to cost of water as the water is withdrawn. At March 31, 2024 and 2023, prepaid water costs totaled approximately $216.4 million and $245.8 million, respectively, based on volumes of 846 TAF and 763 TAF, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other SWP contractors, federal CVP contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provided funding of approximately $35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provided funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP which included the proposed Delta conveyance improvements as a conservation measure. In 2015, the administration unveiled a revised plan called the California Water Fix and California EcoRestore. This revised plan took into account extensive public feedback on the earlier Bay Delta Conservation Plan. In July 2017, after additional environmental review, DWR approved the California WaterFix (CWF) as a conveyance-only project. Consistent with Governor Newsom's new water policy announced in 2019, DWR rescinded its approval of the two-tunnel CWF project. In January 2020, DWR initiated a new environmental review of a proposed single tunnel project referred to as the Delta Conveyance Project. Metropolitan's share of the planning and pre-construction costs under the Delta Habitat Conservation and Conveyance Plan was $58.6 million.

(c) Prepaid Costs—Delta Conveyance Project

In December 2020, Metropolitan and DWR entered into a cost share agreement to fund planning and pre-construction activities related to the DCP. Metropolitan's Board approved a proportionate cost share of 47.2 percent (or a not to exceed amount of $160.8 million) over the 4-year agreement period. Metropolitan's share of the planning and pre-construction costs under Delta Conveyance Project as of March 31, 2024 and 2023 are $149.0 million and $84.5 million, respectively.

(d) Prepaid Costs—California WaterFix

In fiscal year 2019, Metropolitan disbursed a total of $41.5 million to DWR for preconstruction planning costs of the CWF in accordance with the advance funding agreement entered into in August 2018. The $41.5 million was Metropolitan's share (31 percent) of the funding. DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of DWR's rescinding its approval of the CWF Project as well as the rescission of other permitting applications, see Note 6(b), Metropolitan requested, on June 27, 2019, that DWR return its contributions that had not been spent as of May 2, 2019. DWR returned $34.0 million of unspent funds and $0.5 million of interest to Metropolitan in fiscal year 2020. Metropolitan's final share of the planning and pre-construction costs under California WaterFix was $7.5 million.

(e) Preliminary Design/Reimbursable Projects

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

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

9. DEFERRED COMPENSATION AND SAVINGS PLANS

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

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code, a defined contribution plan. The 401(k) Savings Plan (savings plan) is available to substantially all employees. Metropolitan matches a maximum of 4.5 percent of the employee's total cash compensation in the savings plan. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested.

Deferred amounts and matching contributions, if any, for both plans 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. Accordingly, neither the assets nor the related liability of each plans were included in the basic financial statements at March 31, 2024 and 2023. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in the plans.

10. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including SWP costs.

Net investment in capital assets, including SWP costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including SWP costs include plant and equipment, see Note 1(h), participation rights in SWP, see Notes 1(i) and 7, participation rights in other facilities, see Note 1(i), lease assets, see Note 1(j), and subscription assets, see Note 1(k). Net investment in capital assets, including SWP costs, were approximately $6.6 billion and $6.5 billion at March 31, 2024 and 2023, 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 $656.8 million and $553.2 million at March 31, 2024 and 2023, respectively, of which $239.2 million and $218.4 million, respectively, represents principal and interest payments on outstanding debt. Restricted amounts of $417.6 million and $334.8 million, respectively, relates to estimated operating and maintenance expense for April and May 2024 and 2023, respectively. Each of these requirements are related to bond covenants. In addition, $72.6 million of state funding for the Pure Water Southern California program was restricted at March 31, 2024.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including SWP 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 $207.5 million and $456.6 million at March 31, 2024 and 2023, respectively.

11. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to the design, construction, treatment, and delivery of water resources. Metropolitan self-insures most of its property losses, the first $25.0 million for general liability, fiduciary liability and directors' and officers' liability, and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage, $60.0 million excess fiduciary liability coverage, $65.0 million excess for directors' and officers' liability coverage, and statutory limits excess workers' compensation coverage. Special insurance policies carried include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2024 were unchanged from fiscal year 2023. 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. 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.

12. SUBSEQUENT EVENTS

In connection with the 2014, 2016, and 2018 cases, on April 3, 2024, the court issued a final judgment memorializing the pre-trial and post-trial decisions and stipulations, see Note 6(g). The judgment included entry of judgment in favor of SDCWA on breach of contract in the 2014 and 2016 cases, due to the inclusion of Water Stewardship Rate claims and the parties' stipulation; and entry of judgment in favor of Metropolitan on breach of contract in the 2018 case, which concerned only the offsetting benefits claim. On April 3, 2024, the court also issued a writ of mandate commanding Metropolitan to exclude demand management costs (previously collected through the Water Stewardship Rate) from its pre-set wheeling rate and transportation rates, a practice Metropolitan earlier ceased. The court will subsequently determine the prevailing party, if any, for purposes of fees and costs. Also on April 3, 2024, SDCWA filed its notice of appeal from the final judgment.

Metropolitan is unable to assess at this time the likelihood of success of the pending appeal, settlements, or any future claims.

On April 9, 2024, Metropolitan's Board approved its fiscal years 2024/25 and 2025/26 budget. This budget includes the establishment of a new property tax rate to be levied at .0070 percent for each fiscal year superseding the resolution adopted in March 2022 to maintain the tax rate levied during fiscal year ended June 30, 2013 of .0035 percent.