THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Six Months Ended December 31, 2022 and 2021

(Unaudited)

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UNAUDITED
December 31, 2022 and 2021

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 six months ended December 31, 2022 and 2021. 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 2022 have been reclassified to conform to the fiscal year 2023 presentation. Such reclassification had no effect on the previously reported change in net position.

During the fiscal year ended June 30, 2022, Metropolitan implemented GASB Statement No. 87 (GASB 87), *Leases*, which required Metropolitan to recognize leases receivable and deferred inflows of resources related to lease arrangements where Metropolitan is a lessor. Further, Metropolitan is required to recognize a lease liability and an intangible right-to-use leased asset for lease arrangements where Metropolitan is a lessee. Balances for December 31, 2021 were adjusted as detailed in Note 1(t) of the basic financial statements. Balances as of December 31, 2020 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)	December 31, 2022	2021 As adjusted	2020
Assets and deferred outflows of resources			
Capital assets, net	**$ 10,517.8**	$ 10,521.6	$ 10,520.1
Other assets	**2,480.4**	2,511.2	2,012.7
Total assets	**12,998.2**	13,032.8	12,532.8
Deferred outflows of resources	**141.5**	160.2	156.9
Total assets and deferred outflows of resources	**13,139.7**	13,193.0	12,689.7
Liabilities and deferred inflows of resources			
Long-term liabilities, net of current portion	**4,458.0**	5,103.4	4,077.5
Other liabilities	**658.1**	613.2	1,454.2
Total liabilities	**5,116.1**	5,716.6	5,531.7
Deferred inflows of resources	**420.0**	76.3	68.6
Total liabilities and deferred inflows of resources	**5,536.1**	5,792.9	5,600.3
Net position			
Net investment in capital assets, including State Water Project costs	**6,383.6**	6,261.2	6,316.8
Restricted	**565.0**	533.3	521.6
Unrestricted	**655.0**	605.6	251.0
Total net position	**$ 7,603.6**	$ 7,400.1	$ 7,089.4

Capital Assets, Net

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, net capital assets totaled $10.5 billion, or 80.0 percent of total assets and deferred outflows of resources, and were $3.8 million lower than the prior year. The decrease included depreciation and amortization of $365.2 million and $23.5 million retirements of capital assets, offset by Metropolitan's continued expenditures on the capital investment plan of $229.3 million, a net increase of $155.3 million in participation rights in SWP, and a $0.3 million increase in intangible right-to-use leased assets. See the capital assets section on pages 15-16 for additional information.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, net capital assets totaled $10.5 billion, or 79.8 percent of total assets and deferred outflows of resources, and were $1.5 million higher than the prior year. The increase included Metropolitan's continued expenditures on the capital investment plan of $216.0 million, a net increase of $140.4 million in participation rights in SWP, and a $10.4 million increase in intangible right-to-use leased assets, offset by depreciation and amortization of $359.0 million and $6.3 million retirements of capital assets and write-off of construction in progress related to a recalculation of previously capitalized interest on construction. See the capital assets section on pages 15-16 for additional information.

Other Assets

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, other assets totaled $2.5 billion and were $30.8 million lower than the prior year. The decrease included $98.0 million of lower cash and investments due to lower water revenues and higher spending partially offset by $64.6 million higher deposits, prepaid costs, and other primarily due to $54.7 million of funding for the Delta Conveyance Project planning and pre-construction costs. In addition, water inventory increased by $6.4 million due to higher per unit cost of water in storage.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, other assets totaled $2.5 billion and were $498.5 million higher than the prior year. The increase included $363.6 million higher cash and investments primarily due to $188.9 million proceeds from the Water Revenue Bonds 2021 Series A and $53.3 million proceeds from bond refunding transaction as the new debt issued was more than the amount of debt refunded. Deposits, prepaid costs and other was $66.2 million higher than prior year, which included $29.8 million funding for the Delta Conveyance Project planning and pre-construction costs, $16.2 million prepaid labor benefits, and $11.5 million of higher costs for the High Desert Bank Program. In addition, inventories were $30.6 million higher due to an increase in the unit cost of water in storage. Also contributing to the increase was $26.5 million higher lease receivable as a result of GASB 87 implementation.

Deferred Outflows of Resources

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, deferred outflows totaled $141.5 million and were $18.7 million lower than the prior year. The decrease was primarily due to $12.1 million lower deferred outflows related to pension, which included $13.1 million lower deferred outflows related to the 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 higher deferred outflows related to 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.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, deferred outflows totaled $160.2 million and were $3.3 million higher than the prior year. The increase was primarily due to $18.0 million higher deferred outflows related to pension, which included $13.1 million higher deferred outflows related to the net difference between projected and actual earnings on pension plan investments, $8.2 million higher deferred outflows related to pension contributions subsequent to the measurement date, and $4.5 million higher difference between actual and expected experience, partially offset by $7.8 million lower deferred outflows due to changes of actuarial assumption. The increase was offset by $7.3 million lower deferred loss on bond refundings due to $6.2 million of refunding transactions and $1.1 million of scheduled amortization and $5.3 million lower deferred outflows of effective swaps due to higher interest rates.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, revolving notes, customer deposits and trust funds, leases, 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.

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, long-term liabilities, net of current portion totaled $4.5 billion and were $645.4 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. Long-term debt, net of current portion decreased $226.9 million, which included $181.0 million of scheduled principal payments, $41.0 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. For additional information, see the long-term debt section on page 17. In addition, net OPEB liability was $105.6 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. Also contributing to the decrease in long-term debt, net of current portion was $31.7 million decrease in fair value of interest rate swaps due to higher interest rates as compared to prior year.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, long-term liabilities, net of current portion, totaled $5.1 billion and were $1,025.9 million higher than the prior year primarily due to $989.0 million increase in long-term debt, net of current portion, which included $877.3 million less current portion of long-term debt as compared to prior year, $188.9 million in new revenue bonds, $53.3 million of bond refundings, as the new debt issued was more than the amount of debt refunded, and $26.8 million higher premiums and discounts, offset by $157.3 million principal payments. For additional information, see other liabilities and long-term debt sections on pages 7 and 17, respectively. In addition, net pension liability was $55.6 million higher due to $175.0 million interest on the total pension liability and $37.2 million in service costs, offset by $90.1 million of pension plan investment earnings and $66.1 million employer contributions to the pension plan. These increases in long-term liabilities, net of current portion was offset by $21.0 million decrease in fair value of interest rate swaps due to higher interest rates as compared to prior year.

Other Liabilities

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, other liabilities totaled $658.1 million and were $44.9 million higher than the prior year primarily due to a $44.8 million increase in the 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 pay 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.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, other liabilities totaled $613.2 million and were $841.0 million lower than the prior year. Current portion of long-term debt decreased $877.3 million due to the extension of mandatory tender dates to fiscal year 2024 for the $271.8 million Special Variable Rate Water Revenue Refunding Bonds (SVRWRRB), 2020 Series B, $191.2 million Subordinate Water Revenue Refunding Bonds (SWRRB), 2017 Series D and E, and $80.0 million Subordinate Water Revenue Bonds (SWRB), 2017 Series C. Also contributing to the decrease in current portion of long-term debt was the refunding of $175.0 million SWRB, 2016 Series A, which had a mandatory tender date of December 2020, and an extension of the Standby Bond Purchase Agreements (SBPA) for $90.1 million SVRWRRB, 2018 Series A-1 and A-2 and $82.9 million Revenue Refunding Bonds, 2016 Series B-1 and B-2 from June and July 2021, respectively, to June 2024. Also contributing to the decrease in other liabilities was $46.8 million lower revolving notes as the Bank of America, N.A. notes (BANA notes) issued for the California Water Fix (CWF) advance were repaid. These decreases were offset by $72.8 million higher accounts payable and accrued expenses primarily due to $45.2 million or 170.3 thousand acre-feet (TAF) draw from DWR's Flexible Storage Program, $10.4 million higher SWP variable costs resulting from higher power costs and $6.5 million more accrued water in Semitropic and Kern-Delta storage programs.

Deferred Inflows of Resources

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, deferred inflows of resources totaled $420.0 million and were $343.7 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 $33.2 million higher deferred gain on bond refundings as the new debt was less than the debt refunded and $31.7 million higher deferred inflows on effective swaps due to higher interest rates.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, deferred inflows of resources totaled $76.3 million and were $7.7 million higher than the prior year primarily due to $26.0 million higher deferred inflows of resources related to leases as a result of GASB 87 implementation and $15.7 million higher deferred inflows on effective swaps due to higher interest rates. These increases were offset by $19.7 million lower deferred inflows related to pension, which included $10.8 million lower net difference between projected and actual earnings on pension plan investments, $4.8 million lower changes of assumptions, and $4.1 million lower difference between expected and actual experience. Also offsetting the increases was $14.3 million lower deferred inflows related to OPEB, which included $9.8 million lower differences between expected and actual experience and $3.7 million net difference between projected and actual earnings on OPEB plan investments.

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 and right-to-use leased asset, offset by accumulated depreciation and amortization and outstanding debt issued for these purposes net of related deferred outflows of resources.

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, net investment in capital assets, including State Water Project costs totaled $6.4 billion and was $122.4 million higher than the prior year. The increase included $126.2 million decrease in net outstanding debt, partially offset by $3.8 million net decrease in capital assets. See discussions of these items in the capital assets and long-term debt sections on pages 15-16 and 17, respectively.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, net investment in capital assets, including State Water Project costs totaled $6.3 billion and was $55.6 million lower than the prior year. The decrease included $57.1 million increase in net outstanding debt, partially offset by $1.5 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, all of which are required by bond covenants.

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, restricted net position totaled $565.0 million which was $31.7 million higher than prior year. The increase included $23.3 million higher restricted for operating expenses primarily due to higher anticipated power and water costs for fiscal year 2023 and $8.4 million higher restricted for debt service resulting from higher principal and interest payment requirements.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, restricted net position totaled $533.3 million which was $11.7 million higher than prior year. The increase included $34.2 million higher restricted for operating expenses primarily due to higher pension and OPEB contribution requirements for fiscal year

2022 offset by $22.5 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.

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. Unrestricted net position of $655.0 million at December 31, 2022, was $49.4 million higher than prior year which included changes in net position of $203.5 million for the twelve months ended December 31, 2022, offset by $122.4 million higher net investment in capital assets, including State Water Project costs and $31.7 million higher restricted for debt service and operating expenses.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. Unrestricted net position of $605.6 million at December 31, 2021, was $354.6 million higher than the prior year which included changes in net position of $310.7 million for the twelve months ended December 31, 2021 and $55.6 million lower net investment in capital assets, including State Water Project costs, offset by $11.7 million higher restricted for debt service and operating expenses.

CHANGES IN NET POSITION

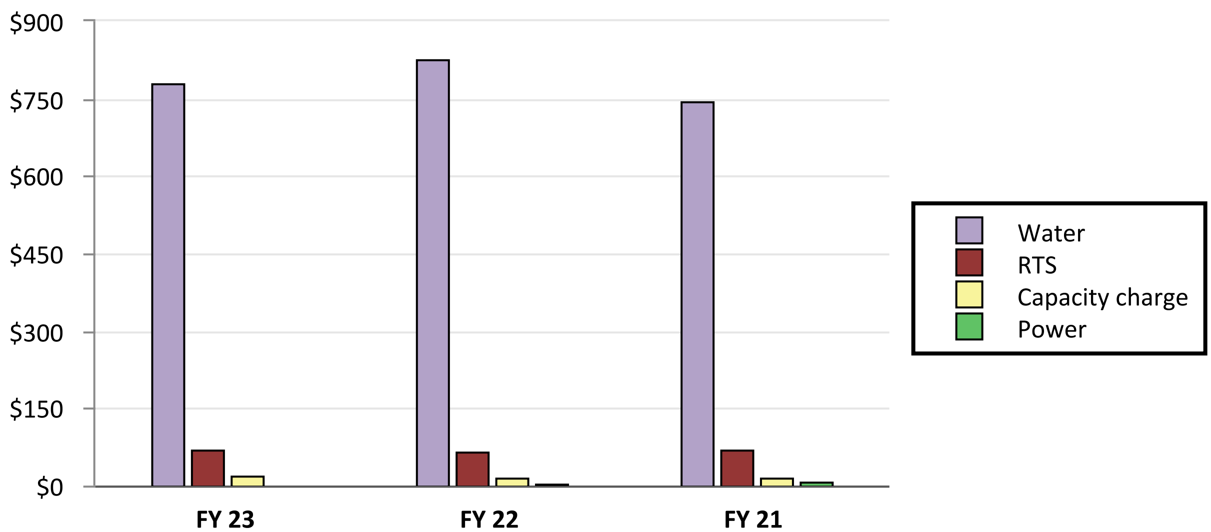
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

(Dollars in millions)	Six Months Ended December 31, 2022	2021	2020
Water revenues	**$ 781.0**	$ 825.9	$ 745.9
Readiness-to-serve charges	**70.0**	65.0	68.0
Capacity charge	**20.0**	17.0	15.3
Power sales	**1.6**	2.7	7.1
Operating revenues	**872.6**	910.6	836.3
Taxes, net	**88.3**	82.2	76.3
Investment income, net	**11.0**	—	3.1
Gain on disposal of plant assets	**6.3**	8.8	—
Other	**9.6**	3.3	4.7
Nonoperating revenues	**115.2**	94.3	84.1
Total revenues	**987.8**	1,004.9	920.4
Power and water costs	**(332.5)**	(274.9)	(266.9)
Operations and maintenance	**(277.3)**	(261.9)	(259.7)
Litigation payments	**—**	(35.9)	—
Depreciation and amortization	**(180.8)**	(177.3)	(183.2)
Operating expenses	**(790.6)**	(750.0)	(709.8)
Bond interest, net of amount capitalized	**(46.2)**	(46.8)	(46.4)
Investment expense, net	**—**	(0.9)	—
Loss on disposal of plant assets	**—**	—	(12.9)
Other	**(3.8)**	(1.9)	(1.4)
Nonoperating expenses	**(50.0)**	(49.6)	(60.7)
Total expenses	**(840.6)**	(799.6)	(770.5)
Changes in net position	**147.2**	205.3	149.9
Net position at June 30,	**7,456.4**	7,194.8	6,939.5
Net position at December 31,	**$ 7,603.6**	$ 7,400.1	$ 7,089.4

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.

Second Quarter
OPERATING REVENUES
(Dollars in millions)



Analytical Review of Operating Revenues

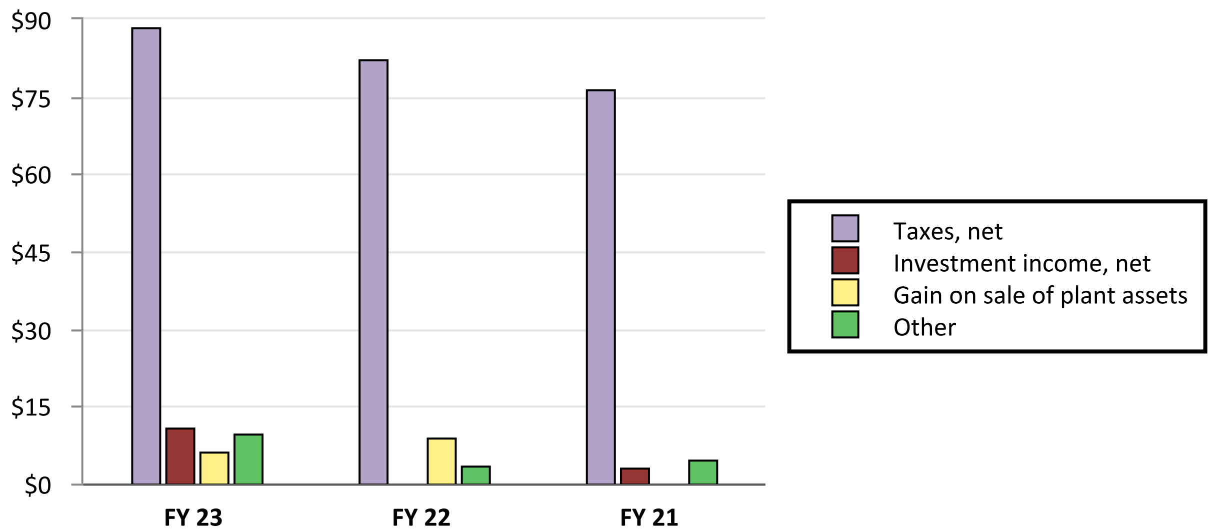
Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. For the six months ended December 31, 2022, operating revenues were $872.6 million or $38.0 million less than the prior year. The decrease was primarily due to $44.9 million of lower water revenues, which included $64.8 million or 72.2 TAF of lower volumes sold, offset by $19.9 million of higher price. The decrease in water revenues was offset by $5.0 million higher readiness-to-serve charges as the Board approved amount was higher in fiscal year 2023 as compared to prior year.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. For the six months ended December 31, 2021, operating revenues were $910.6 million or $74.3 million more than the prior year. The increase was primarily due to $80.0 million of higher water revenues, which included $59.6 million or 68.0 TAF of higher volumes sold and $20.4 million of higher price.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.

Second Quarter
NONOPERATING REVENUES
(Dollars in millions)



Analytical Review of Nonoperating Revenues

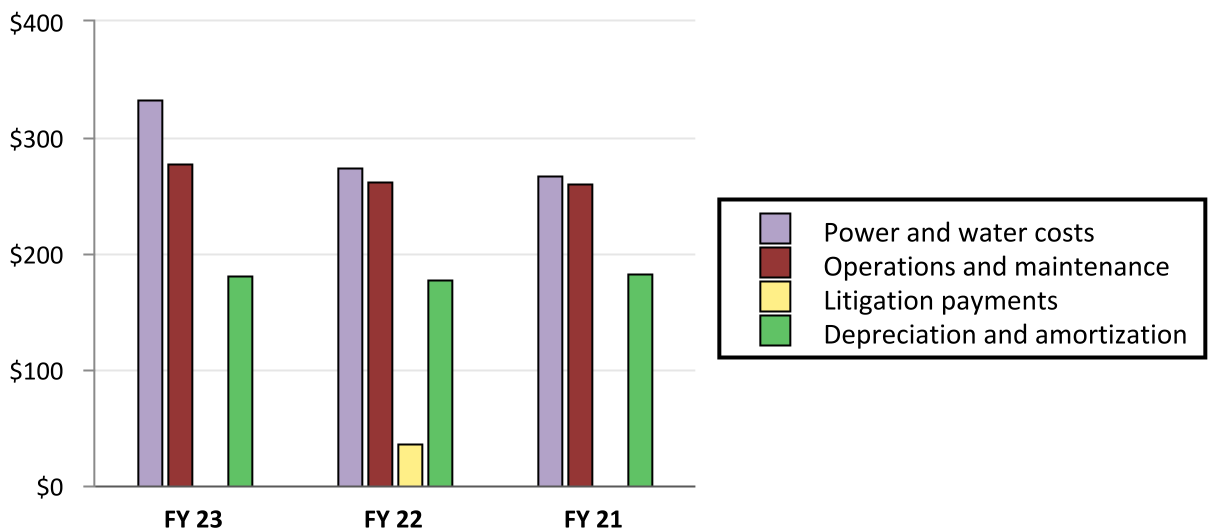
Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. Nonoperating revenues for the six months ended December 31, 2022, totaled $115.2 million and were $20.9 million higher than the prior year. The increase included $11.0 million of investment income primarily due to higher interest rates and $6.3 million more other revenues primarily due to $4.5 million higher lease revenues. In addition, property tax revenues were $6.1 million higher resulting from higher assessed values. These increases were offset by $2.5 million lower proceeds on land sales.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. Nonoperating revenues for the six months ended December 31, 2021, totaled $94.3 million and were $10.2 million higher than the prior year primarily due to $7.2 million more other revenues consisting of $8.8 million of proceeds on sale of land offset by $2.8 million less revenue from property leases. In addition, property tax revenues were $5.9 million higher resulting from higher assessed values. These increases were offset by $3.1 million lower investment income, which included $2.8 million lower rate of return and $1.2 million unfavorable change in fair value of investments.

Operating Expenses

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

Second Quarter
OPERATING EXPENSES
(Dollars in millions)



Analytical Review of Operating Expenses

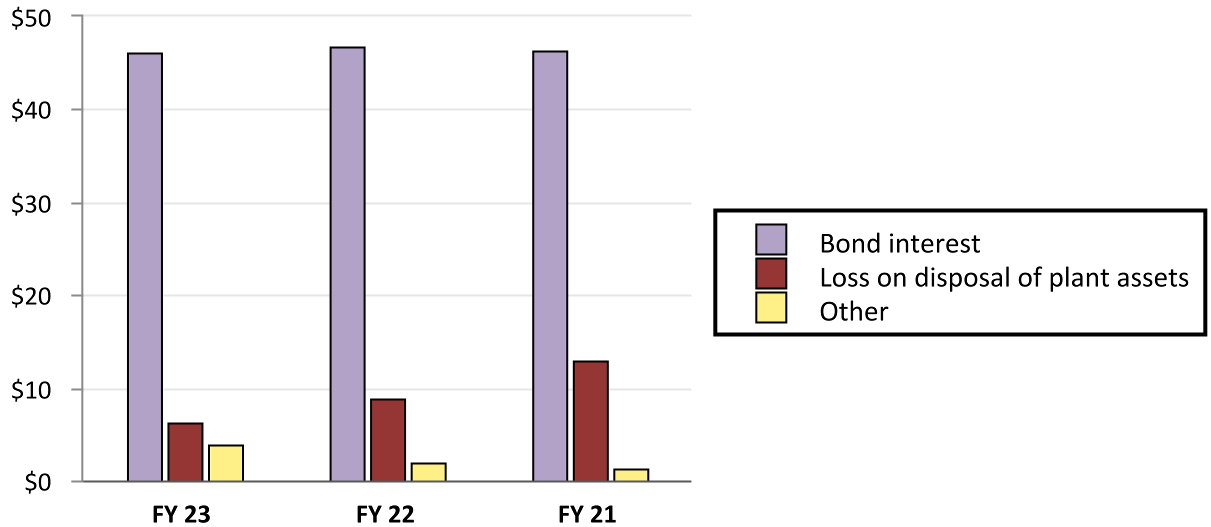
Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. For the six months ended December 31, 2022, operating expenses of $790.6 million were $40.6 million higher than the prior year primarily due to a $57.6 million increase in power and water costs as a result of higher minimum SWP operation, maintenance, power and replacement costs and $15.4 million higher O&M costs due to timing of expenses for materials and supplies and outside services. These increases were offset by $35.9 million lower litigation payments as the expense did not occur in fiscal year 2023.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. For the six months ended December 31, 2021, operating expenses of $750.0 million were $40.2 million higher than the prior year primarily due to $35.9 million litigation payment to the San Diego County Water Authority, see Note 6(g) for additional information.

Nonoperating Expenses

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

Second Quarter
NONOPERATING EXPENSES
(Dollars in millions)



Analytical Review of Nonoperating Expenses

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. For the six months ended December 31, 2022, nonoperating expenses of $50.0 million were $0.4 million higher than the prior year. The increase was due to $1.9 million more other expense primarily due to higher bond issuance costs. This increase was offset by $0.9 million less investment expense due to an increase in interest rates and $0.6 million less bond interest expense resulting from bond refunding transactions to take advantage of lower interest rates.

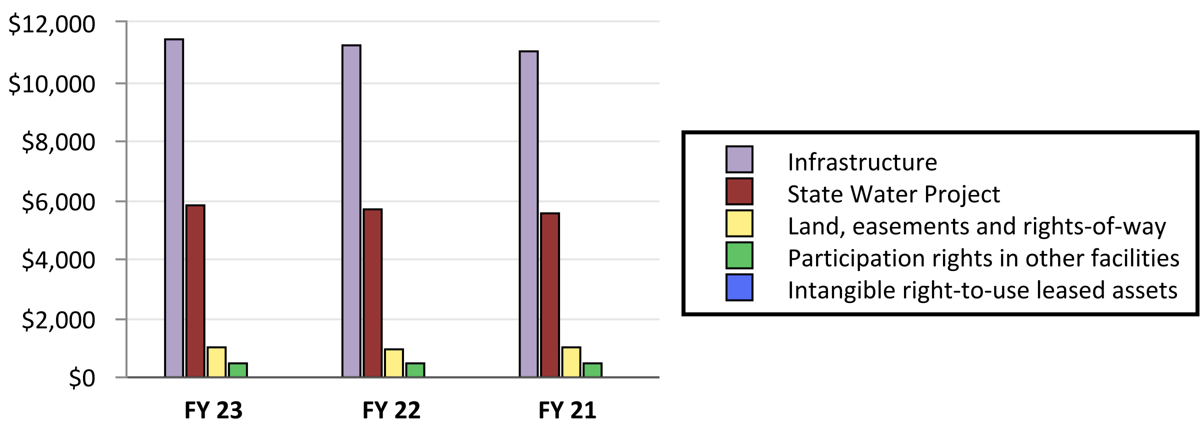
Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. For the six months ended December 31, 2021, nonoperating expenses of $49.6 million were $11.1 million lower than the prior year. The decrease was primarily due to $12.9 million less loss on disposal of plant assets as the recalculation of previously capitalized interest on construction did not occur in the first two quarters of fiscal year 2022. The decrease was offset by $0.9 million more investment expense primarily due to an unfavorable change in fair value of investments and $0.4 million more bond interest expense due to the implementation of GASB 89 at the beginning of fiscal year 2022. This statement no longer allows for the capitalization of interest cost during the construction period.

CAPITAL ASSETS

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

Metropolitan's fiscal year 2023 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.

Second Quarter
GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets
(Dollars in millions)

	December 31, 2022	2021	2020
Land, easements and rights of way	$ **989.5**	$ 981.1	$ 985.2
Construction in progress	**881.4**	790.8	716.2
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**223.6**	220.7	220.2
Other dams and reservoirs	**1,847.5**	1,615.4	1,613.5
Water transportation facilities	**4,100.1**	4,003.1	3,993.4
Pumping plants and facilities	**378.1**	360.2	357.6
Treatment plants and facilities	**3,190.6**	3,139.5	3,126.3
Buildings	**180.7**	179.1	178.5
Other plant assets	**600.1**	889.0	795.8
Pre-operating expenses of original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**5,825.2**	5,669.8	5,529.4
Participation rights in other facilities	**459.0**	459.0	459.0
Intangible right-to-use leased assets	**10.7**	10.4	—
Gross capital assets	**18,744.1**	18,375.7	18,032.7
Less accumulated depreciation and amortization	**(8,226.3)**	(7,854.1)	(7,512.6)
Total capital assets, net	$ **10,517.8**	$ 10,521.6	$ 10,520.1
Net increase (decrease) from prior year	$ **(3.8)**	$ 1.5	$ 73.6
Percent change	**0.0%**	0.0%	0.7%

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. Net capital assets totaled approximately $10.5 billion and decreased $3.8 million over the prior year. The decrease included depreciation and amortization of $365.2 million and $23.5 million retirements of capital assets, offset by $229.3 million of construction spending, a net increase of $155.3 million in participation rights in SWP, and a $0.3 million increase in intangible right-to-use leased assets.

The major capital asset additions for the twelve months ended December 31, 2022, included:

- $49.5 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.
- $39.4 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.
- $35.7 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.
- $31.0 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.
- $23.7 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.
- $15.2 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.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. Net capital assets totaled approximately $10.5 billion and increased $1.5 million over the prior year. This increase included $216.0 million of construction spending, a net increase of $140.4 million in participation rights in SWP, and a $10.4 million increase in intangible right-to-use leased assets offset by depreciation and amortization of $359.0 million and $6.3 million retirements of capital assets.

The major capital asset additions for the twelve months ended December 31, 2021, included:

- $46.7 million for the CRA supply reliability and system expansion program.
- $45.6 million for the distribution system's rehabilitation program.
- $44.4 million for the system reliability program.
- $32.7 million for the improvements in infrastructure reliability at the treatment plants.
- $18.5 million for the PCCP program.

DEBT ADMINISTRATION – LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

(Dollars in millions)	December 31, 2022	2021	2020
General obligation bonds *(a)*	**$ 20.2**	$ 26.8	$ 32.2
Revenue bonds *(a)*	**3,663.2**	3,853.0	3,762.6
Revolving notes	**—**	—	46.8
Other, net *(b)*	**410.3**	451.3	424.6
	$ 4,093.7	$ 4,331.1	$ 4,266.2
Increase (decrease) from prior year	**$ (237.4)**	$ 64.9	$ (20.9)
Percent change	**(5.5%)**	1.5%	(0.5%)

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

Second Quarter Fiscal 2023 Compared to Second Quarter Fiscal 2022. At December 31, 2022, outstanding bonds and other long-term obligations totaled $4.1 billion, a net decrease of $237.4 million or 5.5 percent from the prior year. The decrease included $181.0 million of scheduled principal payments and $41.0 million decrease in premiums and discounts, which included $50.4 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 in long-term obligations was $15.4 million of bond refundings, as the new debt issued was less than the amount of debt refunded.

Second Quarter Fiscal 2022 Compared to Second Quarter Fiscal 2021. At December 31, 2021, outstanding bonds and other long-term obligations totaled $4.3 billion, a net increase of $64.9 million or 1.5 percent from the prior year. The increase included $188.9 million in new revenue bonds, $53.3 million of bond refundings, as the new debt issued was more than the amount of debt refunded, and $26.8 million increase in premiums and discounts, which included $80.1 million increase related to bond refundings, as the premiums on new debt issued were more than the premiums outstanding on the debt refunded, offset by $53.3 million related to scheduled amortization. These increases were offset by $157.3 million of scheduled principal payments and $46.8 million decrease in revolving notes due to the repayment of the BANA note.

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 December 31, 2022 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)	December 31, 2022	2021 As adjusted Note 1t
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	(Unaudited)	
Current Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: $553,015 and $530,268 for fiscal years 2023 and 2022, respectively)	**$ 546,148**	$ 529,419
Restricted (cost: $467,703 and $502,865 for fiscal years 2023 and 2022, respectively)	**461,895**	502,059
Total cash and investments	**1,008,043**	1,031,478
Receivables:		
Water revenues	**238,160**	246,539
Interest on investments	**5,696**	2,718
Leases (Note 1j)	**835**	955
Other, net (Note 1f)	**141,314**	138,742
Total receivables	**386,005**	388,954
Inventories (Note 1g)	**140,337**	133,942
Deposits, prepaid costs, and other (Note 8)	**164,910**	135,078
Total current assets	**1,699,295**	1,689,452
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1d and 2):		
Unrestricted (cost: $318,127 and $391,297 for fiscal years 2023 and 2022, respectively)	**314,176**	390,670
Restricted (cost: $52,028 and $49,419 for fiscal years 2023 and 2022, respectively)	**51,382**	49,472
Total cash and investments	**365,558**	440,142
Capital assets:		
Plant and equipment - non depreciable (Notes 1h and 6f)	**1,870,861**	1,771,926
Plant and equipment - depreciable (Notes 1h and 6f)	**10,578,326**	10,464,490
Participation rights in State Water Project (Notes 1i and 7)	**5,825,175**	5,669,833
Participation rights in other facilities (Note 1i)	**459,049**	459,049
Intangible right-to-use leased assets (Note 1j)	**10,661**	10,397
Total capital assets	**18,744,072**	18,375,695
Less accumulated depreciation and amortization	**(8,226,303)**	(7,854,087)
Total capital assets, net	**10,517,769**	10,521,608
Leases receivable, net of current portion (Note 1j)	**24,710**	25,545
Deposits, prepaid costs, and other, net of current portion (Note 8)	**390,862**	356,054
Total noncurrent assets	**11,298,899**	11,343,349
Total assets	**12,998,194**	13,032,801
Deferred Outflows of Resources (Note 1o):		
Loss on bond refundings	**—**	7,105
Loss on swap terminations	**15,010**	16,939
Pension related (Notes 1m and 4)	**91,078**	103,220
OPEB related (Notes 1n and 5)	**35,430**	32,897
Total deferred outflows of resources	**141,518**	160,161
Total Assets and Deferred Outflows of Resources	**$ 13,139,712**	$ 13,192,962

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	December 31, 2022	December 31, 2021 As adjusted Note 1t
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	(Unaudited)	
Current Liabilities:		
Accounts payable and accrued expenses (Note 1k)	**$ 151,912**	$ 136,927
Current portion of long-term debt	**220,741**	231,252
Current portion of accrued compensated absences (Note 1l)	**26,900**	25,800
Current portion of customer deposits and trust funds	**2,464**	1,701
Current portion of leases (Note 1j)	**1,361**	1,403
Current portion of workers' compensation and third party claims (Note 11)	**6,013**	4,792
Current portion of other long-term liabilities	**197,140**	152,362
Accrued bond interest	**50,395**	57,160
Matured bonds and coupons not presented for payment	**1,203**	1,702
Total current liabilities	**658,129**	613,099
Noncurrent Liabilities:		
Long-term debt, net of current portion	**3,872,973**	4,099,876
Accrued compensated absences, net of current portion (Note 1l)	**33,471**	32,749
Customer deposits and trust funds, net of current portion	**50,434**	47,031
Leases, net of current portion (Note 1j)	**5,891**	6,682
Net pension liability (Note 4)	**440,600**	724,587
Net OPEB liability (Note 5)	**37,379**	142,988
Workers' compensation and third party claims, net of current portion (Note 11)	**5,671**	6,172
Fair value of interest rate swaps (Note 3e)	**9,466**	41,156
Other long-term liabilities, net of current portion	**2,137**	2,175
Total noncurrent liabilities	**4,458,022**	5,103,416
Total liabilities	**5,116,151**	5,716,515
Commitments and Contingencies (Note 6)	**—**	—
Deferred Inflows of Resources (Note 1o):		
Effective swaps	**47,432**	15,744
Gain on bond refundings	**33,163**	—
Leases (Note 1j)	**24,752**	25,970
Pension related (Notes 1m and 4)	**207,915**	1,589
OPEB related (Notes 1n and 5)	**106,726**	33,025
Total deferred inflows of resources	**419,988**	76,328
Total Liabilities and Deferred Inflows of Resources	**5,536,139**	5,792,843
Net Position (Note 10):		
Net investment in capital assets, including State Water Project costs	**6,383,641**	6,261,229
Restricted for:		
Debt service	**231,474**	223,140
Other	**333,421**	310,103
Unrestricted	**655,037**	605,647
Total net position	**7,603,573**	7,400,119
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 13,139,712**	$ 13,192,962

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(Dollars in thousands)	Six Months Ended December 31, 2022	2021 As adjusted Note 1t
	(Unaudited)	
Operating Revenues (Note 1c):		
Water revenues	**$ 780,994**	$ 825,911
Readiness-to-serve charges	**70,000**	65,000
Capacity charge	**20,053**	17,035
Power sales	**1,567**	2,681
Total operating revenues	**872,614**	910,627
Operating Expenses:		
Power and water costs	**332,467**	274,918
Operations and maintenance	**277,423**	261,950
Litigation payments (Note 6g)	**—**	35,871
Total operating expenses	**609,890**	572,739
Operating income before depreciation and amortization	**262,724**	337,888
Less depreciation and amortization	**(180,788)**	(177,269)
Operating income	**81,936**	160,619
Nonoperating Revenues (Expenses) (Note 1q):		
Taxes, net (Note 1e)	**88,268**	82,195
Bond interest	**(46,205)**	(46,827)
Investment income, net	**10,968**	(907)
Gain on disposal of plant assets	**6,321**	8,777
Other, net	**5,836**	1,440
Total nonoperating revenues, net	**65,188**	44,678
Changes in Net Position	**147,124**	205,297
Net position at June 30, 2022 and 2021	**7,456,449**	7,194,822
Net position at December 31, 2022 and 2021	**$ 7,603,573**	$ 7,400,119

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended December 31, 2022	2021
	(Unaudited)	
Cash Flows from Operating Activities:		
Cash received from water sales	**$ 743,301**	$ 777,444
Cash received from readiness-to-serve charges	**62,944**	57,924
Cash received from capacity charge	**20,027**	16,389
Cash received from power sales	**1,843**	2,863
Cash received from other exchange transactions	**87,435**	75,990
Cash paid for operations and maintenance expenses	**(155,211)**	(147,248)
Cash paid to employees for services	**(168,369)**	(165,313)
Cash paid for power and water costs	**(369,542)**	(266,795)
Cash paid for litigation	**(412)**	(35,871)
Other cash flows for operating activities	**2,747**	666
Net cash provided by operating activities	**224,763**	316,049
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**5,390**	4,418
Net cash provided by noncapital financing activities	**5,390**	4,418
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(112,748)**	(88,589)
Payments for State Water Project costs	**(130,553)**	(86,957)
Payments for bond issuance costs	**(1,157)**	(1,336)
Principal paid on debt	**(169,770)**	(147,455)
Interest paid on debt	**(43,224)**	(52,119)
Proceeds from tax levy	**84,112**	64,628
Transfer to escrow trust accounts	**(37,307)**	(26,556)
Proceeds from sale of capital assets	**8,425**	14,612
Net cash used by capital and related financing activities	**(402,222)**	(323,772)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(1,676,153)**	(1,717,632)
Proceeds from sales and maturities of investment securities	**1,840,682**	1,708,242
Investment income	**7,357**	7,773
Net cash provided (used) by investing activities	**171,886**	(1,617)
Net change in cash	**(183)**	(4,922)
Cash at July 1, 2022 and 2021	**382**	5,009
Cash at December 31, 2022 and 2021 (Notes 1b and 2)	**$ 199**	$ 87

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Six Months Ended December 31, 2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	(Unaudited)	
Operating Income	**$ 81,936**	$ 160,619
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	**180,788**	177,269
Decrease in accounts receivable	**20,756**	19,858
Decrease in inventories	**13,516**	418
Increase in deposits, prepaid costs, and other	**(92,232)**	(44,977)
Increase (decrease) in accounts payable and accrued expenses	**7,356**	(4,640)
Increase in deferred liabilities	**21,011**	—
(Decrease) increase in other items	**(8,368)**	7,502
Total Adjustments	**142,827**	155,430
Net cash provided by operating activities	**$ 224,763**	$ 316,049
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 886,551**	$ 130,482
Debt defeased through escrow trust fund with refunding debt	**$ (830,635)**	$ (92,195)
Redemption of notes through transfer from paying agent	**$ (35,645)**	$ (35,645)
RECONCILIATION OF CASH AND INVESTMENTS TO CASH		
Unrestricted cash and investments (at December 31, 2022 and 2021 includes $199 and $87 of cash, respectively)	**$ 860,324**	$ 920,089
Restricted cash and investments	**513,277**	551,531
Total cash and investments, at fair value	**1,373,601**	1,471,620
Less: carrying value of investments	**(1,373,402)**	(1,471,533)
Total Cash (Notes 1b and 2)	**$ 199**	$ 87

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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 six months ended December 31, 2022 or 2021. 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 displayed by fund type in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position, but are not included in Metropolitan's proprietary financial statements because the assets of these funds are not available to Metropolitan. Metropolitan reports the following fiduciary funds:

- Private-purpose trust funds: These funds are used to account for trust arrangements where the benefits are held for other governments.
- Custodial funds: These funds account for resources held by Metropolitan in a custodial capacity on behalf of other governmental organizations.

(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 and investment income.

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

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

(d) 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 2023, and maintained the tax rate for those fiscal years at the rate levied during fiscal year ended June 30, 2013 to pay a portion of State Water Contract costs other than general obligation debt service.

(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 December 31, 2022 and 2021 were as follows:

	December 31,			
(Dollars in thousands)		**2022**		2021
Water in storage	**$**	**118,158**	$	115,781
Operating supplies		**22,179**		18,161
Total inventories	**$**	**140,337**	$	133,942

(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, and certain general and administrative expenses. 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 5 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 an intangible right-to-use leased assets 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 judgment 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) Disaggregation of Payable Balances

Accounts payable and accrued expenses at December 31, 2022 and 2021 were as follows:

	December 31,	
(Dollars in thousands)	**2022**	2021[1]
Department of Water Resources (SWP):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 85,180**	$ 82,191
Vendors	**47,795**	31,564
Accrued power costs	**1,337**	1,330
Accrued salaries	**13,461**	13,168
Conservation credits	**4,139**	8,674
Total accounts payable and accrued expenses	**$ 151,912**	$ 136,927

[1] Adjustments were made to December 31, 2021 accounts payable and accrued expenses due to the implementation of GASB 87. See Note 1(t).

(l) 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.

(m) 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, 2020
Measurement Date (MD): June 30, 2021
Measurement Period: July 1, 2020 to June 30, 2021

(n) 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 Employer's 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, 2021
Measurement Period: July 1, 2020 to June 30, 2021

(o) Deferred Outflows/Inflows of Resources

The net investment in capital assets, including State Water Project costs of $6.4 billion and $6.3 billion at December 31, 2022 and 2021, respectively, includes the effect of deferring the recognition of gains and losses from bond refundings. The deferred inflows from gains on bond refundings at December 31, 2022 was $33.2 million. The deferred outflows from losses on bond refundings at December 31, 2021 was $7.1 million. These deferred inflows and outflows 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 $655.0 million and $605.6 million at December 31, 2022 and 2021, respectively, includes the effect of deferring the recognition of losses from swap terminations resulting in defeasance of debt, the increase or decrease in fair value of Metropolitan's effective interest rate swaps, and deferred amounts related to pension, OPEB, and leases.

The deferred outflows from losses on swap terminations resulting in debt defeasance at December 31, 2022 and 2021 were $15.0 million and $16.9 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 December 31, 2022 and 2021 were $91.1 million and $103.2 million, respectively. The deferred inflows related to pension at December 31, 2022 and 2021 were $207.9 million and $1.6 million, respectively.

The deferred outflows related to OPEB at December 31, 2022 and 2021 were $35.4 million and $32.9 million, respectively. The deferred inflows related to OPEB at December 31, 2022 and 2021 were $106.7 million and $33.0 million, respectively.

Deferred outflows and inflows of resources related to the net difference between projected and actual earnings on pension and OPEB plan investments are amortized on a straight-line basis over five years. All other deferred outflows and inflows of resources related to pension and OPEB are amortized on a straight-line basis over the expected average remaining service lives of all members with benefits as of the beginning of the measurement period.

The deferred inflows from the increase in fair value of interest rate swaps of $47.4 million and $15.7 million at December 31, 2022 and 2021, 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 December 31, 2022 and 2021 were $24.8 million and $26.0 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.

(p) Capital Contributions

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

(q) Operating and Nonoperating Revenues and Expenses

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

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

(r) 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.

(s) 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.

(t) New Accounting Pronouncements

Metropolitan implemented the following GASB Statements in fiscal year 2022:

GASB 87 was issued in June 2017. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and intangible right-to-use leased asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Beginning net position for the quarter ended December 31, 2021 was restated as a result.

The statement of net position for the period ended December 31, 2021 was adjusted as follows:

(Dollars in thousands)	2021 previously reported	GASB 87 adjustment	2021 as adjusted
Current Assets:			
Interest receivable	$ 2,501	$ 217	$ 2,718
Leases receivable	—	955	955
Noncurrent Assets:			
Intangible right-to-use leased assets	—	10,397	10,397
Accumulated depreciation and amortization	(7,851,573)	(2,514)	(7,854,087)
Leases receivable	—	25,545	25,545
Total change in assets		$ 34,600	
Current Liabilities:			
Accounts payable and accrued expenses	$ 136,923	$ 4	$ 136,927
Leases	—	1,403	1,403
Noncurrent Liabilities:			
Leases	—	6,682	6,682
Total change in liabilities		8,089	
Deferred inflows of resources:			
Leases	—	25,970	25,970
Net Position:			
Net investment in capital assets, including SWP	6,261,432	(203)	6,261,229
Unrestricted	604,903	744	605,647
Total change in net position		541	
Total change in liabilities, deferred inflows of resources and net position		$ 34,600	

The statement of revenues, expenses and changes in net position for the period ended December 31, 2021 was adjusted as follows:

(Dollars in thousands)	2021 previously reported	GASB 87 adjustment	2021 as adjusted
Operating expenses:			
Operations and maintenance	$ 262,758	$ (808)	$ 261,950
Depreciation and amortization	176,425	844	177,269
Total change in operating expenses		36	
Nonoperating revenues			
Other, net	1,250	190	1,440
Net Position			
Beginning of year	7,194,435	387	7,194,822
Total change in net position		$ 541	

GASB 89 was issued in June 2018 and requires that interest cost incurred before the end of construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period are no longer included in the historical cost of a capital asset reported in a business-type activity or enterprise fund, like Metropolitan.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* (GASB 92) which addresses practice issues that were identified during implementation and application of certain GASB Statements. GASB 92 was considered for fiscal year 2022 but there was no impact on previously reported balances in the Statements of Net Position or the Statements of Revenues, Expenses and Changes in Net Position and there was no impact on note disclosures for the current year.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates* (GASB 93), which removes London Interbank Offer Rates (LIBOR) as an appropriate benchmark interest. The requirements of GASB 93 were intended to be effective for fiscal year 2022. However, in March 2021, the Intercontinental Exchange Benchmark Administration (IBA), the administrator of LIBOR, made a formal announcement that the date of cessation for the one-week and two-month LIBOR would be December 31, 2021, while all other forms of LIBOR including the one-month and three-month LIBOR, would be June 30, 2023. As a result, in GASB Statement No. 99, *Omnibus 2022*, the GASB addressed the extension and allows LIBOR to be used as a benchmark until cessation. As of June 30, 2022, Metropolitan's instruments using LIBOR as the benchmark were based on one-month LIBOR which had not ceased as of fiscal year end. As a result, GASB 93 had no impact on Metropolitan's fiscal year 2022 financial statements.

Metropolitan is evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements that are effective this fiscal year:

- GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*
- GASB Statement No. 96*, Subscription-Based Information Technology Arrangements.*

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 2022, others effective for fiscal years 2024 and 2025).
- 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)

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

- GASB Statement No. 91*, Conduit Debt Obligations.*
- GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 84, And A Supersession of GASB Statement No. 32.*

2. CASH AND INVESTMENTS

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

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

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

(Dollars in thousands)	December 31, 2022	2021
Proprietary Funds	**$ 1,373,601**	$ 1,471,620
Fiduciary Funds	**5,040**	5,185
Total deposits and investments	**$ 1,378,641**	$ 1,476,805
Deposits	**$ 199**	$ 87
Investments	**1,378,442**	1,476,718
Total deposits and investments	**$ 1,378,641**	$ 1,476,805

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 December 31, 2022, Metropolitan's cash balance included $194,000 and $5,000 of deposits with financials institutions and cash on hand, respectively. Cash balance as of December 31, 2021 included $82,000 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 December 31, 2022 and 2021, Metropolitan had the following investments at fair value:

	December 31,	
(Dollars in thousands)	**2022**	2021
Asset-backed securities	**$ 83,711**	$ 94,420
CAMP	**336,520**	210,226
Federal agency securities	**118,669**	41,444
GSE	**6,431**	19,264
LAIF	**75,000**	75,000
Medium-term corporate notes	**239,326**	213,713
Money market funds	**1,829**	4,179
Municipal bonds	**2,071**	4,169
Negotiable certificates of deposit	**178,550**	260,220
Prime commercial paper	**77,886**	197,017
Supranationals	**53,826**	89,918
U.S. Treasury securities	**204,623**	267,148
Total investments	**$ 1,378,442**	$ 1,476,718

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 December 31, 2022 and 2021:

	Fair Value Measurement Using					
(Dollars in thousands)	**12/31/2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	12/31/2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by fair value level:						
Asset-backed securities	**$ 83,711**	**$ 83,711**	**$ —**	$ 94,420	$ 94,420	$ —
Federal agency securities	**118,669**	**118,669**	**—**	41,444	41,444	—
GSE	**6,431**	**6,431**	**—**	19,264	19,264	—
Medium-term corporate notes	**239,326**	**239,326**	**—**	213,713	213,713	—
Municipal bonds	**2,071**	**2,071**	**—**	4,169	4,169	—
Negotiable certificates of deposit	**178,550**	**—**	**178,550**	260,220	260,220	—
Prime commercial paper	**77,886**	**—**	**77,886**	197,017	197,017	—
Supranationals	**53,826**	**53,826**	**—**	89,918	89,918	—
U.S. Treasury securities	**204,623**	**204,623**	**—**	267,148	267,148	—
Total investments by fair value level	**$ 965,093**	**$ 708,657**	**$ 256,436**	$ 1,187,313	$ 1,187,313	$ —
Investments not subject to fair value level:						
CAMP	**336,520**			210,226		
LAIF	**75,000**			75,000		
Money market funds [(1)]	**1,829**			4,179		
Total investments not subject to fair value level	**413,349**			289,405		
Total investments	**$ 1,378,442**			$ 1,476,718		

[(1)] *As of December 31, 2022, the balance was invested in Dreyfus Government Cash Management (DGCXX). In the same period of 2021, the balance was invested in Dreyfus Government Cash Management and Dreyfus AMT-Free Tax-Exempt Cash Management (DGCXX and DEIXX).*

Investments classified in Level 1 of the fair value hierarchy, valued at $708.7 million and $1,187.3 million as of December 31, 2022 and 2021, respectively, were valued using quoted prices in active markets.

As of December 31, 2022, negotiable certificates of deposit and prime commercial paper totaling $178.5 million and $77.9 million, respectively, were classified in Level 2 of the fair value hierarchy and were valued using matrix and GSP manual pricing.

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 $413.3 million and $289.4 million at December 31, 2022 and 2021, 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, approved by the Finance and Insurance Committee. The benchmark durations as of December 31, 2022 and 2021 were 0.23 and 0.24, respectively, and the portfolio duration was permitted to vary from the benchmark by plus or minus 0.50. As of December 31, 2022 and 2021, Metropolitan's investments and portfolio durations for this segment were as follows:

	December 31,			
	2022		2021	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Asset-backed securities	**$ 77,019**	**0.53**	$ 87,138	0.59
CAMP	**336,520**	**—**	210,226	—
Federal agency securities	**103,365**	**0.62**	39,452	1.24
LAIF	**75,000**	**—**	75,000	—
Medium-term corporate notes	**178,600**	**0.58**	171,726	0.51
Money market funds	**1**	**—**	14	—
Municipal bonds	**—**	**—**	825	2.58
Negotiable certificates of deposit	**177,932**	**0.52**	260,220	0.41
Prime commercial paper	**68,255**	**0.22**	197,017	0.30
Supranationals	**43,326**	**0.21**	78,860	0.76
U.S. Treasury securities	**79,245**	**0.87**	155,802	0.94
Total portfolio segment	**$ 1,139,263**		$ 1,276,280	
Portfolio duration		**0.35**		0.44

Core Segment

This segment of the portfolio was managed against the ICE BoAML, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. The benchmark durations as of December 31, 2022 and 2021 were 2.55 and 2.66 and the portfolio duration was permitted to vary from the benchmark by plus or minus 1.50. As of December 31, 2022 and 2021, Metropolitan's investments and portfolio durations for this segment were as follows:

	December 31,			
	2022		2021	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Asset-backed securities	**$ 6,692**	**1.18**	$ 7,282	2.00
Federal agency securities	**14,337**	**1.04**	—	—
GSE	**6,431**	**1.62**	19,264	1.51
Medium-term corporate notes	**60,726**	**2.50**	41,987	2.88
Money market funds	**1,688**	**—**	3,440	—
Municipal Bonds	**2,071**	**3.10**	2,297	4.10
Negotiable certificates of deposit	**618**	**2.83**	—	—
Prime commercial paper	**9,631**	**0.51**	—	—
Supranationals	**10,500**	**1.30**	11,058	2.32
U.S. Treasury securities	**122,965**	**1.89**	109,702	2.62
Total portfolio segment	**$ 235,659**		$ 195,030	
Portfolio duration		**1.88**		2.50

Bond Reserves and Lake Mathews 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 Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years.

As of December 31, 2022 and 2021, Metropolitan's investments and portfolio durations for this segment were as follows:

	December 31,			
	2022		2021	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
Federal agency securities	**$ 967**	**0.73**	$ 1,992	1.11
Money market funds	**140**	**—**	725	—
Municipal bonds	**—**	**—**	1,047	2.58
U.S. Treasury securities	**2,413**	**2.71**	1,644	3.12
Total portfolio segment	**$ 3,520**		$ 5,408	
Weighted average duration		**2.06**		1.86

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 rating agency (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 December 31, 2022 and 2021, Metropolitan's portfolio was invested in the following securities by rating:

		December 31,	
		2022	2021
(Dollars in thousands)	Rating[(1)]	**Fair value**	Fair value
Asset-backed securities	AAA[(2)]	**$ 83,711**	$ 94,420
CAMP	AAAm[(3)]	**336,520**	210,226
Federal agency securities	N/A[(4)]	**118,669**	41,444
GSE	N/A[(4)]	**6,431**	19,264
LAIF	N/A[(5)]	**75,000**	75,000
Medium-term corporate notes	A-[(3)]	**239,326**	213,713
Money market funds	AAAm[(3)]	**1,829**	4,179
Municipal bonds	AA+[(3)]	**2,071**	4,169
Negotiable certificates of deposit	A-1[(3)]	**178,550**	260,220
Prime commercial paper	A-1[(3)]	**77,886**	197,017
Supranationals	AAA[(2)]	**53,826**	89,918
U.S. Treasury securities	N/A[(4)]	**204,623**	267,148
Total portfolio		**$ 1,378,442**	$ 1,476,718

[(1)]*Minimum actual ratings by sector as of December 31, 2022.*
[(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 December 31, 2022 and 2021.

	Investment Policy Limits	Percent of Portfolio	
		2022	2021
Asset-backed securities	20 %	**6 %**	7 %
CAMP	40 %	**24 %**	14 %
Federal agency securities	100 %	**9 %**	3 %
GSE	100 %	**1 %**	1 %
LAIF	N/A	**5 %**	5 %
Medium-term corporate notes	30 %	**17 %**	15 %
Money market funds	20 %	**— %**	**— %**
Municipal bonds	30 %	**— %**	**— %**
Negotiable certificates of deposit	30 %	**13 %**	18 %
Prime commercial paper	40 %	**6 %**	13 %
Supranationals	30 %	**4 %**	6 %
U.S. Treasury securities	100 %	**15 %**	18 %
Total portfolio		**100 %**	100 %

On December 31, 2022 and 2021, 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)	**2022**	
CAMP	**$ 336,520**	**24.4 %**
LAIF	**$ 75,000**	**5.4 %**

(Dollars in thousands)	2021	
CAMP	$ 210,226	14.2 %
LAIF	$ 75,000	5.1 %

Custodial credit risk. On December 31, 2022 and 2021, 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 $336.5 million and $210.2 million in deposit in the CAMP as of December 31, 2022 and 2021, respectively, and $75.0 million in deposit in LAIF as of December 31, 2022 and 2021.

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 $11.9 billion and $6.5 billion as of December 31, 2022 and 2021, respectively. Of the amount invested in CAMP, 35.5 percent and 38.1 percent were invested in medium-term and short-term notes and asset-backed securities on December 31, 2022 and 2021, respectively. The average maturity of CAMP investments was 31 days and 45 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 December 31, 2022 and 2021 was $27.7 billion and $36.3 billion, respectively. On December 31, 2022 and 2021, the PMIA had a balance of $199.6 billion and $181.4 billion, respectively, of which, 2.29 percent and 1.63 percent, respectively, were invested in medium-term and short-term notes and asset-backed securities. The average maturity of LAIF investments as of December 31, 2022 and 2021 was 287 days and 340 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 December 31, 2022 and 2021.

(d) Restricted Cash and Investments

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

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 $4.094 billion and $4.331 billion at December 31, 2022 and 2021, respectively, represents less than one percent of the fiscal year 2023 and 2022 total taxable assessed valuation of $3,639 billion and $3,392 billion, respectively.

Metropolitan’s long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan’s authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan’s net operating revenues. Such obligations contain certain restrictive covenants, with which

Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) 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 December 31, 2022 and 2021 and no commercial paper was outstanding at December 31, 2022 and 2021. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds and revolving notes.

Short-term note issued and repaid during the twelve months ended December 31, 2022 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. On July 7, 2022, the draw was refunded with proceeds of the Water Revenue Refunding Bonds, 2022 Series A.

Short-term note issued and repaid during the twelve months ended December 31, 2021 was as follows:

- On June 30, 2021, Metropolitan issued certain notes evidencing a draw of $35.6 million from the Royal Bank of Canada (RBC) Short Term Credit Facility for the purpose of refunding a portion of Metropolitan's then outstanding subordinate lien bonds. On July 8, 2021, the draw was refunded with proceeds of the Water Revenue Refunding Bonds, 2021 Series B.

There were no short-term or long-term notes outstanding at December 31, 2022 or 2021.

(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 $20.2 million and $26.8 million in general obligation refunding bonds were outstanding at December 31, 2022 and 2021, 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 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption.

There were no general obligation bonds issued during the twelve months ended December 31, 2022 and 2021.

(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 $3.663 billion and $3.853 billion of revenue bonds and revenue refunding bonds were outstanding at December 31, 2022 and 2021, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2051 at interest rates ranging from .46 percent to 5.0 percent at December 31, 2022 and 2021. 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.

There was no revenue bond issued during the twelve months ended December 31, 2022 and the revenue bond issued during the twelve months ended December 31, 2021 was as follows:

- On February 4, 2021, Metropolitan issued $188.9 million of Water Revenue Bonds, Series 2021 A, at a true interest cost of 2.77 percent. Proceeds were used to fund a portion of Metropolitan's Capital Investment Plan and costs of issuance. The maturities extend to October 1, 2051 and are subject to mandatory and optional redemption provisions.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, 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 December 31, 2022. 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. At December 31, 2022 and 2021, there are/were 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 December 31, 2022, 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 December 31, 2022, 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 December 31, 2022.

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 December 31, 2022, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $171.3 million or 46.0 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 December 31, 2022, the interest rates of the variable rate debt associated with these swap transactions range from 2.54 percent to 3.37 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 2.20 percent to 4.39 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 2.54 percent to 3.37 percent as of December 31, 2022 and .04 percent to .09 percent as of December 31, 2021. Metropolitan can elect to change the interest rate period of the bonds with certain limitations.

Metropolitan has entered into SBPAs 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 December 31, 2022 and 2021.

Metropolitan has five and seven variable rate bonds that are supported by a SBPA as of December 31, 2022 and 2021, respectively:

(Dollars in thousands)

	Amount		Expiration	Interest	Current Amount	
Bond Issue	**12/31/2022**	12/31/2021	**Date**	**Rate**	**12/31/2022**	12/31/2021
Water Revenue Bonds						
2000 Series B-3	**$ —**	$ 78,900	3/20/23	Reset Daily	**$ —**	$ —
2017 Series A	**24,275**	80,000	1/26/26 (1)	Reset Daily	**—**	—
Water Revenue Refunding Bonds						
2018 Series A-1, A-2	**—**	90,070	6/4/24	Reset Daily	**—**	—
2016 Series B-1, B-2	**25,325**	82,905	1/26/26 (2)	Reset Daily	**—**	—
2022 Series C-1, C-2	**282,275**	—	1/26/26	Reset Daily		
Subordinate Water Revenue Refunding Bonds						
2021 Series A (Taxable)	**222,160**	222,160	6/13/25	Reset Weekly	**—**	—
Total	**$ 554,035**	$ 554,035			**$ —**	$ —

(1) At 12/31/21, the SBPA associated with the 2017 Series A Water Revenue Bond was set to expire 3/20/23.

(2) At 12/31/21, the SBPA associated with the 2016 Series B-1 and B-2 Water Revenue Refunding Bonds was set to expire 6/4/24. The 2016 Series B-1 bonds were refunded and had no outstanding balance as of December 30, 2022.

Metropolitan has three variable rate bonds that are not supported by a SBPA as of December 31, 2022 and 2021, respectively:

(Dollars in thousands)

Bond Issue	**12/31/2022**	**12/31/2021**	**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 Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

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

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) 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, SmartCare, 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 10 years of PERS service and no less than five years of Metropolitan service in order to receive post-employment health benefits in accordance with PERS as per Government Code Section 22893. For employees hired prior to January 1, 2012, retirees are not required to meet the eligibility criteria. CalPERS issues a separate comprehensive annual report that includes financial statements for its CERBT Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

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:		
2023	$	564,324
2024		541,635
2025		508,811
2026		510,079
2027		501,137

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

(b) Bay/Delta Regulatory and Planning Activities

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

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 conducting updates to its Delta Plan, including a strategic levee investment policy. In addition, 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 avoid endangering State or federally listed species or adversely modifying their critical habitat, the Department of Water Resources (DWR) consults with the California Department of Fish and Wildlife (CDFW) and its federal agency counterparts under the California Endangered Species Act (ESA) and federal ESA, respectively, regarding the operation of the SWP. If a project may adversely affect a listed species, a formal consultation is held with the state and federal regulatory agencies. The regulatory agency(ies) then issue operating permits under the state and federal ESA jurisdiction, being a federal biological opinion and a state permit that is either a consistency determination or an Incidental Take Permit (ITP). Updated federal biological opinions were approved in February 2020 and CDFW issued a State ITP in March 2020. Both the federal and state permits have been challenged in court by multiple parties including water agencies and non-governmental organization groups. Metropolitan is involved in the federal permit litigation as part of the State Water Contractors, and in the State ITP litigation as Metropolitan, in order to protect its interests that the permits be based on the best available science and 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 the other parties of the State Water Contractors are challenging the completeness of the administrative record. No date has been set for the hearing merits.

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 Central Valley Project 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. 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).

Eighteen SWP contractors have taken action in November and December 2020 and approved their participation 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 Metropolitan 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. At a 47.2 percent participation level for Metropolitan, its forecasted funding agreement costs will be $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 for the Delta Conveyance Project. A range of reasonable alternatives are identified and their potential impacts on environmental resources are analyzed in the Draft EIR. The Draft EIR also discusses Community Benefits Program framework as part of the Delta Conveyance Project to help protect and enhance the cultural, recreational, natural resource and agricultural values of the Delta. DWR's ongoing tribal consultation process as part of its environmental planning, consistent with State statutes and policies is also documented in the Draft EIR. The public comment period for the Draft EIR closed on December 16, 2022. DWR is in the process of reviewing and responding to substantive comments received on the Draft EIR and plans to issue a Final EIR in late 2023. At that time, DWR will determine whether to approve the proposed project, an alternative or no project.

(c) Imperial Irrigation District

As of December 31, 2022, Metropolitan had advanced a total of $375.9 million to the Imperial Irrigation District (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 2022 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 2023 and 2022, 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 6e). 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 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a 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 6g.

(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 2023 through 2027 totals approximately $1.8 billion. Capital spending for fiscal year 2023 and 2024 is planned at $300.0 million each year. Planned capital spending for fiscal years 2025 through 2027 includes spending for Pure Water Southern California and is $372.0 million, $381.0 million and $475.0 million, respectively.

Over the next three years, Capital Investment Plan budget totals approximately $972.0 million with $213.0 million on refurbishment and replacement (R&R) work at pressure control facilities and pipelines throughout the distribution system; $173.3 million to continue relining of the Prestressed Concrete Cylinder Pipe portions of the Second Lower and Sepulveda feeders; $128.4 million targeted for R&R projects for the Colorado River Aqueduct; over $86.2 million for R&R work at Metropolitan's water treatment plants; $77.8 million on projects to mitigate drought impacts; and $55.9 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 include 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 payment 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).

The Superior Court also issued an order finding SDCWA is the prevailing party on the contract in the 2010 and 2012 cases and is therefore entitled to its attorneys' fees and costs under the contract, and to statutory costs. On February 25, 2021, Metropolitan appealed both prevailing party determinations. The parties stipulated to $13,397,575.66 as the amount of SDCWA's attorneys' fees that may be awarded under the Exchange Agreement, in the event Metropolitan's appeal is unsuccessful. On March 17, 2022, the Court of Appeal held that SDCWA is the prevailing party in the 2010 and 2012 cases and is 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, these claims and cross-claims are moot. They 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 has breached the Exchange Agreement by failing to reduce the price for an "offsetting benefits" credit. The cases also alleged that in 2019 and 2020, Metropolitan misallocated its California WaterFix (CWF) 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 CWF. The cases also request 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 against relating to rates and the Exchange Agreement.

The cases were stayed pending resolution of the 2010 and 2012 cases, but the stays have been lifted and the cases have been 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 are issues to be resolved at trial; Metropolitan's affirmative defenses that SDCWA's claims are untimely and SDCWA has not satisfied claims presentation requirements; Metropolitan's affirmative defense in the 2018 case that SDCWA has 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 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. On August 19, 2022, the parties filed post-trial briefs. On September 14, 2022, the court granted in part and denied in part SDCWA's motion for partial judgement; the rulings did not resolve any claims or cross-claims. Trial closing arguments were held on September 27, 2022.

At the court's direction, the parties filed proposed statements of decision on December 16, 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, except a cross-claim that Metropolitan withdrew via the stipulation.

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 $15,100 and $6,200 were expended for post closure maintenance and monitoring activities during the six months ended December 31, 2022 and 2021, 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.

7. PARTICIPATION RIGHTS IN STATE WATER PROJECT

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

Approximately 28 percent and 31 percent of Metropolitan's total expenditures during the six months ended December 31, 2022 and 2021 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 1i and 6a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon maximum annual contracted deliveries provided by the State of California. Amortization expense totaled $75.2 million and $74.0 million for the six months ended December 31, 2022 and 2021, respectively.

8. DEPOSITS, PREPAID COSTS, AND OTHER

Balances at December 31, 2022 and 2021 were as follows:

	December 31,	
(Dollars in thousands)	**2022**	2021
Prepaid water costs	**$ 245,636**	$ 254,420
Prepaid costs-Delta Habitat Conservation and Conveyance	**58,627**	58,627
Prepaid costs-Delta Conveyance Project	**84,500**	29,800
Prepaid costs-California WaterFix	**7,494**	7,494
Prepaid expenses	**17,722**	16,934
Preliminary design/reimbursable projects	**38,390**	18,545
Other	**103,403**	105,312
Total deposits, prepaid costs, and other	**555,772**	491,132
Less current portion	**(164,910)**	(135,078)
Noncurrent portion	**$ 390,862**	$ 356,054

(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 December 31, 2022 and 2021, prepaid water costs totaled approximately $245.6 million and $254.4 million, respectively, based on volumes of 783 TAF and 964 TAF, as of such dates.

(b) Prepaid Costs—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other SWP contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with DWR. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately $35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP which was later on adapted as CWF (see Note 6b) through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. The two-tunnel CWF project shifted to a single tunnel project referred to as the Delta Conveyance Project with the announcement of Governor Newsom on February 12, 2019. Total prepaid costs at December 31, 2022 and 2021 were $58.6 million.

(c) Prepaid Costs—Delta Conveyance Project

The Board approved a 47.2 percent funding commitment for planning and pre-construction costs for the Delta Conveyance Project on December 18, 2020. Total prepaid costs for the Delta Conveyance Project as of December 31, 2022 and 2021 were $84.5 million and $29.8 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 and DWR intends to refund Metropolitan for funds advanced through this agreement through bond financing actions. However, as a result of the shift to a single tunnel project and DWR's withdrawal of approval of the CWF Project as well as the rescission of other permitting applications (see Note 6b), Metropolitan requested, on June 27, 2019, that DWR return its contributions that have not been spent as of May 2, 2019. As of December 31, 2022 and 2021, DWR has remitted $34.0 million of unspent funds and $0.5 million of interest. Total advanced funds at December 31, 2022 and 2021 were $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 has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Savings Plan (savings plan) is available to substantially all employees. Metropolitan has established a matching contribution program, subject to a maximum of 4.5 percent of the employee's total cash compensation, on behalf of each participating employee 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 accompanying basic financial statements at December 31, 2022 and 2021.

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 State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets and deferred outflows and inflows of resources related to debt. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Note 1h), participation rights in State Water Project (Notes 1i and 7), participation rights in other facilities, and intangible right-to-use leased assets. Net investment in capital assets, including State Water Project costs were approximately $6.4 billion and $6.3 billion at December 31, 2022 and 2021, 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 $565.0 million and $533.3 million at December 31, 2022 and 2021, respectively, of which $231.5 million and $223.1 million, respectively, represents principal and interest payments on outstanding debt. The remaining $333.5 million and $310.1 million as of such dates relates to estimated operating and maintenance expense for January and February 2023 and 2022, respectively. Each of these requirements are related to bond covenants.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled $655.0 million and $605.6 million at December 31, 2022 and 2021, 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 2023 were unchanged from fiscal year 2022. 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.