State Water Resources Development System

Financial Statements and Supplementary Information
Annual Report Years Ended June 30 2015 and 2014

State of California Natural Resources Agency Department of Water Resources

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State Water Resources Development System

Financial Statements and Supplementary Information
For the years ended June 30, 2015 and 2014

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GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Director of the State of California
Department of Water Resources

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The System's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2015, and the respective changes in its financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Implementation of New Accounting Standards

As disclosed in the Note 14 to the financial statements, the System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2015.

Prior Period Financial Statements Audited by a Predecessor Auditor

As part of our audit of the fiscal year 2015 financial statements, we also audited the adjustments described in Note 14 that were applied to restate the fiscal year 2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2014 financial statements of the System other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2014 financial statements as a whole.

Gallina LLP

Roseville, California
October 15, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Management's Discussion and Analysis *(Required Supplementary Information)*

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the State Water Resources Development System (the System), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow Management's Discussion and Analysis. This discussion and analysis and the financial statements do not relate to DWR's other governmental and proprietary funds. The System includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

The SWP encompasses a system of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State of California. The SWP was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. DWR is responsible for the planning, construction and operation of the SWP. The construction program commenced in 1957 and approximately 700 miles of the System have been completed. The System has entered into long-term water supply contracts with 29 customers; known as the "Water Contractors", in order to recover substantially all System costs. The Water Contractors may request up to maximum annual amounts totaling 4,172,786 acre-feet of water from the System. This maximum does not assure delivery of that amount of water, but rather provides the basis for proportional allocation of available supplies among the Water Contractors.

Portions of the SWP system consist of facilities developed and used jointly with the Federal Central Valley Water Project (FCVP) operated by the U.S. Bureau of Reclamation (USBR). In addition, both projects have primary sources of water north of the Sacramento-San Joaquin Delta (Delta), transport water across the Delta and draw water from the southern edge of the Delta. The FCVP, like the SWP, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Costs for the jointly developed facilities are shared approximately 55 percent State and 45 percent Federal. In 1986, the System and USBR entered into a Coordinated Operation Agreement (COA) under which the SWP and the FCVP coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increased operational efficiency of both projects, ensures that each project receives an equitable share of available surplus water and provides for sharing of responsibilities in meeting certain Delta water quality standards.

Financial Highlights

- The System recorded an increase in total assets of $454.9 million and total operating revenues of $1,019 million. This did not cause an increase in net position as a result of appropriately reflecting the timing differences in the deferral of revenues collected and expenses incurred.

- On October 30, 2014, the System took advantage of low tax-exempt market interest rates and issued $645.8 million fixed-rate Central Valley Project (CVP) Water System Revenue Bonds (Series AS) with an average yield of 2.73%. The Series AS bonds were issued to refund $689.8 million of outstanding Series AE, AF, AG, AH, AJ, AK and AN bonds through a negotiated sale. The refunding of these bonds provided the Department with net present value savings of $56 million, representing 8.1% of the refunded bonds.

- On November 6, 2014, the System issued $149.2 million of CVP Water System Revenue Bonds (Series AT) to redeem $139.5 million of Water Revenue Commercial Paper Notes Series 1. Series AT was issued as index floating rate bonds using the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread to calculate monthly debt service payments. The weekly rate paid for Series AT bonds ranged from 0.33% to 0.35% and averaged 0.34% in fiscal year 2015.

Overview of Financial Statements

Reports Included in Financial Statements

The System is accounted for as an enterprise fund. Enterprise funds account for the acquisition, operation and maintenance of governmental facilities and services that are entirely or predominantly self-supported by user charges. This financial report consists of three financial statements prepared on the accrual basis of accounting and accompanying note disclosures. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The Statements of Net Position include all the assets, liabilities, deferred outflows and inflows of resources and net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses incurred during the fiscal years presented. The Statements of Cash Flows report the cash inflows and outflows classified by operating, investing, noncapital financing and capital and related financing activities during the reporting periods presented. The notes to the financial statements communicate certain information required by Generally Accepted Accounting Principles (GAAP).

Condensed Statements of Net Position

	2015	2014	2013	%Change 2015-2014	%Change 2014-2013
	(amount in thousands)				
Total utility plant	$ 3,615,803	$ 3,469,661	$ 3,327,965	4.2%	4.3%
Other assets	2,344,435	2,035,702	2,098,661	15.2%	-3.0%
Total assets	5,960,238	5,505,363	5,426,626	8.3%	1.5%
Total deferred outflows of resources	219,326	116,741	124,591	87.9%	-6.3%
Total assets and deferred outflows of resources	$ 6,179,564	$ 5,622,104	$ 5,551,217	9.9%	1.3%
Capitalization:					
Net position:					
Net investment in capital assets	$ 1,105,692	$ 994,561	$ 832,147	11.2%	19.5%
Restricted	99,736	210,867	373,281	-52.7%	-43.5%
Total net position	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Long-term liabilities	3,693,517	3,173,915	3,144,789	16.4%	0.9%
Total capitalization	4,898,945	4,379,343	4,350,217	11.9%	0.7%
Other liabilities	425,428	419,875	464,344	1.3%	-9.6%
Total capitalization and liabilities	5,324,373	4,799,218	4,814,561	10.9%	-0.3%
Total deferred inflows of resources	855,191	822,886	736,656	3.9%	11.7%
Total capitalization, liabilities, and deferred inflows of resources	$ 6,179,564	$ 5,622,104	$ 5,551,217	9.9%	1.3%

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

	2015	2014	2013	%Change 2015-2014	%Change 2014-2013
	(amount in thousands)				
Operating revenues:					
Water supply	$ 883,538	$ 789,370	$ 931,808	11.9%	-15.3%
Power sales	91,780	131,952	146,277	-30.4%	-9.8%
Federal and State reimbursements	44,060	52,186	52,397	-15.6%	-0.4%
Total operating revenues	1,019,378	973,508	1,130,482	4.7%	-13.9%
Operating expenses:					
Operations and maintenance expense	404,627	557,209	545,413	-27.4%	2.2%
Purchased power expense	202,780	241,444	258,899	-16.0%	-6.7%
Depreciation expense	81,495	68,896	85,236	18.3%	-19.2%
Operating expenses recovered, net	-	-	22,261	0.0%	-100.0%
Total operating expenses	688,902	867,549	911,809	-20.6%	-4.9%
Income from operations	330,476	105,959	218,673	211.9%	-51.5%
Capital revenues recovered (deferred)	(243,945)	(42,934)	(174,356)	468.2%	-75.4%
Interest expense	(96,082)	(115,499)	(53,492)	-16.8%	115.9%
Other (expense) income	9,551	52,474	9,175	-81.8%	471.9%
Change in net position	-	-	-	-	-
Net position, beginning of year	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Net position, end of year	$ 1,205,428	$ 1,205,428	$ 1,205,428	0.0%	0.0%

* Certain amounts have been reclassified from amounts previously reported to conform with the current year presentation.

Assets

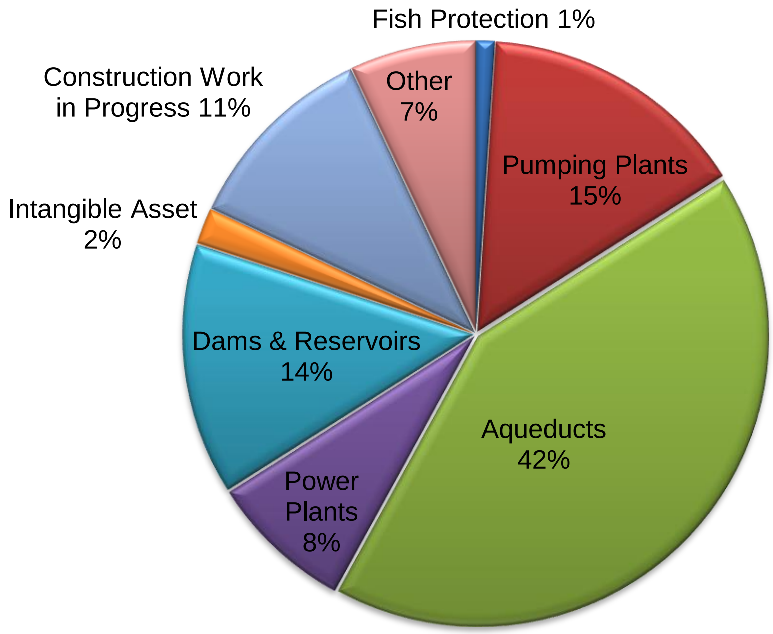
Utility Plant

Utility Plant represents the accumulated original costs of labor, materials and indirect costs incurred during the construction of the SWP that are in service to provide water deliveries. The SWP utility includes 34 storage facilities, 20 pumping plants, three pumping-generating plants, five hydroelectric power plants, as well as fish protection facilities, aqueducts and internally generated intangible assets.

Utility plant in service (UPIS), net of accumulated depreciation decreased by $42 million during fiscal 2015 to a balance of $2,989 million. The System experienced overall additions to UPIS assets of $38 million in fiscal 2015. These additions were for assets placed in service or purchased during fiscal 2015. Acquisition purchases of other UPIS assets were $4.3 million. Additions due to transfers were made from Construction Work in Progress (CWIP) to UPIS of $33.7 million including East Branch Enlargement of $8.3 million, South Bay Aqueduct Improvement Reaches 1 through 9 of $6.5 million, Delta Facilities of $6.1 million, Facilities Repair and Improvement of $5.5 million, Delta Facilities Temporary Barrier of $5.4 million and South Bay Enlargement of $1.9 million. Accumulated depreciation of UPIS assets increased from $1,994.7 million to $2,074.9 million in 2015.

In fiscal 2014, UPIS, net of accumulated depreciation, increased by $232.3 million. The System experienced overall reductions to UPIS assets of $139.4 million. These reductions included $452.4 million in deletion of UPIS assets of which $362.7 million were due to the termination of ownership of the Reid Gardner Unit 4 Power Plant and $89.7 million for the impairment loss of the Hyatt-Thermalito Power Plant (HTPP). These deletions were offset by increases in net transfers of $305.1 million from CWIP to UPIS and $7.9 million in the acquisition of other UPIS assets. These decreases to UPIS also included related decreases in accumulated depreciation of $371.7 million.

Utility Plant in Service



Construction Work in Progress

Construction Work in Progress (CWIP) increased by $188.4 million during the fiscal year 2015, representing a 43% increase from fiscal 2014. In fiscal 2014, CWIP decreased by $90.6 million, or 17.1%, from fiscal 2013. The current year increases are primarily due to additions of $222.1 million in new and on-going projects offset by transfers of $33.7 million to UPIS for projects placed in service during fiscal 2015. The increases of new and significant on-going projects included Facilities Repair and Improvement of $89.1 million, East Branch Extension Phase II projects of $38.5 million, Perris Dam Remediation of $15.4 million, Thermalito Plant projects of $15.1 million and Communication System Replacement of $10.5 million. Other CWIP increases included Delta Facilities of $9.1 million, East Branch Improvement projects of $8.3 million, Predation Release Efficiency projects of $6.8 million, Protective Relay Replacement of $6.7 million, South Bay Aqueduct Improvement projects of $6.5 million, Edmonston Valve Outage projects of $5.9 million, South Bay Aqueduct Enlargement projects of $1.9 million, other Water Systems projects of $2.2 million and $6.1 million of Intangible Assets. Intangible Assets of $6.1 million are comprised of $3.8 million for Federal Energy Regulatory Commission (FERC) relicensing costs and $2.3 million of internally generated computer software for the Centralized Control System Migration Program.

The $90.6 million decrease to CWIP in fiscal 2014 from 2013 was primarily due to transfers of $305.1 million to UPIS for projects placed in service during fiscal 2014. These transfers were offset by increases of $214.5 million in new and ongoing projects. These included East Branch Extension Phase II projects of $79 million, HTPP of $45.4 million, Facilities Repair and Improvement of $38.1 million, Predation Release Efficiency projects of $12.4 million, Communication System Replacement of $11.4 million, Perris Dam Remediation of $6.8 million, South Bay Enlargement projects of $5.4 million, Delta Facilities of $4.5 million, Protective Relay Replacement of $2.5 million, South Bay Aqueduct Improvement projects of $1.5 million, other Water Systems projects of $2.3 million and $5.2 million of Intangible Assets. Intangible Assets of $5.2 million are comprised of internally generated computer software of $4 million for the Centralized Control System Migration Program and $1.2 million for Federal Energy Regulatory Commission (FERC) relicensing costs.



At June 30, 2015, construction work in progress totaled $626.6 million and was comprised of $380.7 million of other Water Systems projects, $204.1 million of East Branch Extension Phase II projects and $41.8 million of Intangible Assets.

Restricted Cash and Investments

Restricted cash and investments increased slightly by $800 thousand during fiscal 2015 to a total of $155.9 million, compared to a balance of $155.1 million in fiscal 2014. The most significant factor for this change can be attributed to a $2.1 million increase in the debt service reserve requirement associated with the issuances of bond series AS and AT in fiscal 2015, which increased the requirement from $116 million to $118.1 million. This increase was partially offset by a $1.6 million decrease in cash for plant replacements. Restricted cash for debt service reserve is designated to meet the minimum reserve requirement for the revenue fund. As of June 30, 2015, the total balance in the cash and investments restricted for debt service is equal to the minimum balance of the debt service reserve requirement.

Amounts Recoverable through Future Billing

Amounts recoverable through future billings represent timing differences between expenses incurred by the System and their ultimate recovery from the Water Contractors. Expense recognition is expected to match recovery from the Water Contractors in the future. In fiscal 2015, the amounts recoverable through future billings increased by $226 million to an ending balance of $1,440 million compared to $1,214 million for fiscal 2014. The increase results from uncollected operations and maintenance expenses of $339.7 million which is mostly comprised of $316.7 million of unfunded pension amounts and $23 million in general operating expenses. The increase was offset by the recovery of $83.3 million in capital expenses, $30.5 million in the recognition of unamortized project costs and unbilled interest.

Other Long-term Assets

Long-term loans receivable from local water agencies decreased by $1.2 million to a total of $14.1 million. As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $12.1 million remains outstanding at the end of fiscal 2015 compared to an outstanding balance of $13.2 million at the end of fiscal 2014. Additionally, $2 million continues to remain outstanding in the Groundwater loans receivable for both fiscal 2015 and 2014. Advances to other State Funds represents the System's advance of $92 million to DWR's internal service fund that functions as a revolving working capital account for the System. The remaining $1.5 million is an advance balance to the Department of General

Services to fund the Rio Vista Science Center. This project is a joint venture between DWR and the United States Fish and Wildlife Services.

Cash and Cash Equivalents

In fiscal 2015, net cash provided by operations totaled $347.7 million compared to $260 million in fiscal 2014 for a total net increase to cash and cash equivalents from operations of $87.7 million. This increase was primarily due to $178.2 million in decreased payments to suppliers for expenses offset by $80.9 million in decreased revenues collected from customers and $9.6 million in increases in payments to employees in fiscal 2015.

Receivables

The total water supply and power billings receivable was $79.9 million and $35.1 million for fiscal 2015 and 2014, respectively. This increase of $44.9 million is comprised mainly of increases in water supply variable billings and a minor increase in federal and state reimbursements of less than $1 million. The increase in variable occurred when the System adjusted the variable billing rates, due to increased projections, during the second half of fiscal 2015.

Deferred Outflows of Resources

Deferred outflows represent expenses incurred by the System which are applicable to future reporting periods and will be recognized as expenses in future years. In fiscal 2015, the deferred outflows increased by $102.6 million to an ending balance of $219.3 million compared to $116.7 million for fiscal 2014. This increase is primarily due to additional escrow interest required for the bonds refunded by Series AS of $107.7 million in the deferred loss of refunding and an increase of $44.4 million in employer pension contribution when the System implemented GASB Statement No. 68 which requires the System to defer contributions made after the measurement date of June 30, 2014. These increases are offset in part by the unamortized premium from the same refunded bonds of $39.5 million and the scheduled annual amortization of $10 million of loss on refunding.

Liabilities

General Obligation Bonds

In addition to the revenue bond obligations described below, a large portion of the SWP was financed by the sale of GO Bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of $1,750 million of such bonds for the construction of the SWP. The Burns-Porter Act was adopted by the voters at the State's general election in November 1960. Of that authorization, $1,582 million (including the entire amount available for construction of the initial components of the SWP) has been issued, of which $185 million remains outstanding at the end of fiscal 2015, compared to $242 million at fiscal 2014, and $303 million at fiscal 2013. The un-issued $168 million of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

Revenue Bonds

Revenue Bonds consist of Water System Revenue Bonds and Devil Canyon-Castaic Power Facility Revenue Bonds. Water System Revenue Bonds are primarily issued to finance the construction and maintenance of the SWP. At the end of fiscal 2015, the System has issued 46 series of Water System Revenue Bonds totaling $8,782 million in the aggregate principal, of which $2,388 million remains outstanding. This compares to outstanding balances of $2,393 million and $2,341 million at the end of fiscal year 2014 and 2013, respectively. During the year, the System made principal reduction payments of $110.1 million and completed the issuance of the CVP Water System Revenue Bond Series AS and AT totaling $795 million. The majority of the proceeds from Series AS were used to retire $690 million of Series AE, AF, AG, AH, AJ, AK, and AN bonds. The proceeds from the issuance of Series AT bonds were used to pay off all outstanding Commercial Paper Notes Series 1, make deposits to the Debt Service Reserve Account, fund interest on a portion of the Series AT Bonds, and pay costs of issuance.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility for the SWP. Principal payments totaling $5.5 million, during fiscal 2015, reduced the outstanding balance to $57.4 million compared to $62.9 million at the end of fiscal 2014 and $68.1 million at the end of fiscal 2013.

Revenue Bonds *(amounts in thousands)*

	2015	2014	2013
Water System Revenue bonds par amount	$ 2,387,895	$ 2,392,740	$ 2,340,905
Unamortized bond issuance premiums/(discounts)	278,683	192,169	185,484
Total Water System Revenue bonds outstanding	2,666,578	2,584,909	2,526,389
Devil Canyon - Castaic revenue bond par amount	57,430	62,905	68,070
Total revenue bonds outstanding	2,724,008	2,647,814	2,594,459
Less current maturities	(135,900)	(115,580)	(114,775)
Total long-term portion	$ 2,588,108	$ 2,532,234	$ 2,479,684

Pooled Money Investment Loan

On March 26, 2008, the System received a loan of $29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts. These accounts were created to facilitate the defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under California Water Code section 12937(b) (4). The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December, beginning on September 1, 2008. The loan can be repaid at any time without charges and with a written notice of no less than fifteen days. Principal and interest paid during 2015 and 2014 was $4 million each year. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed.

The Variable Rate means:

a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and
b) for each Renewal Period thereafter, the greater of
    (i) five percent per annum, or
    (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences.

The loan balance decreased from $11.6 million to $8 million, since fiscal year 2014, as a result of the quarterly payments made during fiscal year 2015. The table below provides the principal payments and the balances at the end of fiscal years 2015 and 2014.

PMIA Loan		*(amounts in thousands)*
Fiscal Year	Principal Payments	Loan Balance June 30
2015	$ 3,486	$ 8,094
2014	$ 3,317	$ 11,580

Postemployment Benefits Other than Pensions

The Postemployment Benefits Other than Pensions (OPEB) increased by $26.5 million to a net obligation ending balance of $203.2 million in fiscal 2015 due to the difference between the annual OPEB cost of $42.5 million and the actual contributions charged by the California Department of Finance through pro rata (allocated indirect cost incurred by the State's Central Service Agencies) of $16 million. The $26.5 million increase for fiscal 2015 and $36.3 million increase for fiscal 2014 reflect the System's under-funding of the annual required contribution (ARC).

Other Long-Term Liabilities

Other long-term liabilities include unearned revenues received in advance from State and Federal governments and advances for plant replacements. In fiscal 2015, these other long-term liabilities increased by $12.7 million to an ending balance of $184.9 million compared to $172.2 million for fiscal 2014. These increases are primarily due to increases in revenue collected in advance from the Federal government for capitalized projects, which will be depreciated over time. These increases are offset by a decrease in replacement expenses for San Joaquin Field Division.

Net Pension Liability

The net pension liability represents the System's share of the DWR's portion of the unfunded liability of the California Public Employees' Retirement System's (CalPERS) defined benefit plan. Implementation of GASB Statement No. 68 recorded a restated beginning pension liability at July 1, 2014 of $512.2 million. During fiscal 2015, net pension liability decreased by $85.3 million to an ending balance of $426.9 million. The $85.3 million decrease is primarily due to CalPERS realizing gains on a strong portfolio performance after applying a board approved discount rate to expected long-term rate of returns on pension investment.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities totaled $338.5 million at June 30, 2015, compared to $334.1 million in fiscal 2014, and $365.6 million in fiscal 2013. The increase of $4.4 million in the current year is due to an increase of $13.4 million for the current portion of long-term bond principal which mainly resulted from issuances of new revenue bonds, an increase of $2.7 million for the current portion of accrued vacation, an increase of $1.7 million for the current portion of System's pollution remediation obligation and an increase of $1.1 million for other current liabilities and loan payable. These increases are offset by a decrease of $10.6 million in accounts payable vendor liabilities generally comprised of reductions in capital construction outlay, water supply costs for the multi-year Turnback Water Pool Program, and reduced post termination cost of the Reid Gardner power plant, a decrease of $2.6 million due to timing differences in transfer of cash settlements with DWR's Internal Service Fund and a decrease of $1.3 million in accrued bond interest.

In fiscal 2014, the decrease of $31.5 million was due to a decrease of $28.3 million in accounts payable vendor liabilities generally comprised of reductions in capital construction outlay, consulting contracts and decreased power purchases, a decrease of $3.4 million for the current portion of long-term bond principal, a decrease of $1.5 million due to timing differences in the transfer of cash settlements within DWR's Internal Service Fund, and a decrease of $553 thousand in accrued bond interest. These decreases were offset by an increase of $2.1 million for the current liability portion of accrued vacation and loans payable and an increase of $200 thousand for the current portion of the System's pollution remediation obligation.

Proceeds Due to Water Contractors

Proceeds Due to Water Contractors are comprised primarily of the additional 25% billing for revenue bond debt service in excess of debt service requirements (known as "cover"), plus certain investment income and off-aqueduct power sales, all defined as refundable to the Water Contractors under terms of the long-term water supply contracts.

Proceeds Due to Water Contractors increased by $1.2 million during fiscal 2015 to an ending balance of $86.9 million. This increase can be primarily attributed to the $2.7 million increase in interest earnings from the debt service reserve balances and a $2.3 million increase in deferred operating revenue collected in advance for cover not yet returned to the Water Contractors. These increases were offset by a $3.2 million decrease as delivery structure revenue was recognized for the Gianelli Motor Rewinds project and the North Bay Aqueduct Alternate Intake project and a $584 thousand decrease in interest earnings refunded back to the Water Contractors.

Proceeds Due to Water Contractors decreased by $13 million during fiscal 2014 to an ending balance of $85.7 million. This decrease was primarily attributed to the $9 million decrease in interest earnings that was refunded back to the Water Contractors from the debt service reserve fund, a $7 million decrease in deferred operating revenue collected in advance for cover refunded back to the Water Contractors and $2.8 million decrease as delivery structure revenue was recognized for the North Bay Aqueduct Alternate Intake project and the Gianelli Motor Rewinds project. These decreases were offset by a $5.8 million increase in interest earned on debt service reserve balances.

Deferred Inflows of Resources

Deferred inflows represent revenues received by the System which are applicable to future reporting periods and will be recognized as revenue in future years. In fiscal 2015, the deferred inflows increased by $32.3 million to an ending balance of $855.2 million compared to $822.9 million for fiscal 2014. This increase is primarily due to an increase in deferred depreciation of $126.6 million that resulted when revenues collected for principal payments of debt which funded previous costs incurred to construct UPIS assets exceeded annual depreciation and amortization expenses. An increase of $79.6 million is due to the implementation of GASB Statement No. 68, when the System recognized the unamortized net difference of pension liability in the current fiscal year. These increases to deferred inflows were offset by $159.1 million of operations and maintenance recovery under GASB Statement No. 68, $12.1 million of capital recovery and a $2.7 million decrease in power sales credits due to Water Contractors.

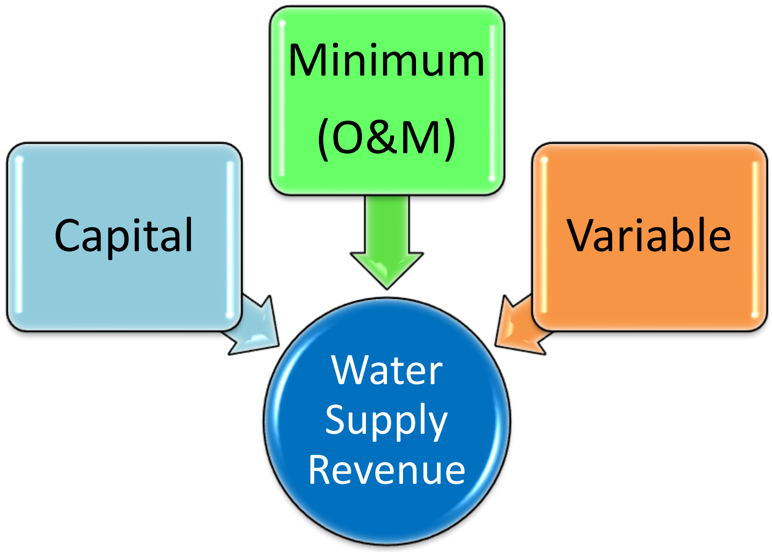
Operating Revenues

Operating revenues for fiscal 2015 were $1,019.4 million compared to $973.5 million in fiscal 2014 and $1,130.5 million in fiscal 2013. The increase of $45.9 million in fiscal 2015 was primarily due to an increase in water supply revenue of $94.2 million mainly due to increased revenue billings which were based on higher projected costs, an increase in deferred revenues to be recovered through future billings under long-term water supply contracts and an increase in the average mill rate. This increase was offset by a decrease in power sales revenue of $40.2 million and a decrease of $8.1 million in federal reimbursements. The decrease of $157 million in fiscal 2014 was primarily due to a decrease in water supply revenue of $142.4 million, a decrease of $14.3 million in power sales revenue and a minor decrease in federal reimbursements.

Water Supply Revenue

Under the terms of the long-term water supply contracts, the System is required to collect from the Water Contractors all costs of the SWP allocated to water supply in proportion to each Water Contractor's contractual allocation of water. Generally, the System's costs, including the costs of gathering, storing, conveying and delivering water, and interest are billable to Water Contractors whether or not water is delivered.

Water Supply Revenue consists of three main categories:



Capital

- Enables the System to recover all the costs plus interest related to the construction of facilities, including its dams, aqueducts, pumping stations and power plants
- Once a project is completed, its cost plus interest are amortized and recovered over the remaining term of the long-term water supply contracts (through 2035)

Minimum (O&M)

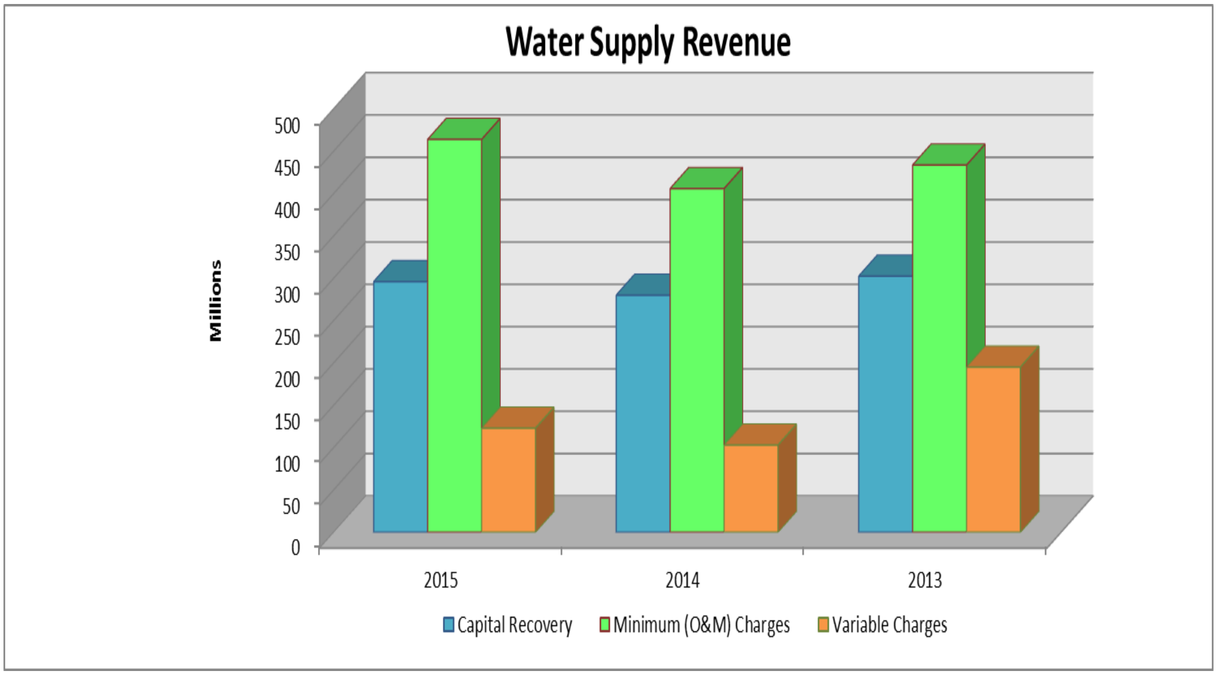
- Enables the System to recover the operating and maintenance costs associated with operating the System
- Minimum costs are generally recovered as incurred

Variable

- Enables the System to recover the net cost of energy used to deliver water to theWater Contractors
- Variable costs, net of power sales, are generally recovered as incurred

On or before July 1 of each year, the System furnishes each Water Contractor with a statement of estimated charges for the Capital, Minimum, and Variable components for the following calendar year. The Capital components are due on January 1 and July 1 of the year following receipt of the Statement of Charges. The Minimum and Variable component payments are due in twelve monthly installments commencing on January 1 of the year following receipt of the Statement of Charges. On or about July 1 of each year, the System determines the estimated rate (per acre-foot) to be charged to each Water Contractor in the following calendar year for the Variable component. The Variable component, in such calendar year, is calculated and billed monthly based on metered water deliveries for the preceding month and the actual rate determined at the beginning of each calendar year. However, this rate can be modified over the course of the ensuing year. On July 1 of each year, the System furnishes each Water Contractor with a statement showing the difference between the estimated water charges paid and the actual costs incurred for the prior calendar year. The difference is paid by or credited to each Water Contractor, as applicable, in equal monthly installments commencing on January 1 of the year following the "true-up" calculation. This process results in an approximately two-year delay in the reconciliation of estimated charges paid and actual costs reimbursed to the System.

In 2015, the System generated $883.5 million in water supply revenue, compared to $789.4 million in fiscal 2014, and $931.8 million in fiscal 2013. The following table shows a comparative breakdown of the components of water supply revenue for 2015, 2014 and 2013.



Water Supply revenues increased by $94.2 million in 2015 to a total of $883.5 million. This increase is due to an increase of $58.1 million in minimum operating & maintenance (O&M) billings, an increase of $20 million in Variable billings and an increase of $16.1 million in Capital billings.

O&M revenues for fiscal 2015 increased by $58.1 million. The largest increase of $52.3 million was in Minimum Transportation due to increases in cost projections for salary and wages for Bargaining Unit 12, pro rata and assessment costs charged by the California Department of Finance, and extraordinary repair and maintenance costs. A $41.3 million increase when O&M expenses are reclassified and recognized as future billings under long-term water supply contracts, and a $20.6 million increase in the Delta Water Charge (DWC) Minimum due to increased extraordinary repair and maintenance cost projections for the HTPP as well as emergency drought salinity barrier costs in the Sacramento-San Joaquin Delta. These increases were offset in part by a $24.1 million combined decrease in Off Aqueduct Power and Reid Gardner Administrative Order of Consent (AOC) billings due to reduced post termination costs of the Reid Gardner power plant, a $15.1 million decrease in Federal reimbursements related to flood control and recreation expenses resulted when certain O&M costs for plant replacements were reclassified to CWIP as the System switches its focus from repairing to extending the life of the current infrastructure, a $14 million decrease in the Delta Habitat Conservation and Conveyance Program (DHCCP) resulting from a lack of an existing contract to reimburse the System for DHCCP expenses, and a $3.3 million decrease in miscellaneous revenue.

The Variable revenues increase of $20 million is primarily due to an 8.97 mills/kWh increase in the average mill rate. The average mill rate in fiscal 2015 was 63.44 mills/kWh compared to 54.48 mills/kWh in fiscal 2014. Actual water deliveries in fiscal 2015 were 1.41 million acre-feet compared to 1.76 million acre-feet in fiscal 2014. Although the water deliveries decreased by 0.36 million acre-feet, the increase in the average mill rate resulted in $31.3 million of additional Variable revenues. Additional increases included a $6.5 million increase in revenues that resulted from a decrease in prior year over-collections adjustment which amounted to $36.8 million in fiscal 2015 compared to $43.4 million in fiscal 2014 and an increase of $6.1 million in wheeling water revenues. These increases are offset by a decrease of $23.8 million in reduced billings for the multi-year Turnback Water Pool Program.

The Capital revenues increase of $16 million is primarily due to a $20.8 million combined increases in DWC Capital, Capital Transportation and Water Transfer Capital resulting from reclassifying O&M costs to capitalized construction costs and increased cost projections, and a $8 million increase in Debt Service revenues resulting from issuances of the CVP Bond Series AS and AT. These increases were offset by decreases of $9.6 million in Off Aqueduct Power Debt Service resulting from the post termination of Reid Gardner power plant and reductions in bond payments due to the refunding of CVP Bond Series AS. Additionally a decrease of $3.1 million in Permanent Table A Transfer Credit Allocation to refund prior year over collections to Water Contractors participating in the downstream program.

In fiscal 2014, Water Supply Revenues decreased by $142.4 million to a total of $789.4 million. There were several contributing factors. A decrease of $92.2 million occurred as a result of Variable, a decrease of $27.8 million in O&M, and a decrease of $22.4 million in Capital. The decrease in Variable was primarily due to a decrease of $101.3 million in variable billings due to decreases in water deliveries by 0.94 million acre feet (AF) to 1.76 million in 2014 compared to 2.7 million AF in 2013 and a decrease of $14.6 million in revenues resulting from an increase in prior year over collections which amounted to $43.4 million in 2014 compared to $28.8 million in 2013. Although the average mill rate increased by 11.36 mills/kWh to 54.48 mills/kWh compared to 43.12 mills/kWh in 2013, the significant decrease in water deliveries, especially to the Southern California area where the cost to deliver water was higher, resulted in reduced revenues. These decreases were offset by an increase of $23.7 million in billings under the new multi-year Turnback Water Pool Program.

Overview of the System's Power Activities

The SWP is one of the largest consumers and suppliers of electric power in the western United States. Since the commencement of the major facilities of the SWP in the 1960s, the System has been an active participant in the power markets of California and the western United States. The System has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The System currently owns three pumping-generating plants and five hydroelectric power plants with a total nameplate capacity of approximately 1,800 Megawatts (MW) and with total annual energy generation in recent years ranging between approximately 3,100 and

5,100 Gigawatt hours (Gwh). The System also owns and operates 20 pumping plants with a total load, when operational, of approximately 2,000 MW and total annual energy consumption in recent years ranging between 5,300 and 10,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided during all hours of the day.

The SWP must enter the power market to facilitate the operation of the California aqueduct. Operations continue 24 hours a day, seven days a week, with constant coordination with other utilities, Water Contractors, the California Independent System Operator (CAISO) and SWP pumping and generating plants. The power market, being controlled by CAISO, can have a material impact on the power sales revenues and power purchase expenses of the SWP.

Economics and climate changes have required the System to explore and include more renewable energy sources. In 2005, Executive Order S-3-05 was signed into law and in 2006 Assembly Bill (AB-32) was passed, requiring California to reduce its Green House Gas (GHG) emissions to 1990 levels by 2020. By 2050, GHG emission levels must be below 80% of 1990 levels.

As a result of these new laws, California will require a higher percentage of our pumping load to be served by renewable energy sources. By 2050, approximately 50% of the System pump load will need to be supplied by renewable energy. During fiscal year 2015, the System entered into an energy purchase contract with Dominion Solar-Camelot, a 45 MW solar plant. Future solar contracts, with S-Power and Pearblossom, are scheduled to come on line in the end of 2016 and will add an additional 95 MW of renewable power.

Every year, the SWP is confronted with factors that affect how the operation of the System is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuation in natural gas prices, transmission line outages and wild fires. In fiscal 2015, the SWP was still affected by the loss of the HTPP causing ongoing unavailability of units at DWR's Oroville complex. Other major impacts to the SWP operation were the continued severe drought conditions and lack of snow pack in the Northern Sierras. Water Contractor's allocation remained constant at a lowered level of 5% for the first half of fiscal 2015. Several winter precipitations occurred in the period from December through February. These two factors resulted in a slight increase in the reservoir storage, allowing management to raise the water allocations to 10% in December 2014, 15% in January 2015, and 20% in March 2015. The allocations remained at 20% through fiscal year end at June 30, 2015.

The increased water allocations resulted in increased water deliveries and pumping through the SWP. However, the severe drought conditions the System experienced in fiscal 2015 and over the past several fiscal years did not allow adequate recovery for System reservoirs to maintain consistent pre-drought allocations of approximately 60% to the Water Contractors. DWR's primary concern is still water availability, not water demand, and water conservation remains a high priority for DWR's daily operation.

Power Sales

Energy sales, from SWP hydroelectric generating plants, allow some recovery of cost of the System's hydroelectric pumping plants. Operating the pumping plants as much as possible, when energy prices are generally lower, and generating energy during on-peak hours, when prices are generally higher, is a proven strategy of the SWP. Reservoir storage levels greatly impact the SWP's ability to recover costs as generating energy requires more than adequate reservoir storages. The Oroville complex is the largest SWP resource and is required by FERC to help mitigate negative environmental impacts. Mitigation could include controlling river temperatures, to assisting with after-bay and fore-bay elevation control, to helping with nesting Grebe or Garter snake habitat. Required mitigation can occur despite having minimal storage available at Oroville Lake.

In fiscal 2015, power sales decreased by $40.2 million to a total of $91.8 million. Although the System had a minor increase in transmission sales of $465 thousand, the System experienced a $40.6 million net decrease in power sales. Despite a substantial increase in the MWh rate during fiscal 2015, the System experienced a significant decrease in the quantity of energy sold. In fiscal 2014, 940,679 MWh were sold compared to 274,469 MWh in fiscal 2015, a 70.82% decrease from the prior year. The MWh rate increased by 128.87%, from $130.04 in fiscal 2014 to $297.62 in fiscal 2015.

With the State of California in its fourth year of a severe drought, energy sales are less of a priority due to lack of available water. The priority throughout the State of California is to conserve the limited water that is available. Additionally, water deliveries decreased from 1.76 million acre-feet in fiscal 2014 to 1.41 million acre-feet in 2015, a decrease of 0.35 million acre-feet or 19.89%.

In fiscal 2014, power sales decreased by $14.3 million to a total of $132 million. The decrease in power sales was attributable to a decrease in transmission sold as well as a decrease in the MWh rate and an increase in the quantity of energy sold. In fiscal 2013, 790,103 MWh were sold compared to 940,679 MWh in fiscal 2014, a 19.06% increase from the prior year. The overall rate decreased by 14.18%, from $151.53 in fiscal 2013 to $130.04 in fiscal 2014.

The following tables show the relationship between volume and rate for fiscal 2015 compared to fiscal 2014, and fiscal 2014 compared to fiscal 2013:

Power Sales

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2014	$ 131,951,338	$ (9,626,929)	$ 122,324,409	940,679	$ 130.04
2015	91,779,398	(10,091,627)	81,687,771	274,469	297.62
Net Change	$ (40,171,940)	$ (464,698)	$ (40,636,638)	$ (666,210)	$ 167.58

Change in MWh sold	(666,210)
Multipled by 2014 rate/MWh	$ 130.04
Difference attributed to increase in sales (rounded)	$ (86,634,000)
Change in MWh rate	$ 167.58
Multiplied by 2015 MWh sold	274,469
Difference attributed to rate change (rounded)	$ 45,996,000
Total decrease in power sales (rounded)	$ (40,638,000)

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2013	$ 146,277,485	$ (26,554,940)	$ 119,722,545	790,103	$ 151.53
2014	131,951,338	(9,626,929)	122,324,409	940,679	130.04
Net Change	$ (14,326,147)	$ 16,928,011	$ 2,601,864	$ 150,576	$ (21.49)

Change in total MWh sold	150,576
Multipled by 2013 rate/MWh	$ 151.53
Difference attributed to increase in sales (rounded)	$ 22,817,000
Change in MWh rate	$ (21.49)
Multiplied by 2014 MWh sold	940,679
Difference attributed to rate change (rounded)	$ (20,215,000)
Total increase in power sales (rounded)	$ 2,602,000

Federal and State Reimbursements Revenue

Federal and State reimbursements revenue for fiscal 2015 was $44.1 million, compared to $52.2 million for fiscal 2014. The current year decrease of $8.1 million is primarily due to a decrease of $10.5 million in USBR's share of Delta Habitat Conservation and Conveyance Program (DHCCP) expenses resulting from the lack of an existing contract to reimburse the System for DHCCP. The previous contract expired in fiscal 2014. The System reached an agreement in July 30, 2015 that resumed reimbursement requirements. An additional decrease of $2.2 million is due to a decrease in O&M reimbursable expenses. These decreases were offset by an increase of $4.6 million in capital recreation cost recovery from Proposition 84 funds and Greenhouse Gas Reduction funds.

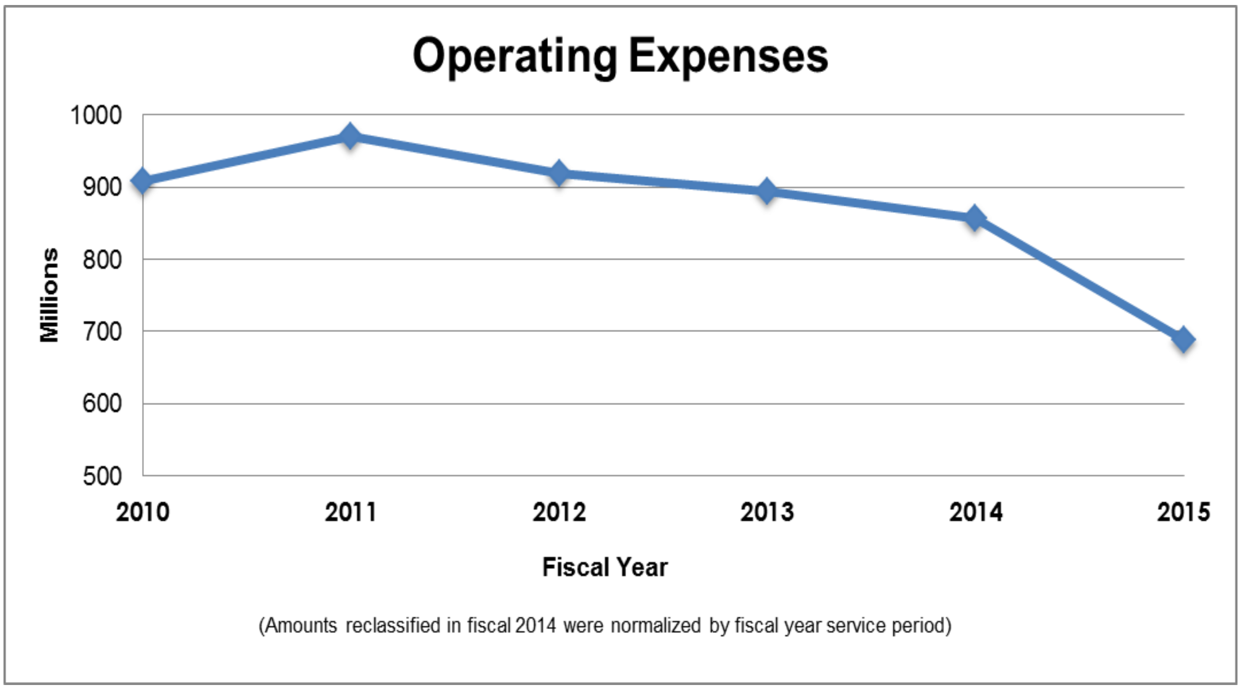
Federal and State reimbursements revenue for fiscal 2014 was $52.2 million, compared to $52.4 million for fiscal 2013. The current year decrease of $211 thousand is due to a decrease of $8 million in the USBR's DHCCP share and a decrease of $3.3 million in USBR's Suisun Marsh capital share. These decreases were offset by an increase of $5.4 million in USBR's San

Luis O&M share, an increase of $3.8 million in USBR's San Luis capital share, due to increased construction costs for the Gianelli pumping-generating plant, and an increase of $2.3 million in capital recreation cost recovery from Proposition 84 funds.

Operating Expenses

Total operating expenses decreased by $178.6 million for fiscal 2015 to a total of $688.9 million. The decrease is due to a reduction in operations and maintenance expenses of $152.6 million and a decrease in power purchases of $38.6 million. These decreases are offset by an increase of $12.6 million in depreciation expense.

Total operating expenses for 2014 decreased by $44.3 million to a total of $867.5 million. The decrease was due to a reduction in operating expenses recovered of $22.3 million, a decrease in power purchases of $17.5 million, and a decrease in depreciation expense of $16.3 million. The decreases were offset by an increase of $11.8 million in operations and maintenance expenses.



Operations and Maintenance Expenses

Total operations and maintenance expenses are $404.6 million for fiscal 2015, compared to $557.2 million for fiscal 2014 and $545.4 million for fiscal 2013. The decrease of $152.6 million in fiscal 2015 can be attributed to the following factors: decreases of $69.9 million in capital construction related expenses for the Hyatt-Thermalito Plant fire recovery and other extraordinary repairs and maintenance projects, as they were reclassified to CWIP; decreases of $24 million in general, supplies, and miscellaneous expenses, as the system deferred extraordinary repair projects and began cost reduction efforts to general operations and maintenance expenses; a decrease of $25.8 million in pollution remediation; a decrease of $22.8 million in purchased water supply, due to the absence of activities under the new multi-year Turnback Water Pool Program; continuing decreases of $12.3 million in RG operations and maintenance expenses, as the system depletes final inventories and pays AOC obligations; a decrease of $9.8 million in Postemployment Benefits other than Pensions (OPEB); and a $2.8 million decrease in communications and security expenses. These decreases were offset by the following factors: increases of $4.8 million in waste removal and other clean-up efforts, increases of $4.2 million in Federal co-op contracts; increases of $2.9 million in bond issuance costs; and increases of $2.9 million in consultants and other professional services. Despite the implementation of GASB 68, the system did not have a material change to operations and maintenance expenses related to salaries and wages.

Total operations and maintenance expenses were $557.2 million for fiscal 2014, compared to $545.4 million for fiscal 2013. The increase of $11.8 million in fiscal 2014 was attributed to the following factors: increases of $37.7 million in salary and wages; increases of $19.6 million in purchased water supply resold under the new multi-year Turnback Water Pool Program; increases of $13.7 million in OPEB; increases of $11.1 million in hazardous services and waste removal costs at SWP facilities; increases of $6.3 million in pollution remediation; increases of $4.3 million in communications costs; increases of $3.3 million in pro rata (allocated indirect cost incurred by the State's Central Service Agencies); and increases in the amount of $3.4 million comprised of miscellaneous expenses. These increases were offset by the following factors: decreases in expenses for Reid Gardner coal of $23.7 million; decreases in natural gas, coal, and diesel consumption of $20 million; decreases in consultant and professional services of $12.4 million; decreases in Federal co-op contracts of $7.7 million; decreases in bond issuance costs of $7 million; decreases in operations and maintenance of the Reid Gardner power plant of $6.5 million; decreases in vacation expenses of $3.2 million; and other decreases amounting to $7.1 million comprised of general expenses, legal expenses, taxes and assessments, maintenance and repair services and other general expenses.

Power Purchases

The System uses a significant amount of power to operate its pumping stations in order to deliver water to the Water Contractors. The System's sources include self-generated power by the three pumping-generating plants and five hydroelectric power plants owned by the System, along with purchases from third party suppliers. As with power sales, in any given year, a combination of factors, including hydrological production, energy market rates, and energy market supply and demand, impact the System's energy requirements.

In fiscal 2015, power purchases decreased $38.7 million to a total of $202.8 million. The decrease in power purchases is attributable to a decrease in transmission purchases of $7.6 million, a decrease in the quantity of energy purchased and a decrease in the MWh rate. In fiscal 2014, 1,868,363 MWh were purchased compared to 1,696,381 MWh in fiscal 2015, a 9.20% decline from the prior year. The MWh rate also declined by 7.12% from $106.23 in fiscal 2014 to $98.67 in fiscal 2015.

Power purchases are generally made for off-peak pumping and are a reflection of water demand. Primary factors that contributed to decreased purchases were continued drought conditions, low reservoir storages and near zero percent snow pack throughout the Sierras. In fiscal 2015, the primary concern was still water availability, not water demand. The focus continued shifting to water conservation and reduced pumping.

In fiscal 2014, purchased power decreased $17.5 million from fiscal 2013 to a total of $241.4 million. Of that amount, $47 million was attributed to decreased units purchased and $10.8 million was attributed to a decrease in transmission purchases, while changes in the average rate per MWh purchased increased by $40.3 million.

The following tables show the relationship between volume and rate for fiscal 2015 compared to fiscal 2014, and fiscal 2014 compared to fiscal 2013:

Power Purchased	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2014	$ 241,443,593	$ (42,976,293)	$ 198,467,300	1,868,363	$ 106.23
2015	202,780,559	(35,396,524)	167,384,075	1,696,381	98.67
Net Change	$ (38,663,034)	$ 7,579,769	$ (31,083,225)	$ (171,982)	$ (7.56)

Change in MWh purchased	(171,982)
Multiplied by 2015 rate	$ 98.67
Difference attributed to decreased purchases (rounded)	$ (16,969,000)
Change in MWh rate	$ (7.56)
Multiplied by 2014 purchased	1,868,363
Difference attributed to rate change (rounded)	$ (14,125,000)
Total decrease in power purchases (rounded)	$ (31,094,000)

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2013	$ 258,899,223	$ (53,779,440)	$ 205,119,783	2,310,252	$ 88.79
2014	241,443,593	(42,976,293)	198,467,300	1,868,363	106.23
Net Change	$ (17,455,630)	$ 10,803,147	$ (6,652,483)	$ (441,889)	$ 17.44

Change in MWh purchased	(441,889)
Multiplied by 2014 rate	$ 106.23
Difference attributed to decreased purchases (rounded)	$ (46,942,000)
Change in MWh rate	$ 17.44
Multiplied by 2013 purchased	2,310,252
Difference attributed to rate change (rounded)	$ 40,291,000
Total decrease in power purchases (rounded)	$ (6,651,000)

Operating and Maintenance Expense Recovered

As in fiscal 2014, the System did not recognize any recovery of operations and maintenance expenses in fiscal 2015.

Capital Revenues Deferred

Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered increased by $201 million to a total of $243.9 million in fiscal 2015. The increase was primarily due to the System having recognized current year capital revenues of $202.2 million in excess of annual amounts in depreciation. This occurred due to a large $188.4 million net transfer to CWIP which is

undepreciated. The increase was offset by recovery in unamortized project costs, Power Sales Credit, and unbilled interest of $1.2 million for fiscal 2015.
Capital revenues recovered decreased by $131.4 million to a total of $42.9 million in fiscal 2014. The decrease was primarily due to UPIS asset related recovery of $145.7 million offset by $14.3 million as the System recognized annual amounts in depreciation, unamortized project costs, Power Sales Credit, and unbilled interest.

Interest Expense
Interest expense, which generally includes interest on all debt and amortization of premiums and discounts and deferred gains and losses, decreased $19.4 million from $115.5 million in fiscal 2014 to $ 96.1 million in fiscal 2015.

Most of this decrease can be attributed to lower interest rates paid on the CVP Revenue Bonds resulting from bond refundings which lowered the coupon rates on the new bonds. As a result, interest paid on the CVP Revenue bonds decreased by $17.5 million. In addition, the gradual decline in the principal outstanding balances of the General Obligation (GO) Bonds and Devil Canyon and Castaic Bonds continued to lower the interest paid on these bonds, resulting in a $2.6 million decrease. The increase in the amortization of premiums, resulting from bond refundings, also contributed to the decrease in the interest expense of the CVP Revenue Bonds.

Interest expense for fiscal 2014 increased $62 million from $53.5 million in fiscal 2013, to $115.5 million in fiscal 2014. A total of $53.6 million of this increase was attributable to the write-off of premiums that occurred during fiscal 2013 resulting from multiple bond refundings. Premium credits associated with these write-offs resulted in a substantial reduction in interest expense for fiscal 2013. In contrast, there were no premium write-offs during fiscal 2014. The additional $8.4 million increase to interest expense was generally attributable to the issuance of bond Series AR during fiscal 2014.

Other Revenues
Other revenues, net of expenses, are $9.6 million in revenues for fiscal 2015, compared to $52.5 million in revenues for fiscal 2014 and $9.2 million in revenues for fiscal 2013. Both the decrease of $42.9 million in fiscal 2015 and the increase of $43.3 million in fiscal 2014 are primarily due to the settlement payment of $47.5 million received from Nevada Energy upon DWR's interest in Unit 4 of the Reid Gardner Power Plant termination in fiscal 2014.

FINANCIAL STATEMENTS

Statements of Net Position

(amounts in thousands)

		2015		2014
Assets				
Utility plant:				
Utility plant in service	$	5,064,102	$	5,026,112
Less accumulated depreciation		(2,074,899)		(1,994,695)
Net utility plant in service		2,989,203		3,031,417
Construction work in progress		626,600		438,244
Total utility plant		3,615,803		3,469,661
Long-term assets:				
Restricted assets:				
Cash and cash equivalents restricted for plant replacements		28,348		29,950
Cash and investments restricted for debt service		118,075		115,960
Cash and cash equivalents on deposit with revenue bond trustee		9,435		9,206
Amounts recoverable through future billings under long-term water supply contracts:				
Operations and maintenance expense		441,755		102,090
Capital credit due from water contractors		231,033		314,335
Unamortized project costs		347,858		361,712
Unbilled interest incurred on capital costs		419,663		436,313
Loans receivable from local water agencies		14,061		15,232
Advances to other state funds		93,047		91,517
Total long-term assets		1,703,275		1,476,315
Current assets:				
Cash and cash equivalents		517,663		478,558
Receivables:				
Interest on investments		996		1,129
Water supply and power billings (net)		79,527		35,045
Due from federal and state governments		37,406		39,429
Due from others		408		23
Inventories		5,160		5,203
Total current assets		641,160		559,387
Total assets		5,960,238		5,505,363
Deferred outflows of resources:				
Deferral of loss on refunding		174,933		116,741
Deferral of employer pension contribution		44,393		-
Total deferred outflows of resources		219,326		116,741
Total assets and deferred outflows of resources	$	6,179,564	$	5,622,104

The accompanying notes are an integral part of these financial statements.

Statements of Net Position (continued)

(amounts in thousands)

	2015	2014
Capitalization and Liabilities		
Capitalization:		
Net position:		
Net investment in capital assets	$ 1,105,692	$ 994,561
Restricted	99,736	210,867
Total net position	1,205,428	1,205,428
Long-term liabilities		
General obligation bonds	135,045	184,960
Revenue bonds	2,588,108	2,532,234
Commercial paper	87,901	36,136
Other postemployment benefits	203,219	176,769
Net pension liability	426,935	-
Pooled Money Investment Account (PMIA) Loan	4,431	8,094
Accrued vacation	29,392	29,765
Pollution remediation	33,579	33,800
Unearned revenue - State and Federal capital recovery	155,448	141,355
Advances for plant replacements	29,459	30,802
Total long-term liabilities	3,693,517	3,173,915
Total capitalization	4,898,945	4,379,343
Current liabilities:		
Current maturities of bonds	185,815	172,455
Accounts payable	67,575	78,158
Accrued vacation	13,326	10,582
Pollution remediation	10,245	8,600
Accrued interest on long-term debt	11,900	13,188
Pooled Money Investment Account (PMIA) Loan	3,663	3,486
Due to other state funds	45,065	47,681
Proceeds due to water contractors	86,900	85,725
Other current liabilities	939	-
Total current liabilities	425,428	419,875
Total Liabilities	4,118,945	3,593,790
Deferred inflows of resources:		
Operations and maintenance expense	1,989	161,087
Capital costs	623,908	509,394
Power sales credit due to water contractors	149,728	152,405
Unamortized net difference of pension liability	79,566	-
Total deferred inflows of resources	855,191	822,886
Total net position, liabilities, and deferred inflows of resources	$ 6,179,564	$ 5,622,104

The accompanying notes are an integral part of these financial statements.

Statements of Revenues, Expenses, and Changes in Net Position

(amounts in thousands)

	2015	2014
Operating revenues:		
Water supply	$ 883,538	$ 789,370
Power sales	91,780	131,952
Federal reimbursements	44,060	52,186
Total operating revenues	1,019,378	973,508
Operating expenses:		
Operations and maintenance	404,627	557,209
Purchased power	202,780	241,444
Depreciation and amortization expense	81,495	68,896
Total operating expenses	688,902	867,549
Income from operations	330,476	105,959
Nonoperating revenue (expenses):		
Capital revenues deferred	(243,945)	(42,934)
Interest expense	(96,082)	(115,499)
Other revenues (expenses), net	9,551	52,474
Change in net position	-	-
Net position, beginning of year	1,205,428	1,205,428
Net position, end of year	$ 1,205,428	$ 1,205,428

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

(amounts in thousands)

	2015	2014
Cash flows from operating activities:		
Receipts from customers	$ 949,100	$ 986,586
Payments to employees for services	(320,684)	(311,144)
Payments to suppliers	(283,286)	(461,499)
Other receipts	2,647	46,098
Net cash provided by operating activities	347,777	260,041
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	246,873	180,159
Principal payments on long-term debt	(172,455)	(175,860)
Commercial paper notes issued	191,229	108,765
Principal payments on commercial paper notes	(139,465)	(123,134)
Principal payments on PMIA note	(3,486)	(3,317)
Interest payments on long-term debt	(210,661)	(120,230)
Additions to utility plant and CWIP	(227,636)	(210,592)
Net cash used by capital and related financing activities	(315,601)	(344,209)
Cash flows from investing activities:		
Cash received from investment earnings	6,393	7,758
Proceeds of investments matured	100,865	252,174
Purchases of investments	(100,866)	(252,174)
Loan payments from local water agencies	1,170	1,237
Net cash provided by investing activities	7,562	8,995
Net increase (decrease) in cash and cash equivalents	39,738	(75,173)
Cash and cash equivalents, beginning of year	561,286	636,459
Cash and cash equivalents, end of year	$ 601,024	$ 561,286

	2015	2014
Noncash capital and related financing activities:		
Amortization of bond premium/discount	$ 15,614	$ 12,029
Amortization of deferred loss on refunding	10,000	(7,850)
Impairment loss of utility plant	-	11,795
Principal retirements of long-term debt on proceeds received from issuance of Series AS Water System Revenue Bonds	689,780	-
Noncash capital and related financing activities:	$ 715,394	$ 15,974

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows (continued)

(amounts in thousands)

	2015	2014
Reconciliation to the statement of net position:		
Cash and cash equivalents	$ 517,663	$ 478,558
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	28,348	29,950
Cash and cash equivalents restricted for debt service (net of $72,496 and $72,388 of U.S. Agency securities for 2015 and 2014, respectively)	45,578	43,572
Cash and cash equivalents on deposit with revenue bond trustee	9,435	9,206
Cash and cash equivalents	$ 601,024	$ 561,286

	2015	2014
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 330,476	$ 105,959
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	81,495	68,895
Other receipts	2,647	46,098
(Increase) in deferred charges and credits, net	(469,142)	(11,996)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(44,866)	57,304
Decrease in inventories	43	2,211
(Increase) decrease in due from federal government	2,023	(19,202)
Increase in accounts payable, accrued vacation, pollution remediation, other postemployment benefits and net pension	446,542	25,290
(Decrease) in due to other state funds	(2,616)	(1,490)
Increase (decrease) in proceeds due to Water Contractors	1,175	(13,028)
Total adjustments	17,301	154,082
Net cash provided by operating activities	$ 347,777	$ 260,041

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements (in thousands)

1. Reporting Entity

The State Water Resources Development System (System), administered by the Department of Water Resources (DWR), includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The SWP is a system of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement and hydroelectric power. The System has entered into long-term water supply contracts with 29 customers (Water Contractors) in order to recover substantially all System costs. The 29 Water Contractors are principally located in the San Francisco Bay Area, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 68% of its population.

The System is accounted for as an enterprise fund comprised of two segments, the Burns-Porter Act and the Central Valley Project Act, and is financed and operated in a manner similar to that of a private business enterprise. The System uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

2. Summary of Significant Accounting Policies

Utility Plant

Utility plant is recorded at original cost. Cost includes labor, materials and indirect items such as engineering, supervision, transportation and interest on borrowed funds incurred during construction. Repairs, maintenance and minor purchases of equipment are charged to expense as incurred.

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful lives of the various classes of utility plant, as follows:

Various Classes of Utility Plant	Estimated Useful Lives
Aqueducts	80 - 100 years
Dams and reservoirs	85 years
Environmental preservation and mitigation	50 years
Power plants	30 - 50 years
Pumping plants	30 - 40 years
Fish protection	35 - 36 years
Facilities	20 - 30 years
Machinery, equipment and vehicles	3 - 5 years
General	1 - 20 years

The System's intangible assets, consisting of software, land use and legal rights, costs associated with the Federal Energy Regulatory Commission (FERC) licenses and compliance instruments are included in Utility Plant in Service (UPIS). Software costs are amortized on a straight-line basis over a five-to-ten year useful life. Easements are land use rights and considered as either permanent or temporary. Permanent easements have an indefinite useful life and are non-depreciable while temporary easements are being depreciated over a five year useful life, unless otherwise specified in the purchase agreement.

A central element of California's Global Warming Solutions Act (AB32) requires the System to obtain and surrender emission credits and allowances. Currently, these compliance instruments consist of Green House Gas (GHG) emission allowances for the System's share of compliance cost for the Lodi Energy Center (LEC). Since the economic benefit isn't diminished until the credits are consumed, they will not be amortized. The credits will be included in UPIS and charged to expense as they are surrendered.

Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statement of cash flows, includes cash on hand, restricted cash for plant replacements, restricted cash for debt service and restricted cash on deposit with revenue bond trustee. Such amounts include deposits in the State of California Pooled Money Investment Account (PMIA), Surplus Money Investment Fund (SMIF) and instruments with original maturities of three months or less. Cash and cash equivalents do not include U.S. Government and Agency securities with maturities of more than three months.

Restricted Cash and Investments

Cash and cash equivalents on deposit with revenue bond trustee consists of debt service reserve funds held with a major national bank for the Series 1973 Devil Canyon – Castaic Facilities bonds.

Cash and cash equivalents with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the long-term water supply contracts and bond resolutions. Restricted funds consist of investments of the same type as those described below.

Investments

Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. SMIF is part of the State's PMIA, which as of June 30, 2015 and 2014 had a balance of $71.6 billion and $67.3 billion, respectively. The weighted average to maturity of PMIA investments was 239 days as of June 30, 2015 and 232 days as of June 30, 2014. The total amount of deposits in SMIF was $34.4 billion as of June 30, 2015 and $32.5 billion as of June 30, 2014. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute which shall consist of the State Controller, State Treasurer and Director of Finance. The value of the pool shares in SMIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the System's portion of the pool. PMIA funds are on deposit with the State's Centralized Treasury System and are not SEC registered, but are managed in compliance with the California Government Code and State policy. The State's Investment Policy for the PMIA, which is managed by the State Treasurer's Office, sets forth the permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA's investment portfolio did not have any deposits in structured notes as of June 30, 2015 and 2014. The investment portfolio also included asset-backed securities totaling $1,448 million as of June 30, 2015 and $1,206 million as of June 30, 2014.

The System is authorized by statute to invest in the same types of investment vehicles permitted by the State's Centralized Treasury System. U.S. Treasury and agency debt securities are carried at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, and is determined from published data provided by the exchanges, computerized pricing sources, the National Association of Securities Dealers' National Market System, securities custodians and other authoritative sources. Investments made by the System during the year ended June 30, 2015 are of a similar nature as those held at June 30, 2014.

Advances to Other State Funds

Amounts advanced to other State funds include two items. The System's advance of $92 million to DWR's internal service fund that functions as a revolving working capital account for the System. The other is a $1.5 million advance balance to the Department of General Services to fund the Rio Vista Science Center. This project is a joint venture between DWR and the United States Fish and Wildlife Services.

Receivables

Receivables include amounts due from the Water Contractors, organizations that purchase power from the System and other receivables totaling $79.9 million and $35.1 million, net of the allowance for uncollectible amounts, at June 30, 2015 and 2014, respectively. Additionally, the Federal and State governments owed the System $37.4 million and $39.4 million at June 30, 2015 and 2014, respectively. These amounts represent reimbursement for certain costs related to flood control, jointly owned facilities, recreation and approved emission reduction projects. The allowance for uncollectible amounts totaled $37 thousand and $39 thousand at June 30, 2015 and 2014, respectively. Uncollectible amounts are generally recoverable from the Water Contractors.

Amounts Recoverable through Future Billings

The System records unbilled costs as assets recoverable through future billings under long-term water supply contracts. These costs include operations and maintenance costs and capital costs.

Unamortized project costs represent abandoned utility plant costs and certain research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the long-term water supply contracts.

Unbilled interest incurred on unrecovered capital costs are classified as other long-term assets until billed under the terms of the long-term water supply contracts. Unbilled interest incurred represents the System's unrecovered interest since inception, recalculated annually at the System's cumulative weighted average cost of borrowing (Project Interest Rate). The System's Project Interest Rate was 4.610% for the years ended June 30, 2015 and 2014.

Deferred Outflows and Inflows

The System has the authority to establish the level of rates necessary to recover generally all System costs, including debt service. As a regulated entity, the System's financial statements are prepared in accordance with the standards established by the Governmental Accounting Standards Board (GASB). The System is considered to be a Regulated Operation pursuant to GASB Statement No. 62, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the change in net position, as incurred, are recognized when included in rates and recovered from or refunded to customers and the state and federal governments. The System records various regulatory assets and credits to reflect rate-making actions of management. With the implementation of GASB Statement No. 65, the System recorded costs related to the loss on refunding and in 2015 after implementation of GASB No. 68, certain employer pension contributions, as deferred outflows of resources. Also with the implementation of GASB No. 65, the system records revenues that are in excess of total project costs from inception of the SWP, as deferred inflows of resources. These costs include capital costs, operations and maintenance costs, power sales credit due to Water Contractors and unamortized deferred CalPERS market earnings.

Deferred Outflows of Resources

Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debt. The unamortized balance of deferred loss on refunding was $174.9 million as of June 30, 2015 and $116.7 million as of June 30, 2014. This increase is due to additional escrow interest required for the bonds refunded by Series AS of $107.7 million, offset in part by the unamortized premium from the same refunded bonds of $39.5 million and scheduled annual amortization of $10 million on loss of refunding.

The System implemented GASB Statement No. 68 during fiscal 2015. Amounts reported as deferral of employer pension contributions represents the pension contributions made by the System after the June 30, 2014 measurement date by CalPERS. The System paid $44.4 million in employer pension contributions during fiscal 2015.

Deferred Inflows of Resources

Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of long-term water supply contracts and timing differences. The System had an ending balance of $2 million and $161.1 million in deferred inflows of operations and maintenance expenses as of June 30, 2015 and 2014, respectively.

Since the capital component of revenue allows for the recovery of capital costs plus interest related to the construction of the System's facilities, these revenues are presented as deferred inflows of resources. As these facilities are depreciated over time, the deferred capital costs are recovered. Deferred inflows of resources for capital costs increased by $114.5 million to an ending balance of $623.9 million in fiscal 2015 compared to $509.4 million in fiscal 2014. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.

The power sales credit due to Water Contractors arises from revenue collected for the power generated by the HTPP. The power sales credit is amortized over time by a credit issued to the Water Contractors through the DWC Charge. The power sales credit decreased by $2.7 million to an ending balance of $149.7 million in fiscal 2015 compared to $152.4 million in fiscal 2014.

Under GASB Statement No. 68, the System is required to report its share of the deferred unamortized net gains reported by the CalPERS.

Unearned Revenue – State and Federal Capital Recovery

Unearned Revenue represents payments by the State and Federal governments for their share of the System's recreation and flood control capital costs in excess of the related depreciation expense recognized in the statements of revenues, expenses, and changes in net position.

Advances for Plant Replacements

Advances for plant replacements represent billings under the terms of long-term water supply contracts for future replacement of certain System assets. Receipts from such billings are restricted. Costs of plant replacements are charged to this reserve, as incurred.

Bond Issuance Discounts and Premiums

Bond issuance discounts and premiums are reflected as a reduction/increase to the carrying value of the bonds outstanding and are amortized over the lives of the related debt instruments.

Net Position

The System classifies its net position into two components: net investment in capital assets and restricted net position. Net investment in capital assets includes; utility plant in service, net of accumulated depreciation, construction work in progress, unamortized project costs, cash reserved for debt service, less debt related to capital assets, unearned revenue and other assets and liabilities related to the recovery of utility plant. The remaining net position of the System are classified as restricted due to the requirements of legislation that created the System and authorized the construction of the SWP, to use the System's net position solely in support of the SWP, the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

Revenues

The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the long-term water supply contracts, the System granted the Water Contractors rate management reductions of approximately $40.5 million and $50.6 million during the years ended June 30, 2015 and 2014, respectively. Rate management reductions are reductions in capital related billings to the Water Contractors.

Revenues under long-term water supply contracts are recognized when billings are due and payable. The billings cover debt service requirements, an additional 25% of revenue bond debt service to satisfy certain bond covenants, current operations and maintenance costs and past unrecovered costs. The long-term water supply contracts provide that the 25% portion of the billings collected for the purpose of satisfying certain bond covenants be refunded in the subsequent year. These billings, which totaled $54.3 million and $51.8 million for the years ended June 30, 2015 and 2014, respectively, are recorded as Proceeds Due to Water Contractors in the financial statements. The System refunded $53.3 million and $64.2 million for the years ended June 30, 2015 and 2014, respectively, to the Water Contractors for the 25% bond cover requirement.

Revenues from the sale of surplus power are recognized as the power is delivered.

The Federal government reimburses the System for certain operating and capital costs incurred by the System for flood control purposes. In addition, the Federal government reimburses the System for the Federal government's 44.09% share of the operating costs of the San Luis joint use facilities and other water facilities. The State of California also reimburses the System for certain operating and capital recreation costs incurred by the System for facilities located within the SWP. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

Segments

The System has two segments, which are defined under governmental accounting standards, as an identifiable activity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding:

1) Activities Allowed Under the Burns-Porter Act – This segment accounts for the costs to build, operate and maintain the facilities financed by GO bonds as authorized by the Burns-Porter Act. Transportation and conservation revenues from the Water Contractors are recorded in this segment as well as power sales and reimbursements from Federal and State governments and interest on investments. Expenses are limited to operations and maintenance of the SWP constructed with GO bond proceeds, power purchases, replacements and debt service on the GO bonds.

2) Activities Allowed Under the Central Valley Project Act – This segment accounts for the costs to build, operate and maintain the facilities financed by the Central Valley Project Water System revenue bonds. Capital and operating revenues from the Water Contractors for projects financed by revenue bond proceeds are recorded in this segment as well as commercial paper sales, reimbursements from Federal and State governments for the San Luis Dam and Reservoir, Suisun Marsh, recreation costs and interest on investments. Expenses are limited to the construction and operation of SWP facilities constructed with revenue bond proceeds and power facilities and debt service payments on the revenue bonds.

Reclassifications

Certain amounts presented in the prior year may have been reclassified in order to conform to the current year's presentation.

Notes to Financial Statements (in thousands)

3. Interests in Jointly Owned Facilities

At June 30, 2015 and 2014, the System owned the following undivided interests in jointly-owned facilities:

Interests in Joint-Use Facilities

	Joint Party	% Owned by System		System's Portion Based on % Owned			
				UPIS/CWIP		Accum Depreciation	
		2015	2014	2015	2014	2015	2014
San Luis Joint-Use Facilities	USBR	55%	55%	$ 288,803	$ 281,740	$ 137,554	$ 129,178
SWP Hydropower Facilities License[1]	LADWP	50%	50%	$ 215	$ -	$ -	$ -

1 - In progress - contained in CWIP

The amounts above include the System's share of direct costs related to constructing the facilities. Each participant provides its own financing for the jointly-owned facility.

DWR is the operator of the San Luis Joint-Use Facilities. All of the operating expenses related to these facilities are included as operating expenses in the statement of revenues, expenses, and changes in net position. The Federal government is billed for its share of the operating expenses and these billings are included as operating revenues in the statement of revenues, expenses, and changes in net position.

In fiscal 2014, DWR disposed of Reid Gardner Power Plant Unit No. 4 from its jointly-owned capital asset facilities as the ownership agreement between DWR and Nevada Energy (NVE), the operator of the Reid Gardner Power Plant Unit No. 4, was terminated on July 25, 2013.

Notes to Financial Statements (in thousands)

4. Utility Plant

The summarized activity of the System's utility plant during 2015 is presented below:

Utility Plant June 30, 2015

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	$ 137,033	$ 2,814	$ -	$ 139,847
Construction work in progress (CWIP)	438,244	222,089	(33,733)	626,600
Land use rights	11,583	47	-	11,630
Other intangible assets	103,740	3,815	(4,110)	103,445
Total nondepreciable utility plant	690,600	228,765	(37,843)	881,522
Depreciable Utility Plant:				
Aqueducts	2,167,237	22,266	-	2,189,503
Dams & reservoirs	781,408	-	-	781,408
Power plants	466,358	-	-	466,358
Pumping plants	836,814	-	-	836,814
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	246,397	10,515	-	256,912
Equipment and other depreciable assets	75,705	3,138	(1,459)	77,384
Computer software	24,529	12	(10)	24,531
Land use rights	272	-	-	272
Other intangible assets	11,995	10	-	12,005
General	61,310	952	-	62,262
	4,773,756	36,893	(1,469)	4,809,180
Less: accumulated depreciation	(1,974,282)	(77,739)	1,291	(2,050,730)
Less: accumulated amortization	(20,413)	(3,756)	-	(24,169)
	(1,994,695)	(81,495)	1,291	(2,074,899)
Total depreciable plant	2,779,061	(44,602)	(178)	2,734,281
Total Utility Plant - net	$ 3,469,661	$ 184,163	$ (38,021)	$ 3,615,803

Notes to Financial Statements (in thousands)

The summarized activity of the System's utility plant during 2014 is presented below:

Utility Plant June 30, 2014

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	$ 136,797	$ 381	$ (145)	$ 137,033
Construction work in progress (CWIP)	528,836	214,502	(305,094)	438,244
Land use rights	11,549	34	-	11,583
Other intangible assets	100,064	3,676	-	103,740
Total nondepreciable utility plant	777,246	218,593	(305,239)	690,600
Depreciable Utility Plant:				
Aqueducts	2,071,255	95,982	-	2,167,237
Dams & reservoirs	781,408	-	-	781,408
Power plants	911,703	7,055	(452,400)	466,358
Pumping plants	836,655	159	-	836,814
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	66,230	180,167	-	246,397
Equipment and other depreciable assets	71,819	3,911	(25)	75,705
Computer software	24,501	28	-	24,529
Land use rights	272	-	-	272
Other intangible assets	11,995	-	-	11,995
General	39,579	21,731	-	61,310
	4,917,148	309,033	(452,425)	4,773,756
Less: accumulated depreciation	(2,349,768)	(65,144)	440,630	(1,974,282)
Less: accumulated amortization	(16,661)	(3,752)	-	(20,413)
	(2,366,429)	(68,896)	440,630	(1,994,695)
Total depreciable plant	2,550,719	240,137	(11,795)	2,779,061
Total Utility Plant - net	$ 3,327,965	$ 458,730	$ (317,034)	$ 3,469,661

Notes to Financial Statements (in thousands)

5. Investments

The following is a summary of the System's investments and credit ratings as of June 30, 2015:

Investments 2015						
		Maturities				
	Credit Rating (S&P)	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Fair Value
Investments:						
Money Market Mutual Fuinds	Not Rated	$ 3	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	591,586	-	591,586
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	-	10,211	10,472	20,683
Federal Home Loan Bank	AA+	-	51,814	-	-	51,814
						664,086
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,435				9,435
Total Investments						$ 673,521

The following is a summary of the System's investments and credit ratings as of June 30, 2014:

Investments 2014						
		Maturities				
	Credit Rating (S&P)	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Fair Value
Investments:						
Money Market Mutual Fuinds	Not Rated	$ 3	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	552,077	-	552,077
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	-	-	20,584	20,584
Federal Home Loan Bank	AA+	-	51,804	-	-	51,804
						624,468
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,206				9,206
Total Investments						$ 633,674

Interest Rate Risk: In accordance with its investment policy, the State of California manages its exposure to declines in fair value by spreading investments over the various maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; bankers acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; collateralized time deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Notes to Financial Statements (in thousands)

Custodial Credit Risk: For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Credit Risk: PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy discussed in Note 2. The PMIA is not rated.

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. As of June 30, 2015 and 2014, nearly 11% of the System's investments were in U.S. Agency Securities. There is no limitation on amounts invested in these types of issues. Investments in any one issuer (other than U.S. Treasury Notes, mutual funds and external investment pools) that represented 5% or more of the total investments of the System as of June 30, 2015 and 2014, were as follows:

Other Investments	2015	2014
Federal Home Loan Bank	$ 51,814	$ 51,804

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.269% and 0.249% for the years ended June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, interest earned on the deposits with PMIA approximated $1.6 million in both years, and is included in the other revenues (expenses) line item on the statement of revenues, expenses and changes in net position.

Total interest and investment income is comprised of interest, dividends, realized gains and losses, and unrealized gains and losses due to changes in the fair value of investments held at year-end. The change in fair value of the System's investments (U.S. Federal Agency Securities) is calculated as follows:

Notes to Financial Statements (in thousands)

Change in Fair Value

	2015	2014
Fair Value of investments at the beginning of the fiscal year	$ 72,388	$ 74,001
Less: Proceeds of investments matured in fiscal year	(100,865)	(252,174)
Add: Purchase of investments in fiscal year	100,866	252,173
Add: Amortization of discounts	1,440	(1,315)
Change in fair value of investments during fiscal year	(1,333)	(297)
Fair value of investments at the end of the fiscal year	$ 72,496	$ 72,388

6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2015 and 2014:

Long-Term Debt

	Revenue Bonds				General Obligation Bonds	Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Unamortized Discount	Unamortized Premium	Total Revenue Bonds	Par Amount	Par Amount	Loan Amount	
Balance at June 30, 2013	$2,408,975	$ (11)	$ 185,495	$2,594,459	$ 302,920	$ 50,505	$ 14,896	$2,962,780
Additions	161,445	-	18,714	180,159	-	108,765	-	288,924
Amortization	-	1	(12,030)	(12,029)	-	-	-	(12,029)
Payments	(114,775)	-	-	(114,775)	(61,085)	(123,134)	(3,317)	(302,311)
Balance at June 30, 2014	2,455,645	(10)	192,179	2,647,814	241,835	36,136	11,579	2,937,364
Additions	795,040	-	141,613	936,653	-	191,229	-	1,127,882
Retirements	(689,780)	-	(39,485)	(729,265)	-	-	-	(729,265)
Amortization	-	1	(15,615)	(15,614)	-	-	-	(15,614)
Payments	(115,580)	-	-	(115,580)	(56,875)	(139,465)	(3,485)	(315,405)
Balance at June 30, 2015	2,445,325	(9)	278,692	2,724,008	184,960	87,900	8,094	3,004,962
Less current portion	(135,900)	-	-	(135,900)	(49,915)	-	(3,663)	(189,478)
Total Long-term Debt	$2,309,425	$ (9)	$ 278,692	$2,588,108	$ 135,045	$ 87,900	$ 4,431	$2,815,484

General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development System (SWRDS) GO Bonds in the amount of $1,750 million for construction of the System. This amount included $130 million to be set aside for financial assistance to local water agencies as provided in the Davis-Grunsky Act. The Burns-Porter Act also made a continuing appropriation of the California Water Fund, a fund unrelated to the System, to supplement the bond authorization. To the extent California Water Fund money was used for construction of the State water facilities in lieu of bond proceeds, an equal amount of bond authorization was set aside to be used only for the construction of additional facilities of the System that met certain requirements set forth in the Burns-Porter Act.

Under the Burns-Porter Act, revenues of the System, other than revenues attributable to facilities financed with Central Valley Project Water System (CVP) Revenue Bonds, are deposited in the California Water Resources Development Bond Fund and are to be used annually only for the following purposes and in the following order of priority:

1) To pay the maintenance, operation and replacement costs of the System,
2) To pay, or reimburse the General Fund of the State for, the principal of and interest on the SWRDS GO Bonds issued for the System as it becomes due,
3) To reimburse the California Water Fund for funds utilized from said fund for construction of the System (complete reimbursement has been made), and
4) To pay additional costs of the acquisition and construction of the System.

All such revenues are pledged for these uses and purposes for the benefit of the owners of the SWRDS GO Bonds.

As of June 30, 2015, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is $206.6 million with payments through 2025. Principal and interest paid for the current year was $66.9 million and Burns-Porter Act water supply operating revenues were $657.6 million. As of June 30, 2014, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was $273.6 million. Principal and interest paid for 2014 was $73.6 million and Burns-Porter Act SWRDS water supply operating revenues were $507.9 million.

SWRDS GO Bonds of $168 million are authorized but un-issued as of June 30, 2015 and 2014, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

SWRDS GO Bonds Series C through Series S may be called at any time for early redemption. SWRDS GO Bonds Series X and Y do not have early redemption provisions.

Notes to Financial Statements (in thousands)

SWRDS GO Bonds consist of the following at June 30, 2015:

General Obligation Bonds

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2015	2014
1965	C	3.0%	2015	$ -	$ 4,000
1965	D	3.0%	2015	-	4,500
1966	E	3.0%	2016	4,500	8,900
1967	F	3.5%	2017	8,900	13,200
1967	G	3.5%	2017	8,900	13,200
1967	H	3.0%	2017	8,900	13,200
1968	J	3.5-4.1%	2018	13,200	17,300
1968	K	4.0%	2018	13,200	17,300
1969	L	4.5-4.8%	2019	17,300	21,300
1969	M	4.0-4.9%	2019	17,300	21,300
1970	N	5.0-5.5%	2020	21,300	25,200
1970	P	5.0-5.8%	2020	21,300	25,200
1971	Q	4.8-5.0%	2021	25,200	28,900
1971	R	4.8-5.0%	2021	12,600	14,450
1972	S	5.3-5.5%	2022	11,560	13,000
1994	X	4.8%	2024	450	500
1995	Y	7.0-7.1%	2025	350	385
Total General Obligation bond debt outstanding at par				184,960	241,835
Less current maturities				(49,915)	(56,875)
Total Long-term General Obligation bond debt oustanding				$ 135,045	$ 184,960

Revenue Bonds

The Central Valley Project (CVP) Water System Revenue Bonds have been issued for the acquisition or construction of projects to provide water and power for the SWP. Under the statute pursuant to which CVP Revenue Bonds are issued, principal and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds. These are primarily payments under the long-term water supply contracts between the System and Water Contractors.

As of June 30, 2015, the amount of the revenues pledged to repay the CVP Revenue Bonds debt service is $3,429 million with payments through Fiscal 2036. Principal and interest paid for the current year was $208 million and CVP water supply operating revenues were $225.9 million. As of June 30, 2014, the amount of the revenues pledged to repay the CVP Revenue Bonds debt service were $3,489 million with payments through 2036. Principal and interest paid for the year was $222 million and CVP water supply operating revenues were $281.5 million.

On November 6, 2014 the System issued $149.2 million of CVP Revenue bonds (Series AT) to redeem $139.5 million of Commercial Paper Notes Series 1. Series AT was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.30% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AT bonds have a mandatory tender date of December 1, 2017 and can be called on or after June 1, 2017, at a purchase price of 100% of the principal amount. The Series AT bonds are not subject to optional tender by the holders of the bonds. The interest rates for the Series AT bonds ranged from 0.33% to 0.35% and averaged 0.34% in fiscal year 2015.

The System is subject to certain bond covenants, the most restrictive of which requires that the revenues in each year shall be at least equal to 1.25 times the debt service payable from revenues on all bonds outstanding in such year, plus operating costs, and the required funding of the debt service reserve account. The bonds are limited special obligations of the System; neither the principal nor any interest thereon constitutes a debt of the State. Certain bonds are redeemable prior to maturity at a redemption price of 100%.

Notes to Financial Statements (in thousands)

CVP Revenue Bonds consist of the following at June 30, 2015:

CVP Revenue Bonds						
					Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	2015	2014
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 57,430	$ 62,905
CVP Water System:						
1999	V	6.3%	2025	None	20,235	20,235
2001	W	5.5%	2015	2012	-	24,360
2002	X	5.5%	2018	2013	51,465	54,545
2005	AC	3.5-5.0%	2015	2015	-	25,935
2006	AD	3.4-3.5%	2015	2015	-	485
2008	AE	3.3-5.0%	2030	2018	96,080	538,365
2009	AF	3.0-5.0%	2030	2019	103,445	180,795
2010	AG	3.0-5.0%	2033	2020	27,330	168,150
2011	AH	3.3-5.3%	2036	2021	63,985	94,295
2012	AI	5.0%	2030	2022	92,275	92,275
2012	AJ	3.0-5.0%	2036	2022	185,985	209,535
2012	AK	3.0-5.0%	2036	2022	29,695	35,125
2013	AL	5.0%	2030	2023	78,855	83,975
2013	AM	5.0%	2026	2023	157,570	171,640
2013	AN	3.0-5.0%	2036	2023	42,855	48,530
2013	AO	0.7-3.5	2030	None	317,505	317,505
2013	AP	1.0-5.0%	2036	2023	43,925	45,340
2013	AQ	4.0-5.0%	2036	2023	120,205	120,205
2014	AR	4.0-5.0%	2036	2024	161,445	161,445
2015	AS	2.0-5.0%	2033	2025	645,795	-
2015	AT	Variable	2036	2017	149,245	-
Total CVP Water System Revenue Bonds					2,387,895	2,392,740
Total revenue bond debt outstanding at par					2,445,325	2,455,645
Unamortized bond issuance premiums					278,692	192,179
Unamortized bond issuance discounts					(9)	(10)
Current fiscal maturities					(135,900)	(115,580)
Total long-term bond debt oustanding					$ 2,588,108	$ 2,532,234

Notes to Financial Statements (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2015:

Future Debt Service Requirements

	Revenue Bonds			General Obligation Bonds			All Bonds
Year	Principal	Interest*	Total	Principal	Interest	Total	Total
2016	$ 135,900	$ 104,603	$ 240,503	$ 49,915	$ 7,742	$ 57,657	$ 298,160
2017	140,430	98,983	239,413	46,745	5,661	52,406	291,819
2018	144,980	92,820	237,800	34,235	3,792	38,027	275,827
2019	129,555	87,184	216,739	25,975	2,414	28,389	245,128
2020	139,010	81,621	220,631	17,405	1,386	18,791	239,422
2021-2025	699,510	313,988	1,013,498	10,685	652	11,337	1,024,835
2026-2030	646,940	156,909	803,849	-	-	-	803,849
2031-2035	335,410	47,089	382,499	-	-	-	382,499
2036	73,590	1,415	75,005	-	-	-	75,005
	$ 2,445,325	$ 984,612	$ 3,429,937	$ 184,960	$ 21,647	$ 206,607	$ 3,636,544

* Includes variable rate bonds for Series AT which bears interest at a weekly rate. An assumed rate of 3.0% was used to project the variable portion of the interest payment in this table. The interest rate still in effect was determined at issuance date using the Securities Industry and Financial Markets Association (SIFMA) Swap 10 year average Index, plus an applicable basis point spread.

Pooled Money Investment Loan (PMIA)

On March 26, 2008, the System received a loan of $29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts that facilitated defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under California Water Code section 12937(b) (4). The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December, beginning on September 1, 2008. The loan can be repaid at any time without charges and with a written notice of no less than fifteen days. Principal and interest paid during 2015 and 2014 was $4 million each year. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed.

The Variable Rate means:

c) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and
d) for each Renewal Period thereafter, the greater of
    (i) five percent per annum, or
    (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences.

Notes to Financial Statements (in thousands)

It is the System's intent to repay the balance of the PMIA loan along with interest in fiscal 2016. Under the minimum required schedule, the last payment is due on September 1, 2017. The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2015:

Future Payment Requirements			
Year	Principal	Interest	Total
2016	$ 3,663	$ 337	$ 4,000
2017	3,850	150	4,000
2018	581	7	588
	$ 8,094	$ 494	$ 8,588

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $139.7 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011 and the first amendment dated May 28, 2014, the bank has agreed to make advances to the System, if necessary, to provide monies for the payment of the Commercial Paper Notes Series 1. The bank is obligated to provide $150 million, with the principal amount of Commercial Paper Notes Series 1 limited to $139.7 million and $10.3 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $139.7 million. The Line of Credit was extended on May 11, 2014 and is scheduled to expire on October 24, 2017, but can be extended for up to three years upon the System's written request and approval from the bank. The credit agreement requires quarterly payments the first day of July and October and on the last day of December and March. As of June 30, 2015, there were no borrowings with the bank under the revolving credit agreement; however, at June 30, 2015 and 2014, the amounts of Commercial Paper Notes Series 1 outstanding under this program were $87.9 million and $36.1 million, respectively. The weighted average for interest expense approximated 0.07% and 0.10% for the years ended June 30, 2015 and 2014, respectively. The proceeds from the issuance of Commercial Paper Notes Series 1 are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the Commercial Paper Notes Series 1. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of CVP Revenue Bonds. The System's obligation to make debt service payments on the Commercial Paper Notes Series 1 is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and SWRDS GO Bonds.

The long-term water supply contracts, in their original form, provide for two charges to the Water Contractors: (a) a Delta Water Charge and (b) a Transportation Charge. These charges are computed so as to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to redeem its commercial paper liability with proceeds of the additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with Commercial Paper Notes Series 1.

Notes to Financial Statements (in thousands)

7. Bond Refundings and Defeasances

During the current fiscal year, the System issued CVP Water System Revenue Bond Series AS to refund previous issues. The net proceeds from these sales were used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities. These securities were deposited in irrevocable escrow trust accounts with the State Treasurer, acting as escrow agent, to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered to be defeased and the related liabilities have been excluded from the System's basic financial statements. At June 30, 2015 and 2014, outstanding CVP Water System Revenue Bonds of $690.8 and $315.1 million, respectively, were considered to be defeased.

On October 30, 2014, the System issued tax-exempt CVP Water System Revenue Bonds (Series AS) with an average yield of 2.73% to advance refund various previous issues. The bond proceeds with par of $645.8 million and premium of $141.6 million, along with System funds on-hand in the amount of $12.5 million were used to advance refund $689.8 million of bonds, fund $107.7 million of future interest on the defeased bonds, and cover costs of issuance of $2.4 million. The par amounts of the refunded bonds are as follows:

Bonds Refunded by Series AS

Bond Series	Amount Refunded
Series AE	$ 419,925
Series AF	74,880
Series AG	140,480
Series AH	28,115
Series AJ	17,150
Series AK	4,570
Series AN	4,660
Total Refunded	$ 689,780

The Series AS refunding and related defeasances was accomplished to take advantage of lower interest rates. This transaction resulted in cash flow savings of $70.1 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $56 million. The refunding resulted in a difference between the book value of the old debt and the amount required to retire the debt of $68.2 million. This difference is considered to be a deferred loss on the refunding and is being amortized over the original remaining life of the old debt or the life of the new debt, whichever is less, using the straight line method.

Amortization of all deferred refunding costs was approximately $10 million in fiscal year 2015 and $7.9 million in fiscal year 2014. The System did not have any refunding transactions during fiscal year 2014.

8. Retirement Plan

Plan Description

The State is a member of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer pension system, which provides a contributory defined-benefit pension for substantially all State employees. The System is included in the State Miscellaneous Category (Tier 1 and Tier 2) within CalPERS. CalPERS functions as an investment and administrative agent for participating public agencies within the State of California. Departments and agencies within the State of California, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. Also issued by CalPERS is the GASB 68 Accounting Valuation Report. Copies of these reports may be obtained by logging onto the CalPERS website at www.calpers.ca.gov.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Most employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit. New members with service credit beginning on or after January 1, 2013 must be at least age 52. Benefits are payable monthly for the remainder of their lives. Several survivor benefit options that reduce a retiree's unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

Funding Policy

Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 8% to 10% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 9% to 11% of their annual covered salary, after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Miscellaneous Tier 2 category are required to contribute 3% to CalPERS.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. DWR is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2015 was 24.28% and 24.24% for State Miscellaneous Tier 1 and Tier 2 respectively. The required employer contribution rate for the fiscal year ended June 30, 2014 was 21.20% and 21.36% for State Miscellaneous Tier 1 and Tier 2 respectively.

Annual Pension Cost

Annual covered salary, which is generally comprised of only wages and overtime pay and excludes other types of compensation, is not available for the System. However the System's allocated share of the DWR's annual covered salary for the years ended June 30, 2015 and 2014, was approximated at $189.3 million and $185.8 million, respectively.

Notes to Financial Statements (in thousands)

Required contribution amounts based on current required employer rates, paid by DWR, are allocated to the System using percentage of total payroll and budget allocations. For the years ended June 30, 2015 and 2014, the System's allocated portion of DWR's annual contributions made amounted to approximately $44 million and $35 million, respectively. These amounts account for approximately 1.8% and 1.6% of the State employer contributions anticipated to be generated.

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and the June 301, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68	
Actuarial Assumptions		
	Discount Rate	7.50%
	Inflation	2.75%
	Salary Increases	Varies by Entry Age and Service
	Investment Rate of Return:	7.5% Net of Pension Plan Investment and Administrative Expenses; includes inflation
	Mortality Rate Table [1]	Derived using CalPERS' Membership Data for all Funds
	Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

[1] The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality Improvements using Society of Actuaries Scale BB. More details on this table, can be found in the CalPERS' 2014 experience study report available at the CalPERS' website under Forms and Publications.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. This Experience Study report can also be obtained at CalPERS' website under Forms and Publications.

Notes to Financial Statements (in thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

The table below reflects long-term expected real rate of return by asset class.

Long-term Expected Rate of Return

Asset Class	New Strategic Allcoation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 3.0% used for this period

The discount rate used to measure the total pension liability was 7.5% for the System's allocated share of the Plan. In preparation of the GASB 68 Accounting Valuation Report, CalPERS stress tested plans and determined that the 7.5% is adequate. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The following presents the net pension liability of the System's proportionate share of the Plan as of the measurement date, calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

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

	Discount Rate - 1% 6.5%	Current Discount Rate 7.5%	Discount Rate + 1% 8.5%
Net Pension Liability	$ 621,476	$ 426,935	$ 264,072

Notes to Financial Statements (in thousands)

Trend information for the last three years regarding the System's required contributions and the percentage contributed, is as follows:

Three-year Trend Information		
Year Ended June 30,	Required Contribution	Percentage of Required Contribution Contributed
2013	$ 28,178	100%
2014	34,704	100%
2015	44,393	100%

Pension expenses in fiscal 2015 of $30.8 million are reported in operations and maintenance expenses as the System implements GASB Statement No. 68. GASB Statement No. 68 requires governments that participate in defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits.

9. Postemployment Benefits Other Than Pensions

The State provides health care and dental benefits to annuitants of the retirement systems to which the State contributes as an employer. To be eligible for these benefits, employees must retire after attaining certain age and length of service requirements. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. In accordance with the California Government Code, the State generally pays all or a portion of the health and dental insurance costs for annuitants, depending upon the completed years of credited state service at retirement and the coverage selected by the annuitant. The System participates in the State's plan on a cost sharing basis. The System recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and is funded on a pay-as-you-go basis. The State's plan, which the System participates in, does not issue separate stand-alone financial statements.

The System's required contributions and resulting net OPEB obligation is as follows:

Net OPEB Obligations	2015	2014
Annual required contribution (ARC)	$ 42,008	$ 55,239
Interest on net OPEB obligation	6,824	7,993
Adjustment to the ARC	(6,340)	(7,012)
Annual OPEB cost	42,492	56,220
Contributions made	(16,042)	(19,921)
Increase in net OPEB obligation	26,450	36,299
Net OPEB obligation - beginning of year	176,769	140,470
Net OPEB obligation - end of year	$ 203,219	$ 176,769

Notes to Financial Statements (in thousands)

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the years ended June 30, 2015, 2014 and 2013, were as follows:

Annual Required Contribution

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/13	$ 34,166	35%	$ 140,470
6/30/14	55,239	35%	176,769
6/30/15	42,008	38%	203,219

The annual OPEB cost (AOC) recorded by the System is calculated by the State and represents an allocation of the total ARC of the State, adjusted for interest and other adjustments. The allocation of retiree health benefit costs is based on the number of active employees funded by the System in relation to DWR's total retiree health benefits costs.

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller Betty T. Yee, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's website at www.SCO.ca.gov. The System's ARC, AOC and Net OPEB obligation will be calculated and adjusted for on an annual basis.

10. Commitments and Contingencies

Commitments

Construction
Since the System is accounted for as an enterprise fund, contract commitments or encumbrances are recognized as payable when expenses are incurred not when they are encumbered. The System has entered into long-term construction contract commitments for the State Water Project facilities. The remaining value of contracts in process as of June 30, 2015 and 2014, approximated $61.7 million and $67.1 million, respectively.

Power Transmission and Purchase
The System enters into contracts to purchase power as well as transmission service contracts to transmit power. Additionally, the System is expanding the power purchase portfolio to include solar energy and potentially other renewable energies.

The System has long-term transmission service contracts with anticipated future payments of approximately $66.8 million over periods ranging from one to 27 years. Payments made under these contracts approximated $6.2 million and $7.7 million for the years ended June 30, 2015 and 2014, respectively.

Notes to Financial Statements (in thousands)

The System has long-term power purchase contracts with anticipated future payments of approximately $722.4 million over periods ranging from one to 27 years. The remaining amounts of fixed obligations under the long-term power purchase contracts as of June 30, 2015, are as follows:

Fixed Obligations	
Year	Total
2016	$ 43,645
2017	37,599
2018	37,599
2019	37,599
2020	32,153
2021-2042	600,610
	$ 789,205

The System has a contract with the District that provides that the System receive all power generated by the Pine Flat Power Plant Project (Project). Under the contract, the System is obligated to pay fixed amounts each year to cover the debt service on bonds issued by the District to build the Project, operations and maintenance expenses, and a charge for power supplied. Such payments are to be made until all of the bonds issued by the District to finance the Project have been retired in 2019. Payments to the District totaled approximately $8.8 million and $10 million during the years ended June 30, 2015 and 2014, respectively.

The amounts of fixed obligations of the System related to future principal and interest payments of the District's bonds as of June 30, 2015 are as follows:

Fixed Obligations	
Year	Total
2016	$ 4,270
2017	4,253
2018	4,239
2019	4,257
	$ 17,019

DWR entered into a Power Agreement with the Northern California Power Agency (NCPA) and other project participants in fiscal 2014 to participate in the Lodi Energy Center Project (LEC Project). The terms of the agreement provide that DWR pay for 33.5 percent of the construction costs, 33.5 percent of operating costs and receives 33.5 percent of the power output of the LEC Project on a long-term basis. Participation in the LEC Project assists DWR in meeting State Water Project energy requirements, including the replacement of a portion of the energy previously provided by the Reid Gardner Project. NCPA issued revenue bonds for DWR's share of the costs to construct the power plant in Lodi, California in fiscal 2011. Construction of the LEC Project commenced in early August 2010 with commercial operation occurring in fiscal 2013. The Lodi Energy Center is one of the most efficient thermal generating units in California and will be economically dispatched before other older gas-fired units resulting in power revenues that are sufficient to cover the operational costs and a portion of DWR's debt service on the bonds.

Notes to Financial Statements (in thousands)

The amounts of fixed obligations of the System related to future principal and interest payments of the LEC Project's bonds as of June 30, 2015 are as follows:

LEC Bonds Fixed Obligations

Year	Total
2016	$ 9,209
2017	9,206
2018	9,208
2019	9,207
2020	9,209
2021-2025	46,046
2026-2030	46,036
2031-2035	46,041
	$ 184,162

Market value information for certain power purchase and exchange contracts is disclosed at June 30, 2015, using forward market prices discounted at the prevailing risk-free interest rate. There are nine purchase contracts that will expire in fiscal 2016, seventeen purchase contracts will expire in fiscal 2017, twelve purchase contracts will expire in fiscal 2018, and four purchase contracts will expire in fiscal 2019. The long-term energy purchase contracts involving energy delivered from the Pine Flat Power Plants and Dominion Solar Holdings will expire in fiscal 2037 and 2035, respectively; Alameda Municipal Power and Morgan Stanley purchase contracts will expire in fiscal 2017 and 2016, respectively; and a contract with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, expires in fiscal 2020. An exchange agreement with the NCPA, operator of the Lodi Energy Center Project which commits DWR to purchase power on a long-term basis subject to the agreement, has no explicit termination date. Fair value of power purchase and sales commitments extending beyond June 30, 2015 are as follows:

Energy Commitment's Market Values

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2015
Energy purchases	42	1,100	(16,245)
Long-term energy purchases	6	572	(31,659)
Total			$ (47,904)

Contingencies

Litigation and Claims

Monterey Amendment

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the long-term water supply contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between Water Contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenues. Certain parties have disputed the Monterey Amendment by challenging the validity of the related Environmental Impact Report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. DWR completed the new Final EIR in February 2010 and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento Superior Court challenging DWR's California Environmental Quality Act (CEQA) compliance and the validity of the Monterey Amendment, including DWR's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, primarily challenging DWR's CEQA compliance with respect to the Kern Fan Element transfer from DWR to KCWA. The two lawsuits filed in Kern County Superior Court have been transferred to the Sacramento Superior Court. In December 2012, DWR prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of the Kern Fan Element transfer) on the grounds that they were not filed timely. This left only the plaintiffs' CEQA compliance challenge. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of impacts on continued use and operation of the Kern Water Bank was insufficient. The court therefore issued a decision in favor of the plaintiffs in the two cases finding that the EIR failed to analyze impacts associated with the use and operation of the Kern Water Bank, particularly as to potential groundwater and water quality impacts. In October 2014, the Court ordered DWR, as the remedy for the deficiency, to provide additional environmental analysis on the future impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. The plaintiffs are appealing the lower court's final CEQA and validation decisions. The System; however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

Other Claims by Water Contractors, Including Claims Concerning Charges for Recreation and Fish and Wildlife Enhancement

In accordance with the long-term water supply contracts, in December 2005, 27 Water Contractors and entities representing Water Contractors filed “Notices of Contest” with the System challenging the accuracy of various charges in the System’s billings. One Water Contractor also filed a claim based on its Notice of Contest with the Victim Compensation and Government Claims Board. The System has been reviewing these Notices of Contest and investigating the items raised.

One item that has been determined to have merit, contested the System’s practice of charging the Water Contractors for certain financing costs of the recreation and fish and wildlife enhancement portion of facilities financed with Water System Revenue Bonds. The System rectified the situation by restating past bills to provide appropriate credits back to the Water Contractors for the contested charges and taking other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than direct charges to the Water Contractors. Such actions included obtaining a loan from the State Pooled Money Investment Account (PMIA) in the amount of $29.6 million, which was used together with certain other available funds to retire or provide for the defeasance of approximately $28.2 million principal amount of Revenue Bonds and Commercial Paper Notes Series 1, the proceeds of which had been used to pay costs allocated by the System for the development of recreation or fish and wildlife enhancement. The System has agreed to pay a minimum of $4 million per year to repay the PMIA loan.

With the receipt of the PMIA loan and the waivers in the 2007 and 2008 Tolling and Waiver Agreement obtained from the 27 Water Contractors, who signed the Monterey Amendment, the System sold Revenue Bonds in May 2008. The sale of System Revenue Bonds had been suspended pending the resolution of the recreation and fish and wildlife enhancement issue.

In addition to waivers included in the 2007 and 2008 Tolling and Waiver Agreements, which helped to facilitate the resumption of the sale of System Revenue Bonds, the Tolling and Waiver Agreements, as amended, also tolled (i.e. suspended) until December 31, 2015 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the System’s bills to the Water Contractors for the years 2007 through 2016, (2) claims arising from the System’s revisions to prior year invoices that were made to adjust for improper charges to the Water Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The Tolling and Waiver Agreement also tolled the running of the time period for bringing an action on the Victim Compensation and Government Claims Board claim regarding the 2006 invoice that was filed by one of the Water Contractors. DWR expects that the participating Contractors and DWR will extend the Tolling and Waiver Agreement expiration date (and by doing so, the tolling period for the statute of limitations) until December 31, 2017. In the meantime, the System and Water Contractors are continuing their efforts to resolve issues that are covered by the Tolling and Waiver Agreement. However, no assurance can be given that the Water Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to the issues under discussion once the Tolling and Waiver Agreements expire.

Lawsuits Regarding 2004 Delta Levee Failure

Four lawsuits have been filed to recover damages caused when a Delta levee failed and flooded the Upper Jones Tract and Lower Jones Tract in June 2004. Three of the lawsuits name, as defendants, a local Delta reclamation district, the State Reclamation Board and the DWR. A cause of action, in each of these three lawsuits, alleges that the System's operations and activities in the Delta were a cause of the damage. All four lawsuits were consolidated for trial, and after completion of the trial, the trial judge issued a decision in August 2012 in favor of DWR. In October 2012, the plaintiffs, with the exception of two insurance companies, appealed the decision. In October 2014, the Court of Appeal upheld the trail court's ruling in favor of DWR. The California Supreme Court; thereafter, denied the Plaintiff's petition for review. The case is now closed.

General

The System, during the ordinary course of its operations, has been named in a number of additional suits and claims, several of which are still pending.

In the opinions of management and the System's Legal Counsel, such legal actions will not have a material effect on the System's financial position or changes in financial position. If incurred, such costs would be recoverable from project beneficiaries under the long-term water supply contracts.

Federal Energy Regulatory Commission Proceedings

There are a number of proceedings pending before the Federal Energy Regulatory Commission (FERC) that may impact the cost of System operations. Some of these proceedings address requests from the California Independent System Operator (CAISO), investor-owned utilities, and others to increase or adjust rates or allocate responsibility for costs for transmission and other services provided to the System and other entities in California. The System is participating in these proceedings, since the outcome of these proceedings has the potential to increase the System's annual power costs. However, the System does not believe that any increased charges arising from these proceedings will materially impact the System's financial position or changes in financial position. Any increased charges will be passed through to the Water Contractors under the long-term water supply contracts in the form of higher operations charges.

California Energy Crisis and Claims for Partial Energy Purchase Refunds

The California energy crisis of 2000-01 adversely impacted the financial condition of some energy market participants, including DWR as operator of the System. As a supplier of energy, DWR received increased market prices for energy sales in 2000 and in 2001. FERC proceedings were instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including DWR. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as DWR, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board against the governmental entity sellers, including DWR. The Claims Board denied the claim made against DWR, which would have allowed the claimants to file a lawsuit against DWR. Settlement discussions were thereafter conducted and in August 24, 2014, a settlement agreement was reached between DWR and the claimants, the California Public Utilities

Commission and the California Energy Resources Scheduling Division of DWR. Under the settlement, DWR paid $7.2 million and assigned approximately $19.6 million in receivables from the CAISO and the California Power Exchange Corporation to the claimants and other settling parties. In return, in December 2014, the claimants and other settling parties withdrew and released DWR from, all of their claims related to the 2000 and 2001 energy sales.

Pollution Remediation

The System recognized Pollution Remediation Liabilities of $10.2 million in current portion and $33.6 million in long-term portions totaling $43.8 million at June 30, 2015. This liability is comprised of two components. There are two identified locations of required pollution remediation, previously owned, Reid Gardner Unit 4 in Nevada and the Methyl Mercury Control programs in the Delta. In addition, the total liability for pollution remediation includes the GHG emissions credits due to be surrendered in November 2015.

Reid Gardner Power Plant

The Reid Gardner (RG) Power Plant, located near Moapa, Nevada, is operated by Nevada Energy (NVE) and consists of four coal-powered generators—Units 1 through 4. DWR's ownership interest in Unit 4 of the Reid Gardner coal plant terminated in 2013, but the remediation costs described below are being shared under an Environmental Agreement also executed between NVE and DWR in 2013.

In February 2008, NVE entered into an Administrative Order on Consent (AOC) with the Nevada Division of Environmental Protection (NDEP). Pursuant to the AOC, NVE agreed to undertake investigatory activities into various potential areas of contamination at RG and also to ultimately remediate groundwater, soils and other contamination at the RG facility. Groundwater and soils have been affected by certain chemicals of interest associated with flue gas desulfurization effluent settlement and evaporation ponds. Since some of this contamination can be associated with the Unit No. 4 generation related facilities, such as the evaporation ponds, DWR, as prior co-owner of Unit No. 4, has agreed to share the cost of NVE's investigatory activities, which will ultimately lead to the remediation measures prescribed by NDEP to NVE. These activities are projected to continue through at least 2032.

During calendar year 2014, NVE provided DWR their projected schedule and budget by source area based on ongoing and planned investigations and overall AOC planning activities. Using NVE's projections and applying DWR's agreed upon cost sharing percentages in the Environmental Agreement, DWR's estimated equitable share of the current value of outlays is $29.1 million. The System expended approximately $3.9 million in Fiscal 2015 and DWR expects to pay $3.5 million of the total estimated liability during FY Fiscal 2016. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information is available.

In August 2013, a Native American tribe and an environmental organization filed a lawsuit against NVE and DWR in Federal District Court in Nevada, claiming violations of federal environmental laws, specifically the Resource Conservation and Recovery Act and the Clean Water Act, related to the asserted contamination of the land, groundwater and surface water, and alleged discharge of pollutants into the nearby Muddy River from the RG Station.

The lawsuit, which relates to some of the same contaminants addressed in the AOC, seeks declaratory and injunctive relief requiring NVE and DWR to conduct studies and undertake cleanup at the site. In July 2015, NVE and DWR reached a proposed settlement with the plaintiffs. The proposed settlement must be reviewed and approved by EPA and the Federal Department of Justice before it is submitted to the court for final approval. Final settlement is anticipated to occur before the end of the year.

Delta Basin Plan: Mercury Control Program

In June 2011, the State Water Resources Control Board adopted an amendment to the Sacramento-San Joaquin Delta Basin Plan regarding the control in the Delta of methyl mercury. The amendment, among other things, assigns certain responsibilities jointly to DWR (with regard to both the System and DWR's flood management programs), the Central Valley Flood Protection Board and the State Lands Commission to reduce methyl mercury in the open waters of the Delta. In addition, DWR and others are assigned certain responsibilities regarding the discharge of methyl mercury from wetland and other aquatic restoration and enhancement projects.

DWR's mercury program was created to address its obligations under the Delta Mercury Control Program. The System's estimated value of remediation outlays for this program is $6.4 million. The System has expended approximately $3 million through June 30, 2015. DWR estimates that the System will incur costs of approximately $1.3 million in fiscal 2016 and estimates remaining long-term costs through 2020 at approximately $5.1 million.

The State Water Resources Control Board is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Draft regulatory language and associated environmental analysis is currently expected to be released in 2016. There is insufficient information available to enable DWR to estimate the timing, magnitude or the System's share of potential compliance costs, if any, at this time.

Green House Gas Emissions Credits Surrendering

The System is required to report and recognize the liability related to certain vintage years of the Reid Gardner Unit 4 and LEC under AB32. Each year the GHG allowances held in UPIS as an Intangible Asset, are evaluated and reported by the Power and Risk Analysis Office to the California Air Resources Board (CARB) to be charged as pollution remediation expenses and a liability is recognized. The System's market analysis value of total compliance instruments to be surrendered is $10.4 million. The System surrendered $2.1 million of compliance instruments during fiscal 2015 under this program. The System expects to surrender $3.8 million for RG and $1.6 million for LEC for a total current liability due in November of fiscal 2016 of $5.4 million. Since the termination of RG, the remaining long-term portion is only for LEC for $2.9 million.

Notes to Financial Statements (in thousands)

11. Self-Insurance

The System is self-insured for all completed facilities of the SWP. The System is also self-insured for workers' compensation, general liability and other risks. All workers' compensation claims and other losses are on a pay-as-you-go basis. The long-term water supply contracts provide for recovery of such losses from the Water Contractors. Additionally, the CVP act and the related bond resolutions authorize the issuance of additional bonds, payable from available revenues or federal reimbursements under the National Disaster Act, for the purpose of providing funds for emergency repairs to power projects or water system projects necessitated by natural disasters, provided that certain conditions are met.

12. Economic Dependency

The System's water supply revenue is derived from 29 Water Contractors, including the Metropolitan Water District of Southern California whose System billings constituted 53% and 51% of total System water supply revenue for the years ended June 30, 2015 and 2014, respectively, and Kern County Water Agency whose System billings constituted 10% and 11% of total System water supply revenue for the years ended June 30, 2015 and 2014, respectively.

The System sold power to 9 and 14 power companies during the fiscal years ended June 30, 2015 and 2014, respectively. The highest percentage of power revenues came from the CAISO. The following table shows power sales to companies which exceeded 5% of the total power sold by the System excluding power sold to the Water Contractors in the amount of $2.7 million and $1.5 million, for the years ended June 30, 2015 and 2014, respectively.

Power Sales

	2015	% Total	2014	% Total
California Independent System Operator	$ 61,759	69.59%	$ 81,083	62.30%
Northern California Power Agency	24,502	27.61%	21,721	16.69%
Morgan Stanley Capital Group Inc.	-	-	11,777	9.05%

Similarly, the System purchased power from 17 power suppliers for both fiscal years ended June 30, 2015 and 2014. The highest percentage of power provided to the System came from the CAISO. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

Power Purchases

	2015	% Total	2014	% Total
California Independent System Operator	$ 95,827	47.70%	$ 119,738	50.83%
Northern California Power Agency	42,178	20.99%	36,697	15.58%
Morgan Stanley Capital Group Inc.	34,907	17.38%	38,948	16.53%

Notes to Financial Statements (in thousands)

13. Segment Information

The table below presents the condensed statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2015 and 2014.

Segment

	2015			2014		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
Condensed Statements of Net Position:						
Assets						
Capital assets	$ 849,332	$ 2,766,471	$ 3,615,803	$ 880,833	$ 2,588,828	$ 3,469,661
Other assets	1,308,557	394,718	1,703,275	1,131,339	344,976	1,476,315
Current assets	274,012	367,148	641,160	159,824	399,563	559,387
Total assets	2,431,901	3,528,337	5,960,238	2,171,996	3,333,367	5,505,363
Deferred outflows of resources	38,045	181,281	219,326	-	116,741	116,741
Total assets and deferred outflows of resources	$ 2,469,946	$ 3,709,618	$ 6,179,564	$ 2,171,996	$ 3,450,108	$ 5,622,104
Capitalization and Liabilities						
Capitalization:						
Net position:						
Net investment in capital assets	$ 870,922	$ 234,770	$ 1,105,692	$ 842,008	$ 152,553	$ 994,561
Restricted	338,334	(238,598)	99,736	367,248	(156,381)	210,867
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Long-term liabilities	847,925	2,845,592	3,693,517	511,260	2,662,655	3,173,915
Total capitalization	2,057,181	2,841,764	4,898,945	1,720,516	2,658,827	4,379,343
Current liabilities	139,690	285,738	425,428	134,110	285,765	419,875
Total capitalization and liabilities	2,196,871	3,127,502	5,324,373	1,854,626	2,944,592	4,799,218
Deferred inflows of resources	273,075	582,116	855,191	317,369	505,517	822,886
Total liabilities, deferred inflows of resources and net position	$ 2,469,946	$ 3,709,618	$ 6,179,564	$ 2,171,995	$ 3,450,109	$ 5,622,104
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	$ 657,639	$ 225,899	$ 883,538	$ 507,909	$ 281,461	$ 789,370
Power sales	92,066	(286)	91,780	131,604	348	131,952
Federal reimbursements	16,669	27,391	44,060	43,779	8,407	52,186
	766,374	253,004	1,019,378	683,292	290,216	973,508
Depreciation expense	(21,680)	(59,815)	(81,495)	(22,035)	(46,861)	(68,896)
Other operating expense	(581,987)	(25,420)	(607,407)	(694,764)	(103,889)	(798,653)
Income from operations	162,707	167,769	330,476	(33,507)	139,466	105,959
Capital revenues (deferred) recovered	(164,868)	(79,077)	(243,945)	53,546	(96,480)	(42,934)
Interest expense	(9,945)	(86,137)	(96,082)	(12,176)	(103,323)	(115,499)
Transfers In/(Out)	10,855	(10,855)	-	(8,638)	8,638	-
Other (expense) income	1,251	8,300	9,551	775	51,699	52,474
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Net position, end of year	$ 1,209,256	$ (3,828)	$ 1,205,428	$ 1,209,256	$ (3,828)	$ 1,205,428
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	$ 123,999	$ 223,778	$ 347,777	$ (2,251)	$ 262,292	$ 260,041
Capital and related financing activities	(50,216)	(265,385)	(315,601)	(98,656)	(245,552)	(344,208)
Investing activities	1,689	5,873	7,562	1,849	7,145	8,994
Net (decrease) increase in cash and cash equivalents	75,472	(35,734)	39,738	(99,058)	23,885	(75,173)
Cash and equivalents, beginning of year	155,453	405,833	561,286	254,511	381,948	636,459
Cash and equivalents, end of year	$ 230,925	$ 370,099	$ 601,024	$ 155,453	$ 405,833	$ 561,286

Notes to Financial Statements (in thousands)

14. New Governmental Accounting Standards

GASB Statement No. 66

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of GASB No. 66 were effective for fiscal year 2014 and thereafter. It has been determined that GASB No. 66 did not impact the System.

GASB Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. A summary of the July1, 2014 beginning balance item restated in connection with the implementation of GASB Statement No. 68 and 71 is shown in the following table:

GASB Implementations

Statements of Net Position	Balance before GASB 68 adjustment at July 1, 2014	GASB 68 and 71 adjustment	July 1, 2014 adjusted beginning balance
Total long-term assets			
Amounts recoverable through future billings under long-term water supply contracts:			
Operations and maintenance expense	$ 102,090	$ 475,704	$ 577,794
Defered outflows of resources			
Employer contributions - pension	-	36,501	36,501
Total long-term liabilities			
Long-term liability - net pension	-	(512,205)	(512,205)
Net position			
Net investment in capital assets	994,561	-	994,561
Restricted	210,867	-	210,867

GASB Statement No. 69

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of GASB No. 69 are effective for fiscal year 2015 and thereafter. It has been determined that GASB No. 69 did not impact the System.

GASB Statement No. 70

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. The requirements of GASB No. 70 were effective for fiscal year 2014 and thereafter. After careful review of all financial agreements, it has been determined that GASB No. 70 did not impact the System.

GASB Statement No. 71

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pension*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of GASB No. 71 are effective for fiscal year 2015 and thereafter. The financial statements items in connection with GASB No. 71 are presented in this fiscal year financial statements. Amounts associated with contributions made by the System to the CalPERS' defined benefit pension plan after the measurement date of June 30, 2014 are presented as deferred outflows of resources at June 30, 2015.

GASB Statement No. 72

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The requirements of GASB No. 72 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 73

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The requirements of GASB No. 73 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 74
In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OBEP plans for making decisions and assessing accountability. The requirements of GASB No. 74 are effective for fiscal year 2017 and thereafter.

GASB Statement No. 75
In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of GASB No. 75 are effective for fiscal year 2018 and thereafter.

GASB Statement No. 76
In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarch of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of GASB No. 76 are effective for fiscal year 2016 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

15. Significant Events

State Water Project Contract Extension

In June 2014, the Department and the Water Contractors reached a general agreement in principles (the "Agreement in Principle") to amend the existing long-term water supply contracts. Currently, the long-term water supply contracts have termination dates ranging between 2035 and 2042. Under the Agreement in Principle, the term of the long-term Water Supply Contract for each Contractor that signs an amendment would be extended until December 31, 2085. Provisions under the Agreement in Principle also address, among other things, the calculations of charges to Water Contractors, increases to the Department's operating reserves, mechanisms for accounting, reporting and financing of capital projects, and the establishment of a finance committee to serve as a forum for discussions and provide a channel for recommendations to the Director of DWR concerning financial policies of the System.

Environmental review pursuant to CEQA and a presentation by the Department in an informational hearing to the Legislature will be part of the contract extension amendment process before any contract amendment is adopted.

Hyatt-Thermalito Power Plant Fire

On November 22, 2012, the System experienced a fire of the HTPP at the Oroville Complex. The fire caused substantial damage to the plant rendering the plant inoperable. Until the plant is repaired and placed back in service, the electrical generation from the Hyatt-Thermalito facilities will be reduced. The cleaning, decontamination and structural repairs have been completed. The mechanical refurbishment and reassembly of the generating units continues and the design of the new electrical, protection and communication systems is in process. The Department expects the HTPP to return to full service by the end of calendar year 2018. This event has not had, and will not have a material adverse impact on the Department's ability to operate and maintain the State Water Project.

California Drought

California remains in a State of Emergency, as proclaimed by Governor Edmund G. Brown Jr. in January of 2014. As the multi-year drought progressed into 2015 and the weather failed to produce any significant precipitation, water year 2015 was deemed the fourth consecutive dry year. Reduced allocations to the Water Supply Contractors remained in effect.

Since the respective obligations of the Contractors to make payments in amounts sufficient to pay debt service are not conditioned on the amount of water delivered, it is unlikely that the drought conditions will have a material effect on the System's financial condition in the coming fiscal year. However, the Department is obligated under its long-term water supply contracts, subject to the availability of funds, to make all reasonable efforts, consistent with sound fiscal policies, reasonable construction schedules and proper operating procedures, to complete the project facilities necessary to make water deliveries at the time and in the amounts specified in the long-term water supply contracts. It remains uncertain how continued or prolonged drought conditions would impact the financial condition of the obligated 29 Water Contractors and the System.

16. Subsequent Events

On September 2, 2015, the System issued CVP Water System Revenue Bonds (Series AU) (Variable rate, Tax-Exempt) with a par amount of $109.3 million to redeem the outstanding balance of Commercial Paper Notes Series 1, fund capitalized interest, fund deposits to the debt service reserve account and cover costs of issuance.

SUPPLEMENTARY INFORMATION

Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds

Debt Service Coverage

	2015	2014
Water supply revenues, Central Valley Project Act	$ 225,899	$ 281,461
Add: Cover Collected as Proceeds Due To Water Contractors	54,316	51,786
Less: Devil Canyon Castaic Revenues	(18,171)	(16,612)
Revenues not available for Debt Service	(8,234)	(56,217)
Net CVP revenues available for debt service	253,810	260,418
Principal and interest for revenue bonds	$ 192,924	$ 205,923
Debt service coverage	131.6%	126.5%

Note: Section 805 of the general bond resolution for the Central Valley Project (CVP) Water system Revenue Bonds states, "The total amount of Revenues receivable under all long-term water supply contracts in any Year shall be the sum of (A) 1.25 times the Annual Debt Service for such Year to be paid from the Revenue Fund, plus (B) the amount estimated by the Department, pursuant to Section 605, to be required from the Revenue Fund in such Year to provide for Water System Operating Expenses…"

The Supplementary Information, Calculation of Adequacy of Debt Service Coverage for the Central Valley Project (CVP) Revenue Bonds is based on $225.9 million in fiscal 2015 and $281.5 million in 2014, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2015, the revenues include: an increase of $54.3 million in refundable proceeds, a decrease of $18.2 million for principal and interest payments for the Devil Canyon Castaic Facilities Bonds (DCC) since the DCC General Bond resolution does not require cover to be collected for these bonds, and a decrease of $8.2 million in revenue not available for debt service of which $5.4 million are amounts to be refunded to the Water Contractors and $2.8 million related to operations and maintenance.

In fiscal 2014 the revenues include: an increase of $51.8 million in refundable proceeds, a decrease of $16.6 million for principal and interest payments for the DCC Facilities Bonds, and a decrease of $56.2 million, of which $59.3 million is primarily related to operations and maintenance and $6.2 million is related to miscellaneous revenues not intended for debt service and a $9.3 million decrease is related to refunds paid to the Water Contactors.

Edmund G. Brown Jr.
Governor, State of California

John Laird
Secretary of Resources,
Natural Resources Agency

Mark Cowin
Director, Department of Water Resources