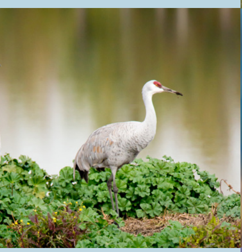
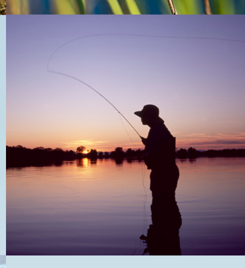
STATE WATER RESOURCES DEVELOPMENT SYSTEM

Financial Statements and Supplementary Information

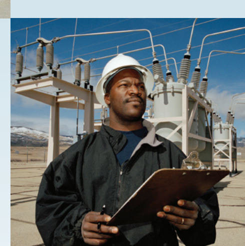
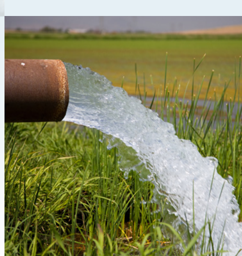




Annual Report
Years Ended June 30
2013-2012





State of California Natural Resources Agency Department of Water Resources

Cover photos, top to bottom, left to right:

(1) California Aqueduct and Delta Mendota Canal intertie, (2) Sandhill Crane in the Delta, (3) Cattails grow in the wetlands, (4) Delta, (5) Fly fishing in Oroville, (6) DWR personnel look at plans, (7) Sacramento weir, (8) Devil Canyon Power Plant penstocks, (9) Lake Oroville, (10) Girl drinking from water fountain, (11) DWR employee at Oso Pumping Plant, (12) Agricultural irrigation near the Yuba River

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State Water Resources Development System

Financial Statements and
Supplementary Information
For the years ended June 30, 2013 and 2012

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State Water Resources Development System
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the fiscal years ended June 30, 2013 and 2012, 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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2013 and June 30, 2012, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Nos. 60 – 65. In connection with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the System has reclassified certain amounts previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 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 the 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.

Macias Gini & O'Connell LLP

Sacramento, California
December 30, 2013

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 complex 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 (CVP) 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 CVP, 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 CVP 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 $207 million on total operating revenues of $1.1 billion. This did not cause an increase in net position as a result of appropriately reflecting the timing differences in the deferral of expenses incurred and the deferral of capital recovery.

- On September 5, 2012, the System issued $105.9 million of CVP Water System Revenue Bonds Series AL with an average yield on the bonds of 2.33% to refund $121.9 million of CVP Water System Revenue Bonds Series X and Z.

- On September 27, 2012, the System issued $367 million of CVP Water System Revenue Bonds Series AN and AO with an average yield on the bonds of 2.63% to refund $298.3 million of CVP Water System Revenue Bonds Series AC and AD and $44.8 million of Water Revenue Commercial Paper Notes Series 1.

- On March 5, 2013, the System issued $184 million of CVP Water System Revenue Bonds Series AM with an average yield on the bonds of 2.71% to refund $211.8 million of CVP Water System Revenue Bonds Series Y and AA.

- On March 26, 2013, the System issued $45.3 million of CVP Water System Revenue Bonds Series AP with an average yield on the bonds of 2.97% to redeem $47.7 million of Water Revenue Commercial Paper Notes Series 1.

- On June 18, 2013, the System issued $120.2 million of CVP Water System Revenue Bonds Series AQ with an average yield on the bonds of 3.22% to fund future construction costs for the East Branch Extension Phase I Improvements and East Branch Extension Phase II.

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, with 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 and the deferred outflows and inflows of resources. 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.

Condensed Statements of Net Position

	2013	2012 * (as restated)	2011 * (as restated)	%Change 2013-2012	%Change 2012-2011
	(amount in thousands)				
Total utility plant	$ 3,327,965	$ 3,212,952	$ 3,201,464	3.6%	0.4%
Other assets	1,836,727	1,760,104	1,722,647	4.4%	2.2%
Total assets	5,164,692	4,973,056	4,924,111	3.9%	1.0%
Total deferred outflows of resources	124,591	57,930	29,260	115.1%	98.0%
Total assets and deferred outflows of resources	$ 5,289,283	$ 5,030,986	$ 4,953,371	5.1%	1.6%
Capitalization:					
Net position:					
Net investment in capital assets	$ 785,460	$ 684,025	$ 554,854	14.8%	23.3%
Restricted	419,968	521,403	650,574	-19.5%	-19.9%
Total net position	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Long-term liabilities	3,148,075	3,054,464	3,132,196	3.1%	-2.5%
Total capitalization	4,353,503	4,259,892	4,337,624	2.2%	-1.8%
Other liabilities	464,344	477,551	410,197	-2.8%	16.4%
Total capitalization and liabilities	4,817,847	4,737,443	4,747,821	1.7%	-0.2%
Total deferred inflows of resources	471,436	293,543	205,550	60.6%	42.8%
Total capitalization, liabilities, and deferred inflows of resources	$ 5,289,283	$ 5,030,986	$ 4,953,371	5.1%	1.6%

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

	2013	2012 * (as restated)	2011 * (as restated)	%Change 2013-2012	%Change 2012-2011
	(amount in thousands)				
Operating revenues:					
Water supply	$ 931,808	$ 860,891	$ 874,748	8.2%	-1.6%
Power sales	146,277	148,360	193,154	-1.4%	-23.2%
Federal and State reimbursements	49,110	36,561	28,294	34.3%	29.2%
Total operating revenues	1,127,195	1,045,812	1,096,196	7.8%	-4.6%
Operating Expenses:					
Operations and maintenance expense	545,413	526,402	428,559	3.6%	22.8%
Purchased power expense	258,899	271,377	342,446	-4.6%	-20.8%
Depreciation expense	85,236	87,400	100,257	-2.5%	-12.8%
Operating expenses recovered, net	18,325	67,063	118,325	-72.7%	-43.3%
Total operating expenses	907,873	952,242	989,587	-4.7%	-3.8%
Income from operations	219,322	93,570	106,609	134.4%	-12.2%
Capital revenues recovered (deferred)	(175,005)	43,834	22,812	-499.2%	92.2%
Interest expense	(53,492)	(107,770)	(134,996)	-50.4%	-20.2%
Other (expense) income	9,175	(29,634)	5,575	-131.0%	-631.6%
Change in net position	-	-	-	-	-
Net position, beginning of year, as restated	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%

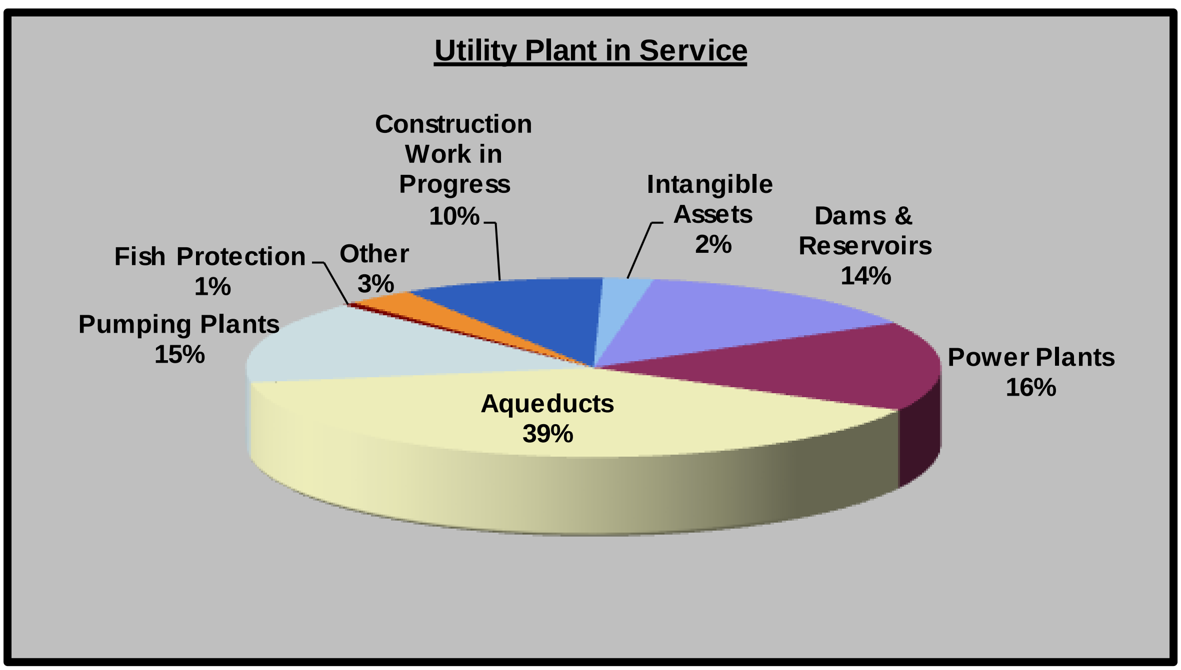
* Certain amounts have been reclassified from amounts previously reported to conform with the current year presentation.

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 33 storage facilities, 23 pumping plants, four generating plants, eight 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 $5.7 million during fiscal 2013 to a balance of $2,799 million. Transfers were made from construction work in progress to UPIS of $65.2 million including Facilities Repair and Improvement of $25.5 million, East Branch Extension Phase I of $22.3 million, Fish Restoration Program Agreement – Battle Creek of $12 million, Reid Gardner of $2.7 million, South Bay Aqueduct Reach 8 & 9 of $870 thousand, East Branch Improvement of $470 thousand, and other Water Systems projects of $1.4 million in fiscal 2013 in comparison to $47.2 million in fiscal 2012. The amount of additions and transfers to UPIS in the current year was $78.9 million compared to $57.8 million in fiscal 2012. While depreciation expense usually remains fairly constant each year, fiscal 2013 experienced a decrease of $2.2 million in depreciation expense mainly due to Reid Gardner Power Plant being fully capitalized and depreciated as of June 30, 2013. Depreciation and amortization expense for fiscal 2013 was $85.2 million compared to fiscal 2012 of $87.4 million. Ensuing annual depreciation expense should remain relatively constant, as the majority of the System is complete and depreciation is recorded on a straight-line basis over the estimated useful life of the assets, which generally range from 20 to 100 years.



Construction Work in Progress

Construction work in progress (CWIP) increased by $120.8 million during the year, which represents a 29.6% increase from fiscal 2012. In fiscal 2012, construction work in progress increased by $41.1 million, or 11.2% from fiscal 2011. The current year additions to CWIP are attributable to new and on-going projects including East Branch Extension Phase II projects of $57.8 million, Thermalito assessment cost of $33.3 million, Facilities Repair and Improvement of $20.7 million, South Bay Aqueduct Enlargement projects of $16.6 million, Perris Dam Remediation of $7.4 million, State Water Project (SWP) Communication System Replacement of $6.2 million, Reid Gardner of $2.7 million, South Bay Aqueduct Improvement projects of $2.6 million, Fish Science Building & Warehouse of $2.4 million, SWP Protective Relay Replacement projects of $1.7 million, other Water Systems projects of $3.4 million, and $31.1 million of Intangible Assets comprised of internally generated computer software of $23.3 million for the Centralized Control System Migration Program, legal rights of $6.7 million for the Fish Restoration Program Agreement – Battle Creek, and $1.1 million for Federal Energy Regulatory Commission (FERC) relicensing costs. These increases were offset by the transfer of $65.2 million from construction work in progress to UPIS for projects including Facilities Repair and Improvement of $25.5 million, East Branch Extension Phase I of $22.3 million, Fish Restoration Program Agreement – Battle Creek of $12 million, Reid Gardner of $2.7 million, South Bay Aqueduct Reach 8 & 9 of $870 thousand, East Branch Improvement of $470 thousand, and other Water Systems projects of $1.4 million.

The increase in fiscal 2012 from 2011 was primarily due to an increase of $88.3 million for new and on-going projects offset by transfers of $47.2 million from construction work in progress to UPIS. The increases of new and on-going projects included South Bay Aqueduct Enlargement projects of $25.8 million, Facilities Repair and Improvement of $20.9 million, East Branch Extension Phase II projects of $13.4 million, South Bay Aqueduct Improvement projects of $12.4 million, South Bay Aqueduct Del Valle Pipeline of $2.9 million, Edmonston Pump Replacement of $2.7 million, Oroville Complex Facilities of $2.4 million, Perris Dam Remediation of $2.3 million, Delta Fish Survival Improvement of $1.3 million, and $4.2 million of Intangible Assets. These increases were offset by transfers to UPIS for projects including Edmonston Pump Replacement of $39.3 million, Facilities Repair and Improvement of $7.3 million, South Bay Aqueduct Del Valle Pipeline of $2.9 million, and a reduction of $2.3 million for Hyatt Refurbishment.

At June 30, 2013, total construction work in progress comprised of $204.6 million for the South Bay Aqueduct Enlargement projects, $199 million of other Water Systems projects, $94.7 million of East Branch Extension Phase II projects, and $30.5 million of Intangible Assets.

Restricted Cash and Investments

Restricted cash and cash equivalents decreased by $6.1 million during fiscal 2013 to a total of $150.8 million. This compares to a balance of $156.9 million in fiscal 2012. The current year decrease is attributed to a $400 thousand decline in the cash for plant replacement and a $5.7 million decrease in debt service reserve requirement associated with the issuance of bond series AL, AN, AO, AM, AP and AQ, and the refunding of bond series X, Y, Z, AA, AC and AD. Restricted cash for debt service reserve is designated to meet the minimum reserve requirement for the revenue fund. As of June 30, 2013, the total balance in the restricted cash and investments is equal to the minimum balance in 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 2013, the amounts recoverable through future billing decreased by $15.4 million to an ending balance of $897.4 million compared to $912.8 million for fiscal 2012.

Other Long-term Assets

Long term loans receivable from local water agencies decreased by $2.7 million to a total of $16.5 million. As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $14.4 million remains outstanding at the end of fiscal 2013 compared to an outstanding balance of $17 million at the end of fiscal 2012. Additionally, $2.1 million remained outstanding in the Groundwater loan receivable compared to an outstanding balance of $2.2 million in 2012. Advances to other State Funds represent the System's advance of $92 million to DWR's internal service fund, which functions as a revolving working capital facility for DWR.

Cash and Cash Equivalents

In fiscal 2013, net cash provided by operations totaled $379.8 million compared to $272.4 million in fiscal 2012 for a total net increase to cash and cash equivalents from operations of $107.4 million. This increase was primarily due to $79.5 million in decreased payments to suppliers for expenses and $42.9 million in reductions of aged receivables and timely payments from customers. These increases were offset by $15.2 million in increases of salaries and wages paid in fiscal 2013.

Receivables

In fiscal 2013, water supply and power billings receivable decreased by $18.3 million as compared to fiscal 2012. The decrease is primarily due to a decrease of $17 million in Off-Aqueduct billings and credits, a decrease of $5.6 million in reduction of aged receivables, a decrease of $1.3 million of power sales accruals, offset by an increase of $4.7 million in receivables for the Delta Habitat Conservation and Conveyance Program (DHCCP) billings and other receivables, and an increase of $900 thousand of miscellaneous revenue accruals.

In fiscal 2012, water supply and power billings receivable increased by $30.3 million as compared to fiscal 2011. The increase was primarily due to a reduction in refunds and credits issued to water contractors. Other increases included an increase in receivables of $3.4 million in variable invoices and an increase in power sales accruals of $3.8 million.

Liabilities

General Obligation Bonds

In addition to the revenue bond obligation described below, a large portion of the SWP was financed by the sale of general obligation 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 of 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 $303 million remains outstanding at the end of fiscal 2013 compared to $362 million at fiscal 2012 and $421 million at fiscal 2011. 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

The System has issued 43 series of Water System Revenue Bonds totaling $7,826 million in the aggregate principal, of which $2,341 million remains outstanding at the end of fiscal 2013. This compares to outstanding balances of $2,270 million and $2,303 million at the end of fiscal year 2012 and 2011, respectively. During the year, the System completed the issuance of CVP Water Systems Revenue Bond Series AL, AM, AN, AO, AP and AQ totaling $822 million. The majority of the proceeds from the issuance were used to retire portions of the Series X, Y, Z, AA, AC, and AD bonds, pay off all outstanding commercial paper as of the date of issuances, make deposits to the Debt Service Reserve Account, fund interest on a portion of the Series AP and AQ Bonds, and pay costs of issuance.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility. Under the Devil Canyon-Castaic bond resolution, $68 million is outstanding at the end of fiscal 2013, compared to $73 million at fiscal 2012 and $78 million at fiscal 2011.

	2013	2012	2011
	(amounts in thousands)		
CVP revenue bonds par amount	$ 2,340,905	$ 2,269,900	$ 2,302,665
Unamortized bond issuance premiums/(discounts)	185,484	144,892	111,649
Total CVP revenue bonds outstanding	2,526,389	2,414,792	2,414,314
Devil Canyon - Castaic revenue bond par amount	68,070	72,945	77,540
Total revenue bonds outstanding	2,594,459	2,487,737	2,491,854
Less current maturities	(114,775)	(124,155)	(116,150)
Total long-term portion	$ 2,479,684	$ 2,363,582	$ 2,375,704

Pooled Money Investment Loan

The System applied for and received a loan from the Pooled Money Investment Account (PMIA) pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that defease certain Water System Revenue Bonds that financed recreation, 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 Water Code section 12937(b) (4). DWR executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first payment was made on September 1, 2008. 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. In fiscal year 2013, the outstanding balance decreased from $18.1 million to $14.9 million due to $3.2 million of principal payments made during fiscal year 2013. In fiscal 2012, the outstanding balance decreased from $21.1 million to $18.1 million due to $3 million of principal payments made during fiscal 2012.

Postemployment Benefits Other than Pensions

The Postemployment Benefits Other than Pensions (OPEB) increased by $22.5 million to a net OPEB obligation ending balance of $140.4 million in fiscal 2013 due to the difference between the Annual Required Contribution (ARC) to fully fund the obligation as calculated per GASB 45 requirements of $34.6 million and the actual contribution charged by the California Department of Finance through pro rata charges of $12.1 million. The $22.5 million increase for fiscal 2013 and $20 million increase in fiscal 2012 reflect the System's under funding of the 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 2013, these other long-term liabilities decreased by $8.9 million to an ending balance of $175.6 million compared to $184.5 million for fiscal 2012. These decreases are primarily due to increased State reimbursements for recreation and increased replacement expenses for San Joaquin Field Division.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities totaled $365.6 million at June 30, 2013, compared to $335.5 million in fiscal 2012, and $299.2 million in fiscal 2011. The increase of $30.1 million in the current year is due to an increase in accounts payable vendor liabilities of $18.5 million resulting from increases in liquidated damages and retentions and timing differences; an increase of $6.4 million for the current portion of the System's pollution remediation obligations; an increase of $1.4 million for the current liability portion of accrued vacation and loans payable; and an increase of $15.1 million due to timing differences in the transfer of cash settlements with DWR's Internal Service Fund. These increases are offset by a decrease of $7.7 million for the current portion of long term bond principal and a decrease of $3.6 million in accrued bond interest.

In fiscal 2012, the increase of $36.3 million is due to an increase in accounts payable vendor liabilities of $28.1 million which resulted from increased invoices billed to the System for Reid Gardner power activities and significant contract and consulting services performed during that fiscal year and billed in the next fiscal year. Other changes included an increase of $9.3 million for the current portion of long term bond principal; an increase of $1 million for the current portion of the System's pollution remediation obligations for the Delta Methylmercury Control Program; an increase of $686 thousand to the current liability portion of accrued vacation; a decrease of $2.8 million due to a timing differences in the transfer of cash settlements with DWR's Internal Service Fund and slight decreases in accrued bond interest and current portions of loans payables.

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 water supply contracts.

Proceeds Due to Water Contractors decreased by $43.3 million during fiscal 2013 to an ending balance of $98.7 million. This decrease can be primarily attributed to the $36.3 million decrease in refunds due to the Water Contractors resulting from a fiscal year 2012 accrual realized in the current fiscal year. Another major decrease includes $15.7 million of deferred operating revenue collected in advance in fiscal 2013 which did not occur in fiscal 2012. These decreases were offset by a $4.3 million increase in interest earned on debt service reserve balances and $4.4 million increase in revenues collected in advance for cover which have not yet been returned to the water contractors.

In fiscal 2012, Proceeds Due to Water Contractors increased from $111 million to $142 million, an increase of $31 million. An increase of $36.4 million was due to refunds to the water contractors as a result of implementing the Springing Amendment which lowered the debt service reserve requirement. Other increases include a $3.3 million in refunds due to water contractors for adjustments in the Off Aqueduct Power facility charges, a $6.3 million in deferred operating revenue prepayments for Off Aqueduct Power facility charges, and a $2.3 million increase in cover. These increases were offset by a $9.9 million refund to the Water Contractors for the discontinued gas hedging activities, $5.2 million decrease in interest earnings to be refunded to the Water Contractors, and a $2.2 million decrease in delivery structure revenue recognized for the North Bay Aqueduct Alternate Intake Project.

Deferred Inflows of Resources

Deferred inflows represent revenues received by the System which are applicable to future reporting periods. In fiscal 2013, the deferred inflows increased by $177.9 million to an ending balance of $471.4 million compared to $293.5 million for fiscal 2012. Deferred inflows for operations and maintenance expense under the Burns Porter Act segment activities increased by $45 million primarily due to increases in water supply revenues resulting from higher rates for water deliveries, decreases in prior year over collections adjustments, and an extended supplemental funding for DHCCP. Deferred inflows for capital costs increased by $142 million primarily due to refundings of multiple bond series and net revenues collected for principal payments of previous costs incurred to construct UPIS assets. These increases were offset by a decrease of $9.8 million in power sales credits due to water contractors.

Operating Revenues

Operating revenues for fiscal 2013 were $1.12 billion compared to $1.04 billion in fiscal 2012 and $1.09 billion in fiscal 2011. The increase of $81.3 million in fiscal 2013 was primarily due to an increase in water supply revenue of $70.9 million mainly due to higher rates for water deliveries, decreases in prior year over collections adjustments, and an extended supplemental funding for DHCCP, an increase of $12.5 million in federal reimbursements offset by a decrease in power sales revenue of $2.1 million. The decrease of $50.4 million in fiscal 2012 was primarily due to a decrease in water supply revenue of $13.9 million, and a decrease in power sales revenue of $44.8 million offset by an increase of $8.3 million in federal reimbursements.

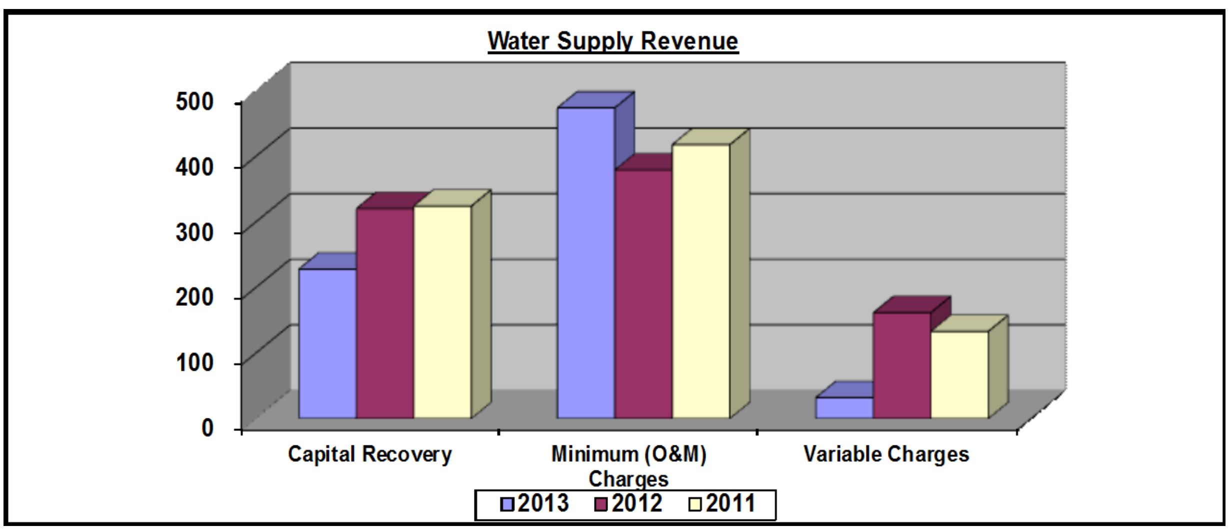
Water Supply Revenue

Under the terms of the 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 revenues consist of three main categories, as defined in the water supply contracts: Capital, Minimum and Variable. The Capital component of revenue enables the System to recover all the costs plus interest related to the construction of the System 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 water supply contracts (through 2035). The Minimum component of revenue enables the System to recover the operating and maintenance costs associated with operating the System. These costs are generally recovered as they are incurred. Finally, the Variable component of revenue enables the System to recover the net cost of energy used to deliver water to the Water Contractors. Similar to Minimum, these costs, net of power sales, are generally recovered as they are 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 rate (per acre-foot) to be charged to each Water Contractor in the following calendar year for the Variable components. The Variable components in such calendar year are calculated and billed monthly based on metered water deliveries for the preceding month and the rate determined on July 1st of each year. However, this rate can be modified over the course of the next 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 in 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 2013, the System generated $931.8 million in water supply revenue, compared to $860.9 million in fiscal 2012, and $874.8 million in fiscal 2011. The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2013, 2012 and 2011.



Water Supply Billings increased by $70.9 million in 2013 to a total of $931.8 million. This increase is due to an increase of $54.6 million in minimum operating & maintenance (O&M) recovery, a $33.8 million increase in Variable recovery, offset by a decrease of $17.5 million in Capital recovery.

Minimum O&M recovery revenues for fiscal 2013 increased by $54.6 million. The largest increase of $19.1 million was in recovery revenues for DHCCP due to a supplemental funding agreement that was signed in April 2012, $16.7 million in Transportation Minimum due to a decrease in prior year over collection adjustments, $10.3 million in Delta Water Charges (DWC) Minimum due to the DWC minimum rate increase, a $10 million in replacements transportation revenues due to a decrease in transportation replacements refunds, and a $4.5 million in Reid Gardner separation costs as the State Water Project's ownership agreement of Reid Gardner Unit No. 4 with Nevada Power Company ending in fiscal year 2014. These increases were offset in part by $2.6 million decrease in Conservation RAS due to a decrease in RAS rate per acre feet, $2.4 million in accrued operating revenue, and a $1.9 million in East Branch Enlargement O&M revenues due to a decrease in over collection applied to revenue.

The Variable recovery revenues increase of $33.8 million is primarily due to a 6.5 mills/kWh increase in the average mil rate. The average mil rate in 2013 was 43.12 mills/kWh compared to 36.62 mills/kWh in 2012. Actual water deliveries in fiscal 2013 were 2.70 million acre-feet compared to 3.39 million acre-feet in fiscal 2012. Although the water deliveries decreased by 0.69 million acre-feet, the increase in the average mil rate results in $15.8 million additional recovery revenues. An additional $16 million increase in revenues resulted from a decrease in prior year over collections which amounted to $28.8 million in fiscal 2013 compared to $44.8 million in fiscal 2012 and $2 million in wheeling water revenue.

The Capital recovery revenues decrease of $17.5 million is primarily due to decreases of $11.4 million in Off-Aqueduct Debt Service revenue due to the State Water Project's ownership agreement of Reid Gardner Unit No. 4 with Nevada Power Company ending in fiscal year 2014, $6.1 million in decreases in Capital Delta Water Charge and Capital Transportation revenues resulting from decreases in the projected conservation and transportation capital costs, and $1.6 million in East Branch Enlargement Debt Service due to prior year over collections. These decreases were offset by $1.9 million in South Bay Aqueduct Enlargement Debt Service resulting from issuance of the CVP Series AN.

In fiscal 2012, Water Supply Billings decreased by $13.9 million to a total of $860.9 million. There were several contributing factors. A $38.4 million decrease occurred as a result of O&M recovery, a $4.1 million decrease in Capital recovery, with an offsetting increase of $28.6 million in Variable recovery. The decrease in O&M recovery was primarily due to a decrease of $57.6 million in recovery revenues for DHCCP due to lack of a funding source, and a decrease of $19.3 million was for adjustments in the Off-Aqueduct Power recovery revenues due to lower fuel and transmission costs and higher Off-Aqueduct power sales. Although replacement recoveries increased by $4.1 million, $10 million was refunded to the water contractors to lower the balance in the reserve account which resulted in a net decrease in replacements of $5.9 million. These decreases were offset in part by a $10.4 million increase in the Minimum Delta Water Charge billings and $29.1 million in the Transportation Minimum billings to recover operational costs to meet environmental compliances. Additional increases include $3.8 million in recovery for the Reid Gardner Unit No. 4 separation costs and $2.7 million increase of Delivery Structure revenues collected in advance for the North Bay Aqueduct Alternate Intake

Project, and by $1 million in East Branch Enlargement revenues, offset by $2.7 million in decreases in other revenues. The decrease in Capital recovery revenues was primarily due to increases in rate management credits given to the Water Contractors for Capital Delta Water Charge and Capital Transportation. The increase in Variable recovery was primarily due to an increase in the average mil rate and an increase in revenues as a result of prior year under collections.

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 eight power plants with a total nameplate capacity of approximately 1,800 Mw and with total annual energy generation in recent years ranging between approximately 3,100 and 7,500 Gwh. The System also owns and operates 23 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 in all hours of the day.

Every hour 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 State Water Project pumping and generating plants. The power market controlled by CAISO can affect the bottom line cost or revenue from the System's hydroelectric facilities.

Every year the DWR is confronted with factors that affect how the operation of the SWP 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 year 2013, the SWP was affected by the loss of the Thermalito Hyatt Power Plant (THPP) due to fire, subsidence in the California aqueduct, elevation restrictions in the O'Neill forebay due to pondweed and ongoing unavailability of units at DWR's Oroville complex. In addition, slightly below average rainfall continued during fiscal year 2013 which did not allow adequate recovery for System reservoirs to maintain consistent water allocation to the water contractors. The SWP experienced both a decrease in energy sales and purchases in fiscal 2013

The limited resources and the loss resource at Oroville create a condition that will not allow regulation or ancillary services bids to be submitted in the CAISO market. Ancillary services are generally capacity bids at a qualified resource, allowing that resource the opportunity to recover costs through the ancillary service market. This condition greatly impacted the System's power activities in fiscal 2013.

Power Sales

Energy sales from SWP hydroelectric generating plants allow some recovery of cost of the System's hydroelectric pumping plants. Running 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 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 help with nesting Grebe or Garter snake habitat. Required mitigation can occur despite having minimal storage available at Oroville Lake.

In fiscal 2013, power sales decreased by $2.1 million to a total of $146.3 million. The decrease in power sales is attributable to a decrease in the transmission sold by $4.4 million, and is offset by an increase in the power sales of $2.3 million due to the fact that the System experienced a decrease in the quantity of energy sold and a substantial increase in the MWh rate. In fiscal 2012, 988,839 MWh were sold compared to 790,103 MWh in fiscal 2013, a 20.10% decline from the prior year. The MWh rate increased by 27.61%, from $118.74 in fiscal 2012 to $151.53 in fiscal 2013.

A decrease in scheduled water deliveries because of a decrease in rainfall resulted in an increase power available for sale. Water deliveries decreased from 3.39 million acre-feet in fiscal 2012 to 2.7 million acre-feet in 2013, a decrease of 0.69 million acre-feet or 20.29%.

In fiscal 2012, power sales decreased by $44.8 million to a total of $148.3 million. The system experienced a decrease in the quantity of energy sold and a slight decrease in the MWh rate as well as a decrease in Transmission sold. In fiscal 2011, 1,338,296 MWh were sold compared to 998,839 MWh in fiscal 2012, a 26.11% decline from the prior year. The overall rate decreased by 0.55%, from $119.4 in fiscal 2011 to $118.74 in fiscal 2012. The drop in sales was also impacted by the prolonged unit outages at Oroville.

The following tables show the relationship between volume and rate for fiscal 2013 compared to fiscal 2012, and fiscal 2012 compared to fiscal 2011:

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2012	$ 148,360,007	$ (30,945,193)	$ 117,414,814	988,839	$ 118.74
2013	146,277,485	(26,554,940)	119,722,546	790,103	151.53

Change in MWh sold	(198,736)
Multiplied by 2012 rate/MWh	$ 118.74
Difference attributed to decrease in sales	$ (23,598,000)
Change in MWh rate	$ 32.79
Multiplied by 2013 MWh sold	790,103
Difference attributed to rate change	$ 25,907,000
Total increase in power sales	$ 2,309,000

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2011	193,153,799	(33,357,996)	$ 159,795,803	1,338,296	$ 119.40
2012	148,360,007	(30,945,193)	117,414,814	988,839	118.74

Change in MWh sold	(349,457)
Multiplied by 2011 rate/MWh	$ 119.40
Difference attributed to decrease in sales	$ (41,725,000)
Change in MWh rate	$ (0.66)
Multiplied by 2012 MWh sold	988,839
Difference attributed to rate change	$ (653,000)
Total decrease in power sales	$ (42,378,000)

Federal and State Reimbursements Revenue

Federal reimbursements revenue for fiscal 2013 was $49.1 million, compared to $36.6 million for fiscal year 2012. The current year increase of $12.5 million is due to an increase of $7.5 million in Capital and O&M recreation cost recovery from the newly appropriated Davis Dolwig fund. In addition there was a $15.6 million increase in DHCCP revenue due to a one-time amendment with San Luis-Delta Mendota Water Authority to fund cost of environmental analysis, planning and design of delta conservation measures which was completed in June 2013, and an increase of $1.9 million in the Suisan Marsh O&M share. These increases were offset by a $12.5 million decrease in DHCCP invoices billed in this current fiscal year. These facilities are located within the Delta, San Luis, and Suisun Marsh facilities for which the System is reimbursed by the Federal and State governments.

Operating Expenses

Total operating expenses decreased by $44.4 million for fiscal 2013 to a total of $907.9 million. The decrease is due to a reduction in deferred expenses of $48.7 million, a decrease in power purchases of $12.5 million, and a decrease in depreciation and amortization expense of $2.2 million. These were offset by an increase of $19 million in operations and maintenance expense.

Total operating expenses for 2012 decreased by $37.3 million to a total of $952 million. The decrease is due to a decrease in power purchases of $71 million, a decrease in depreciation expense of $12.9 million and a decrease in deferred expenses of $51.2 million, offset by an increase of $97.8 million in operations and maintenance expense.

Operations and Maintenance Expense

Total operations and maintenance expenses were $545 million for fiscal 2013, compared to $526 million for fiscal 2012 and $429 million for fiscal 2011. The increase of $19 million in fiscal 2013 can be attributed to the following factors: increases of $19.1 million in natural gas, coal, and diesel consumption; increases in pollution remediation of $7.8 million; increases in federal co-op contracts of $6.9 million; increases in consultant and professional services of $12.5 million; increases in communications of $5.2 million; increases in bond issuance costs of $4.8 million; increases in pro-rata cost of $4.5 million; increases in water supply of $3.4 million; and other increases in the amount of $6.8 million comprised of general expenses, Other Post Employment Benefits (OPEB), office equipment rent & repairs, and other miscellaneous expenses. These increases were offset by the following factors: decreases in operations and maintenance of the Reid Gardner power plant of $21 million; decreases in amounts reclassified to Advances for Plant Replacements of $8.9 million; decreases in expenses for Reid Gardner coal of $4.6 million; decreases in maintenance and repair services of $3.4 million; decreases in vacation expenses of $2.9 million; and other decreases amounting to $11.1 million for legal expenses, taxes, fuel and lubricants, easements and other miscellaneous expenses.

The increase of $97.9 million in fiscal 2012 can be attributed to the following factors: increases of $29.8 million related to the valuation of easements and internally generated software that were classified as intangible assets in fiscal 2011; increases in salaries and wages of $26.2 million mainly due to increased personnel to address heightened environmental responsibilities and continued maintenance of the aging infrastructure of the SWP; and an increase of $11.5 million in the procurement of external consultants, professional, and legal service providers due to heightened environmental compliance efforts. Other increases totaling $36.8 million included increases for operation and maintenance of the Reid Gardner power plant; maintenance and repairs; remediation expense accrual; pro rata charges for services provided by the State Controller's Office; increases in bond issuance cost; increases in taxes and assessments; increases in overhead; and miscellaneous expenses. These increases were offset by a decrease in OPEB of $6.4 million.

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 of power include self-generated power by the eight power plants owned by the System, along with purchases of power 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.

Power purchases decreased $12.5 million in fiscal 2013 to a total of $259 million. The decrease of $17.5 million in power purchased is attributable to a decrease in the quantity of energy purchased offset by an increase in MWh rate, while transmission purchases increased by $5 million. In fiscal 2012, 3,396,958 MWh were purchased compared to 2,310,252 MWh in fiscal 2013, a 31.99% decline from the prior year. The MWh rate increased by 35% from $65.54 in fiscal 2012 to $88.79 in fiscal 2013.

Power purchases are generally made for off-peak pumping and are a reflection of water demand. Lack of unit availability caused the need for a flat pumping schedule, operational limitations and unit outages did not allow heavier pumping off-peak and lighter pumping on-peak. The result of the decrease in purchases was not significantly impacted by rainfall in 2013. DWR tends to be more of a net energy purchaser in the energy market due to required water deliveries, which remained reasonable and similar from fiscal 2012 to 2013.

In fiscal 2012, purchased power decreased $71 million from fiscal 2011 to a total of $271 million. Of that amount, $86 million was attributed to increased units purchased and $22 million was attributed to increase in the average rate per MWh purchased, while changes in transmission decreased by $8 million.

The following tables show the relationship between volume and rate for fiscal 2013 compared to fiscal 2012, and fiscal 2012 compared to fiscal 2011.

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2012	$ 271,377,161	(48,734,005)	$ 222,643,156	3,396,958	$ 65.54
2013	258,899,223	(53,779,440)	205,119,783	2,310,252	88.79
Change in MWh purchased					(1,086,706)
Multiplied by 2013 rate					$ 88.79
Difference attributed to decreased purchases					$ (96,489,000)
Change in MWh rate					$ 23.25
Multiplied by 2012 purchased					3,396,958
Difference attributed to rate change					$ 78,979,000
Total decrease in power purchases					$ (17,510,000)

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2011	$ 342,445,800	(56,971,668)	$ 285,474,132	4,703,953	$ 60.69
2012	271,377,161	(48,734,005)	222,643,156	3,396,958	65.54
Change in MWh purchased					(1,306,995)
Multiplied by 2012 rate					$ 65.54
Difference attributed to decreased purchases					$ (85,660,000)
Change in MWh rate					$ 4.85
Multiplied by 2011 purchased					4,703,953
Difference attributed to rate change					$ 22,814,000
Total decrease in power purchases					$ (62,846,000)

Operating and Maintenance Expense Recovered

In fiscal 2013, $18.3 million in operating expenses were recognized, compared to fiscal 2012 in which the System recognized $67 million in operating expenses. The 2013 net change of $48.7 million decrease in deferred operation and maintenance expenses recovered is primarily due to increased operations and maintenance revenue billings for DHCCP, water delivery rate increases, decreased prior year billing adjustment to Water Contractors, and increased operations and maintenance expenses. Additionally, certain deferred revenues including deferred depreciation, unbilled interest, and unamortized project costs were reclassified to capital and other revenues recovered.

In fiscal 2012, $67 million in operating expenses recovered were recognized, compared to fiscal 2011 in which the System recognized $109.5 million in operating expenses. The 2012 net change of $42.5 million is the result of decreases in operation and maintenance expenses and reclassification of unbilled interest to capital and other revenues recovered.

Capital Revenues Recovered

Capital revenues recovered represents the timing difference between net capital revenue recovered, and certain operating costs incurred. Capital revenues recovered decreased by $218.8 million in fiscal 2013 as the system recognized amounts in depreciation, unbilled interest and unamortized project cost in excess of current year capital revenues. During fiscal 2012, the System had $43.8 million in excess capital revenues recovered from the Water Contractors.

Interest Expense

Interest expense for fiscal 2013 was $53.5 million, which represents a decrease of $54.2 million from the prior year. This $54.2 million decrease is attributable to a combination of various factors which include a reduction in total bonds outstanding and restructuring debt through multiple refundings. First, a declining trend in interest costs relating to General Obligation (GO) Bonds and Revenue Bonds lowered interest expense by $19 million when compared the to the prior year. The decrease in interest expense for GO Bonds reflects a steady decline in the principal balance as principal matures. The decrease in the interest expense for Revenue Bonds reflects the savings realized as a result of restructuring the debt through multiple refundings as DWR took advantage of extremely low rates that prevailed in the bond market during the current year. Second, an additional $34.6 million decrease is attributable to the write-off of unamortized premium and deferred losses as a result of debt refundings and the implementation of GASB Statement No. 65 in the current fiscal year, which requires that costs of issuance be written off. Prior to the implementation of GASB Statement No. 65, costs of issuance were deferred and amortized.

Interest expense for fiscal 2012 was $108 million, which represents a decrease of $27.2 million from the prior year. This $27.2 million decrease is attributable to three major factors; a $9.8 million decrease in amortization of bond premium and discount, a $7.2 million decrease in amortization of deferred losses on defeased bonds, and a $10.2 million decrease in interest expense on debt service. The $9.8 million variance in the amortization of premium and discount reflects an $8.3 million increase in premium write-off and a $1.5 million increase in amortization of premium and discount. The $7.2 million decrease in the amortization of the deferred amount on refunding is attributed to an $8.3 million increase in premium write-off and a $1.1 million increase in amortization expense when compared to fiscal year 2011. The $10.2 million decrease in interest expense reflects the decrease in bonds outstanding and the savings resulting from the current year debt refunding.

Other Revenues (Expenses)

Other revenues, net of expenses increased by $38.8 million from $29.6 million in expenses for fiscal 2012 to $9.2 million in revenues for fiscal year 2013. This increase is generally attributable to the release of debt service reserves that occurred in fiscal year 2012 but not in fiscal year 2013.

Other revenues, net of expenses decreased by $35.2 million from $5.6 million in revenues for fiscal 2011 to $29.6 million in expenses for fiscal 2012. This decrease is attributable to a $36.3 million accrual for a debt service release of excess reserves, partially offset by a $1.4 million increase in bond proceeds.

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Financial Statements

State Water Resources Development System
Statements of Net Position
June 30, 2013 and 2012 (in thousands)

	2013	2012 (as restated)
Assets		
Utility plant:		
Utility plant in service	$ 5,165,558	$ 5,086,686
Less accumulated depreciation	(2,366,429)	(2,281,806)
Net utility plant in service	2,799,129	2,804,880
Construction work in progress	528,836	408,072
Total utility plant	3,327,965	3,212,952
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	31,829	32,227
Cash and investments restricted for debt service	109,790	115,481
Cash and cash equivalents on deposit with revenue bond trustee	9,207	9,205
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	57,350	29,887
Capital credit due from water contractors	65,019	82,934
Unamortized project costs	322,339	332,302
Unbilled interest incurred on capital costs	452,662	467,632
Loans receivable from local water agencies	16,468	19,142
Advance to other state funds	91,517	91,517
Total long-term assets	1,156,181	1,180,327
Current assets:		
Cash and cash equivalents	559,634	422,404
Receivables:		
Interest on investments	899	1,287
Water supply and power billings (net)	92,373	110,646
Due from federal and state governments	20,227	15,787
Inventories	7,413	29,653
Total current assets	680,546	579,777
Total assets	5,164,692	4,973,056
Deferred outflows of resources:		
Deferral of loss on refunding	124,591	57,930
Total deferred outflows of resources	124,591	57,930
Total assets and deferred outflows of resources	$ 5,289,283	$ 5,030,986

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

State Water Resources Development System
Statements of Net Position (continued)
June 30, 2013 and 2012 (in thousands)

	2013	2012 (as restated)
Capitalization and Liabilities		
Capitalization:		
Net position:		
Net investment in capital assets	$ 785,460	$ 684,025
Restricted	419,968	521,403
Total net position	1,205,428	1,205,428
Long-term liabilities		
General obligation bonds	241,835	302,920
Revenue bonds	2,479,684	2,363,582
Commercial paper	50,505	28,783
Other postemployment benefits	140,470	117,924
Pooled Money Investment Account (PMIA) Loan	11,580	14,896
Accrued vacation	33,305	32,939
Pollution remediation	15,107	8,920
Unearned revenue - State and Federal capital recovery	145,651	149,347
Advances for plant replacements	29,938	35,153
Total long-term liabilities	3,148,075	3,054,464
Total capitalization	4,353,503	4,259,892
Current liabilities:		
Current maturities of bonds	175,860	183,610
Accounts payable	106,490	88,025
Accrued vacation	8,612	7,318
Pollution remediation	8,400	2,000
Accrued interest on long-term debt	13,741	17,370
Pooled Money Investment Account (PMIA) Loan	3,316	3,156
Due to other state funds	49,172	34,024
Proceeds due to water contractors	98,753	142,048
Total current liabilities	464,344	477,551
Total Liabilities	3,612,419	3,532,015
Deferred inflows of resources:		
Operations and maintenance expense	47,889	2,154
Capital costs	265,135	123,153
Power sales credit due to water contractors	158,412	168,236
Total deferred inflows of resources	471,436	293,543
Total net position, liabilities, and deferred inflows of resources	$ 5,289,283	$ 5,030,986

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

State Water Resources Development System
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012 (as restated)
Operating revenues:		
Water supply	$ 931,808	$ 860,891
Power sales	146,277	148,360
Federal reimbursements	49,110	36,561
Total operating revenues	1,127,195	1,045,812
Operating expenses:		
Operations and maintenance	545,413	526,402
Purchased power	258,899	271,377
Depreciation and amortization expense	85,236	87,400
Operating expenses recovered, principally under long-term water supply contracts, net	18,325	67,063
Total operating expenses	907,873	952,242
Income from operations	219,322	93,570
Nonoperating revenue (expenses):		
Capital revenues recovered (deferred)	(175,005)	43,834
Interest expense	(53,492)	(107,770)
Other revenues (expenses), net	9,175	(29,634)
Change in net position	-	-
Net position, beginning of year, as restated	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.

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State Water Resources Development System
Statements of Cash Flows
For the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012 (as restated)
Cash flows from operating activities:		
Receipts from customers	$ 1,088,771	$ 1,045,826
Payments to employees for services	(273,393)	(258,226)
Payments to suppliers	(438,273)	(478,686)
Other expenses	2,709	(36,488)
Net cash provided by operating activities	379,814	272,426
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	267,762	112,033
Principal payments on long-term debt	(183,610)	(174,315)
Commercial paper notes issued	121,961	75,444
Principal payments on commercial paper notes	(100,239)	(101,239)
Principal payments on PMIA note	(3,156)	(3,003)
Interest payments on long-term debt	(160,668)	(139,367)
Additions to utility plant and CWIP	(200,249)	(98,887)
Net cash used by capital and related financing activities	(258,199)	(329,334)
Cash flows from investing activities:		
Cash received from investment earnings	8,468	6,991
Proceeds of investments matured	302,608	302,608
Purchases of investments	(302,608)	(302,608)
Loan payments from local water agencies	2,674	1,898
Net cash provided by investing activities	11,142	8,889
Net increase (decrease) in cash and cash equivalents	132,757	(48,019)
Cash and cash equivalents, beginning of year	503,702	551,721
Cash and cash equivalents, end of year	$ 636,459	$ 503,702

Noncash capital and related financing activities:		
Amortization of Bond Premium/Discount	$ 36,885	$ 16,431
Principal retirements of long-term debt on proceeds received from issuance of Series AI, AJ, AK, AL, AN, AO and AM Water System Revenue Bonds	632,125	266,785
Noncash capital and related financing activities:	$ 669,010	$ 283,216

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

State Water Resources Development System
Statements of Cash Flows (continued)
For the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012 (as restated)
Reconciliation to the statement of net position:		
Cash and cash equivalents	$ 559,634	$ 422,404
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	31,829	32,227
Cash and cash equivalents restricted for debt service (net of $74,001 and $75,615 of U.S. Agency securities for 2013 and 2012, respectively)	35,789	39,866
Cash and cash equivalents on deposit with revenue bond trustee	9,207	9,205
Cash and cash equivalents	$ 636,459	$ 503,702

	2013	2012
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 219,323	$ 106,008
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	85,236	87,400
Other expenses	2,709	(36,488)
Decrease in deferred charges and credits, net	9,362	52,072
Changes in assets and liabilities:		
Decrease (increase) in receivables	18,273	(29,868)
Decrease in inventories	22,240	3,331
(Increase) decrease in due from state and federal governments	(4,440)	3,838
Increase in accounts payable, accrued vacation, pollution remediation and other postemployment benefits	55,258	57,612
Increase (decrease) in due to other state funds	15,148	(2,523)
Increase (decrease) in proceeds due to Water Contractors	(43,295)	31,044
Total adjustments	160,491	166,418
Net cash provided by operating activities	$ 379,814	$ 272,426

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

For the years ended June 30, 2013 and 2012 (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 complex 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 70% of its population.

The System is accounted for as an enterprise fund comprised of two segments, 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:

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	5	years

The System's intangible assets, consisting of software, land use and legal rights, costs associated with the FERC licenses, and compliance instruments are included in utility plant in service. Software costs are being amortized on a straight-line basis over a 10 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 5 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 emissions credits and allowances. Currently, these compliance instruments consist of Green House Gas (GHG) emissions allowances for Reid Gardner Unit No. 4 (RG4) and 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 utility plant in service and charged to expense as they are sold or used.

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-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 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 investments with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the 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 the Surplus Money Investment Fund (SMIF), which is stated at fair value. SMIF is part of the State of California Pooled Money Investment Account (PMIA), which as of June 30, 2013 and 2012 had a balance of $61.1 billion and $62.7 billion, respectively. The weighted average to maturity of PMIA investments was 278 days and 270 days as of June 30, 2013 and 2012, respectively. The total amount of deposits in SMIF was $30 billion for June 30, 2013 and 2012. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute. 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, according to a statement of investment policy which sets forth 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. Included in PMIA's investment portfolio are structured notes and asset-backed securities totaling $400 million and $753 million as of June 30, 2013 and $800 million and $1.3 billion as of June 30, 2012.

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, 2013, are of a similar nature as those held at June 30, 2012.

Advance to Other State Funds
Advance to Other State Funds represents the System's advance of $92 million to DWR's internal service fund, and functions as a revolving working capital facility for the System.

Receivables
Receivables include amounts due from the Water Contractors and organizations that purchase power from the System, totaling $92,373 and $110,646, net of the allowance for uncollectible amounts, at June 30, 2013 and 2012, respectively. Additionally, the Federal government owed the System $20,227 and $15,787 at June 30, 2013 and 2012, respectively, as reimbursement for certain costs related to flood control and jointly owned facilities. The allowance for uncollectible amounts totaled $129 and $197 at June 30, 2013 and 2012, 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 and research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the water supply contracts.

Unbilled interest incurred on unrecovered capital costs are classified as other long-term assets until billed under the terms of the 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, 2013 and 2012.

Deferred Outflows and Inflows
The System has the authority to establish the level of rates to recover all System costs, including debt service. As a regulated entity, the System's financial statements are prepared in accordance with the Governmental Accounting Standards Board. 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 records costs of loss on refunding as deferred outflows of resources and revenues that are in excess of total project costs from inception of

the SWP as deferred inflows of resources. These costs include capital costs and operations and maintenance costs.

Deferred Outflows of Resources

Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the old debt. With the implementation of GASB Statement No. 65, this is reported as deferred outflows of resources.

Deferred Inflows of Resources

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. Under the System's Burns Porter Act segment, the System had an ending balance of $47.9 million and $2.2 million in deferred inflows of operations and maintenance expenses for the years ended 2013 and 2012 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 $142 million to an ending balance of $265.1 million in fiscal 2013 compared to $123.1 million in fiscal 2012. This increase is primarily due to refundings of multiple bond series and net revenues collected for principal payments of previous costs incurred to construct UPIS assets.

The power sales credit arises from revenue collected for the power generated by the Hyatt-Thermalito Power Plant. The power sales credit is amortized over time by a credit issued to the Water Contractors through the Delta Water Capital Charge. The power sales credit decreased by $9.8 million to an ending balance of $158.4 million in fiscal 2013 compared to $168.2 million in fiscal 2012.

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 water supply contracts for future replacement of certain System assets. Assets from such billings are restricted. Costs of plant replacements are charged to the 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 total utility plant, net investment in capital assets and unrestricted net position, related long-term debt and other assets and liabilities relating 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 assets 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 $40,450 and $32,926 during the years ended June 30, 2013 and 2012, respectively. Rate management reductions are permanent 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 and current and past unrecovered operations and maintenance costs. The 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 $54,677 and $56,385 for the years ended June 30, 2013 and 2012, respectively, are recorded as Proceeds Due to Water Contractors in the financial statements. The System refunded $49,740 and $55,849 for the years ended June 30, 2013 and 2012, 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 45% share of the operating costs of the San Luis joint use facilities and other water facilities. 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 general obligation 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 general obligation bond proceeds, power purchases, replacements and debt service on the general obligation 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 and 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 have been reclassified in order to be consistent with the current year's presentation.

For the years ended June 30, 2013 and 2012 (in thousands)

3. Interests in Jointly Owned Facilities

At June 30, 2013 and 2012, the System owned the following undivided interests in jointly owned facilities:

	% Owned by System		System's Share			
			Utility Plant in Service		Accumulated Depreciation	
	2013	2012	2013	2012	2013	2012
Reid Gardner Power Plant Unit No. 4	67.8%	67.8%	$ 362,656	$ 359,959	$ 362,656	$ 344,857
San Luis joint use facilities	55.0%	55.0%	281,740	281,455	129,178	125,068

The amounts above include the System's share of direct costs related to building 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.

DWR does not operate the Reid Gardner Power Plant Unit No. 4. The portion of Reid Gardner Power Plant Unit No. 4 operations attributable to the System’s share is included in operations and maintenance expense in the statement of revenues, expenses, and changes in net position.

DWR will have no ownership in the Reid Gardner Power Plant Unit No. 4 effective July 25, 2013. The contract between DWR and Nevada Energy (NVE), the operator of the Reid Gardner Power Plant Unit No. 4, will terminate on July 25, 2013, with the System’s share of Reid Gardner being fully capitalized and depreciated as of June 30, 2013.

For the years ended June 30, 2013 and 2012 (in thousands)

4. Utility Plant

The summarized activity of the System's utility plant during 2013 is presented below:

	Beginning Balance June 30, 2012	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2013
Nondepreciable Utility Plant:				
Land	$ 136,129	$ 701	$ (33)	$ 136,797
Construction work in progress (CWIP)	408,072	185,970	(65,206)	528,836
Land use rights	11,250	299	-	11,549
Other intangible assets	88,930	11,134	-	100,064
Total nondepreciable utility plant	644,381	198,104	(65,239)	777,246
Depreciable Utility Plant:				
Aqueducts	2,064,208	7,047	-	2,071,255
Dams & reservoirs	781,202	206	-	781,408
Power plants	906,554	5,149	-	911,703
Pumping plants	829,344	7,311	-	836,655
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	65,820	410	-	66,230
Equipment and other depreciable assets	70,593	1,839	(613)	71,819
Computer software	24,162	339	-	24,501
Land use rights	272	-	-	272
Other intangible assets	-	11,995	-	11,995
General	6,491	33,088	-	39,579
	4,850,377	67,384	(613)	4,917,148
Less: accumulated depreciation	(2,267,628)	(82,753)	613	(2,349,768)
Less: accumulated amortization	(14,178)	(2,483)	-	(16,661)
	(2,281,806)	(85,236)	613	(2,366,429)
Total depreciable plant	2,568,571	(17,852)	-	2,550,719
Total Utility Plant - net	$ 3,212,952	$ 180,252	$ (65,239)	$ 3,327,965

For the years ended June 30, 2013 and 2012 (in thousands)

The summarized activity of the System's utility plant during 2012 is presented below:

	Beginning Balance June 30, 2011	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2012
Nondepreciable Utility Plant:				
Land	$ 136,129	$ -	$ -	$ 136,129
Construction work in progress (CWIP)	366,975	88,287	(47,190)	408,072
Land use rights	11,005	245	-	11,250
Other intangible assets	81,976	6,954	-	88,930
Total nondepreciable utility plant	596,085	95,486	(47,190)	644,381
Depreciable Utility Plant:				
Aqueducts	2,057,437	6,771	-	2,064,208
Dams & reservoirs	781,110	92	-	781,202
Power plants	910,100	2,270	(5,816)	906,554
Pumping plants	787,008	42,336	-	829,344
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	64,810	1,010	-	65,820
Equipment and other depreciable assets	67,996	2,597	-	70,593
Computer software	23,629	533	-	24,162
Land use rights	-	272	-	272
General	5,964	527	-	6,491
	4,799,785	56,408	(5,816)	4,850,377
Less: accumulated depreciation	(2,182,591)	(85,037)	-	(2,267,628)
Less: accumulated amortization	(11,815)	(2,363)	-	(14,178)
	(2,194,406)	(87,400)	-	(2,281,806)
Total depreciable plant	2,605,379	(30,992)	(5,816)	2,568,571
Total Utility Plant - net	$ 3,201,464	$ 64,494	$ (53,006)	$ 3,212,952

5. Investments

As of June 30, 2013, the System's investments and credit ratings are as follows:

	Credit Rating (S&P)	Maturities: Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Fair Value
Investments:						
Money Market Mutual Funds	Not Rated	$ 3	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	627,249	-	627,249
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	50,887	-	23,114	74,001
						701,253
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,207	-	-	-	9,207
Total Investments						$ 710,460

For the years ended June 30, 2013 and 2012 (in thousands)

As of June 30, 2012, the System's investments and credit ratings are as follows:

	Credit Rating (S&P)	Maturities: Under 30 Days	Maturities: 31-180 Days	Maturities: 181-365 Days	Maturities: 1-5 Years	Maturities: Over 5 Years	Fair Value
Investments:							
Money Market Mutual Funds	Not Rated	$ 3	$ -	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	494,494	-	-	494,494
US Federal Agency Notes							
Federal National Mortgage Association	AA+	-	51,160	-	12,202	12,253	75,615
							570,112
Investment with Fiscal Agent							
Money Market Mutual Funds	AAA	9,205	-	-	-	-	9,205
Total Investments							$579,317

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.

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 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, 2013 and 2012, nearly 10% and 13%, respectively, of the System's investments at year-end 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, 2013 and 2012, was as follows:

For the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012
Federal National Mortgage Association	$ 74,001	$ 75,615

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.307% and 0.382% for the years ended June 30, 2013 and 2012, respectively. For the years ended June 30, 2013 and 2012, interest earned on the deposits with PMIA approximated $1,675 and $2,188 respectively, and are 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:

	2013	2012
Fair Value of Investments at the beginning of the fiscal year	$ 75,615	$ 75,313
Less: Proceeds of investments matured in fiscal year	(302,608)	(302,608)
Add: Purchase of investments in fiscal year	302,608	302,608
Add: Amortization of Discounts	63	63
Change in fair value of investments during fiscal year	(1,677)	239
Fair value of investments at the end of the fiscal year	$ 74,001	$ 75,615

6. Long-term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2013 and 2012:

	General Obligation Bonds	Revenue Bonds*			Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Par Amount	Unamortized (Discounts) and Premium	Total Revenue Bonds	Par Amount		
Balance at June 30, 2011	$ 420,540	$2,380,205	$ 111,649	$2,491,854	$ 54,578	$ 21,055	$2,988,027
Additions	-	345,575	49,674	395,249	75,444	-	470,693
Payments/amortization	(58,165)	(382,935)	(16,431)	(399,366)	(101,239)	(3,003)	(561,773)
Balance at June 30, 2012	362,375	2,342,845	144,892	2,487,737	28,783	18,052	2,896,947
Additions	-	822,410	77,477	899,887	121,961	-	1,021,848
Payments/amortization	(59,455)	(756,280)	(36,885)	(793,165)	(100,239)	(3,156)	(956,015)
Balance at June 30, 2013	302,920	2,408,975	185,484	2,594,459	50,505	14,896	2,962,780
Less current portion	(61,085)	(114,775)	-	(114,775)	-	(3,316)	(179,176)
Total Long-term Debt	$ 241,835	$2,294,200	$ 185,484	$2,479,684	$ 50,505	$ 11,580	$2,783,604

Note: *The column "Deferred Amount on Refunding" has been removed due to the implementation of GASB Statement No. 65.

General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development (WRD) General Obligation Bonds in the amount of $1,750,000 for construction of the System. This amount included $130,000 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 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 meet 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 WRD General Obligation 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 those uses and purposes for the benefit of the owners of the WRD General Obligation Bonds.

As of June 30, 2013, the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service is $347,168 with payments through 2025. Principal and interest paid for the current year were $74,463 and Burns-Porter Act water supply operating revenues were $634,675. As of June 30, 2012 the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service were $421,631 with payments through 2025. Principal and interest paid for 2012 were $75,728 and Burns-Porter Act WRD water supply operating revenues were $553,453.

WRD General Obligation Bonds of $168 million are authorized but un-issued as of June 30, 2013 and 2012, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

WRD General Obligation Bonds Series A through Series S may be called at any time for early redemption. WRD General Obligation Bonds Series X through Series Y do not have early redemption provisions.

For the years ended June 30, 2013 and 2012 (in thousands)

WRD General Obligation Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2013	Amounts Outstanding 2012
1964	A	0.1%	2014	$ 4,000	$ 8,000
1964	B&C	0.05-3.0%	2015	10,000	16,000
1965	D&E	3.0-3.8%	2016	22,100	30,500
1966	F&G	3.5-4.1%	2017	34,600	42,600
1967	H,J&K	3.0-4.8%	2018	59,900	71,700
1968	L&M	4.0-4.9%	2019	50,400	57,800
1970	N&P	5.0-5.8%	2020	57,800	65,000
1971	Q&R	4.8-5.2%	2021	48,750	54,000
1972	S	5.3-5.5%	2022	14,400	15,720
1993	X	4.8%	2024	550	600
1994	Y	7.0-7.1%	2025	420	455
Total General Obligation bonds debt outstanding at par				302,920	362,375
Less current maturities				(61,085)	(59,455)
Total Long term General Obligation bonds debt outstanding				$ 241,835	$ 302,920

Revenue Bonds

The Central Valley Project Water System (CVP) 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 of and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds, primarily certain payments under the water supply contracts between the System and Water Contractors.

As of June 30, 2013, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service is $3,457,799 with payments through 2036. Principal and interest paid for the current year were $222,958 and Central Valley Project Act water supply operating revenues were $297,133. As of June 30, 2012, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service were $3,441,169 with payments through 2036. Principal and Interest paid for the year were $229,011 and Central Valley Project Act water supply operating revenues were $307,438.

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 a 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 of the bonds are redeemable prior to maturity at a redemption price of 100%.

For the years ended June 30, 2013 and 2012 (in thousands)

CVP Revenue Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amounts Outstanding 2013	Amounts Outstanding 2012
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 68,070	$ 72,945
CVP Water System:						
1992	J	7.0%	2013	2001	-	27,720
1999	V	6.3%	2025	None	20,235	20,235
2001	W	5.5%	2015	2012	47,460	48,845
2002	X	5.0-5.5%	2018	None	57,625	119,290
2003	Y	5.0-5.3%	2026	2013	-	160,305
2003	Z	3.3-5.0%	2020	2013	-	82,550
2003	AA	5.0%	2024	2013	-	69,630
2005	AC	3.5-5.0%	2015	2015	29,440	222,110
2006	AD	3.4-3.5%	2015	2015	965	107,515
2008	AE	3.0-5.0%	2030	2018	559,190	577,790
2009	AF	3.0-5.0%	2033	2019	193,515	221,860
2010	AG	3.0-5.0%	2033	2020	168,480	168,800
2011	AH	3.0-5.3%	2036	2021	96,010	97,675
2012	AI	5.0%	2030	2022	92,275	92,275
2012	AJ	3.0-5.0%	2036	2022	216,930	216,930
2012	AK	2.0-5.0%	2036	2022	36,370	36,370
2013	AL	5.0%	2030	2023	105,875	-
2013	AM	5.0%	2026	2023	183,960	-
2013	AN	2.0-5.0%	2036	2023	49,525	-
2013	AO	0.7-3.5%	2030	None	317,505	-
2013	AP	1.0-5.0%	2036	2023	45,340	-
2013	AQ	4.0-5.0%	2036	2023	120,205	-
	Total revenue bond debt outstanding at par				2,408,975	2,342,845
	Net Unamortized bond issuance premiums/discounts				185,484	144,892
	Current fiscal maturities				(114,775)	(124,155)
	Total long term bond debt outstanding				$ 2,479,684	$ 2,363,582

Note: The line “Net Deferred Amount on Refunding” has been removed due to the implementation of GASB Statement No. 65.

For the years ended June 30, 2013 and 2012 (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2013:

	General Obligation Bonds		Revenue Bonds		
Year	Principal	Interest	Principal	Interest	Total
2014	$ 61,085	$ 12,503	$ 114,775	$ 105,679	$ 294,042
2015	56,875	10,098	115,580	100,234	282,787
2016	49,915	7,742	130,855	95,092	283,604
2017	46,745	5,661	135,115	89,746	277,267
2018	34,235	3,792	139,405	83,848	261,280
2019-2023	53,945	4,446	677,290	334,613	1,070,294
2024-2028	120	6	640,940	182,506	823,572
2029-2033	-	-	354,665	50,296	404,961
2034-2036	-	-	100,350	6,810	107,160
	$ 302,920	$ 44,248	$ 2,408,975	$ 1,048,824	$ 3,804,967

Pooled Money Investment Loan (PMIA)

The System applied for and received a loan from the Pooled Money Investment Account pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that defeased certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related cost of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4). DWR executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first payment was made on September 1, 2008. 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.

For the years ended June 30, 2013 and 2012 (in thousands)

The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2013:

Year	Principal	Interest	Total
2014	$ 3,317	$ 683	$ 4,000
2015	3,486	514	4,000
2016	3,663	337	4,000
2017	3,850	150	4,000
2018	580	7	587
	$ 14,896	$ 1,691	$ 16,587

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $139,668. 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, the bank has agreed to make advances to the System if necessary, to provide moneys for the payment of the commercial paper notes. The bank is obligated to provide $150,000 with the principal amount of commercial paper notes limited to $139,668 and $10,332 of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $139,668. The Line of Credit is scheduled to expire on October 24, 2014 but can be extended for up to three years upon written request and approval of 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, 2013, there were no borrowings with the bank under the credit agreement. At June 30, 2013 and 2012, there were commercial paper borrowings of $50,505 and $28,783, respectively, outstanding under this program. The weighted average for interest expense approximated 0.16% and 0.18% for the years ended June 30, 2013, and 2012, respectively. The proceeds from the issuance of commercial paper 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. 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 is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and WRD General Obligation Bonds.

The 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.

7. Bond Refundings and Defeasances

The System has issued CVP Water System Revenue Refunding Bonds to refund various issues of CVP Water System Revenue Bonds previously issued. The net proceeds from these sales were used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with an escrow agent as an independent fiscal 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, 2013 and 2012, outstanding CVP Water System Revenue Bonds of $315,265 and $58,705, respectively, are considered to be defeased.

Refunding and defeasance transactions during fiscal 2013 were as follows:

- On September 5, 2012, the System issued $105,875 of CVP Water System Revenue Bonds Series AL with an average yield on the bonds of 2.33% to refund $61,665 of CVP Water System Revenue Bonds Series X, and $60,280 of CVP Water System Revenue Bonds Series Z. The bond proceeds of $105,875 and $18,176, par and premium respectively along with System funds on hand in the amount of $1,466 were used to refund $121,945 of bonds, fund $2,982 of future interest on the defeased bonds, and cover costs of issuance of $590.

- On September 27, 2012, the System issued $49,525 of CVP Water System Revenue Bonds Series AN with an average yield on the bonds of 2.98% to refund $12,550 of CVP Water System Revenue Bonds Series AD. The bond proceeds of $49,525 and $10,113, par and premium, respectively, along with System funds on hand in the amount of $211 were used to refund $12,550 of bonds, fund $1,772 of future interest on the defeased bonds, redeem commercial paper borrowings of $44,807, fund capitalized interest of $318, fund deposits to the debt service reserve account of $159, and cover costs of issuance of $243.

- On September 27, 2012, the System also issued $317,505 CVP Water System federally-taxable Revenue Bonds Series AO with an average yield on the bonds of 2.54% to refund $192,250 of CVP Water System Revenue Bonds Series AC, and $93,540 of CVP Water System Revenue Bonds Series AD. The bond proceeds of $317,505 along with System funds on hand in the amount of $5,331 were used to refund $285,790 of bonds, fund $35,619 of future interest on the defeased bonds, and cover costs of issuance of $1,427.

- On March 5, 2013, the System issued $183,960 of CVP Water System Revenue Bonds Series AM with an average yield on the bonds of 2.71% to refund $69,630 of CVP Water System Revenue Bonds Series AA, and $142,210 of CVP Water System Revenue Bonds Series Y. The bond proceeds of $183,960 and $29,917, par and premium respectively along with System funds on hand in the amount of $4,382 were used to refund $211,840 of bonds, fund $5,409 of future interest on the defeased bonds, and cover costs of issuance of $1,010.

Refunding and defeasance transactions during fiscal 2012 were as follows:

- On September 7, 2011, the System issued $92,275 of CVP Water System Revenue Bonds Series AI with an average yield on the bonds of 3.06% to refund $103,200 of CVP Water System Revenue Bonds Series W. The bond proceeds of $92,275 and $12,549, par and premium respectively along with System funds on hand in the amount of $1,806 were used to refund $103,200 of bonds, fund $2,742 of future interest on the defeased bonds, and cover costs of issuance of $688.

- On October 13, 2011, the System issued $216,930 of CVP Water System Revenue Bonds Series AJ with an average yield on the bonds of 3.13% to retire $2,850 of CVP Water System Revenue Bonds Series X, $74,495 of CVP Water System Revenue Bonds Series Y, $6,730 of CVP Water System Revenue Bonds Series Z, $37,585 of CVP Water System Revenue Bonds Series AA, $32,010 of CVP Water System Revenue Bonds Series AC, and $1,560 of CVP Water System Revenue Bonds Series AD. The System caused an Invitation to Tender Bonds, dated September 14, 2011, to be distributed to the holders of the Refunded Bonds (the "Solicitation") and pursuant to the Solicitation, the System purchased the Refunded Bonds to achieve debt service savings. The respective purchase prices for the Refunded Bonds the System elected to purchase were determined pursuant to the terms of the Solicitation and such purchase prices were paid from proceeds of the Series AJ Bonds on October 14, 2011. Upon purchase, the Refunded Bonds were promptly surrendered to the State Treasurer for cancellation in accordance with the CVP Water System Revenue Bonds General Bond Resolution. The bond proceeds of $216,930 and $30,448, par and premium respectively along with System funds on hand in the amount of $3,122 were used to retire $155,230 of bonds, fund $18,958 for redemption premium and accrued interest on the retired bonds, redeem commercial paper borrowings of $69,322, fund capitalized interest of $3,719, fund deposits to the debt service reserve account of $1,641, and cover costs of issuance of $1,630.

- On March 13, 2012, the System issued $36,370 of CVP Water System Revenue Bonds Series AK with an average yield on the bonds of 3.05% to refund $410 of CVP Water System Revenue Bonds Series X, and $7,946 of CVP Water System Revenue Bonds Series AC. The bond proceeds of $36,370 and $6,678, par and premium respectively, along with System funds on hand in the amount of $125 were used to refund $8,355 of bonds, fund $1,131 of future interest on the defeased bonds, redeem commercial paper borrowings of $32,035, fund capitalized interest of $903, fund deposits to the debt service reserve account of $451, and cover costs of issuance of $298.

These refundings and defeasances were accomplished to take advantage of lower interest rates. The transactions resulted in cash flow savings of $92,583 and $34,049 and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $76,951 and $25,480 for fiscal years 2013 and 2012, respectively. The difference between the book value of the old debt and the amount required to retire the debt is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less.

Due to implementation of GASB Statement No. 65 the cost of issuance was eliminated (see Notes to Financial Statements, Summary of Significant Accounting Policies). In fiscal years 2013 and 2012, approximately $84,756 and $35,647 of cost were deferred. Amortization of all deferred refunding costs was approximately $20,546 and $4,526 in fiscal years 2013 and 2012, respectively.

8. Retirement Plan

Plan Description

The State is a member of the California Public Employees' Retirement System (PERS), 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 PERS. PERS 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. Copies of PERS' comprehensive annual financial report may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

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. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, 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 5% 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 6% 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 not required to make contributions to PERS.

The System 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 PERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013, were 20.503% and 20.457% for State Miscellaneous Tiers 1 and 2 respectively. For the fiscal year ended June 30, 2012, the required employer contribution rate for Tiers 1 and 2 were 18.175% and 17.025% respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For the years ended June 30, 2013 and 2012, the System's annual pension cost and actual contribution amounted to approximately $28 million and $25 million, respectively. Annual covered payroll is not available for the System. However the actuarially determined contributions for the years ended June 30, 2013 and 2012, approximated the same 1.3% of the total actuarially determined contribution requirements for the State Miscellaneous Category and approximately 17.66% and 15.84%, respectively, of the total System payroll. The required contribution for the year ended June 30, 2013 was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of covered payroll. Likewise, the required contribution for the year ended June 30, 2012 was determined as part of the June 30, 2010, actuarial valuation.

For the years ended June 30, 2013 and 2012 (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
2011	$ 23,013	100%
2012	24,895	100%
2013	28,178	100%

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, first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. 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 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental 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.

For the years ended June 30, 2013 and 2012 (in thousands)

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

	2013	2012
Annual required contribution (ARC)	$ 34,166	$ 30,732
Interest on net OPEB obligation	4,046	2,922
Adjustment to the ARC	(3,549)	(2,563)
Annual OPEB cost	34,663	31,091
Contributions made	(12,117)	(11,065)
Increase in net OPEB obligation	22,546	20,026
Net OPEB obligation - beginning of year	117,924	97,898
Net OPEB obligation - end of year	$ 140,470	$ 117,924

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2013, 2012 and 2011, were as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2011	$ 41,382	37%	$ 97,898
6/30/2012	30,732	36%	117,924
6/30/2013	34,116	35%	140,470

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 the total Department retiree health benefits costs.

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller John Chiang, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's Web site 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

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, 2013 and June 30, 2012, approximated $75,641 and $65,544, respectively.

Power Transmission and Purchase

The System has long-term power transmission service contracts with anticipated future payments of approximately $78,754 over periods ranging from one to 29 years. Payments made under these contracts approximated $13,725 and $16,984 for the years ended June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012 (in thousands)

The System has also entered into long-term power purchase contracts with anticipated future payments of approximately $478,425 over periods ranging from one to 29 years. Payments made under these contracts, excluding payments to the Kings River Conservation District (District) to cover debt service, approximated $35,391 and $48,051 for the years ended June 30, 2013 and 2012, respectively.

The remaining amounts of fixed obligations under the long-term power purchase and transmission contracts as of June 30, 2013, are as follows:

For the year ended	Fixed Obligations
2014	$ 52,334
2015	46,075
2016	24,093
2017	24,093
2018	24,093
2019 - 2042	386,492
	$ 557,180

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 $10,635 and $14,500 during the years ended June 30, 2013 and 2012, 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, 2013 are as follows:

For the year ended	Fixed Obligations
2014	$ 4,302
2015	4,272
2016	4,270
2017	4,253
2018	4,239
2019	4,257
	$ 25,593

DWR entered into a Power Agreement with the Northern California Power Agency (NCPA) and other project participants on May 24, 2010 to participate in the Lodi Energy Center Project (LEC Project), which consists of a 296 megawatt natural gas-fired combined cycle power plant constructed by NCPA in Lodi, California. The terms of the agreement provide that DWR paid for 33.5 percent of the construction costs, pays 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 on June 24, 2010 for the DWR's share of construction costs. Construction of the LEC Project commenced in early August 2010 with Commercial Operation Date occurring on November 27, 2012. The LEC 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.

For the years ended June 30, 2013 and 2012 (in thousands)

The amounts of fixed obligations of the System related to future principal and interest payments of the LEC's bonds as of June 30, 2013 are as follows:

For the year ended	Fixed Obligations
2014	$ 9,131
2015	9,207
2016	9,209
2017	9,206
2018	9,208
2019 - 2023	46,041
2024 - 2028	46,042
2029 - 2033	46,038
2034 - 2035	18,417
	$ 202,499

Market value information for certain purchase power, sale and exchange contracts are disclosed at June 30, 2013, using forward market prices discounted at the prevailing risk-free interest rate. All fifteen sales contracts extending beyond June 30, 2013 expire in fiscal 2014. There are thirteen purchase contracts that will expire in fiscal 2014, three purchase contracts will expire in fiscal 2015, six purchase contracts will expire in fiscal 2016, six purchase contracts will expire in fiscal 2017, one purchase contract will expire in fiscal 2018, and one will expire in fiscal 2035. The long-term energy purchase contracts involve energy delivered from the Reid Gardner Project will expire July 30, 2013 and Pine Flat Power Plants expire in 2037, respectively, and a contract with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, expires in 2019. An agreement with the NCPA, operator of the LEC which commits DWR to purchase power on a long term basis subject to the agreement, has no explicit termination date. Fair value of purchase power and sales commitments extending beyond June 30, 2013 are as follows:

For the years ended June 30, 2013 and 2012 (in thousands)

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2013
Energy sales	15	450	$ -
Energy purchases	30	1,054	(34)
Long-term energy purchases	4	544	106
Total			$ 72

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 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 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 revenue. 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 timely filed. This leaves only the plaintiffs’ CEQA compliance challenge, unless the plaintiffs appeal and are successful in their appeal to reinstate the validation causes of action. All three cases are in the pre-trial stage. The System, however, does not believe that there would be any material adverse impact on the System’s financial position or results from operations, even if these lawsuits are successful.

2005 Contractor Lawsuit Regarding Oroville Power Credits

In April, 2005 the Kern County Water Agency and thirteen other Water Contractors filed a lawsuit against the System in Sacramento County Superior Court for declaratory relief and breach of contract. The complaint alleges that pursuant to the water supply contracts, the System is required, but failed, to credit all revenues from power generated by certain project conservation facilities (primarily the Hyatt-Thermalito Power Plants) to the Delta Water charge in the Water Contractor billings, and, as a result, was overcharging the Water Contractor plaintiffs. The complaint seeks a declaration that all "benefits" derived from the sale or other disposal of power from project conservation facilities be credited "in conformity with the terms of the water supply contracts," along with damages and costs in an unspecified amount. The Metropolitan Water District of Southern California and entities representing 12 other southern Water Contractors received court permission in December, 2005 to intervene in the lawsuit as defendants. Plaintiffs thereafter filed an amended complaint joining two additional contractors. A non-jury trial was held in November and December 2008. In May 2010, the Court entered its judgment in favor of DWR and the Water Contractors which intervened in support of DWR, finding that DWR's determinations and administration of the provisions regarding Oroville power credits were consistent with the water supply contracts. The Water Contractor plaintiffs appealed the lower court's decision to the Court of Appeal and in February 2013 the Court of Appeal issued its decision upholding the judgment of the trial court in favor of DWR and the intervening Water Contractors. The plaintiffs did not seek any further review of the case, so the case is now concluded.

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

In accordance with the 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, the proceeds of which had been used to pay costs allocated by the System to 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. 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, although the fourth lawsuit does not involve DWR or any other state agency. Upon completion of the trial, the judge issued a decision in August 2012 in favor of DWR. All the plaintiffs, except for two insurance companies, have appealed the decision. The System does not believe that an adverse court decision in any of these consolidated cases would have a material adverse impact on the System's finances or operations because such costs would be recoverable under the long-term water supply contracts.

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 results from operations. 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, 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 results from operations. Any increased charges will be passed through to the Water Contractors under the water supply contracts in the form of higher operations charges.

Claims for Partial Energy Purchase Refunds
FERC proceedings have also been instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including the System. 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 the System, 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 (Claims Board) against the governmental entity sellers, including the System. The claims were denied by the Claims Board in April, 2006, which allows the claimants to file lawsuits against the governmental entity sellers, including the System. However, DWR and a group of California entities have agreed to suspend the running of the statute of limitations for the filing of a lawsuit through February 28, 2014. The System believes that amounts, if any, that the System might be required to refund as a result of these claims would not have a material impact on the System's financial position or results from operations because the impact of any refunds would be passed through to the Water Contractors under the water supply contracts in the form of higher operating charges.

Pollution Remediation

Reid Gardner Power Plant

The Reid Gardner (R-G) Power Plant, located near Moapa, Nevada, is operated by Nevada Energy (NVE) and consists of four coal-powered generators—Units 1 through 4. Units 1–3 are 100% owned by NVE, whereas the capital ownership of Unit 4 is shared between the DWR and NVE at 67.8% and 32.2%, respectively. Additionally, DWR has a 29.2% share of the R-G facilities necessary for and common to all four units. While the DWR ownership percentages cited above are expected to terminate during calendar 2013 and after fiscal 2013, the potential remediation liability described below is expected to be shared under an agreement between NVE and DWR that is a expected to be executed during calendar 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 R-G and also to ultimately remediate groundwater, soils, and other contamination at the R-G 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 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 2023.

Based on a review of NVE's ongoing and planned investigations and overall AOC planning activities, DWR's estimated equitable share of the current value of outlays could range between $12 million and $24 million; a quantitative estimate of the ultimate investigatory and remediation cost is difficult at this time, as baseline conditions are still being assessed by NDEP. DWR's current estimate is based upon a quantitative assessment of constituents of concern currently known to DWR applied to a range of potential and applicable remediation strategies. DWR calculated the potential financial liability by estimating a reasonable range of potential outlays and applying an estimated probability of occurrence to the potential outlays, yielding a current total expected liability of $23.5 million. The System expended approximately $74 in FY 2012/2013 and DWR expects to pay $7.5 million of the total estimated liability during FY 2013/2014. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information is available to DWR.

Meanwhile, 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 R-G 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 March 2012, the same Native American tribe served on NVE and DWR a formal notice of intent to file another lawsuit under the federal Clean Air Act, but no such lawsuit has yet been filed.

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 methylmercury. 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 methylmercury in the open waters of the Delta. In addition, DWR and others are assigned certain responsibilities regarding the discharge of methylmercury from wetland and other aquatic restoration and enhancement projects. The required actions are divided into two phases. Phase I, which lasts for up to nine years until approximately October 2020, emphasizes studies and pilot projects to control methymercury, along with some implementation, and Phase II requires implementation of measures to achieve required methylmercury levels by 2030. In July 2011, an organization representing 27 Water Contractors filed a lawsuit against the State Water Resources Control Board and the Central Valley Regional Water Quality Control Board (Regional Board) challenging the portion of the Basin Plan amendment that requires DWR, in its capacity as operator of the System, to reduce methylmercury in the open waters of the Delta. DWR was named as a real party in interest in the lawsuit. The Contractors contended that since the System's water management activities do not add or introduce methylmercury into the Delta, there is no basis in law for assigning responsibility to the System to reduce the methylmercury that is present in the open waters of the Delta. The lawsuit was dismissed in early 2013. Under an agreement between the parties, the lawsuit could be re-filed following completion of Phase I studies and the Regional Board's review of initial load allocations.

The Systems' Mercury Control Program (Program) was established in May 2011. The Program was fully staffed at the end of fiscal 2013. DWR has submitted workplans to the Regional Board that outline the studies DWR will undertake in fulfillment of Phase 1 requirements. Acceptance of these workplan activities is pending Regional Board approval. Until the Regional Board accepts the DWR's workplans, it is difficult, at this time, to quantify future Phase 1 expenses. As these uncertainties are resolved, refinement of Program expenses, through the end of the Phase 1 study period will occur.

The System expended approximately $470 in fiscal 2013. DWR estimates that the System may incur labor costs of up to about $900 in each of fiscal 2014 and 2015. For fiscal 2013 through 2016, additional analytical and consulting outlays are anticipated and would be covered through the use of available funds outside of the System. Based on the uncertainties outlined above, the System could expect to expend approximately $900 each year, for the remaining years, through fiscal 2020, with a more accurate estimate of future Phase 1 expenses to be determined in the next several fiscal years as the Program continues to develop. Total expenses from fiscal 2012 through fiscal 2020 are projected at $6.2 million. At this time, there is not enough information to estimate System outlays for Phase II implementation.

The ultimate amount to be expended by the System will depend, among other things, upon actual DWR expenses associated with Phase I studies and pilot projects, future decisions by the Regional Board on Phase II load allocations, and the distribution of costs among the agencies ultimately determined to be responsible.

11. Self-Insurance

The System is self-insured for all completed facilities of the SWP other than a portion of the Reid Gardner Project. 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 54% and 56% of total System water supply revenue for the years ended June 30, 2013 and 2012, respectively, and Kern County Water Agency whose System billings constituted 10% of total System water supply revenue for the years ended June 30, 2013 and 2012.

The System sold power to 18 and 13 power companies during the fiscal years ended June 30, 2013 and 2012, respectively. The highest percentage of power revenues came from the California Independent System Operator. 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 $13.7 million and $21.6 million, for the years ended June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012 (in thousands)

	2013	% Total	2012	% Total
California Independent System Operator	$ 102,687	67.14%	$ 73,722	58.16%
Northern California Power Agency	16,541	10.82%	-	-
Morgan Stanley Capital Group Inc.	8,800	5.75%	10,216	8.06%
Constellation Energy Commodities Gr	-	-	15,557	12.27%
Western Area Power Administration	-	-	6,787	5.35%

Similarly, the System purchased power from 21 and 22 power suppliers during the years ended June 30, 2013 and 2012, respectively. The highest percentage of power provided to the System came from the California Independent System Operator. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

	2013	% Total	2012	% Total
California Independent System Operator	$ 141,541	54.67%	$ 138,257	50.95%
Norther California Power Agency	22,315	10.55%	-	-
Morgan Stanley Capital Group Inc.	35,418	13.68%	40,311	14.85%
JP Morgan Ventures Energy Corp	13,670	5.28%	-	-
Citigroup Energy Inc.	-	-	13,768	5.07%

For the years ended June 30, 2013 and 2012 (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, 2013 and 2012.

	2013			2012 (as restated)		
	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	$ 890,015	$ 2,437,950	$ 3,327,965	$ 874,474	$ 2,338,478	$ 3,212,952
Other assets	593,448	562,733	1,156,181	629,204	551,123	1,180,327
Current assets	295,025	385,521	680,546	248,565	331,212	579,777
Total assets	1,778,488	3,386,204	5,164,692	1,752,243	3,220,813	4,973,056
Deferred outflows of resources	-	124,591	124,591	-	57,930	57,930
Total assets and deferred outflows of resources	$ 1,778,488	$ 3,510,795	$ 5,289,283	$ 1,752,243	$ 3,278,743	$ 5,030,986
Capitalization and Liabilities						
Capitalization:						
Net position:						
Net investment in capital assets	$ 859,357	$ (73,897)	$ 785,460	$ 781,205	$ (97,180)	$ 684,025
Restricted	349,899	70,069	419,968	428,051	93,352	521,403
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Long-term liabilities	432,497	2,715,578	3,148,075	469,579	2,584,885	3,054,464
Total capitalization	1,641,753	2,711,750	4,353,503	1,678,835	2,581,057	4,259,892
Current liabilities	163,201	301,143	464,344	149,456	328,095	477,551
Total capitalization and liabilities	1,804,954	3,012,893	4,817,847	1,828,291	2,909,152	4,737,443
Deferred inflows of resources	(26,465)	497,901	471,436	(76,048)	369,591	293,543
Total liabilities, deferred inflows of resources and net position	$ 1,778,489	$ 3,510,794	$ 5,289,283	$ 1,752,243	$ 3,278,743	$ 5,030,986
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	$ 634,675	$ 297,133	$ 931,808	$ 553,453	$ 307,438	$ 860,891
Power sales	144,704	1,573	146,277	146,220	2,140	148,360
Federal reimbursements	47,207	1,903	49,110	35,490	1,071	36,561
	826,586	300,609	1,127,195	735,163	310,649	1,045,812
Depreciation expense	(22,146)	(63,090)	(85,236)	(22,302)	(65,098)	(87,400)
Other operating expense	(739,006)	(83,631)	(822,637)	(676,109)	(188,733)	(864,842)
Income from operations	65,434	153,888	219,322	36,752	56,818	93,570
Capital revenues (deferred) recovered	(41,947)	(133,058)	(175,005)	10,689	33,145	43,834
Interest expense	(15,402)	(38,090)	(53,492)	(17,783)	(89,987)	(107,770)
Transfers In	8,313	3,314,885	3,323,198	7,543	65,945	73,488
Transfers Out	(17,379)	(3,305,819)	(3,323,198)	(38,326)	(35,162)	(73,488)
Other (expense) income	981	8,194	9,175	1,125	(30,759)	(29,634)
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year, as restated	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	$ 176,847	$ 202,967	$ 379,814	$ 77,071	$ 195,355	$ 272,426
Capital and related financing activities	(125,394)	(132,805)	(258,199)	(124,566)	(204,768)	(329,334)
Investing activities	3,481	7,661	11,142	2,944	5,945	8,889
Net (decrease) increase in cash and cash equivalents	54,934	77,823	132,757	(44,551)	(3,468)	(48,019)
Cash and equivalents, beginning of year	199,577	304,125	503,702	244,128	307,593	551,721
Cash and equivalents, end of year	$ 254,511	$ 381,948	$ 636,459	$ 199,577	$ 304,125	$ 503,702

14. New Governmental Accounting Standards

GASB Statement No. 60
Effective July 1, 2012, the System implemented GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of GASB Statement No. 60 during the year ended June 30, 2013, did not have a material effect on the System's financial statements.

GASB Statement No. 61
In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement amends GASB Statement No. 14 and GASB Statement No. 34, to modify certain requirements for inclusion of component units in the financial reporting entity, to amend the criteria for reporting component units as if they were part of the primary government in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. The requirements of GASB No. 61 are effective for fiscal year 2013 and thereafter. It has been determined that GASB No. 61 did not impact the System.

GASB Statement No. 62
Effective July 1, 2012, the System implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The implementation of GASB Statement No. 62, during the year ended June 30, 2013, did not have a material effect on the System's financial statements.

GASB Statement No. 64
In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The requirements of Statement No. 64 are effective for the System beginning in fiscal 2013. It has been determined that GASB No. 64 did not impact the System.

GASB Statement No. 63 and No. 65
Effective July 1, 2012, the System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and* GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* A summary of the fiscal year 2012 financial statement items restated in connection with the adoption of GASB Statement No. 63 and 65 are shown in the following tables:

For the years ended June 30, 2013 and 2012 (in thousands)

Statements of Net Position

	Balance previously reported at June 30,2012	GASB 65 adjustment	June 30, 2012 (as restated)
Total long-term assets			
Amounts recoverable through future billings under long-term water supply contracts:			
Operations and maintenance expense	$ 27,733	$ 2,154	$ 29,887
Capital credit due from water contractors	80,483	2,451	82,934
Defered outflows of resources			
Deferral of loss on refunding	-	57,930	57,930
Capitalization and Liabilities			
Net Position			
Restricted	521,406	(3)	521,403
Long-term liabilities:			
Revenue bonds	2,303,201	60,381	2,363,582
Defered inflows of resources			
Operations and maintenance expense	-	2,154	2,154

Statements of Revenues, Expenses and Changes in Net Position

	Balance previously reported for the year ended June 30, 2012	GASB 65 adjustment	Year ended June 30, 2012 (as restated)
Operating expenses			
Operations and maintenance	$ 523,951	$ 2,451	$ 526,402
Operating expense recovered	57,076	9,987	67,063
Nonoperating revenues			
Capital revenue recovered	31,396	12,438	43,834

Due to the implementation of GASB Statement No. 65, certain amounts previously reported by the System as assets and liabilities, as noted in the table above, have been reclassified. The most significant reclassification was related to the deferral of loss on refunding, which was previously reported as a component of the carrying value of the System's revenue bonds, and is now being separately reported as deferred outflows of resources.

<u>GASB Statement No. 66</u>
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 are effective for fiscal year 2014 and thereafter.

<u>GASB Statement No. 68</u>
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 interperiod equity, and creating additional transparency. The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter.

15. Significant Events

In April 2013, The Department published a notice that it would begin negotiations in a public forum with the Water Contractors to develop contract amendments to extend the term and change certain financial provisions of the Water Supply Contracts. The negotiating sessions began in May 2013 and are continuing. Each Water Supply Contract currently has a specific termination date depending upon when the contract was initially executed. The contract termination dates range between 2035 and 2042. Environmental review pursuant to the California Environmental Quality Act (CEQA) will be part of the contract extension process.

On November 22, 2012, the System experienced a fire of the Thermalito-Hyatt Power Plant (THPP) at the Oroville Complex. The fire began on the third level (elevation 136), and spread upwards into the control room on the next floor up. Although the emergency responders attempted to extinguish the fire, it burned out of control for several hours, resulting in considerable damage to the plant. The plant has been 100% unavailable (zero generation) since November 22, 2012. All water deliveries are being made via the single bypass gate.

Since the System is self-insured, permission was secured to authorize issuance of additional bonds for the purpose of providing funds to restore generation and productivity of the plant. Immediately after the fire, an extensive effort was undertaken to clean and decontaminate the plant, make the plant safe, and return essential plant systems. In addition, studies were commissioned to determine the cause and origination of the fire and to assess plant components and provide a cost estimate to return the plant to service. As of June 30, 2013, DWR was still faced with two possible outcomes based on evaluations completed through August 2013. If the plant is determined to be a total loss, decommissioning plans will need to be made and reliable alternatives to move water from forebay to afterbay will need to be developed.

A Value Engineering Workshop was held August 11 – August 16 to evaluate the options regarding THPP. As a result of the workshop it is evident that the best business case is to return the plant to service. Decommissioning the plant had a very high initial capital cost with no cost recovery provisions. Rebuilding the plant also had a very high initial capital cost but the ability to recover those costs. It is anticipated that restoration activities should commence early in 2014 provided acceptance and approval is secured.

Currently, all costs resulting from the fire approximated $33.3 million at June 30, 2013, are being considered assessments and recorded in construction work in progress (CWIP). THPP was placed in service in 1973 with an expected useful life of 46 years and capitalized at an initial acquisition cost of $89.7 million. Pending management evaluation the asset's net book value at June 30, 2013 remains recorded at $11.8 million. The losses associated with the fire that occurred in 2013 will be recorded after the possible outcomes are assessed and a plan is implemented in year 2014.

Supplementary Information

State Water Resources Development System
Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds
For the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012
Water supply revenues, Central Valley Project Act	$ 297,133	$ 307,438
Add: Cover Collected as Proceeds Due To Water Contractors	54,677	56,385
Less: Devil Canyon Castaic Revenues	(16,763)	(16,979)
Revenues not available for Debt Service	(64,026)	(68,469)
Net CVP revenues available for debt service	271,021	278,375
Principal and interest for revenue bonds	$ 214,378	$ 220,455
Debt service coverage	126.4%	126.3%

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 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 $297.1 million in fiscal 2013 and $307.4 million in 2012, respectively in Water Supply Revenues of the System's (CVP) segment. In fiscal 2013, the revenues include: an increase of $54.7 million in refundable proceeds, a decrease of $16.8 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 $64 million of which $66.6 million is primarily related to operations and maintenance and $7.4 million is related to miscellaneous revenues not intended for debt service and a $10 million decrease is related to refund paid to the water contractor .

In fiscal 2012 the revenues include: an increase of $56.4 million in refundable proceeds, a decrease of $16.9 million for principal and interest payments for the DCC Facilities Bonds, and a decrease of $68.5 million, of which $59.3 million is primarily related to operations and maintenance and $9.2 million is related to miscellaneous revenues not intended for debt service.

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