State Water Resources Development System

Financial Statements and Supplementary Information
Annual Report Years Ended June 30 2014-2013





State of California Natural Resources Agency Department of Water Resources

Cover photos, left to right:

(1) Egret in the Delta, (2) Family fishing, (3) Devil Canyon Power Plant generator floor,
(4) DWR employee at A.D. Edmonston Pumping Plant, (5) Poppy field

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State Water Resources Development System

Financial Statements and Supplementary Information

For the years ended June 30, 2014 and 2013

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State Water Resources Development System
Table of Contents

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the years ended June 30, 2014 and 2013, 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, 2014 and June 30, 2013, 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 reclassified certain amounts previously reported as assets and liabilities to deferred outflows of resources and deferred inflows of resources. Our opinion is not modified with respect to this matter.

Also, as described in Note 14 to the financial statements, effective July 1, 2014, the System will be adopting the provisions of Governmental Accounting Standards Board (GASB) Statement No 68, *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27*. As a participant in the State of California's defined benefit pension plan, in accordance with GASB Statement No. 68, the System will be required to report its proportionate share of the net pension liability. Currently, management has not been able to estimate the potential impact on its financial statements from the implementation of GASB Statement No. 68. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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
November 20, 2014

Management's Discussion and Analysis (Required Supplementary Information)

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

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

Portions of the SWP system consist of facilities developed and used jointly with the Federal Central Valley Water Project (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 $78.7 million on total operating revenues of $974 million. This did not cause an increase in net position as a result of appropriately reflecting the timing differences in the deferral of revenues collected and expenses incurred.

- On March 6, 2014, the System issued $161.4 million of CVP Water System Revenue Bonds Series AR with an average yield on the bonds of 3.23% to fund $45 million of future construction costs for the East Branch Extension Phase I Improvements and East

Branch Extension Phase II, and to redeem $123.1 of Water Revenue Commercial Paper Notes Series 1.

Overview of Financial Statements

Reports Included in Financial Statements

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

Condensed Statements of Net Position

	2014	2013	2012	%Change 2014-2013	%Change 2013-2012
		(amount in thousands)			
Total utility plant	$ 3,469,661	$ 3,327,965	$ 3,212,952	4.3%	3.6%
Other assets	2,035,702	2,098,661	1,760,104	-3.0%	19.2%
Total assets	5,505,363	5,426,626	4,973,056	1.5%	9.1%
Total deferred outflows of resources	116,741	124,591	57,930	-6.3%	115.1%
Total assets and deferred outflows of resources	$ 5,622,104	$ 5,551,217	$ 5,030,986	1.3%	10.3%
Capitalization:					
Net position:					
Net investment in capital assets	$ 994,561	$ 832,147	$ 684,025	19.5%	21.7%
Restricted	210,867	373,281	521,403	-43.5%	-28.4%
Total net position	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Long-term liabilities	3,173,915	3,144,789	3,054,464	0.9%	3.0%
Total capitalization	4,379,343	4,350,217	4,259,892	0.7%	2.1%
Other liabilities	419,875	464,344	477,551	-9.6%	-2.8%
Total capitalization and liabilities	4,799,218	4,814,561	4,737,443	-0.3%	1.6%
Total deferred inflows of resources	822,886	736,656	293,543	11.7%	151.0%
Total capitalization, liabilities, and deferred inflows of resources	$ 5,622,104	$ 5,551,217	$ 5,030,986	1.3%	10.3%

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

	2014	2013	2012	%Change 2014-2013	%Change 2013-2012
		(amount in thousands)			
Operating revenues:					
Water supply	$ 789,370	$ 931,808	$ 860,891	-15.3%	8.2%
Power sales	131,952	146,277	148,360	-9.8%	-1.4%
Federal and State reimbursements	52,186	52,397	36,561	-0.4%	43.3%
Total operating revenues	973,508	1,130,482	1,045,812	-13.9%	8.1%
Operating Expenses:					
Operations and maintenance expense	557,209	545,413	526,402	2.2%	3.6%
Purchased power expense	241,444	258,899	271,377	-6.7%	-4.6%
Depreciation expense	68,896	85,236	87,400	-19.2%	-2.5%
Operating expenses recovered, net	-	22,261	67,063	-100.0%	-66.8%
Total operating expenses	867,549	911,809	952,242	-4.9%	-4.2%
Income from operations	105,959	218,673	93,570	-51.5%	133.7%
Capital revenues recovered (deferred)	(42,934)	(174,356)	43,834	-75.4%	-497.8%
Interest expense	(115,499)	(53,492)	(107,770)	115.9%	-50.4%
Other (expense) income	52,474	9,175	(29,634)	471.9%	-131.0%
Change in net position	-	-	-	-	-
Net position, beginning of year	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Net position, end of year	$ 1,205,428	$ 1,205,428	$ 1,205,428	0.0%	0.0%

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

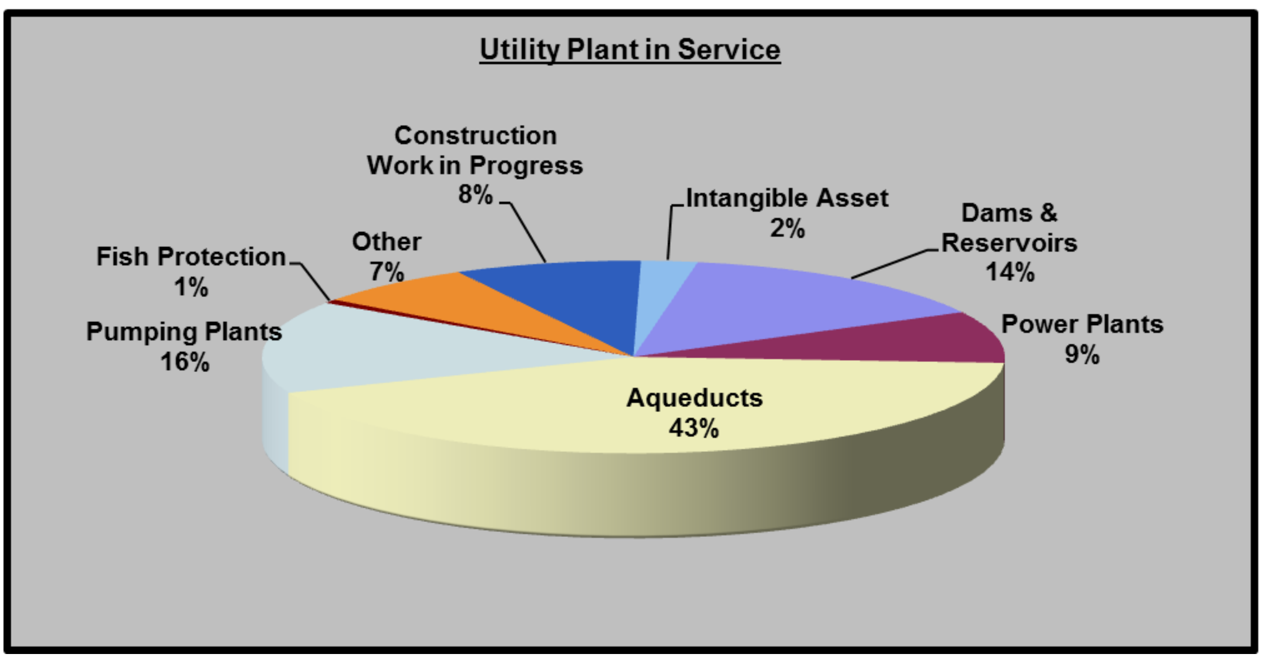
Assets

Utility Plant

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

Utility plant in service (UPIS), net of accumulated depreciation increased by $232 million during fiscal 2014 to a balance of $3,031 million. The System experienced overall reductions to UPIS assets of $139.4 million in fiscal 2014. These reductions included $452.4 million in deletions of UPIS assets of which $362.7 million were due to the termination of ownership of the Reid Gardner Unit 4 Power Plant on July 25, 2013 and $89.7 million for the impairment loss of the Thermalito-Hyatt Power Plant. These deletions were offset by $313.1 million in additions to UPIS for assets placed in service or purchased during fiscal year 2014. Transfers were made from construction work in progress (CWIP) to UPIS of $305.1 million including South Bay Enlargement of $210 million, South Bay Aqueduct Improvement Reach 1 to 9 of $64.1 million, Facilities Repair and Improvement of $19.2 million, East Branch Extension Phase I & II of $ 8.2 million, Oroville Complex Facilities of $2.6 million and other Water Systems projects of $1 million. Acquisition purchases of other UPIS assets were $7.9 million. Accumulated depreciation of UPIS assets decreased from $2,366.4 million to $1,994.7 million in 2014.

In fiscal 2013 UPIS, net of accumulated depreciation, decreased by $5.7 million. The System experienced overall increases to UPIS assets of $78.9 million. Increases included net transfers of $65.2 million from construction work in progress to UPIS and $13.7 million in the acquisition of other UPIS assets. These increases to UPIS were offset by increases in accumulated depreciation of $84.6 million.



Construction Work in Progress

Construction work in progress (CWIP) decreased by $90.6 million during the year which represents a 17.1% decrease from fiscal 2013. In fiscal 2013, CWIP increased by $120.8 million, or 29.6%, from fiscal 2012. The current year reductions to CWIP occurred with the transfer of $305.1 million to UPIS for projects placed in service during fiscal 2014. These transfers were offset by increases of $214.5 million in new and ongoing work to existing CWIP projects. These included East Branch Extension Phase II projects of $79 million, Thermalito re-building costs of $45.4 million, Facilities Repair and Improvement of $38.1 million, Predation Release Efficiency projects of $12.4 million, Communication System Replacement of $11.4 million, Perris Dam Remediation of $6.8 million, South Bay Enlargement projects of $5.4 million, Delta Facilities of $4.5 million, Protective Relay Replacement of $2.5 million, South Bay Aqueduct Improvement projects of $1.5 million, other Water Systems projects of $2.3 million and $5.2 million of Intangible Assets. Intangible assets of $5.2 million are comprised of internally generated computer software of $4 million for the Centralized Control System Migration Program and $1.2 million for Federal Energy Regulatory Commission (FERC) relicensing costs.

The $120.8 million increase to CWIP in fiscal 2013 from 2012 was primarily due to an increase of $186 million for new and on-going projects offset by transfers of $65.2 million from construction work in progress to UPIS. The increases of new and on-going projects included 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. These increases were offset by transfers 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.

At June 30, 2014, construction work in progress totaled $438.2 million and was comprised of $237 million of other Water Systems projects, $165.5 million of East Branch Extension Phase II projects and $35.7 million of Intangible Assets.

Restricted Cash and Investments

Restricted cash and investments increased by $4.3 million during fiscal 2014 to a total of $155.1 million, compared to a balance of $150.8 million in fiscal 2013. The current year increase is attributed to a $6.2 million increase in debt service reserve requirement associated with the issuance of bond series AR, which was issued in fiscal 2014, and a $1.9 million decrease in cash for plant replacements. Restricted cash for debt service reserve is designated to meet the minimum reserve requirement for the revenue fund. As of June 30, 2014, the total balance in the cash and investments restricted for debt service is equal to the minimum balance of the debt service reserve requirement.

Amounts Recoverable through Future Billing

Amounts recoverable through future billings represent timing differences between expenses incurred by the System and their ultimate recovery from the Water Contractors. Expense recognition is expected to match recovery from the Water Contractors in the future. In fiscal 2014, the amounts recoverable through future billings increased by $55.1 million to an ending balance of $1,214 million compared to $1,159 million for fiscal 2013. The increase results from uncollected capital expenses of $113.3 million offset by the recovery of $37.8 million in operations and maintenance expenses, and $20.4 million in the recognition of unamortized project costs and unbilled interest.

Other Long-term Assets

Long term loans receivable from local water agencies decreased by $1.2 million to a total of $15.2 million. As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $13.2 million remains outstanding at the end of fiscal 2014 compared to an outstanding balance of $14.4 million at the end of fiscal 2013. Additionally, $2 million remained outstanding in the Groundwater loan receivable compared to an outstanding balance of $2.1 million in 2013. 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 agent for DWR.

Cash and Cash Equivalents

In fiscal 2014, net cash provided by operations totaled $260 million compared to $379.8 million in fiscal 2013 for a total net decrease to cash and cash equivalents from operations of $119.8 million. This decrease was primarily due to $102.2 million in decreased revenues, $37.8 million in increases of salaries and wages paid in fiscal 2014, and $23.2 million in increased payments to suppliers for expenses. These decreases were offset by $43.4 million in other one-time cash inflows.

Receivables

The total water supply and power billings receivable was $35 million and $92.4 million for fiscal 2014 and 2013, respectively. The decrease of $57.3 million is primarily due to a reduction of $44.6 million in water supply variable billings, $7 million in Off-Aqueduct and other billings, $3.5 million for the Delta Habitat Conservation and Conveyance Program (DHCCP) and $2.2 million of decreased power sales accruals.

Liabilities

General Obligation Bonds

In addition to the revenue bond obligations described below, a large portion of the SWP was financed by the sale of 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 $242 million remains outstanding at the end of fiscal 2014, compared to $303 million at fiscal 2013, and $362 million at fiscal 2012. 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 44 series of Water System Revenue Bonds totaling $7,987 million in the aggregate principal, of which $2,393 million remains outstanding at the end of fiscal 2014. This compares to outstanding balances of $2,341 million and $2,270 million at the end of fiscal year 2013 and 2012, respectively. During the year, the System made principal reduction payments of $109.6 million and completed the issuance of the CVP Water Systems Revenue Bond Series AR which totaled $161.4 million. The proceeds from the Series AR bond issuance were used to pay off all outstanding commercial paper notes, advance fund for remaining construction costs related to East Branch Extension Phase II, make deposits to the Debt Service Reserve Account, fund interest on a portion of the Series AR Bonds, and pay costs of issuance.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility. Principal payments totaling $5.2 million, during fiscal 2014, reduced the outstanding balance to $62.9 million compared to $68.1 million at the end of fiscal 2013 and $73 million at the end of fiscal 2012.

	2014	2013	2012
	(amounts in thousands)		
CVP revenue bonds par amount	$2,392,740	$2,340,905	$2,269,900
Unamortized bond issuance premiums/(discounts)	192,169	185,484	144,892
Total CVP revenue bonds outstanding	2,584,909	2,526,389	2,414,792
Devil Canyon - Castaic revenue bond par amount	62,905	68,070	72,945
Total revenue bonds outstanding	2,647,814	2,594,459	2,487,737
Less current maturities	(115,580)	(114,775)	(124,155)
Total long-term portion	$2,532,234	$2,479,684	$2,363,582

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 2014, the outstanding balance decreased from $14.9 million to $11.6 million due to $3.3 million of principal payments made during fiscal year 2014. In fiscal 2013, the outstanding balance decreased from $18.1 million to $14.9 million due to $3.2 million of principal payments made during fiscal 2013.

Postemployment Benefits Other than Pensions

The Postemployment Benefits Other than Pensions (OPEB) increased by $36.3 million to a net OPEB obligation ending balance of $176.8 million in fiscal 2014 due to the difference between the annual OPEB cost of $56.2 million and the actual contributions charged by the California Department of Finance through pro rata charges of $19.9 million. The $36.3 million increase for fiscal 2014 and $22.5 million increase in fiscal 2013 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 2014, these other long-term liabilities decreased by a minimal amount of $146 thousand to an ending balance of $172.2 million compared to $172.3 million for fiscal 2013. These minor decreases are primarily due to increased State reimbursements for recreation offset by decreases in replacement expenses for San Joaquin Field Division.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities totaled $334.1 million at June 30, 2014, compared to $365.6 million in fiscal 2013, and $335.5 million in fiscal 2012. The decrease of $31.5 million in the current year is due to a decrease of $28.3 million in accounts payable vendor liabilities generally comprised of reductions in capital construction outlay, consulting contracts and decreased power purchases, a decrease of $3.4 million for the current portion of long-term bond principal, a decrease of $1.5 million due to timing differences in the transfer of cash settlements within DWR's Internal Service Fund, and a decrease of $553 thousand in accrued bond interest. These decreases are offset by an increase of $2.1 million for the current liability portion of accrued vacation and loans payable and an increase of $200 thousand for the current portion of the System's pollution remediation obligation.

In fiscal 2013, the increase of $30.1 million was 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 within DWR's Internal Service Fund. These increases were 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.

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 $13 million during fiscal 2014 to an ending balance of $85.7 million. This decrease can be primarily attributed to the $9 million decrease in interest earnings that was refunded back to the Water Contractors from the debt service reserve fund, a $7 million decrease in deferred operating revenue collected in advance for cover refunded back to the Water Contractors and $2.8 million decrease as delivery structure revenue was recognized for the North Bay Aqueduct Alternate Intake project and the Gianelli Motor

Rewinds project. These decreases were offset by a $5.8 million increase in interest earned on debt service reserve balances.

In fiscal 2013, Proceeds Due to Water Contractors decreased from $142 million to $98.7 million, a decrease of $43.3 million. This decrease can be attributed to the $36.3 million decrease in refunds due to the Water Contractors resulting from a fiscal year 2012 accrual realized in fiscal 2013. 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 $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.

Deferred Inflows of Resources

Deferred inflows represent revenues received by the System which are applicable to future reporting periods and will be recognized as revenue. In fiscal 2014, the deferred inflows increased by $86.2 million to an ending balance of $822.9 million compared to $736.7 million for fiscal 2013. This increase results from the excess revenues collected for expenses of capital activities. Deferred inflows for capital depreciation costs increased by $108.2 million primarily due to revenues collected for principal payments of previous costs incurred to construct UPIS assets in excess of annual depreciation and amortization of UPIS and other capital assets. Capital deferred inflows under the Central Valley Act segment experienced a minor increase of $700 thousand primarily due to the collection of a capital termination payment received from Nevada Energy for Reid Gardner Unit 4 during 2014. Increases to deferred inflows were offset by $16.7 million in recognition of operations and maintenance expenses and a $6 million decrease in power sales credits due to Water Contractors.

Operating Revenues

Operating revenues for fiscal 2014 were $973.5 million compared to $1,130.5 million in fiscal 2013 and $1,045 million in fiscal 2012. The decrease of $157 million in fiscal 2014 was primarily due to a decrease in water supply revenue of $142.4 million mainly due to decreases in water deliveries to the Southern California area, decreases in prior year collection adjustments, and reduced revenue billings which were based on lower projected costs, a decrease in power sales revenue of $14.3 million and a minor decrease in federal reimbursements. The increase of $84.6 million in fiscal 2013 was primarily due to an increase in water supply revenue of $70.9 million, an increase of $15.8 million in federal reimbursements offset by a decrease in power sales revenue of $2.1 million.

Water Supply Revenue

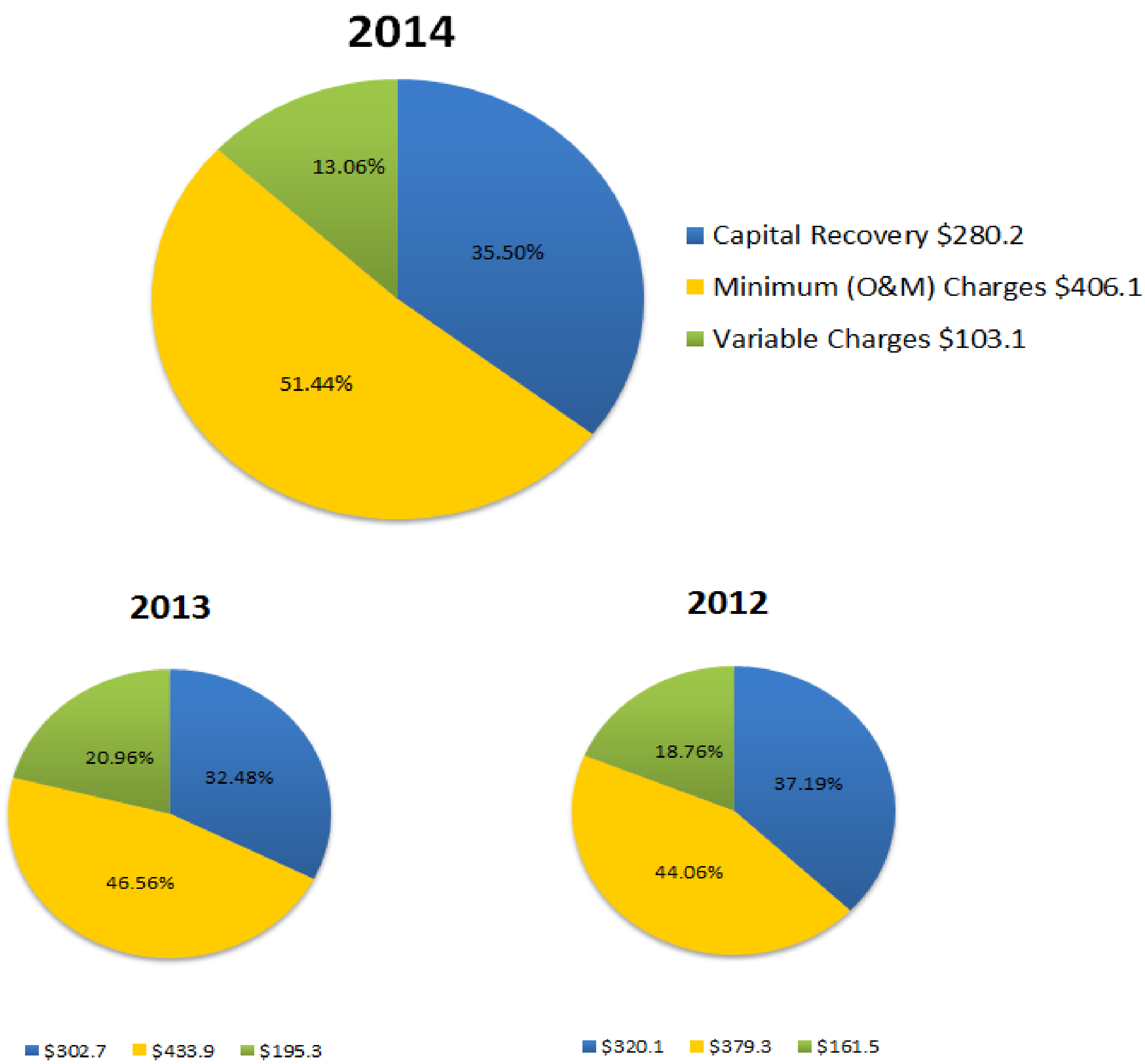
Under the terms of the water supply contracts, the System is required to collect from the Water Contractors all costs of the SWP allocated to water supply in proportion to each Water Contractor's contractual allocation of water. Generally, the System's costs, including the costs of gathering, storing, 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 component. The Variable component in such calendar year is 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 2014, the System generated $789.4 million in water supply revenue, compared to $931.8 million in fiscal 2013, and $860.9 million in fiscal 2012. The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2014, 2013 and 2012.

Water Supply Revenue (in millions)



Water Supply revenues decreased by $142.4 million in 2014 to a total of $789.4 million. This decrease is due to a decrease of $92.2 million in Variable recovery, a $27.8 million decrease in minimum operating & maintenance (O&M) recovery, and a decrease of $22.4 million in Capital recovery.

The Variable recovery revenues decrease of $92.2 million is primarily due to a decrease of $101.3 million in variable billings due to decreases in water deliveries by 0.94 million acre feet (AF) to 1.76 million in 2014 compared to 2.7 million AF in 2013 and a decrease of $14.6 million in revenues resulting from an increase in prior-year over collections which amounted to $43.4 million in 2014 compared to $28.8 in 2013. Although the average mill rate increased by $11.36 mills/kWh to $54.48 mills/kWh compared to $43.12 mills/kWh in 2013, the significant decrease in water deliveries, especially to the Southern California area where the cost to deliver water is higher, resulted in reduced revenues. These decreases were offset by an increase of $23.7 million in billings under the new multi-year Turnback Water Pool Program.

O&M recovery revenues for fiscal 2014 decreased by $27.8 million. The largest decrease of $38 million was in recovery revenues for Off-Aqueduct Power due to lower fuel and landfill costs, Cap & Trade allowance costs related to power generation that occurred in fiscal 2013, diminished O&M costs for Reid Gardner Unit 4 and the return of 2011-2012 Off-Aqueduct Power adjustments refunded back to the water contractors. A $14.5 million decrease in DHCCP recovery revenues resulting when most agreements expired during fiscal 2014, a $4.1 million combined decrease in revenues for the Delta Water Charge (DWC) Minimum, East Branch Enlargement (EBE) O&M and replacement transportation due to decreases in projected costs, and a $1 million decrease in miscellaneous revenue. These decreases were offset in part by $16.8 million increase in Minimum Transportation due to an increase in under collection adjustments and $13.3 million increase in Reid Gardner Administrative Order of Consent billings under the termination agreement of Reid Gardner.

The Capital recovery revenues decrease of $22.4 million is primarily due to decreases of $17.8 million in Off-Aqueduct Debt Service revenue resulting from decreased capital improvement billings for the State Water Project's ownership agreement of Reid Gardner Unit No. 4 terminated in 2014 and $13.9 million decrease in Capital Transportation revenues due to decreases in projected transportation capital costs. These decreases were offset by $6 million increase in Water Transfer Capital revenues established to record the capacity transfer revenues of the Water Transfers between the Water Contractors previously billed under the Capital Transportation and $3.1 million increase in Water System Revenue Bond Surcharge (WSRBS) due to an increase in debt service from $42.1 million in fiscal 2013 to $45.2 million in fiscal 2014.

In fiscal 2013, Water Supply revenues increased by $70.9 million to a total of $931.8 million. There were several contributing factors. A $54.6 million increase occurred as a result of O&M recovery, a $33.8 million increase in Variable recovery, with an offsetting decrease of $17.5 million in Capital recovery. The increase in O&M recovery was primarily due to an increase of $19.1 million in recovery revenues for the DHCCP due to a supplemental funding agreement that was signed in April 2012, a $16.7 million in Transportation Minimum due to a decrease in prior year over collection adjustments, a $10.3 million in Minimum Delta Water Charges (DWC) due to the DWC minimum rate increase, $10 million in replacements transportation revenues due to a decrease in Transportation Replacement Accounting System (RAS) refund, and $4.5 million in Reid Gardner separation costs as the State Water Project's ownership agreement of Reid Gardner Unit 4, with Nevada Power Company, was scheduled to end in July 2013. These increases were offset in part by a $2.6 million decrease in Conservation RAS due to a decrease in RAS rate per acre feet, a $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 increase in Variable recovery was primarily due to a higher average mil rate and an increase in revenues that results when there is no need to decrease current year revenues because of a prior year over collection during the true up process.

Overview of the System's Power Activities

The SWP is one of the largest consumers and suppliers of electric power in the western United States. Since the commencement of the major facilities of the SWP in the 1960s, the System has been an active participant in the power markets of California and the western United States. The System has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The System currently owns three pumping-generating plants and five hydroelectric power plants with a total nameplate capacity of approximately 1,800 Megawatts (Mw) and with total annual energy generation in recent years ranging between approximately 3,100 and 5,000 Gigawatt hours (Gwh). The System also owns and operates 20 pumping plants with a total load, when operational, of approximately 2,000 Mw and total annual energy consumption in recent years ranging between 5,300 and 10,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided during all hours of the day.

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 have a material impact on the power sales revenues and power purchase expenses of the SWP.

Every year the SWP is confronted with factors that affect how the operation of the System is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuation in natural gas prices, transmission line outages and wild fires. In fiscal year 2014, the SWP was still affected by the loss of the Thermalito Hyatt Power Plant (THPP) causing ongoing unavailability of units at DWR's Oroville complex. Other major impacts to the SWP operation were continued severe drought conditions and lack of snow pack in the Northern Sierras. As a result, management reduced the water contactor's allocation to 5% from 35% in November 2013 and then to 0% in January 2014 when hydrologic conditions turned historically dry. Water allocations returned to 5% in April 2014 after minor spring precipitation.

The extremely low water allocation for the SWP reflects the severity of the California water condition. Low water allocations will likely remain in place until the SWP can begin to recover from the drought conditions. DWR is taking prudent steps in preparing for continued drought conditions should they persist into 2015.

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 is required by FERC to help mitigate negative environmental impacts. Mitigation could include controlling river temperatures, to assisting with after-bay and fore-bay elevation control, to helping with nesting Grebe or Garter snake habitat. Required mitigation can occur despite having minimal storage available at Oroville Lake.

In fiscal 2014, power sales decreased by $14.3 million to a total of $132 million. The decrease in power sales is attributable to a decrease in the transmission sold of $16.9 million, and is offset by an increase in the power sales of $2.6 million due to the fact that the System experienced an increase in the quantity of energy sold and a substantial decrease in the MWh rate. In fiscal 2013, 790,103 MWh were sold compared to 940,679 MWh in fiscal 2014, a 19.06% increase from the prior year. The MWh rate decreased by 14.18%, from $151.53 in fiscal 2013 to $130.04 in fiscal 2014.

A decrease in scheduled water deliveries because of a decrease in rainfall resulted in an increase of power available for sale. Water deliveries decreased from 2.7 million acre-feet in fiscal 2013 to 1.76 million acre-feet in 2014, a decrease of 0.94 million acre-feet or 34.82%.

In fiscal 2013, power sales decreased by $2.1 million to a total of $146.3 million. The System experienced a decrease in Transmission sold as well as 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 overall rate increased by 27.61%, from $118.74 in fiscal 2012 to $151.53 in fiscal 2013. 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 2014 compared to fiscal 2013, and fiscal 2013 compared to fiscal 2012:

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2013	$ 146,277,485	$ (26,554,940)	$ 119,722,545	790,103	$ 151.53
2014	131,951,338	(9,626,929)	122,324,409	940,679	130.04
Change in MWh sold					150,576
Multiplied by 2013 rate/MWh					$ 151.53
Difference attributed to increase in sales (rounded)					$ 22,817,000
Change in MWh rate					$ (21.49)
Multiplied by 2014 MWh sold					940,679
Difference attributed to rate change (rounded)					$ (20,215,000)
Total increase in power sales (rounded)					$ 2,602,000

	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)	119,722,545	790,103	151.53
Change in total MWh sold					(198,736)
Multiplied by 2012 rate/MWh					$ 118.74
Difference attributed to decrease in sales (rounded)					$ (23,598,000)
Change in MWh rate					$ 32.79
Multiplied by 2013 MWh sold					790,103
Difference attributed to rate change (rounded)					$ 25,907,000
Total increase in power sales (rounded)					$ 2,309,000

Federal and State Reimbursements Revenue

Federal reimbursements revenue for fiscal 2014 was $52.2 million, compared to $52.4 million for fiscal 2013. The current year decrease of $211 thousand is due to a decrease of $8 million in the U.S. Bureau of Reclamation's (USBR) DHCCP share and a decrease of $3.3 million in USBR's Suisun Marsh capital share. These decreases were offset by an increase of $5.4 million in USBR's San Luis O&M share, an increase of $3.8 million in USBR's San Luis capital share due to increased construction costs for the Gianelli pumping-generating plant, and an increase of $2.3 million in capital recreation cost recovery from Proposition 84 funds. These facilities are located within the Delta, San Luis, and Suisun Marsh for which the System is reimbursed by the Federal and State governments.

Operating Expenses

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

Total operating expenses for 2013 decreased by $40.4 million to a total of $911.8 million. The decrease is due to a reduction in deferred expenses of $44.8 million, a decrease in power purchases of $12.5 million and a decrease in depreciation expense of $2.1 million. These were offset by an increase of $19 million in operations and maintenance expenses.

Operations and Maintenance Expenses

Total operations and maintenance expenses are $557.2 million for fiscal 2014, compared to $545.4 million for fiscal 2013 and $526.4 million for fiscal 2012. The increase of $11.8 million in fiscal 2014 can be attributed to the following factors: increases of $37.7 million in salary and wages; increases of $19.6 million in purchased water supply resold under the new multi-year Turnback Water Pool Program; increases of $13.7 million in Other Postemployment Benefits (OPEB); increases of $11.1 million in hazardous services and waste removal costs at SWP facilities; increases of $6.3 million in pollution remediation; increases of $4.3 million in communications costs; increases of $3.3 million in pro rata (allocated indirect cost incurred by the State's Central Service Agencies); and increases in the amount of $3.4 million comprised of miscellaneous expenses. These increases were offset by the following factors: decreases in expenses for Reid Gardner coal of $23.7 million; decreases in natural gas, coal, and diesel consumption of $20 million; decreases in consultant and professional services of $12.4 million; decreases in federal co-op contracts of $7.7 million; decreases in bond issuance costs of $7 million; decreases in operations and maintenance of the Reid Gardner power plant of $6.5 million; decreases in vacation expenses of $3.2 million; and other decreases amounting to $7.1 million comprised of general expenses, legal expenses, taxes and assessments, maintenance and repair services and other general expenses.

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, 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 general expenses.

Power Purchases

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

Power purchases decreased $17.5 million in fiscal 2014 to a total of $241.4 million. The decrease in power purchases is attributable to a decrease in transmission purchases of $10.8 million and a decrease in the quantity of energy purchased offset by an increase in the MWh rate. In fiscal 2013, 2,310,252 MWh were purchased compared to 1,868,363 MWh in fiscal 2014, a 19.13% decline from the prior year. The MWh rate increased by 19.6% from $88.79 in fiscal 2013 to $106.23 in fiscal 2014.

Power purchases are generally made for off-peak pumping and are a reflection of water demand. Primary factors that contributed to decreased purchases were current drought conditions, low reservoir storages and near zero percent snow pack throughout the Sierras. In fiscal 2014, the primary concern became water availability, not water demand. The focus shifted to water conservation and reduced pumping. Additionally, with Water Contractor's entitlement reduced to 5% for the major part of fiscal 2014, the need to pump water was greatly reduced to conserve DWR's scare water resources.

In fiscal 2013, purchased power decreased $12.5 million from fiscal 2012 to a total of $259 million. Of that amount, $96 million was attributed to decreased units purchased and $79 million was attributed to an increase in the average rate per MWh purchased, while changes in transmission increased by $5 million.

The following tables show the relationship between volume and rate for fiscal 2014 compared to fiscal 2013, and fiscal 2013 compared to fiscal 2012.

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2013	$ 258,899,223	$ (53,779,440)	$ 205,119,783	2,310,252	$ 88.79
2014	241,443,593	(42,976,293)	198,467,300	1,868,363	106.23

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

	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 (rounded)	$ (96,489,000)
Change in MWh rate	$ 23.25
Multiplied by 2012 purchased	3,396,958
Difference attributed to rate change (rounded)	$ 78,979,000
Total decrease in power purchases (rounded)	$ (17,510,000)

Operating and Maintenance Expense Recovered

Unlike fiscal 2013 during which the System recognized $22.3 million in deferred operating expenses, in fiscal 2014, the System did not recognize any recovery of operations and maintenance expenses. The decrease of $22.3 million results from the recognition of $46.6 million in operation and maintenance expenses under the Central Valley Act segment activities. This recovery was offset by $65.6 million in operations and maintenance expenses under the Burns Porter Act segment activities, and $3.3 million of deferred Power Sales Credit net of suspended costs.

In fiscal 2013, $22.3 million in operating expenses were recognized, compared to fiscal 2012 in which the System recognized $67.1 million in operating expenses. The 2013 net change of $44.8 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.

Capital Revenues Deferred

Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered decreased by $131.4 million to a total of $42.9 million in fiscal 2014. The decrease was primarily due to UPIS asset related recovery of $145.7 million offset by $14.3 million as the System recognized annual amounts in depreciation, unamortized project costs, Power Sales Credit, and unbilled interest.

Capital revenues deferred decreased by $218.2 million to a total of $174.4 million recovered in 2013 compared to $43.8 million in capital revenues recovered from the Water Contractors in fiscal 2012.

Interest Expense

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

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, which requires that costs of issuance be written off.

Other Revenues

Other revenues, net of expenses, increased by $43.3 million from $9.2 million in revenues for fiscal 2013 to $52.5 million in revenues for fiscal year 2014. This increase is primarily attributable to the settlement payment of $47.5 million received from Nevada Energy upon DWR's interest in Unit 4 of the Reid Gardner Power Plant termination in fiscal 2014.

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 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.

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Financial Statements

State Water Resources Development System
Statements of Net Position
June 30, 2014 and 2013 (in thousands)

	2014	2013
Assets		
Utility plant:		
Utility plant in service	$ 5,026,112	$ 5,165,558
Less accumulated depreciation	(1,994,695)	(2,366,429)
Net utility plant in service	3,031,417	2,799,129
Construction work in progress	438,244	528,836
Total utility plant	3,469,661	3,327,965
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	29,950	31,829
Cash and investments restricted for debt service	115,960	109,790
Cash and cash equivalents on deposit with revenue bond trustee	9,206	9,207
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	102,090	139,889
Capital credit due from water contractors	314,335	201,014
Unamortized project costs	361,712	365,739
Unbilled interest incurred on capital costs	436,313	452,662
Loans receivable from local water agencies	15,232	16,468
Advance to other state funds	91,517	91,517
Total long-term assets	1,476,315	1,418,115
Current assets:		
Cash and cash equivalents	478,558	559,634
Receivables:		
Interest on investments	1,129	899
Water supply and power billings (net)	35,045	92,373
Due from federal and state governments	39,429	20,227
Due from others	23	-
Inventories	5,203	7,413
Total current assets	559,387	680,546
Total assets	5,505,363	5,426,626
Deferred outflows of resources:		
Deferral of loss on refunding	116,741	124,591
Total assets and deferred outflows of resources	$ 5,622,104	$ 5,551,217

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

State Water Resources Development System
Statements of Net Position (continued)
June 30, 2014 and 2013 (in thousands)

		2014		2013
Capitalization and Liabilities				
Capitalization:				
Net position:				
Net investment in capital assets	$	994,561	$	832,147
Restricted		210,867		373,281
Total net position		1,205,428		1,205,428
Long-term liabilities:				
General obligation bonds		184,960		241,835
Revenue bonds		2,532,234		2,479,684
Commercial paper		36,136		50,505
Other postemployment benefits		176,769		140,470
Pooled Money Investment Account (PMIA) Loan		8,094		11,580
Accrued vacation		29,765		33,305
Pollution remediation		33,800		15,107
Unearned revenue - State and Federal capital recovery		141,355		142,365
Advances for plant replacements		30,802		29,938
Total long-term liabilities		3,173,915		3,144,789
Total capitalization		4,379,343		4,350,217
Current liabilities:				
Current maturities of bonds		172,455		175,860
Accounts payable		78,158		106,490
Accrued vacation		10,582		8,612
Pollution remediation		8,600		8,400
Accrued interest on long-term debt		13,188		13,741
Pooled Money Investment Account (PMIA) Loan		3,486		3,316
Due to other state funds		47,681		49,172
Proceeds due to water contractors		85,725		98,753
Total current liabilities		419,875		464,344
Total Liabilities		3,593,790		3,609,133
Deferred inflows of resources:				
Operations and maintenance expense		161,087		177,764
Capital costs		509,394		400,480
Power sales credit due to water contractors		152,405		158,412
Total deferred inflows of resources		822,886		736,656
Total net position, liabilities, and deferred inflows of resources	$	5,622,104	$	5,551,217

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, 2014 and 2013 (in thousands)

	2014	2013
Operating revenues:		
Water supply	$ 789,370	$ 931,808
Power sales	131,952	146,277
Federal reimbursements	52,186	52,397
Total operating revenues	973,508	1,130,482
Operating expenses:		
Operations and maintenance	557,209	545,413
Purchased power	241,444	258,899
Depreciation and amortization expense	68,896	85,236
Operating expenses recovered, principally under long-term water supply contracts, net	-	22,261
Total operating expenses	867,549	911,809
Income from operations	105,959	218,673
Nonoperating revenue (expenses):		
Capital revenues deferred	(42,934)	(174,356)
Interest expense	(115,499)	(53,492)
Other revenues (expenses), net	52,474	9,175
Change in net position	-	-
Net position, beginning of year	1,205,428	1,205,428
Net position, end of year	$ 1,205,428	$ 1,205,428

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

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State Water Resources Development System
Statements of Cash Flows
For the years ended June 30, 2014 and 2013 (in thousands)

	2014	2013
Cash flows from operating activities:		
Receipts from customers	$ 986,586	$ 1,088,771
Payments to employees for services	(311,144)	(273,393)
Payments to suppliers	(461,499)	(438,273)
Other receipts	46,098	2,709
Net cash provided by operating activities	260,041	379,814
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	180,159	267,762
Principal payments on long-term debt	(175,860)	(183,610)
Commercial paper notes issued	108,765	121,961
Principal payments on commercial paper notes	(123,134)	(100,239)
Principal payments on PMIA note	(3,317)	(3,156)
Interest payments on long-term debt	(120,230)	(160,668)
Additions to utility plant and CWIP	(210,592)	(200,249)
Net cash used by capital and related financing activities	(344,209)	(258,199)
Cash flows from investing activities:		
Cash received from investment earnings	7,758	8,468
Proceeds of investments matured	252,174	302,608
Purchases of investments	(252,174)	(302,608)
Loan payments from local water agencies	1,237	2,674
Net cash provided by investing activities	8,995	11,142
Net increase (decrease) in cash and cash equivalents	(75,173)	132,757
Cash and cash equivalents, beginning of year	636,459	503,702
Cash and cash equivalents, end of year	$ 561,286	$ 636,459

	2014	2013
Noncash capital and related financing activities:		
Amortization of bond premium/discount	$ 12,029	$ 36,885
Amortization of deferred loss on refunding	(7,850)	20,879
Impairment loss of utility plant	11,795	-
Principal retirements of long-term debt on proceeds received from issuance of Series AL, AN, AO and AM Water System Revenue Bonds	-	632,125
Noncash capital and related financing activities:	$ 15,974	$ 689,889

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, 2014 and 2013 (in thousands)

	2014	2013
Reconciliation to the statement of net position:		
Cash and cash equivalents	$ 478,558	$ 559,634
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	29,950	31,829
Cash and cash equivalents restricted for debt service (net of $72,388 and $74,001 of U.S. Agency securities for 2014 and 2013, respectively)	43,572	35,789
Cash and cash equivalents on deposit with revenue bond trustee	9,206	9,207
Cash and cash equivalents	$ 561,286	$ 636,459

	2014	2013
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 105,959	$ 218,673
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization expense	68,895	85,236
Other receipts	46,098	2,709
Decrease in deferred charges and credits, net	(11,996)	10,012
Changes in assets and liabilities:		
(Increase) decrease in receivables	57,304	18,273
(Increase) decrease in inventories	2,211	22,240
(Increase) in due from federal government	(19,202)	(4,440)
Increase in accounts payable, accrued vacation, pollution remediation and other postemployment benefits	25,290	55,258
Increase (decrease) in due to other state funds	(1,490)	15,148
(Decrease) in proceeds due to Water Contractors	(13,028)	(43,295)
Total adjustments	154,082	161,141
Net cash provided by operating activities	$ 260,041	$ 379,814

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

For the years ended June 30, 2014 and 2013 (in thousands)

1. Reporting Entity

The State Water Resources Development System (System), administered by the Department of Water Resources (DWR), includes the State Water Project (SWP), the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The SWP is a system of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement and hydroelectric power. The System has entered into long-term water supply contracts with 29 customers (Water Contractors) in order to recover substantially all System costs. The 29 Water Contractors are principally located in the San Francisco Bay Area, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 70% of its population.

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

2. Summary of Significant Accounting Policies

Utility Plant

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

Depreciation

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

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 Federal Energy Regulatory Commission (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 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 are not 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 (PMIA) - Surplus Money Investment Fund (SMIF) and instruments with original maturities of three months or less. Cash and cash equivalents do not include U.S. Government and Agency securities with maturities of more than three months.

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

Cash and cash equivalents with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the 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, 2014 and 2013 had a balance of $67.3 billion and $61.1 billion, respectively. The weighted average to maturity of PMIA investments was 232 days and 278 days as of June 30, 2014 and 2013, respectively. The total amount of deposits in SMIF as of June 30, 2014 and 2013 was $32.5 billion and $30 billion, respectively. 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, which did not have a balance as of June 30, 2014 and a balance of $400

million as of June 30, 2013. The investment portfolio also included asset-backed securities totaling $1,206 million as of June 30, 2014 and $753 million as of June 30, 2013.

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, 2014, are of a similar nature as those held at June 30, 2013.

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 account for the System.

Receivables
Receivables include amounts due from the Water Contractors and organizations that purchase power from the System, totaling $35 million and $92.4 million, net of the allowance for uncollectible amounts, at June 30, 2014 and 2013, respectively. Additionally, the Federal and State governments owed the System $39.4 million and $20.2 million at June 30, 2014 and 2013, respectively. These amounts represent reimbursement for certain costs related to flood control and jointly owned facilities. The allowance for uncollectible amounts totaled $39 thousand and $129 thousand at June 30, 2014 and 2013, respectively. Uncollectible amounts are generally recoverable from the Water Contractors.

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

Unamortized project costs represent abandoned utility plant costs and certain research and development expenses that are recoverable through future billings to the Water Contractors under the terms of the 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, 2014 and 2013.

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 standards established by the Governmental Accounting Standards Board (GASB). The System is considered to be a Regulated Operation pursuant to GASB Statement No. 62, which requires that the effects of the rate-making process be recorded in the financial statements. Accordingly, certain expenses and credits, normally reflected in the change in net position, as incurred, are recognized when included in rates and recovered from, or refunded to customers and the state and federal governments. The

System records various regulatory assets and credits to reflect rate-making actions of management. With the implementation of GASB Statement No. 65, the System records costs related to the 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, operations and maintenance costs and power sales credit due to Water Contractors.

Deferred Outflows of Resources
Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debt. The unamortized balance of deferred loss on refunding totaled $116.7 million and $124.6 million as of June 30, 2014 and 2013, respectively.

Deferred Inflows of Resources
Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of long-term water supply contracts and timing differences. The System had an ending balance of $161.1 million and $177.8 million in deferred inflows of operations and maintenance expenses as of June 30, 2014 and 2013, 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 $108.9 million to an ending balance of $509.4 million in fiscal 2014 compared to $400.5 million in fiscal 2013. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.

The power sales credit due to Water Contractors arises from revenue collected for the power generated by the 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 $6 million to an ending balance of $152.4 million in fiscal 2014 compared to $158.4 million in fiscal 2013.

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. Receipts from such billings are restricted. Costs of plant replacements are charged to this reserve, as incurred.

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

Net Position

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

Revenues

The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the long-term water supply contracts, the System granted the Water Contractors rate management reductions of approximately $50.6 million and $40.5 million during the years ended June 30, 2014 and 2013, 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 $51.8 million and $54.7 million for the years ended June 30, 2014 and 2013, respectively, are recorded as Proceeds Due to Water Contractors in the financial statements. The System refunded $64.2 million and $49.7 million for the years ended June 30, 2014 and 2013, 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 conform to the current year's presentation. These reclassifications resulted when deferred inflows and amounts recoverable through future billings are recorded by segment.

For the years ended June 30, 2014 and 2013 (in thousands)

Statements of Net Position

	Balance previously reported at June 30, 2013	Reclassification	June 30, 2013 (After Reclassification)
Total long-term assets			
Amounts recoverable through future billings under long-term water supply contracts:			
Operations and maintenance expense	$ 57,350	$ 82,539	$ 139,889
Capital credit due from water contractors	65,019	135,994	201,014
Unamortized project costs	322,339	43,401	365,739
Total long-term liabilities			
Unearned revenue - State and Federal capital recovery	145,651	(3,286)	142,365
Defered inflows of resources			
Operations and maintenance expense	47,889	129,875	177,764
Capital costs	265,135	135,345	400,480
Net position			
Net investment in capital assets	785,460	46,687	832,147
Restricted	419,968	(46,687)	373,281

Statements of Revenues, Expenses and Changes in Net Position

	Balance previously reported at June 30, 2013	Reclassification	June 30, 2013 (After Reclassification)
Operating revenues			
Federal reimbursements	$ 49,110	$ 3,287	$ 52,397
Operating expenses			
Operating expense recovered	18,325	3,936	22,261
Capital revenues deferred	175,005	(649)	174,356

For the years ended June 30, 2014 and 2013 (in thousands)

3. Interests in Jointly Owned Facilities

At June 30, 2014 and 2013, the System owned the following undivided interests in jointly owned facilities:

	% Owned by System		System's Share: Utility Plant in Service		System's Share: Accumulated Depreciation	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Reid Gardner Power Plant Unit No. 4	0.0%	67.8%	$ -	$ 362,656	$ -	$ 362,656
San Luis joint use facilities	55.0%	55.0%	288,803	281,740	133,295	129,178

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

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

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

For the years ended June 30, 2014 and 2013 (in thousands)

4. Utility Plant

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

	Beginning Balance June 30, 2013	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2014
Nondepreciable Utility Plant:				
Land	$ 136,797	$ 381	$ (145)	$ 137,033
Construction work in progress (CWIP)	528,836	214,502	(305,094)	438,244
Land use rights	11,549	34	-	11,583
Other intangible assets	100,064	3,676	-	103,740
Total nondepreciable utility plant	777,246	218,593	(305,239)	690,600
Depreciable Utility Plant:				
Aqueducts	2,071,255	95,982	-	2,167,237
Dams & reservoirs	781,408	-	-	781,408
Power plants	911,703	7,055	(452,400)	466,358
Pumping plants	836,655	159	-	836,814
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	66,230	180,167	-	246,397
Equipment and other depreciable assets	71,819	3,911	(25)	75,705
Computer software	24,501	28	-	24,529
Land use rights	272	-	-	272
Other intangible assets	11,995	-	-	11,995
General	39,579	21,731	-	61,310
	4,917,148	309,033	(452,425)	4,773,756
Less: accumulated depreciation	(2,349,768)	(65,144)	440,630	(1,974,282)
Less: accumulated amortization	(16,661)	(3,752)	-	(20,413)
	(2,366,429)	(68,896)	440,630	(1,994,695)
Total depreciable plant	2,550,719	240,137	(11,795)	2,779,061
Total Utility Plant - net	$ 3,327,965	$ 458,730	$ (317,034)	$ 3,469,661

For the years ended June 30, 2014 and 2013 (in thousands)

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, 2014 and 2013 (in thousands)

5. Investments

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

	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	-	-	552,077	-	552,077
US Federal Agency Notes						
Federal National Mortgage Association	AA+	-	-	-	20,584	20,584
Federal Home Loan Bank	AA+	-	51,804	-	-	51,804
						624,468
Investment with Fiscal Agent						
Money Market Mutual Funds	AAA	9,206	-	-	-	9,206
Total Investments						$633,674

The following is a summary of the System's investments and credit ratings as of June 30, 2013:

	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

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

For the years ended June 30, 2014 and 2013 (in thousands)

Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. As of June 30, 2014 and 2013, nearly 11% and 10%, 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, 2014 and 2013, was as follows:

	2014	2013
Federal National Mortgage Association	$ -	$ 74,001
Federal Home Loan Bank	51,804	-

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.249% and 0.307% for the years ended June 30, 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, interest earned on the deposits with PMIA approximated $1.6 million and $1.7 million, respectively, and is included in the other revenues (expenses) line item on the statement of revenues, expenses and changes in net position.

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

	2014	2013
Fair value of investments at the beginning of the fiscal year	$ 74,001	$ 75,615
Less: Proceeds of investments matured in fiscal year	(252,174)	(302,608)
Add: Purchase of investments in fiscal year	252,173	302,608
Add: Amortization of discounts	(1,315)	63
Change in fair value of investments during fiscal year	(297)	(1,677)
Fair value of investments at the end of the fiscal year	$ 72,388	$ 74,001

For the years ended June 30, 2014 and 2013 (in thousands)

6. Long-term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2014 and 2013:

	Revenue Bonds			General Obligation Bonds	Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Unamortized (Discounts) and Premium	Total Revenue Bonds	Par Amount	Par Amount	Loan Amount	
Balance at June 30, 2012	$2,342,845	$ 144,892	$2,487,737	$ 362,375	$ 28,783	$ 18,052	$2,896,947
Additions	822,410	77,477	899,887	-	121,961	-	1,021,848
Payments/amortization	(756,280)	(36,885)	(793,165)	(59,455)	(100,239)	(3,156)	(956,015)
Balance at June 30, 2013	2,408,975	185,484	2,594,459	302,920	50,505	14,896	2,962,780
Additions	161,445	18,714	180,159	-	108,765	-	288,924
Payments/amortization	(114,775)	(12,029)	(126,804)	(61,085)	(123,134)	(3,317)	(314,340)
Balance at June 30, 2014	2,455,645	192,169	2,647,814	241,835	36,136	11,579	2,937,364
Less current portion	(115,580)	-	(115,580)	(56,875)	-	(3,486)	(175,941)
Total Long-term Debt	$2,340,065	$ 192,169	$2,532,234	$ 184,960	$ 36,136	$ 8,093	$2,761,423

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

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

(1) To pay the maintenance, operation and replacement costs of the System,
(2) To pay, or reimburse the General Fund of the State for, the principal of and interest on the 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, 2014, the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service is $273.6 million with payments through 2025.

For the years ended June 30, 2014 and 2013 (in thousands)

Principal and interest paid for the current year were $73.6 million and Burns-Porter Act water supply operating revenues were $507.9 million. As of June 30, 2013, the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service was $347.2 million with payments through 2025. Principal and interest paid for 2013 was $74.5 million and Burns-Porter Act WRD water supply operating revenues were $559.1 million.

WRD General Obligation Bonds of $168 million are authorized but un-issued as of June 30, 2014 and 2013, 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.

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 2014	Amounts Outstanding 2013
1964	A	0.1%	2014	$ -	$ 4,000
1964	B&C	3.0%	2015	4,000	10,000
1965	D&E	3.0%	2016	13,400	22,100
1966	F&G	3.5-4.1%	2017	26,400	34,600
1967	H,J&K	3.0-4.8%	2018	47,800	59,900
1968	L&M	4.0-4.9%	2019	42,600	50,400
1970	N&P	5.0-5.8%	2020	50,400	57,800
1971	Q&R	4.8-5.0%	2021	43,350	48,750
1972	S	5.3-5.5%	2022	13,000	14,400
1993	X	4.8%	2024	500	550
1994	Y	7.0-7.1%	2025	385	420
Total General Obligation bond debt outstanding at par				241,835	302,920
Less current maturities				(56,875)	(61,085)
Total long-term General Obligation bond debt outstanding				$ 184,960	$ 241,835

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. These are primarily payments under the water supply contracts between the System and Water Contractors.

For the years ended June 30, 2014 and 2013 (in thousands)

As of June 30, 2014, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service is $3,489 million with payments through 2036. Principal and interest paid for the current year was $222 million and Central Valley Project Act water supply operating revenues were $281.5 million. As of June 30, 2013, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service were $3,458 million with payments through 2036. Principal and interest paid for the year were $223 million and Central Valley Project Act water supply operating revenues were $372.7 million.

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%.

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 2014	Amounts Outstanding 2013
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 62,905	$ 68,070
CVP Water System:						
1999	V	6.3%	2025	None	20,235	20,235
2001	W	5.5%	2015	2012	24,360	47,460
2002	X	5.0-5.5%	2018	2013	54,545	57,625
2005	AC	3.5-5.0%	2015	2015	25,935	29,440
2006	AD	3.4-3.5%	2015	2015	485	965
2008	AE	3.1-5.0%	2030	2018	538,365	559,190
2009	AF	3.0-5.0%	2033	2019	180,795	193,515
2010	AG	3.0-5.0%	2033	2020	168,150	168,480
2011	AH	3.0-5.3%	2036	2021	94,295	96,010
2012	AI	5.0%	2030	2022	92,275	92,275
2012	AJ	3.0-5.0%	2036	2022	209,535	216,930
2012	AK	2.0-5.0%	2036	2022	35,125	36,370
2013	AL	5.0%	2030	2023	83,975	105,875
2013	AM	5.0%	2026	2023	171,640	183,960
2013	AN	3.0-5.0%	2036	2023	48,530	49,525
2013	AO	0.7-3.5%	2030	None	317,505	317,505
2013	AP	1.0-5.0%	2036	2023	45,340	45,340
2013	AQ	4.0-5.0%	2036	2023	120,205	120,205
2014	AR	4.0-5.0%	2036	2024	161,445	-
	Total revenue bond debt outstanding at par				2,455,645	2,408,975
	Net unamortized bond issuance premiums/discounts				192,169	185,484
	Current fiscal maturities				(115,580)	(114,775)
	Total long-term bond debt outstanding				$ 2,532,234	$ 2,479,684

For the years ended June 30, 2014 and 2013 (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2014:

	Revenue Bonds			General Obligation Bonds			All Bonds
Year	Principal	Interest	Total	Principal	Interest	Total	Total
2015	$ 115,580	$ 107,529	$ 223,109	$ 56,875	$ 10,098	$ 66,973	$ 290,082
2016	135,900	102,261	238,161	49,915	7,742	57,657	295,818
2017	140,430	96,657	237,087	46,745	5,661	52,406	289,493
2018	144,980	90,486	235,466	34,235	3,792	38,027	273,493
2019	130,525	84,717	215,242	25,975	2,414	28,389	243,631
2020-2024	715,370	331,875	1,047,245	28,055	2,037	30,092	1,077,337
2025-2029	670,190	170,256	840,446	35	1	36	840,482
2030-2034	311,030	45,461	356,491	-	-	-	356,491
2035-2036	91,640	4,008	95,648	-	-	-	95,648
	$ 2,455,645	$ 1,033,250	$ 3,488,895	$ 241,835	$ 31,745	$ 273,580	$ 3,762,475

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 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.

The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2014:

Year	Principal	Interest	Total
2015	$ 3,486	$ 514	$ 4,000
2016	3,663	337	4,000
2017	3,850	150	4,000
2018	580	7	587
	$ 11,579	$ 1,008	$ 12,587

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $139.7 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011 and the first amendment dated May 28, 2014, the bank has agreed to make advances to the System, if necessary, to provide monies for the payment of the commercial paper notes. The bank is obligated to provide $150 million, with the principal amount of commercial paper notes limited to $139.7 million and $10.3 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $139.7 million. The Line of Credit was extended and is scheduled to expire on October 24, 2017, but can be extended for up to three years upon the System's written request and approval from the bank. The credit agreement requires quarterly payments the first day of July and October and on the last day of December and March. As of June 30, 2014, there were no borrowings with the bank under the revolving credit agreement; however, at June 30, 2014 and 2013, the amounts of commercial paper notes outstanding under this program were $36.1 million and $50.5 million, respectively. The weighted average for interest expense approximated 0.10% and 0.16% for the years ended June 30, 2014 and 2013, respectively. The proceeds from the issuance of commercial paper notes 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

During the current fiscal year, the System did not issue CVP Water System Revenue Bonds to refund any existing CVP Water System Revenue Bonds. In prior years, the System has issued bonds to refund various bonds that had been previously issued. The net proceeds from those 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, 2014 and 2013, outstanding CVP Water System Revenue Bonds of

$315.1 million and $315.3 million, respectively, are considered to be defeased.

Refunding and defeasance transactions during fiscal 2013 were as follows:

- 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 $61.7 million of CVP Water System Revenue Bonds Series X, and $60.3 million of CVP Water System Revenue Bonds Series Z. The bond proceeds of $105.9 million and $18.2 million, par and premium, respectively, along with System funds on hand in the amount of $1.5 million were used to refund $122 million of bonds, fund $3 million of future interest on the defeased bonds, and cover costs of issuance of $0.6 million.

- On September 27, 2012, the System issued $49.5 million of CVP Water System Revenue Bonds Series AN with an average yield on the bonds of 2.98% to refund $12.6 million of CVP Water System Revenue Bonds Series AD. The bond proceeds of $49.5 million and $10.1 million, par and premium, respectively, along with System funds on hand in the amount of $211 thousand were used to refund $12.6 million of bonds, fund $1.8 million of future interest on the defeased bonds, redeem commercial paper borrowings of $44.8 million, fund capitalized interest of $318 thousand, fund deposits to the debt service reserve account of $159 thousand, and cover costs of issuance of $243 thousand.

- On September 27, 2012, the System also issued $317.5 million CVP Water System federally-taxable Revenue Bonds Series AO with an average yield on the bonds of 2.54% to refund $192.3 million of CVP Water System Revenue Bonds Series AC, and $93.5 million of CVP Water System Revenue Bonds Series AD. The bond proceeds of $317.5 million along with System funds on hand in the amount of $5.3 million were used to refund $285.8 million of bonds, fund $35.6 million of future interest on the defeased bonds, and cover costs of issuance of $1.4 million.

- 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 $69.6 million of CVP Water System Revenue Bonds Series AA, and $142.2 million of CVP Water System Revenue Bonds Series Y. The bond proceeds of $184 million and $29.9 million, par and premium, respectively, along with System funds on hand in the amount of $4.4 million were used to refund $211.8 million of bonds, fund $5.4 million of future interest on the defeased bonds, and cover costs of issuance of $1 million.

These refundings and defeasances were accomplished to take advantage of lower interest rates. The transactions resulted in cash flow savings of $92.6 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $77 million for fiscal year 2013. 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.

Amortization of all deferred refunding costs was approximately $7.9 million and $20.5 million in fiscal years 2014 and 2013, respectively.

8. Retirement Plan

Plan Description

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

Recently California Government Code amendments increased member employee contribution rates. Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 8% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 9% 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 CalPERS.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. DWR is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required contribution rate for the year ended June 30, 2014 was determined using the first CalPERS actuarial valuation after the passage of Assembly Bill 340 (AB340), which includes the Public Employees Pension Reform Act of 2013. One of the provisions of AB340 provides that savings realized by the state employer from increased member employee contribution rates shall be allocated to any unfunded liability. Under CalPERS Finance & Administration Committee Agenda Item 5c, issued in June of 2013, the required employer contribution rate for the fiscal year ended June 30, 2014, plus the additional statutory contribution to offset increased member contributions, totaled 21.203% and 21.355% for State Miscellaneous Tiers 1 and 2 respectively. For the fiscal year ended June 30, 2013, required employer contribution rate for Tiers 1 and 2, determined by CalPERS was 20.503% and 20.457% respectively.

For the years ended June 30, 2014 and 2013 (in thousands)

Annual Pension Cost

Annual covered salary, which is generally comprised of only wages and overtime pay and excludes other types of compensation, is not available for the System. However the System's allocated share of the DWR's annual covered salary for the year's ended June 30, 2014 and 2013, was approximated at $185.8 million and $159.6 million, respectively. Required contribution amounts based on current required employer rates, paid by DWR are allocated to the System using percentage of total payroll and budget allocations. For the years ended June 30, 2014 and 2013, the System's allocated portion of DWR's annual pension costs and contributions made, amounted to approximately $35 million and $28 million, respectively. These amounts account for approximately 1.6% and 1.3% of the State employer contributions anticipated to be generated.

Annual pension costs are expected to increase in fiscal 2015 under GASB Statement No. 68 which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits.

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
2012	$ 24,895	100%
2013	28,178	100%
2014	34,704	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, employees must retire after attaining certain age and length of service requirements. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. In accordance with the California Government Code, the State generally pays all or a portion of the health and dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the coverage selected by the annuitant. The System participates in the State's plan on a cost sharing basis. The System recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and is funded on a pay-as-you-go basis. The State's plan, which the System participates in, does not issue separate stand-alone financial statements.

For the years ended June 30, 2014 and 2013 (in thousands)

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

	2014	2013
Annual required contribution (ARC)	$ 55,239	$ 34,166
Interest on net OPEB obligation	7,993	4,046
Adjustment to the ARC	(7,012)	(3,549)
Annual OPEB cost	56,220	34,663
Contributions made	(19,921)	(12,117)
Increase in net OPEB obligation	36,299	22,546
Net OPEB obligation - beginning of year	140,470	117,924
Net OPEB obligation - end of year	$ 176,769	$ 140,470

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the years ended June 30, 2014, 2013 and 2012, were as follows:

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2012	$ 30,732	36%	$ 117,924
6/30/2013	34,166	35%	140,470
6/30/2014	55,239	35%	176,769

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

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller 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, 2014 and 2013, approximated $67.1 million and $75.6 million, respectively.

Power Transmission and Purchase

The System has long-term power transmission service contracts with anticipated future payments of approximately $69.1 million over periods ranging from one to 28 years. Payments made under these contracts approximated $7.7 million and $13.7 million for the years ended June 30, 2014 and 2013, respectively.

For the years ended June 30, 2014 and 2013 (in thousands)

The System has also entered into long-term power purchase contracts with anticipated future payments of approximately $607 million over periods ranging from one to 28 years. Payments made under these contracts, excluding payments to the Kings River Conservation District (District) to cover debt service, approximated $52.2 million and $35.4 million for the years ended June 30, 2014 and 2013, respectively.

The remaining amounts of fixed obligations under the long-term power purchase and transmission contracts as of June 30, 2014, are as follows:

For the year ended	Fixed Obligations
2015	$ 58,194
2016	32,674
2017	30,190
2018	30,190
2019	30,190
2020 - 2042	494,670
	$ 676,108

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 million and $10.6 million during the years ended June 30, 2014 and 2013, 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, 2014 are as follows:

For the year ended	Fixed Obligations
2015	$ 4,272
2016	4,270
2017	4,253
2018	4,239
2019	4,257
	$ 21,291

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, 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, 2014 and 2013 (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, 2014 are as follows:

For the year ended	Fixed Obligations
2015	$ 9,207
2016	9,209
2017	9,206
2018	9,208
2019	9,207
2020 - 2024	46,045
2025 - 2029	46,038
2030 - 2034	46,039
2035	9,210
	$ 193,369

Market value information for certain power purchase, sale and exchange contracts are disclosed at June 30, 2014, using forward market prices discounted at the prevailing risk-free interest rate. One remaining sales contract extending beyond June 30, 2014 expires in fiscal 2015. There are four purchase contracts that will expire in fiscal 2015, nine purchase contracts will expire in fiscal 2016, ten purchase contracts will expire in fiscal 2017, and six purchase contracts will expire in fiscal 2018. The long-term energy purchase contracts involve energy delivered from the Pine Flat Power Plants and Dominion Solar Holdings will expire in fiscal 2037 and 2034, respectively, Alameda Municipal Power and Morgan Stanley purchase contracts will expire in fiscal 2016 and 2015, respectively, and a contract with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, expires in fiscal 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 power purchase and sales commitments extending beyond June 30, 2014 are as follows:

For the years ended June 30, 2014 and 2013 (in thousands)

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2014
Energy sales	1	25	$ -
Energy purchases	29	725	7
Long-term energy purchases	6	573	(9)
Total			$ (2)

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. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR is adequate under CEQA, but that the EIR's discussion of the Kern Water Bank's future impacts is insufficient. The court therefore issued a decision in favor of the plaintiff of the two cases finding that the EIR failed to analyze impacts associated with the use and operation of the Kern Water Bank, particularly as to potential ground water and water quality impacts. The court will be ordering a remedy regarding its finding that the EIR failed to sufficiently analyze the Kern Water Bank impacts. The System, however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

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 changes in financial position. If incurred, such costs would be recoverable from project beneficiaries under the long-term water supply contracts.

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

California Energy Crisis and Claims for Partial Energy Purchase Refunds
The California energy crisis of 2000-01 adversely impacted the financial condition of some energy market participants, including DWR as operator of the State Water Project. As a supplier of energy, DWR received increased market prices for energy sales in 2000 and in 2001. FERC proceedings were instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including DWR. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as DWR, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board against the governmental entity sellers, including DWR. The Claims Board denied the claim made against DWR, which would have allowed the claimants to file a lawsuit against DWR. Settlement discussions were thereafter conducted and on August 19, 2014, a settlement agreement was reached between DWR and the claimants, the California Public Utilities Commission and the California Energy Resources Scheduling Division of DWR. Under the settlement, DWR paid $7 million and assigned approximately $19.6 million in receivables from the CAISO and the California Power Exchange Corporation to the claimants and other settling parties. In return, the claimants and other settling parties withdrew and released DWR from, all of their claims related to the 2000 and 2001 energy sales.

Pollution Remediation

The System recognizes Pollution Remediation Liabilities of $8.6 million in current portion and $33.8 million in long-term portions totaling $42.4 million at June 30, 2014. This liability is comprised of two identified locations. Previously owned, Reid Gardner Unit 4 in Nevada and the Methyl Mercury Control programs in the Delta.

Reid Gardner Power Plant

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

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

During calendar year 2014, NVE provided DWR their projected schedule and budget by source area based on ongoing and planned investigations and overall AOC planning activities. Using NVE's projections and applying DWR's agreed upon costs sharing percentages in the Environmental Agreement, DWR's estimated equitable share of the current value of outlays is $33 million. The System expended approximately $12.1 million in FY 2013/2014 and DWR expects to pay $7.5 million of the total estimated liability during FY 2014/2015. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information is available.

In August 2013, a Native American tribe and an environmental organization filed a lawsuit against NVE and DWR in federal district court in Nevada, claiming violations of federal environmental laws, specifically the Resource Conservation and Recovery Act and the Clean Water Act, related to the asserted contamination of the land, groundwater and surface water, and alleged discharge of pollutants into the nearby Muddy River from the RG Station. The lawsuit, which relates to some of the same contaminants addressed in the AOC, seeks declaratory and injunctive relief requiring NVE and DWR to conduct studies and undertake cleanup at the site. In March 2013, 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 methyl mercury. The amendment, among other things, assigns certain responsibilities jointly to DWR (with regard to both the System and DWR's flood management programs), the Central Valley Flood Protection Board and the State Lands Commission to reduce methyl mercury in the open waters of the Delta. In addition, DWR and others are assigned certain responsibilities regarding the discharge of methyl mercury from wetland and other aquatic restoration and enhancement projects.

DWR's mercury program was created to address its obligations under the Delta Mercury Control Program. The System has expended approximately $1.8 million through June 30,

For the years ended June 30, 2014 and 2013 (in thousands)

2014. DWR estimates that the System will incur costs of approximately $1.1 million in fiscal 2015 and estimates remaining long term costs through 2020 at approximately $8.3 million

The State Water Resources Control Board is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Draft regulatory language and associated environmental analysis is currently expected to be released in 2015. There is insufficient information available to enable DWR to estimate the timing, magnitude, or the System's share of potential compliance costs, if any, at this time

11. Self-Insurance

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

12. Economic Dependency

The System's water supply revenue is derived from 29 Water Contractors, including the Metropolitan Water District of Southern California whose System billings constituted 51% and 54% of total System water supply revenue for the years ended June 30, 2014 and 2013, respectively, and Kern County Water Agency whose System billings constituted 11% and 10% of total System water supply revenue for the years ended June 30, 2014 and 2013, respectively.

The System sold power to 14 and 18 power companies during the fiscal years ended June 30, 2014 and 2013, 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 $1.5 million and $13.7 million, for the years ended June 30, 2014 and 2013, respectively.

	2014	% Total	2013	% Total
California Independent System Operator	$ 81,083	62.30%	$ 102,687	67.14%
Northern California Power Agency	21,721	16.69%	16,541	10.82%
Morgan Stanley Capital Group Inc.	11,777	9.05%	8,800	5.75%

For the years ended June 30, 2014 and 2013 (in thousands)

Similarly, the System purchased power from 17 and 21 power suppliers during the years ended June 30, 2014 and 2013, 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.

	2014	% Total	2013	% Total
California Independent System Operator	$ 119,738	50.83%	$ 141,541	54.67%
Morgan Stanley Capital Group Inc.	38,948	16.53%	35,418	13.68%
Northern California Power Agency	36,697	15.58%	22,315	10.55%
JP Morgan Ventures Energy Corp.	-	-	13,670	5.28%

For the years ended June 30, 2014 and 2013 (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, 2014 and 2013.

	2014			2013		
	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	$ 880,833	$ 2,588,828	$ 3,469,661	$ 890,015	$ 2,437,950	$ 3,327,965
Other assets	1,131,339	344,976	1,476,315	1,037,265	380,850	1,418,115
Current assets	159,824	399,563	559,387	295,024	385,522	680,546
Total assets	2,171,996	3,333,367	5,505,363	2,222,304	3,204,322	5,426,626
Deferred outflows of resources	-	116,741	116,741	-	124,591	124,591
Total assets and deferred outflows of resources	$ 2,171,996	$ 3,450,108	$ 5,622,104	$ 2,222,304	$ 3,328,913	$ 5,551,217
Capitalization and Liabilities						
Capitalization:						
Net position:						
Net investment in capital assets	$ 842,008	$ 152,553	$ 994,561	$ 783,743	$ 48,404	$ 832,147
Restricted	367,248	(156,381)	210,867	425,513	(52,232)	373,281
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Long-term liabilities	511,260	2,662,655	3,173,915	538,050	2,606,739	3,144,789
Total capitalization	1,720,516	2,658,827	4,379,343	1,747,306	2,602,911	4,350,217
Current liabilities	134,110	285,765	419,875	163,201	301,143	464,344
Total capitalization and liabilities	1,854,626	2,944,592	4,799,218	1,910,507	2,904,054	4,814,561
Deferred inflows of resources	317,369	505,517	822,886	311,797	424,859	736,656
Total liabilities, deferred inflows of resources and net position	$ 2,171,995	$ 3,450,109	$ 5,622,104	$ 2,222,304	$ 3,328,913	$ 5,551,217
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	$ 507,909	$ 281,461	$ 789,370	$ 559,060	$ 372,748	$ 931,808
Power sales	131,604	348	131,952	144,704	1,573	146,277
Federal reimbursements	43,779	8,407	52,186	47,207	5,190	52,397
	683,292	290,216	973,508	750,971	379,511	1,130,482
Depreciation expense	(22,035)	(46,861)	(68,896)	(22,146)	(63,090)	(85,236)
Other operating expense	(694,764)	(103,889)	(798,653)	(724,244)	(102,329)	(826,573)
Income from operations	(33,507)	139,466	105,959	4,581	214,092	218,673
Capital revenues (deferred) recovered	53,546	(96,480)	(42,934)	18,906	(193,262)	(174,356)
Interest expense	(12,176)	(103,323)	(115,499)	(15,402)	(38,090)	(53,492)
Transfers In/(Out)	(8,638)	8,638	-	(9,066)	9,066	-
Other (expense) income	775	51,699	52,474	981	8,194	9,175
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Net position, end of year	$ 1,209,256	$ (3,828)	$ 1,205,428	$ 1,209,256	$ (3,828)	$ 1,205,428
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	$ (2,251)	$ 262,292	$ 260,041	$ 176,847	$ 202,967	$ 379,814
Capital and related financing activities	(98,656)	(245,552)	(344,208)	(125,394)	(132,805)	(258,199)
Investing activities	1,849	7,145	8,994	3,481	7,661	11,142
Net (decrease) increase in cash and cash equivalents	(99,058)	23,885	(75,173)	54,934	77,823	132,757
Cash and equivalents, beginning of year	254,511	381,948	636,459	199,577	304,125	503,702
Cash and equivalents, end of year	$ 155,453	$ 405,833	$ 561,286	$ 254,511	$ 381,948	$ 636,459

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 were 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 were 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.* The financial statement items in connection with GASB Statement No. 63 and No. 65 were presented in fiscal year 2013 financial statements.

GASB Statement No. 66
In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-*

November 30, 1989 FASB and AICPA Pronouncements. The requirements of GASB No. 66 are effective for fiscal year 2014 and thereafter. It has been determined that GASB No. 66 did not impact the System.

GASB Statement No. 68
In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. It is expected that annual pension costs will increase in fiscal 2015 as the System implements GASB Statement No. 68. The Statements of Net Position will include a net pension liability to adhere to GASB 68 requirements.

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

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

GASB Statement No. 71
In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pension*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of GASB No. 71 are effective for fiscal year 2015 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

15. Significant Events

State Water Project Contract Extension

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 terms and change certain financial provisions of the water supply contracts. The negotiating sessions began in May 2013. In June 2014, the Department and the Contractors reached a general agreement on principles for such an amendment (the “Agreement in Principle”). Currently, the water supply contracts have termination dates ranging between 2035 and 2042. Under the Agreement in Principle the term of the water supply contract for each Water Contractor that signs an amendment would be extended until December 31, 2085.

Provisions under the Agreement in Principle also address, among other things, the calculations of charges to Water Contractors, increases to DWR’s operating reserves, mechanisms for accounting, reporting and financing of capital projects. In addition, the provisions provide for the establishment of a finance committee to serve as a forum for discussions and to provide a channel for recommendations to the Director of Water Resources concerning financial policies of the Project.

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

Thermalito-Hyatt Power Plant Fire

On November 22, 2012, the System experienced a fire of the Thermalito-Hyatt Power Plant (THPP) at the Oroville Complex. The fire caused substantial damage to the plant rendering the plant inoperable. DWR considered the feasibility of repairing and reconstructing the plant and equipment, and has determined to rebuild the plant. Until the plant is repaired and placed back in service, the electrical generation from the Hyatt-Thermalito facilities will be reduced.

DWR does not believe that this event will have a material adverse impact on its ability to operate and maintain the State Water Project. The costs for rebuilding the THPP will be financed with Revenue Bonds. Currently, all costs related to the rebuilding of the plant due to the fire totaling approximately $45.4 million as of June 30, 2014, are recorded in construction work in progress (CWIP). THPP was originally placed in service in 1973 with an expected useful life of 46 years and capitalized at an initial acquisition cost of $89.7 million. The $11.8 million net book value of the plant was reclassified as an impaired asset per GASB Statement No. 42 in fiscal 2014 to Unamortized Project Costs.

California Drought

On January 17, 2014, with California facing water shortfalls in the driest year in recorded state history, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take all necessary actions to prepare for drought conditions. Water years 2012 and 2013 were dry statewide, especially in parts of the San Joaquin Valley and Southern California. Water year 2014 is a third consecutive dry year. The 2014 Initial Allocation made on November 19, 2013, was 5%, but was later reduced to Zero on January

31, 2014 when hydrologic conditions turned historically dry. Then on April 18, 2014, DWR announced a return to the 5% allocation of estimated State Water Project water delivery to the Water Contractors for calendar year 2014.

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

16. Subsequent Events

In October 2014, the System issued CVP Water System Revenue Bonds Series AS (Tax-Exempt) with a par amount of $645.8 million and a premium of $141.6 million with an average yield on the bonds of 2.73%. The bond proceeds of $787.4 million combined with the System's cash contribution of $12.5 million will be used to retire $689.8 million of outstanding bonds by depositing $797.5 million in an irrevocable trust with an escrow agent, and cover costs of issuance of approximately $2.4 million. The System expects to achieve a net present value savings of approximately $56 million representing an 8.1% of the refunded bonds.

In November 2014, the System issued CVP Water System Revenue Bonds Series AT (Variable rate, Tax-Exempt) with a par amount of $149.3 million to redeem the outstanding balance of commercial paper notes, fund capitalized interest, fund deposits to the debt service reserve account, and cover costs of issuance.

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, 2014 and 2013 (in thousands)

	2014	2013
Water supply revenues, Central Valley Project Act	$ 281,461	$ 372,748
Add: Cover Collected as Proceeds Due To Water Contractors	51,786	54,677
Less: Devil Canyon Castaic Revenues	(16,612)	(16,763)
Revenues not available for Debt Service	(56,217)	(139,641)
Net CVP revenues available for debt service	260,418	271,021
Principal and interest for revenue bonds	$ 205,923	$ 214,378
Debt service coverage	126.5%	126.4%

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 $281.5 million in fiscal 2014 and $372.7 million in 2013, respectively in Water Supply Revenues of the System's (CVP) segment. In fiscal 2014, the revenues include: an increase of $51.8 million in refundable proceeds, a decrease of $16.6 million for principal and interest payments for the 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 $56.2 million of which $59.3 million is primarily related to operations and maintenance and $6.2 million is related to miscellaneous revenues not intended for debt service and a $9.3 million decrease is related to refunds paid to the Water Contractors.

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 DCC Facilities Bonds, and a decrease of $139.6 million, of which $142.2 million is primarily related to operations and maintenance and $7.3 million is related to miscellaneous revenues not intended for debt service and a $9.9 million decrease is related to refunds paid to the Water Contactors.

Edmund G. Brown Jr.
Governor, State of California

John Laird
Secretary of Resources,
Natural Resources Agency

Mark Cowin
Director, Department of Water Resources