CALIFORNIA

Financial Statements & Supplementary Information
For the years ended June 30, 2008 & 2007

STATE WATER RESOURCES

STATE WATER RESOURCES DEVELOPMENT SYSTEM

Arnold Schwarzenegger
Governor, State of California

Michael J. Chrisman
Secretary of Resources, The Natural Resources Agency

Lester A. Snow
Director, Department of Water Resources

DEPARTMENT OF WATER RESOURCES
STATE OF CALIFORNIA

STATE OF CALIFORNIA
Arnold Schwarzenegger, Governor

THE NATURAL RESOURCES AGENCY
Michael J. Chrisman, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES
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State Water Resources Development System

Financial Statements and
Supplementary Information
For the years ended June 30, 2008 and 2007

State Water Resources Development System
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The Director of the State of California
Department of Water Resources

Independent Auditor's Report

We have audited the accompanying basic financial statements of the State Water Resources Development System (System), a component unit of the State of California, as of and for the fiscal years ended June 30, 2008 and 2007. These financial statements are the responsibility of the System's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, effective July 1, 2007, the System implemented Governmental Accounting Standards Board (GASB) Statements No. 45, Accounting *and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and No. 50, *Pension Disclosures*.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
December 8, 2008

Management's Discussion and Analysis

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

The SWP encompasses a complex of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State of California. The SWP was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. DWR is responsible for the planning, construction and operation of the SWP. The construction program commenced in 1957 and approximately 700 miles of the System has 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 a decrease in total assets of $22.2 million on total operating revenues of $989.3 million. This did not cause a decrease in net assets as a result of appropriately reflecting the timing differences in the deferral of expenses incurred and the deferral of capital recovery.

- In May 2008, the System issued $668.604 million in CVP Water System Revenue Bonds Series AE with an average yield on the bonds of 4.38%. These bonds were used to defease $500.375 million of outstanding bonds, redeem commercial paper borrowings of

$133.91 million fund capitalized interest of $9.475 million fund deposits to the debt service reserve account of $16.99 million and cover costs of issuance of $3.538 million.

Series AB bonds issued during fiscal year 2004 are variable rate bonds and have 35 day auction periods. Due to the problems with the Auction rate market, the System refunded the Series AB bonds with Series AE. While the Series AB bonds were outstanding, the System never experienced a failed auction. The average rates for interest and fees were 4.03% and 3.71% for the years ended June 20, 2008, and 2007, respectively.

- 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 will defease certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related cost of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4).

- During fiscal 2008, the System was a party to certain power purchasing contracts with Morgan Stanley. These contracts require the System to pay market rates for the natural gas used to produce such power. As a result, the System established a natural gas hedging program designed to stabilize the cost of its natural gas. This hedging program causes the System to enter into contracts for the future purchase of natural gas at known costs to hedge against market swings in price. As of June 30, 2008, the System had 599 future contracts in place, for a total realized loss of $4.3 million for fiscal 2008. This loss is recoverable through the Variable revenue collected by the System.

Overview of Financial Statements

Reports Included in Financial Statements

The System is accounted for as an enterprise fund. Enterprise funds account for the acquisition, operation, and maintenance of governmental facilities and services that are entirely or predominantly self-supported by user charges. This financial report consists of three financial statements, prepared on the accrual basis of accounting, with accompanying disclosure notes. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The statements of net assets include all the assets, liabilities and the net assets of the System. The statements of revenues, expenses, and changes in net assets 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 information that is required by generally accepted accounting principles.

Condensed Statements of Net Assets

	2008	2007	2006	%Change 2008-2007	%Change 2007-2006
		(in thousands)			
Total utility plant	$ 3,074,755	$ 3,037,663	$ 3,020,602	1.2%	0.6%
Other assets	2,097,223	2,156,502	2,002,486	-2.7%	7.7%
Total assets	$ 5,171,978	$ 5,194,165	$ 5,023,088	-0.4%	3.4%
Capitalization:					
Net assets:					
Capital, net of related debt	$ 127,858	$ 98,490	$ 224,246	29.8%	-56.1%
Restricted	1,077,573	1,106,941	981,185	-2.7%	12.8%
Total net assets	1,205,431	1,205,431	1,205,431	0.0%	0.0%
Total long-term debt	3,156,526	3,210,305	3,081,964	-1.7%	4.2%
Total capitalization	4,361,957	4,415,736	4,287,395	-1.2%	3.0%
Other liabilities	810,021	778,429	735,693	4.1%	5.8%
Total net assets and liabilities	$ 5,171,978	$ 5,194,165	$ 5,023,088	-0.4%	3.4%

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

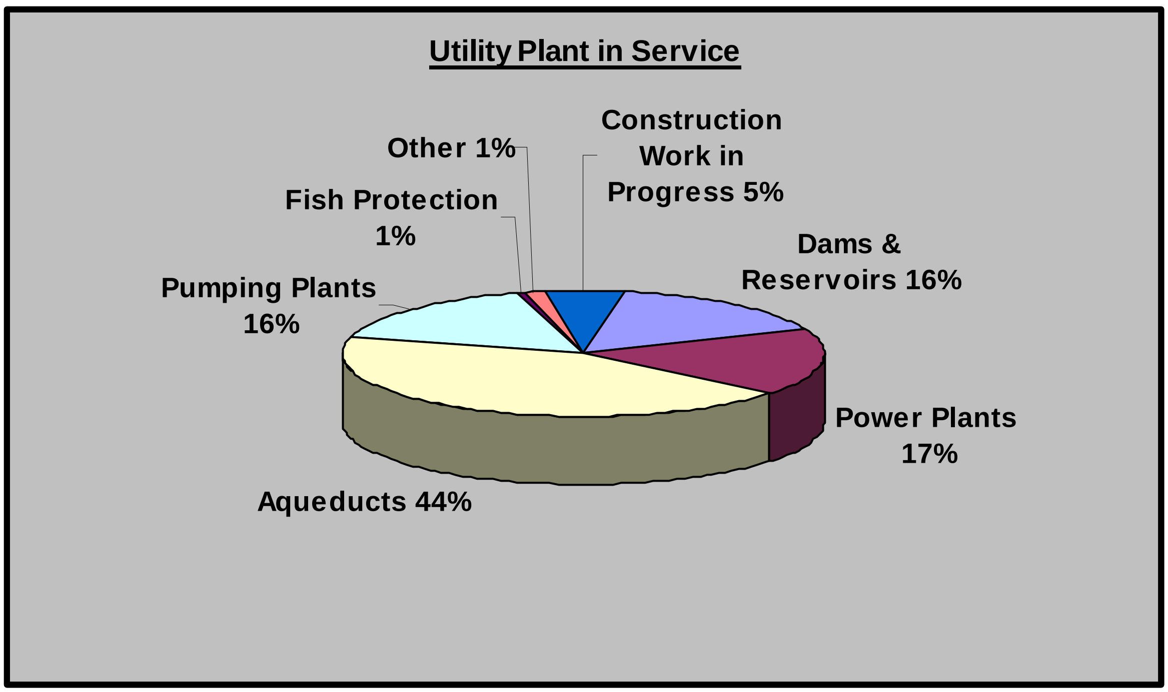
	2008	2007	2006	%Change 2008-2007	%Change 2007-2006
Water supply	$ 752,853	$ 704,921	$ 642,322	6.8%	9.7%
Power sales	215,430	222,206	291,793	-3.0%	-23.8%
Federal reimbursements	20,992	24,463	15,576	-14.2%	57.1%
Total operating revenues	989,275	951,590	949,691	4.0%	0.2%
Operations and maintenance expense	409,150	344,464	289,296	18.8%	19.1%
Purchased power	323,236	374,568	330,665	-13.7%	13.3%
Depreciation expense	79,136	78,065	77,980	1.4%	0.1%
Operating expenses (deferred) recovered, net	40,976	(24,972)	85,742	-264.1%	-129.1%
Total operating expenses	852,498	772,125	783,683	10.4%	-1.5%
Income from operations	136,777	179,465	166,008	-23.8%	8.1%
Capital expenses (deferred) recovered	(20,595)	4,377	(12,884)	-570.5%	-134.0%
Interest expense	(156,716)	(151,746)	(150,170)	3.3%	1.0%
Other (expense) income	40,534	(32,096)	(2,954)	-226.3%	986.5%
Increase (decrease) in net assets	-	-	-	0.0%	0.0%
Net assets, beginning of year	1,205,431	1,205,431	1,205,431	0.0%	0.0%
Net assets, end of year	$ 1,205,431	$ 1,205,431	$ 1,205,431	0.0%	0.0%

Assets

Utility Plant

Utility Plant represents the accumulated original costs of labor, materials and indirect costs incurred during the construction of the SWP that are in service to provide water deliveries. The SWP utility includes 33 storage facilities, 20 pumping plants, four generating plants, ten power plants, as well as fish protection facilities and aqueducts.

Utility plant in service, net of accumulated depreciation (UPIS) decreased by $75 million during fiscal 2008 to a balance of $2,709 million. This is compared to a net decrease in fiscal 2007 of $60 million. While depreciation expense remained constant for the two years at $78 million, the amount of additions in the current year was $3 million compared to a $18.3 million increase in 2007. Annual depreciation expense will remain relatively constant, as the majority of the System is complete and depreciation is recorded on a straight-line basis over the estimated useful life of the assets, which range from 30 to 100 years.



Construction Work in Progress

Construction work in progress increased by $112 million during the year, which represents a 44.3% increase over fiscal 2007. In fiscal 2007, construction work in progress increased by $76.8 million, or 43.56% over fiscal 2006. The current year increase is attributable to additions made to new and on-going projects including East Branch Extension Phase II projects of $7.7 million, Reid Gardner projects in the amount of $11.9 million, South Bay Aqueduct projects of $45.8 million, the Tehachapi 2nd Afterbay project of $3.1 million and other Water Systems projects totaling $43.5 million. The increase in fiscal 2007 from fiscal 2006 was attributable to additions made to new and on-going projects including the East Branch Extension Phase II projects of $2.8 million, Reid Gardner projects of $3.4 million, South Bay Aqueduct projects of $20.2 million, the Tehachapi 2nd Afterbay project of $13.4 million and other Water Systems projects totaling $37 million. At June 30, 2008, total construction work in progress was comprised of $18.8 million of East Branch Extension Phase II projects, $20.6 million of Reid Gardner projects, $85.2 million for the South Bay aqueduct, $76.45 million of Tehachapi 2nd Afterbay projects, and $164 million of other Water Systems projects.

Restricted Cash and Investments
Restricted cash and cash equivalents decreased by $79.4 million during fiscal 2008 to a total of $141.3 million. This compares to a balance of $220.7 million in fiscal 2007, and $219.3 million in fiscal 2006. The current year change is due in part to a $17.6 million decrease in plant replacement reserves, resulting from the reclassification of Hyatt power plant refurbishment costs. Additionally, there was a change in the debt service reserve requirement calculation as a result of bond resolution amendment dated January 18, 2008. The bond resolution reduced the amount to be reserved in the Debt Service Reserve to 50% of the annual debt service which resulted in a $62 million reduction in the amount restricted for debt service.

Other Long-term Assets
As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $24.1 million remains outstanding at the end of fiscal 2008 compared to an outstanding balance of $25.9 million at the end of fiscal 2007, and $26.4 million at the end of fiscal 2006. Advances to Other State Funds represents the System's advance of $92 million to DWR's internal service fund, this functions as a revolving working capital facility for DWR.

Cash and Cash Equivalents
In fiscal 2008, cash and cash equivalents increased by $94 million to a balance of $485 million. The increase is mainly due to the maturity of the US Treasury Strip and other securities and proceeds from the issuance of Bond Series AE and the change in fair market value for gas hedging. As of June 30, 2008, the Construction Fund had $54.7 million in bond proceeds invested in SMIF for future construction. The Bond Fund had an $18.8 million increase in SMIF investments resulting from the replenishment in the General Operating Reserve.

Receivables
In fiscal 2008, water supply and power billings receivable decreased from $151 million to $110 million as compared to fiscal 2007. The variable billings are due 30 days from the date of billing with a 30 day grace period. The fiscal 2008 decrease of $41 million is primarily attributable to a decrease in the variable water deliveries for April and May 2008 as compared to April and May 2007 that were outstanding billings as of June 30.

Deferred Charges
Deferred charges 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 total, deferred charges decreased by $46 million to an ending balance of $1,194 million compared to $1,240 million for 2007, as the System defers expenses to be recovered from future revenues from the Water Contractors. In fiscal 2007, the System experienced an increase of deferred charges of $6 million related to expenses not recovered from the Contractors.

Liabilities

Revenue Bonds

The System has issued 31 series of Water System Revenue Bonds totaling $6,103 million in the aggregate principal, of which $2,547 million remains outstanding at the end of fiscal 2008. This compares to outstanding balance of $2,475 million and $2,292 at the end of fiscal year 2007 and 2006, respectively. During the year, the System completed the issuance of CVP Water Systems Revenue Bond Series AE of $633 million. The majority of the proceeds from the issuance were used to refund portions of the bond of Series S, U, AB, and redeem the Bond Anticipation Bonds, while the remainder was used to pay off all outstanding commercial paper as of the date of issuance, make a deposit to the Debt Service Reserve Account, fund interest on a portion of the Series AE Bonds, and pay costs of issuance of Series AE Bonds.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility. Under the Devil Canyon-Castaic bond resolution, $90 million is outstanding at the end of fiscal 2008, compared to $93 million at fiscal 2007 and $97 million at fiscal 2006.

	2008	2007	2006
CVP revenue bonds par amount	$ 2,484,945	$ 2,449,735	$ 2,267,160
Unamortized bond issuance premiums/(discounts)	85,674	46,025	50,023
Deferred amount on refunding	(23,675)	(21,142)	(24,750)
Total CVP revenue bonds outstanding	2,546,944	2,474,618	2,292,433
Devil Canyon - Castaic revenue bond par amount	89,825	93,465	96,900
Total revenue bonds outstanding	2,636,769	2,568,083	2,389,333
Less current maturities	(78,035)	(75,535)	(70,860)
Total long-term portion	$ 2,558,734	$ 2,492,548	$ 2,318,473

General Obligation Bonds

In addition to the revenue bond obligation described above, 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 $584 million remains outstanding at the end of fiscal 2008 compared to $635 million at fiscal 2007 and $684 for fiscal 2006. The un-issued $168 million of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

Pooled Money Investment Loan

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 will defease certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related cost of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4). The Department 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.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities totaled $178.3 million at June 30, 2008, compared to $147 million in fiscal 2007, and $115 million in fiscal 2006. The increase of $31.3 million in the current year is due in part to an increase of $9.3 million in interest payable as the result of the issuance of Series AE Bonds. During fiscal year 2008, the Pooled Money Investment Board of the State made a loan from the Pooled Money Investment Account (PMIA) to the System in the amount of $29.6 million. An increase of $2.6 million is reflected for the current portion of the PMIA loan. Additionally, there was an increase of $19.7 million for postretirement health and dental liabilities due to the implementation of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and a timing difference in the transfer of cash settlements with DWR's Internal Service Fund. In fiscal 2007, the $32 million increase was due to the overall increase in expenses and a timing difference in the transfer of cash settlements with DWR's Internal Service Fund.

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 increased by $19.5 million during fiscal 2008 to an ending balance of $118.9 million. This increase is due to a net $17.5 million off-aqueduct power facilities cost adjustment that updates plan to actuals and an increase of $1.7 million for interest refunds.

In fiscal 2007, Proceeds Due to Water Contractors increased from $81 million to $99 million, an increase of $18 million. The increase was the result of the collection of $10 million from the Water Contractors to increase the working capital for the System's natural gas hedging program. In addition, $8 million in proceeds from the bond sales were set aside in a capitalized interest account for Series AB that will be refunded to the Water Contractors.

Deferred Revenue – State and Federal Capital Recovery

The System received funds from the State and Federal governments to build certain projects that relate to recreational use and flood control. Those funds are deferred and then recognized as revenue as the projects are depreciated. Deferred revenue decreased $4 million in fiscal 2008 to $162 million. This compares to $2 million decrease in fiscal 2007. These decreases represent the recognition of revenue equal to the amount of depreciation recorded.

Deferred Capital Credits Due to Water Contractors

The System deferred $29 million of capital revenues in fiscal 2008 compared to $8.5 million in fiscal 2007. This represents excess capital revenues collected that will be adjusted in future capital billings. The increase in fiscal 2008 is due to rise in Fourth Priority funds available in fiscal 2008.

Deferred Power Sales Credit Due to Water Contractors

The deferred power sales credit results from a timing difference of revenue collected from certain Water Contractors for power generated by the Hyatt-Thermalito power plant and the corresponding credit that is issued to all Water Contractors through a reduced capital charge. In fiscal year 2008, the credits issued through the Delta Water Charge of $19.1 million were offset in part by the $14.7 million of revenue collected through the Variable charge for power generated at Hyatt-Thermalito for a $4.4 million decrease in the deferral for 2008 fiscal year.

Advances for Plant Replacements

Advances for plant replacements represents amounts collected in advance from the Water Contractors for future plant equipment replacements. In fiscal 2008, advances for plant replacements decreased by $16.3 million to a total of $11.4 million. The decrease is due to $7 million in expenses and $17.9 million in credits to the contractors offset by $8.6 million in revenue collections. The credits to the contractors of $17.9 were the result of the change in collection of the costs for Hyatt-Thermalito power plant. It was determined that the costs would be collected through the Variable revenue component rather then the Replacement revenue component resulting in a $12 million decrease of Replacement revenues for 2008 compared to 2007. In addition, expenses were slightly higher than the previous year.

Operating Revenues

Operating revenues for fiscal 2008 were $989 million compared to $952 million in fiscal 2007 and $950 million in fiscal 2006. The increase in fiscal 2008 was primarily due to an increase in water supply revenue of $48 million offset by decreases in power sales revenue of $6.8 million and $3.5 million in federal reimbursements. The increase in fiscal 2007 was primarily due to decreased power sales revenue of $69.6 million with offsetting increases in water supply revenue of $62.6 million and federal reimbursements of $8.9 million.

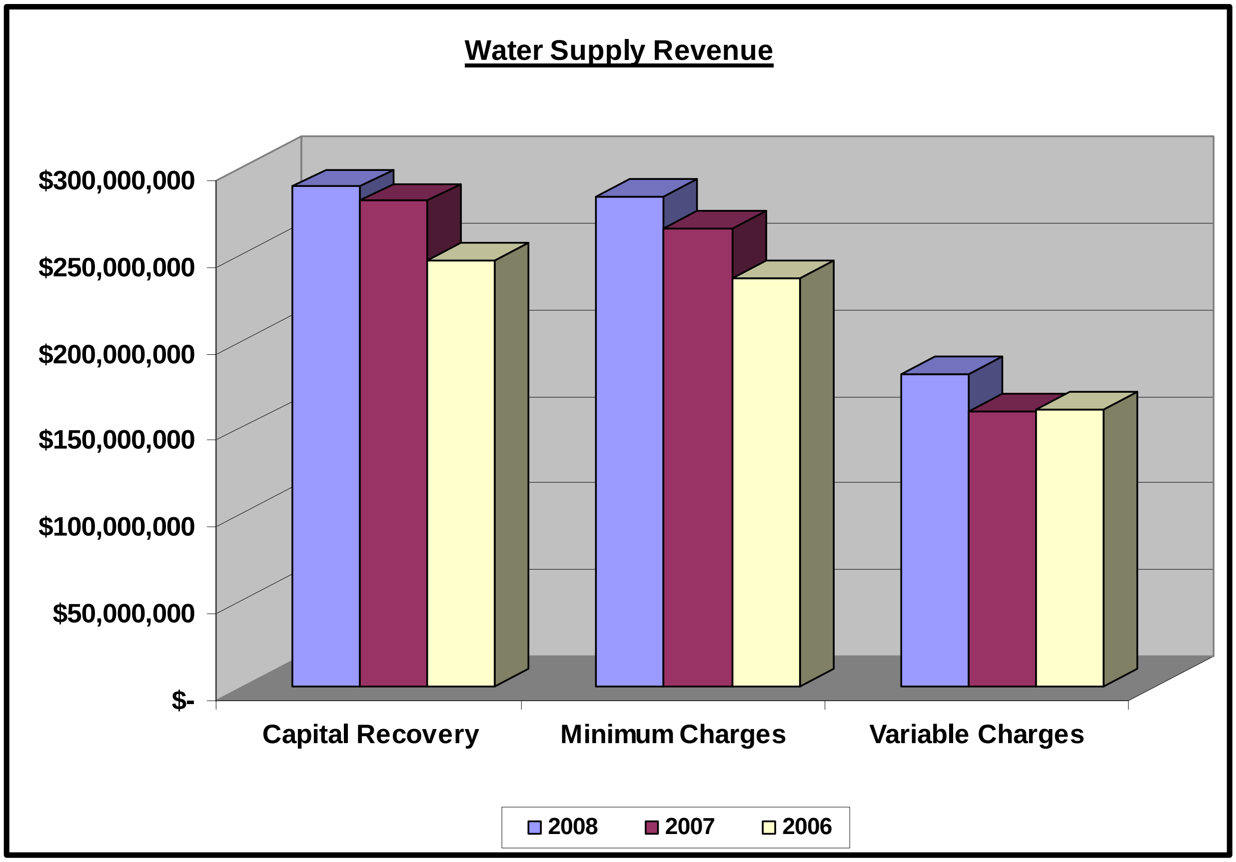
Water Supply Revenue

Under the terms of the water supply contracts, the System is required to collect from the Water Contractors all costs of the SWP allocated in proportion to each 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. Like Minimum, these costs, net of power sales, are generally recovered as they are incurred.

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

In 2008, the System generated $752.9 million in water supply revenue, compared to $705 million in fiscal 2007, and $642 million in fiscal 2006. The table on the following page shows a comparative breakdown of the components of water supply revenue for fiscal years 2008, 2007 and 2006.



Water Supply Billings increased by $47.9 million in 2008 to a total of $752.9 million. This increase is due to several factors. Capital recovery revenues increased by $8.3 million in part due to an increase of $6.8 million in construction costs for the East Branch Enlargement Project. Additionally, Transportation and Conservation Capital revenues increased by $7.9 million. Capital recovery revenues for Off-Aqueduct facilities also rose by $6 million. These increases were offset by a decrease in capital recovery by $13.4 million in the Water Systems Revenue Bond Surcharge as a result of removing the debt service related to the recreation portion of certain system facilities from the Water Contractors' bills. In addition, Operating & Maintenance (O&M) recovery revenues increased by $18.1 million. This is due in part to increases in Transportation and Conservation minimum costs of $26.2 million, offset by a decrease of $15.9 million in Off-Aqueduct facilities O&M costs. Variable recovery revenue increased by $21.5 million, primarily as a result of increased rates and an additional billing for the under-collection of revenues in fiscal 2007.

In fiscal 2007, Water Supply Billings increased by $62.5 million to a total of $705 million. There were several contributing factors. Increases occurred as a result of reduced Rate Management Credits by $26.2 million, increased capital recovery revenues for construction costs on the East Branch Enlargement project of $6.8 million, and minor increases of $1 million for Transportation and Conservation Capital revenues. In addition, O&M recovery revenues increased by $30.9 million resulting from an increase in operating expenses of $24.9 million and a $6 million decrease in over collection credits. An additional $5.8 million in water supply revenue was offset by $7.9 million decreases in Replacement revenues as a result of the Hyatt Facilities cost recovery classification change from Replacement revenues to Variable Power revenues.

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 nine power plants with a total nameplate capacity of approximately 1,770 Mw and with total annual generation of approximately 4,000 to 6,000 Gwh. The System also owns approximately 17 pumping plants with a total load, when operational, of approximately 1,200 Mw and with total annual consumption of 4,000 to 9,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided in all hours of the day.

On a daily basis there will be mitigating factors such as outages on units, plants and transmission lines that impacts the System's power resources necessary for the movement of water. The majority of outages whether scheduled or not, have minimal impact on annual energy transactions because DWR has the flexibility to increase or decrease load or generation to mitigate any contingency. The SWP contract with Edison expired at the end of 2004. This created a change in DWR's philosophy and power operations transitioned into increased use of term contracts and day-ahead and hour-ahead energy trading. The items that had the most impact to power transactions from FY2007 to FY2008 were environmental concerns, high natural gas prices and residual low water storages from 2007.

During fiscal years 2006 and 2007, California experienced extremes in weather conditions from one year to the next contributing to major impacts in power transactions. Fiscal year 2008, showed considerable improvement in rainfall totals as compared to 2007, but were actually well below historical averages. The effects of minimal precipitation during fiscal year 2007 are still being felt by DWR. SWP reservoirs storages remain low and are affecting the overall operations of the project.

Power Sales

The System employs a strategy to run its pumping plants as much as possible during off-peak hours, when energy prices are generally lower, and generate energy during on-peak hours, when prices are generally higher. However, in any given year, a combination of factors, including environmental constraints, hydrological production, energy market rates, energy market supply and demand, and the System's own energy requirements can affect the volume of power the System has available for sale.

In fiscal 2008, power sales decreased by $6.8 million to a total of $215 million. Of that decrease, $15.5 million is attributable to decreased energy sales offset by an increase in the average MWh rate resulting in $17 million in increased power sales revenues while transmission decreased by $8.3 million. In energy sales, while the average rate per MWh sold increased by 9% from $81.49 to $88.63, the System sold 7% or .02 million less units in fiscal 2008 than fiscal 2007. The decrease of $8.3 million in Transmission sold represents a decrease in ancillary service revenues which fluctuate with SWP operations and grid congestion. Revenue is generated when the System schedules energy on a given path that relieves congestion on that path. By the same token, the same schedule on a different day could cause congestion, resulting in a charge to the System. These revenues are market driven and vary from hour to hour.

Regardless of reservoir storages, DWR is required by the Federal Energy Regulatory Commission (FERC) to help mitigate negative environmental impacts. Mitigation in the Oroville field division include maintaining critical elevations in the Thermalito afterbay for wildlife habitat and controlling water temperature for fish in the Feather River. A four-month snapshot from March through June 2008 shows power sales revenue of $59 million. During the same period in 2007 revenues were $32 million. The actual energy sold during 2008 was 697 GWh, while during 2007 the energy sold was 536 GWh. The increase in revenue form 2007 to 2008 is partly due to market factors like natural gas prices that spiked during the spring of 2008. High natural gas prices tend to keep energy prices elevated even during the off-peak hours.

In fiscal 2007, power sales decreased by $70 million to a total of $222 million. Of that decrease, $97 million is attributable to decreased energy sales offset by an increase in the average MWh rate resulting in $27 million in increased power sales revenues while changes in transmission remained flat. In energy sales, while the average rate per MWh sold increased by 10% from $74.06 to $81.49, the System sold 33% or 1.2 million less units in fiscal year 2007 than 2006. The first table below shows the effect of the rate and volume between fiscal 2008 and fiscal 2007. This can be compared to the second table on the following page for fiscal years 2007 and 2006.

	Total Sold	Transmission Sold	Sold	MWh Sold	Rate/MWh
2007	$ 222,205,762	$ (27,619,792)	$ 194,585,970	2,387,758	$ 81.49
2008	215,429,580	(19,289,231)	196,140,349	2,213,122	88.63
Change in total MWh sold					(174,636)
Multiplied by 2008 rate/MWh					$ 88.63
Difference attributed to decreases sales					$ (15,477,000)
Change in MWh rate					$ 7.14
Multiplied by 2007 MWh sold					2,387,758
Difference attributed to rate change					$ 17,049,000
Total increase in power sales					$ 1,572,000

	Total Sold	Transmission Sold	Sold	MWh Sold	Rate/MWh
2006	$ 291,792,938	$ (27,120,286)	$ 264,672,652	3,573,556	$ 74.06
2007	222,205,762	(27,619,792)	194,585,970	2,387,758	81.49

Change in total MWh sold	(1,185,798)
Multiplied by 2007 rate/MWh	$ 81.49
Difference attributed to increased sales	$ (96,634,000)
Change in MWh rate	$ 7.43
Multiplied by 2006 MWh sold	3,573,556
Difference attributed to rate change	$ 26,548,000
Total decrease in power sales	$ (70,086,000)

Federal Reimbursements Revenue

Federal reimbursements revenue for fiscal 2008 was $21 million, compared to $24 million and $16 million for fiscal years 2007 and 2006. The decrease in fiscal 2008 of $3 million is attributable to an adjusting entry of $7.6 million in fiscal year 2007 for operating revenue accruals. This is offset by a $4.6 million increase in expenses incurred for the portion of the San Luis and Suisun Marsh facilities for which the System is reimbursed by the Federal government.

Operating Expenses

Total operating expenses increased by $80 million for 2008 to a total of $852 million. The increase is due to an increase in deferred expenses of $66 million offset by the decrease in power purchases of $51 million and an increase of $65 million in operations and maintenance expense. The increase in deferred expenses is represented by a $41 million recognition of expense in 2008 and a $25 million deferral in 2007.

Operations and Maintenance Expense

Total operations and maintenance expenses were $409 million for fiscal 2008, compared to $344 million for fiscal 2007 and $289 million for fiscal 2006. The increase in fiscal 2008 is attributable to several factors. An increase of $19.7 million is the result of the implementation of GASB 45. Also contributing to the increase, is an increase of $7 million for repairs and $4 million for consulting fees, and $3.5 million in bond issuance expense due to the issuance of Series AE bonds. Salaries increased in fiscal 2008 by $10 million with a corresponding increase in overhead of $5.5 million due in part to the pay increases effective in fiscal 2008.

Power Purchases

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

Power purchases decreased $51 million in fiscal 2008 to a total of $323 million. Of that decrease, $70 million is attributable to decreased MWh's purchased in fiscal 2008 of 1.1 million units while changes in transmission decreased by $5.2 million. In energy purchases, the average rate per MWh purchased increased from $58.99 in fiscal 2007 to $63.21 in fiscal 2008 resulting in an increase of $23.5 million in power purchases expense.

Power purchases are generally for off-peaking pumping and are a reflection of water demand. A six-month snapshot from January through June 2008 shows energy purchases of 1,783 GWh, while the same period in 2007 shows 2,334 GWh. The 2008 six-month snapshot showed a decrease in energy purchases by 551 GWh compared to 2007. One primary factor that contributed to reduced purchases in 2008 was increased amounts of rainfall compared to 2007. The cost of energy during the period of January through June 2008 was $115 million, slightly below the cost in 2007 of $128 million.

In fiscal 2007, purchased power increased $44 million over fiscal 2006 to a total of $375 million. Of that amount, $46 million is attributed to increased power costs and $2 million is attributed to a decrease in the average rate per MWh purchased, while changes in transmission remained flat.

The tables below and on the following page show the relationship between volume and rate for fiscal 2008 compared to fiscal 2007, and fiscal 2007 compared to fiscal 2006.

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2007	$ 374,568,387	$ (45,244,343)	$ 329,324,044	5,582,482	$ 58.99
2008	323,236,179	(40,048,849)	283,187,330	4,480,357	63.21
Change in MWh purchased					(1,102,125)
Multiplied by 2008 rate					$ 63.21
Difference attributed to decreased purchases					$ (69,665,000)
Change in MWh rate					$ 4.22
Multiplied by 2007 purchased					5,582,482
Difference attributed to rate change					$ 23,558,000
Total decrease in power purchases					$ (46,107,000)

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2006	$ 330,665,202	$ (45,238,555)	$ 285,426,647	4,808,879	$ 59.35
2007	374,568,387	(45,244,343)	329,324,044	5,582,482	58.99

Change in MWh purchased	773,603
Multiplied by 2007 rate	$ 58.99
Difference attributed to increased purchases	$ 45,637,000
Change in MWh rate	$ (0.36)
Multiplied by 2006 purchased	4,808,879
Difference attributed to rate change	$ (1,739,000)
Total increase in power purchases	$ 43,898,000

Operating Expenses Recovered (Deferred)

In fiscal 2008, $41 million in operating expenses were recognized, compared to fiscal 2007 in which the System deferred $25 million in operating expenses. The 2008 net change of $66 million is the result of an increase in deferred depreciation of $14.5 million, an increase in deferred operation and maintenance expense of $16.5 million and an increase of $35 million in unbilled interest earnings on conservation facilities as a result of the change in the recreation allocation from 14% to 3.4% for projects or facilities presently in the Delta Facilities category not associated with the Peripheral Canal.

Capital Revenues Recovered (Deferred)

Capital revenues recovered (deferred) represents the timing difference between net capital revenue recovered, and certain operating costs incurred. Capital revenues recovered (deferred) decreased by $25 million in 2008 to a total of $20.6 million deferred compared to $4.4 million in capital revenues recovered from the Water Contractors in fiscal 2007.

Interest Expense

Interest expense for fiscal 2008 was $157 million, which represents an increase of $5 million from the prior year. The increase of $5 million is due in part to a one time adjustment of $7.6 million needed as a result of a change in methodology to amortize the deferred amount on refundings and premium/discounts on bonds from the straight-line method to the effective interest rate method. The effective interest rate method better portrays the underlying economics of the Systems bond transactions. This adjustment is offset by a decrease of $3.3 million in interest for commercial paper.

Interest expense for fiscal 2007 was $152 million, which represents an increase of $2 million from fiscal 2006. This increase is due to in part to the to the $1.2 million in interest expense incurred on interim financing secured until the Bond Anticipation Bonds (BAB) could be issued and BAB administration fees of $316 thousand.

Other Revenues (Expenses)

Other revenues were $40.5 million in fiscal 2008, versus $32 million in expenses in fiscal 2007 and $3 million in 2006. The $72.5 million increase is primarily the result of decreased refunds to the Water Contractor's by $45.7 million in 2008 and a $23.4 million change in the fair value of the gas hedging account.

Change in Net Assets

Overall, the System recorded no change in net assets. This is reflective of the System's operations where revenue is billed at a rate to be sufficient to recover all the costs of operating the System.

The table below explains the primary sources of the change in net assets.

	2008	2007	2006
Increases:			
Investment income net of refunds to water contractors	$ 40,534,221	$ 12,193,924	$ 6,070,965
Capital revenue in excess of capital costs	3,049,560	6,761,112	40,996,970
Other miscellaneous income (expense)	-	-	-
Total increases	43,583,781	18,955,036	47,067,935
Decreases:			
Rate management credit	(14,139,254)	(12,363,621)	(38,645,957)
Deferred capital recovery	(20,595,021)	4,376,971	(60,912)
Recreation costs	(8,069,998)	(10,564,898)	(8,036,082)
Suspended costs	(779,508)	(403,488)	(324,984)
Total decreases	(43,583,781)	(18,955,036)	(47,067,935)
Change in net assets	$ -	$ -	$ -

State Water Resources Development System
Statements of Net Assets
June 30, 2008 and 2007 (in thousands)

	2008	2007
Assets		
Utility plant:		
Utility plant in service	$ 4,587,682	$ 4,584,669
Less accumulated depreciation	(1,878,224)	(1,800,158)
Net utility plant in service	2,709,458	2,784,511
Construction work in progress	365,297	253,152
Total utility plant	3,074,755	3,037,663
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	15,066	32,729
Cash and investments restricted for debt service	110,426	172,663
Cash and cash equivalents on deposit with revenue bond trust	9,463	9,977
Cash and cash equivalents on deposit with AG Edwards	6,301	5,292
Loans receivable from local water agencies	24,105	25,928
Advances to other state funds	91,517	91,517
Total long-term assets	256,878	338,106
Current assets:		
Cash and cash equivalents	485,283	391,517
Receivables:		
Interest on investments	5,016	8,224
Water supply and power billings	109,775	151,009
Due from federal government	26,968	15,381
Due from other state funds	-	6
Inventories	19,035	12,606
Total current assets	646,077	578,743
Deferred charges:		
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	139,609	122,204
Capital costs	184,098	229,687
Unamortized project costs	365,277	375,109
Unbilled interest earnings on capital costs	505,284	512,653
Total deferred charges	1,194,268	1,239,653
Total assets	$ 5,171,978	$ 5,194,165

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

State Water Resources Development System
Statements of Net Assets (continued)
June 30, 2008 and 2007 (in thousands)

	2008	2007
Capitalization and Liabilities		
Capitalization:		
Net assets:		
Capital, net of related debt	$ 127,858	$ 98,490
Restricted	1,077,573	1,106,941
Total net assets	1,205,431	1,205,431
Long-term liabilities:		
General obligation bonds	531,700	584,395
Revenue bonds	2,558,734	2,492,548
Commercial paper	19,352	133,362
Other postemployment benefits	19,708	-
Pooled Money Investment Account Loan (PMIA) - long-term portion	27,032	-
Total long-term liabilities	3,156,526	3,210,305
Total capitalization	4,361,957	4,415,736
Current liabilities:		
Current maturities of bonds	130,730	125,890
Accounts payable	91,143	108,163
Accrued vacation	22,195	19,666
Accrued interest on long-term debt	28,581	19,278
Pooled Money Investment Account Loan (PMIA) - current portion	2,568	-
Due to other state funds	14,060	-
Proceeds due to water contractors	118,972	99,462
Total current liabilities	408,249	372,459
Deferred credits:		
Deferred revenue - State and Federal capital recovery	161,948	166,020
Capital credit due to water contractors	29,102	8,507
Power sales credit due to water contractors	199,279	203,730
Advances for plant replacements	11,443	27,713
Total deferred credits	401,772	405,970
Total net assets and liabilities	$ 5,171,978	$ 5,194,165

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

State Water Resources Development System
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Operating revenues:		
Water supply	$ 752,853	$ 704,921
Power sales	215,430	222,206
Federal reimbursements	20,992	24,463
Total operating revenues	989,275	951,590
Operating expenses:		
Operations and maintenance	409,150	344,464
Purchased power	323,236	374,568
Depreciation expense	79,136	78,065
Operating expenses recovered (deferred), principally under long-term water supply contracts, net	40,976	(24,972)
Total operating expenses	852,498	772,125
Income from operations	136,777	179,465
Nonoperating revenue/expenses:		
Capital revenues recovered (deferred)	(20,595)	4,377
Interest expense	(156,716)	(151,746)
Other revenues (expenses)	40,534	(32,096)
Change in net assets	-	-
Net assets, beginning of year	1,205,431	1,205,431
Net assets, end of year	$ 1,205,431	$ 1,205,431

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

State Water Resources Development System
Statements of Cash Flows
For the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Cash flows from operating activities:		
Receipts from customers	$ 1,018,049	$ 946,659
Payments to employees for services	(216,752)	(203,021)
Payments to suppliers	(502,787)	(494,782)
Other expenses	(17,719)	(62,745)
Net cash provided by operating activities	280,791	186,111
Cash flows from noncapital financing activities:		
Collateral calls under gas hedging contracts	(6,301)	(5,292)
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	668,604	250,000
Principal payments on long-term debt	(651,675)	(119,825)
Commercial paper notes issued	19,900	4,621
Principal payments on commercial paper notes	(133,910)	-
PMIA loan proceeds	29,600	-
Interest payments on long-term debt	(141,252)	(152,571)
Additions to utility plant and CWIP	(115,158)	(95,124)
Net cash used by capital and related financing activities	(323,891)	(112,899)
Cash flows from investing activities:		
Cash received from investment earnings	59,104	28,100
Proceeds of investments matured	179,961	-
Puchases of investments	(151,303)	(50,435)
Loan payments from local water agencies	1,823	475
Net cash provided by (used by) investing activities	89,585	(21,860)
Net increase in cash and cash equivalents	40,184	46,060
Cash and cash equivalents, beginning of year	512,220	466,160
Cash and cash equivalents, end of year	$ 552,404	$ 512,220

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, 2008 and 2007 (in thousands)

	2008	2007
Reconciliation to the statement of net assets:		
Cash and cash equivalents	$ 485,283	$ 391,517
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	15,066	32,729
Cash and cash equivalents restricted for debt service (net of $74,135 and $99,958 of U.S. Agency and U.S. Treasury securities for 2008 and 2007, respectively)	36,291	72,705
Cash and cash equivalents on deposit with revenue bond trustee	9,463	9,977
Cash and cash equivalents on deposit with AG Edwards	6,301	5,292
Cash and cash equivalents	$ 552,404	$ 512,220

	2008	2007
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 136,777	$ 179,465
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	79,136	78,065
Other expenses	(17,719)	(62,745)
(Increase) decrease in deferred charges and credits, net	20,591	(10,955)
Changes in assets and liabilities:		
(Increase) decrease in receivables	41,234	(41,057)
(Increase) decrease in inventories	(6,428)	845
Increase in due from federal government	(11,587)	(7,786)
Increase in accounts payable, accrued vacation and other postemployment benefits	5,217	39,516
(Increase) decrease in due to other state funds	14,060	(7,164)
Increase in current proceeds due to Water Contractors	19,510	17,927
Total adjustments	144,014	6,646
Net cash provided by operating activities	$ 280,791	$ 186,111

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

For the years ended June 30, 2008 and 2007 (in thousands)

1. Reporting Entity

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

The System is accounted for as an enterprise fund 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. As allowed by governmental accounting standards, the System has elected not to apply statements and related interpretations issued by the Financial Accounting Standards Board after November 30, 1989. The System is administered by the State of California Department of Water Resources (DWR).

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	100	years
Dams and reservoirs	85	years
Power plants	30 - 50	years
Pumping plants	40	years

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, restricted cash on deposit with revenue bond trustee, and restricted cash on deposit with AG Edwards. Such amounts include deposits in the State of California Pooled Money Investment Account-Surplus Money Investment Fund (SMIF) and instruments with original maturities of three months or less. Cash and cash equivalents do not include U.S. Government and Agency securities.

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

Of the $20.5 million on deposit with AG Edwards for natural gas hedging activities, $6.3 million is restricted to cover margin requirements, and the remaining $14.2 million is included in cash and cash equivalent.

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

Investments
Cash not required for current use, including restricted cash, is invested in SMIF. SMIF is part of the State of California Pooled Money Investment Account (PMIA), which as of June 30, 2008 and 2007 had a balance of $69.9 billion and $65.6 billion, respectively. The weighted average to maturity of PMIA investments was 212 days and 176 days as of June 30, 2008 and 2007, respectively. The total amount of deposits in SMIF as of June 30, 2008 and 2007 was $33.9 billion and $30.6 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 and asset-backed securities totaling $6.1 billion and $4.2 billion as of June 30, 2008 and $774 million and $1.5 billion as of June 30, 2007.

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, 2008, are of a similar nature as those held at June 30, 2007.

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

Accounts Receivable
Accounts receivable include amounts due from the Water Contractors and organizations that purchase power from the System, totaling $109,775 and $151,009, net of the allowance for uncollectible amounts, at June 30, 2008 and 2007, respectively. Additionally, the Federal government owed the System $26,968 and $15,381 at June 30, 2008 and 2007, respectively, related to reimbursement for certain costs related to flood control and jointly owned facilities. The allowance for uncollectible amounts totaled $403 and $500 at June 30, 2008 and 2007, respectively. Uncollectible amounts are generally recoverable from the Water Contractors.

Deferred Charges and Credits
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 SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation*", 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 assets, 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. The System records costs that are recoverable through future billings as deferred charges and revenues that are in excess of total project costs from inception of the SWP as deferred credits. These costs include capital costs and operations and maintenance costs.

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

Unbilled interest earned on unrecovered capital costs are classified as deferred charges until billed under the terms of the water supply contracts. Unbilled interest earned 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 4.608% for the years ended June 30, 2008 and 2007.

Deferred 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 assets.

The deferred capital credit due to water contractors arises from differences between the Rate Management reductions granted to the Water Contractors from estimated available net revenues and actual net revenues.

The deferred power sales credit arises from revenue collected for the power generated by the Oroville-Thermalito Power Plant. The deferred power sales credit is amortized over time by a credit issued to the Water Contractors through the Delta Water Capital Charge.

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

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

Deferred Amount on Refunding
Losses associated with the advance refunding of debt are deferred and amortized over the shorter of the weighted average lives of the new debt or the refunded debt.

Net Assets
The System classifies its net assets into two components, invested in capital assets, net of related debt and restricted net assets. Net assets invested in capital assets includes total utility plant, net of accumulated depreciation, related long-term debt and other assets and liabilities relating to the recovery of utility plant. The remaining net assets of the System are classified as restricted due to the requirements of legislation that created the System and authorized the construction of the SWP, to use the System's net assets solely in support of the SWP, the Davis-Grunsky Act Program and the San Joaquin Drainage Implementation Program.

Revenues
The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the long-term water supply contracts, the System granted the Water Contractors rate management reductions of approximately $14,139 and $12,364 during the years ended June 30, 2008 and 2007, 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 $45,529 and $45,337 for the years ended June 30, 2008 and 2007, respectively, are recorded as liabilities in the financial statements. The System refunded $45,320 and $43,312 for the years ended June 30, 2008 and 2007, respectively, to the Water Contractors for the 25% bond cover requirement.

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

The Federal government reimburses the System for certain operating and capital costs incurred by the System for flood control purposes. In addition, the Federal government reimburses the System for the Federal government's 45% share of the operating costs of the San Luis joint use facilities and other water facilities. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

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

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

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

Reclassifications
Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

New Accounting Pronouncements

GASB 45
Effective July 1, 2007, the System was required to implement Governmental Accounting Standards Board Statement (GASB) No. 45*, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* known as OPEB. The System offers postretirement medical and dental benefits previously accounted for on a pay-as-you-go basis. GASB 45 establishes standards for the measurement, recognition, and reporting of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Under GASB 45, the System is required to record an annual OPEB cost based on the annual required contribution of the employer (ARC), in an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a period not to exceed thirty years. DWR has elected to implement the requirements of GASB Statement No. 45 on a prospective basis. The System has recorded its net OPEB obligation and included the related financial statement disclosures in note 9.

GASB 49
Effective not later than the year ending June 30, 2009, the System will be required to implement GASB 49, *Accounting and Financial Reporting for Pollution Remediation*

Obligations. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of GASB 49 document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care and nuclear power plant decommissioning. If any one of five specified obligating events occurs, the System will be required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

GASB 50
Effective July 1, 2007, the System implemented GASB 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27.* This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

GASB 50 requires the System to disclose the current funded status of the pension plan as of the most recent actuarial valuation date in the notes to the financial statements. In addition, the System is required to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method. The System has included the related financial statement disclosures required by GASB Statement No. 50 in note 8.

GASB 51
Effective not later than the year ending June 30, 2010, the System will be required to implement GASB 51, *Accounting and Financial Reporting for Intangible Assets.* The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to enhance the comparability of the accounting and financial reporting of such assets among state and local governments. The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature (for example, recognition provisions for internally generated intangible assets, including computer software). This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets-and therefore the financial position of governments—and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

For the years ended June 30, 2008 and 2007 (in thousands)

GASB 53

Effective not later than the year ended June 30, 2010, the System will be required to implement GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 requires governments to record most derivative instruments on the statement of net assets as either assets or liabilities depending on the underlying fair value of the derivative. The fair value of a derivative instrument is either the value of its future cash flows in current dollars or the price it would bring if it could be sold on an open market.

3. Interests in Jointly Owned Facilities

At June 30, 2008 and 2007, the System owned the following undivided interests in jointly owned facilities:

			System's Share			
	% Owned by System		Utility Plant in Service		Acumulated Depreciation	
	2008	2007	2008	2007	2008	2007
Reid Gardner Power Plant Unit No. 4	67.8%	67.8%	$ 332,209	$ 332,209	$ 276,413	$ 264,075
San Luis joint use facilities	55.0%	55.0%	255,932	255,932	111,042	107,348

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

DWR is the operator of the San Luis joint use facilities. All of the operating expenses related to these facilities are included as operating expenses in the statement of revenues, expenses, and changes in net assets. 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 assets.

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

For the years ended June 30, 2008 and 2007 (in thousands)

4. Utility Plant

The following activity in utility plant occurred during the years ending June 30, 2008 and 2007:

	Utility Plant in Service			CWIP	Total
	Cost	Accumulated Depreciation	Net Value	Cost	
Beginning Balance, June 30, 2006	$ 4,566,362	$ (1,722,093)	**$ 2,844,269**	$ 176,333	**$ 3,020,602**
Additions	18,307	(78,065)	**(59,758)**	76,819	**17,061**
Ending Balance, June 30, 2007	4,584,669	(1,800,158)	**2,784,511**	253,152	**3,037,663**
Additions	3,013	(78,066)	**(75,053)**	112,145	**37,092**
Ending Balance, June 30, 2008	$ 4,587,682	(1,878,224)	**$ 2,709,458**	$ 365,297	**$ 3,074,755**

5. Investments

As of June 30, 2008 and 2007, the System's cash deposits consisted of restricted cash and cash equivalents maintained with a fiscal agent in the amount of $6,301 and $5,292, respectively.

As of June 30, 2008, the System's investments and credit ratings are as follows:

		Maturities					
	Credit Rating (S&P)	Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Fair Value
Investments:							
Money Market Mutual Funds	Not Rated	$ 37,578	$ -	$ -	$ -	$ -	$ 37,578
State of California Pooled Money	Not Rated	-	-	499,062	-	-	499,062
US Federal Agency Notes							
Federal National Mortgage Association	AAA	-	50,941	-	-	22,993	73,934
Federal Home Loan Mortgage Corp.	AAA	-	201	-	-	-	201
							610,775
Investment with Fiscal Agent							
Money Market Mutual Funds	A-1+	9,463	-	-	-	-	9,463
Total Investments							$ 620,238

For the years ended June 30, 2008 and 2007 (in thousands)

As of June 30, 2007, the System's investments and credit ratings are as follows:

	Credit Rating (S&P)	Maturities: Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Over 5 Years	Fair Value
Investments:							
Money Market Mutual Funds	AAA	$ 11,975	$ -	$ -	$ -	$ -	$ 11,975
State of California Pooled Money	Not Rated	-	484,977	-	-	-	484,977
US Federal Agency Notes							
Federal Home Loan Mortgage Corp	AAA	-	50,722	-	-	-	50,722
Federal National Mortgage Association	AAA	-	-	-	-	22,218	22,218
US Treasury Securites	N/A	-	27,018	-	-	-	27,018
Net Cash and Investments							596,910
Investment with Fiscal Agent							
Money Market Mutual Funds	AAA	9,977	-	-	-	-	9,977
Total Investments							$ 606,887

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

Custodial Credit Risk: For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated 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.

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.

For the years ended June 30, 2008 and 2007 (in thousands)

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, 2008 and 2007, nearly 12% of the System's investments at year-end are 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, 2008 and 2007, was as follows:

	2008	2007
Federal National Mortgage Association	$73,934	-
Federal Home Loan Mortgage Corporation	-	$50,722

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 4.325% and 5.12% for the years ended June 30, 2008 and 2007, respectively. For the years ended June 30, 2008 and 2007, interest earned on the deposits with PMIA approximated $24,789 and $23,098, respectively.

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 and U.S. Treasury Securities) is calculated as follows:

	2008	2007
Fair value of investments at the beginning of the fiscal year	$ 99,958	$ 48,553
Less: Proceeds of investments matured in fiscal year	(179,961)	-
Add: Purchase of investments in fiscal year	151,303	50,435
Add: Amortization of discounts	66	61
Change in fair value of investments during fiscal year	2,769	909
Fair value of investments at the end of the fiscal year	$ 74,135	$ 99,958

For the years ended June 30, 2008 and 2007 (in thousands)

6. Long-term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2008 and 2007:

	General Obligation Bonds	Revenue Bonds				Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Par Amount	Unamortized (Discounts) and Premium	Deferred Amount on Refunding	Total Revenue Bonds	Par Amount		
Balance at June 30, 2006	$ 683,715	$ 2,364,060	$ 50,023	$ (24,750)	$ 2,389,333	$ 128,741	$ -	$ 3,201,789
Additions	-	250,000	-	-	250,000	4,621	-	254,621
Payments/amortization	(48,965)	(70,860)	(3,998)	3,608	(71,250)	-	-	(120,215)
Balance at June 30, 2007	634,750	2,543,200	46,025	(21,142)	2,568,083	133,362	-	3,336,195
Additions	-	632,890	45,069	(4,759)	673,200	19,900	29,600	722,700
Payments/amortization	(50,355)	(601,320)	(5,420)	2,226	(604,514)	(133,910)	-	(788,779)
Balance at June 30, 2008	584,395	2,574,770	85,674	(23,675)	2,636,769	19,352	29,600	3,270,116
Less current portion	(52,695)	(78,035)	-	-	(78,035)	-	(2,568)	(133,298)
Total Long-term Debt	$ 531,700	$ 2,496,735	$ 85,674	$ (23,675)	$ 2,558,734	$ 19,352	$ 27,032	$ 3,136,818

General Obligation Bonds

The Burns-Porter Act authorized the issuance of State Water Resources Development (WRD) General Obligation Bonds in the amount of $1,750,000 for construction of the System. This amount included $130,000 to be set aside for financial assistance to local water agencies as provided in the Davis-Grunsky Act. The Burns-Porter Act also made a continuing appropriation of the California Water Fund, a fund unrelated to the System, to supplement the bond authorization. Certain revenues from the Water Contractors have been pledged for the payment of the WRD General Obligation Bonds. To the extent Water Fund money was used for construction of the State water facilities in lieu of bond proceeds, an equal amount of bond authorization was set aside to be used only for the construction of additional facilities of the System that meet certain requirements set forth in the Burns-Porter Act.

WRD General Obligation Bonds of $168 million are authorized but unissued as of June 30, 2008 and 2007, 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 W through Series Y do not have early redemption provisions.

For the years ended June 30, 2008 and 2007 (in thousands)

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

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2008	Amounts Outstanding 2007
1964	A	0.1-3.6%	2014	$ 24,000	$ 27,500
1964	B&C	.05-3.7%	2015	39,500	44,750
1965	D&E	3.0-3.8%	2016	61,400	68,500
1966	F&G	3.5-4.1%	2017	72,000	78,600
1967	H,J&K	3.0-4.9%	2018	114,600	124,300
1968	L&M	4.0-4.9%	2019	85,000	91,200
1970	N&P	5.0-5.8%	2020	91,200	97,200
1971	Q&R	4.8-5.2%	2021	72,900	77,250
1972	S	5.3-5.5%	2022	20,600	21,720
1991	W	6.0-10.0%	2012	1,800	2,250
1993	X	4.8%	2024	800	850
1994	Y	6.6-7.1%	2025	595	630
Total General Obligation bond debt outstanding				584,395	634,750
Less current maturities				(52,695)	(50,355)
Total Long term General Obligation bond debt outstanding				$ 531,700	$ 584,395

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. Annual payments of principal and semi-annual interest payments are collateralized solely by certain payments to the System under the water supply contracts between the System and Water Contractors. 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. The bonds are callable at rates varying from 100% to 101.5%.

Series AB bonds issued during fiscal year 2004 are variable rate bonds and have 35 day auction periods. In the event of a failed auction, the System is not responsible to repurchase the bonds. However, the bondholders cannot put the bonds back to the System. The average rates for interest and fees for Series AB were 4.03% and 3.71% for the years ended June 30, 2008, and 2007, respectively.

For the years ended June 30, 2008 and 2007 (in thousands)

CVP Revenue Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final	Fiscal Year of First Call	Amounts Outstanding 2008	Amounts Outstanding 2007
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 89,825	$ 93,465
Bond Anticipation Bonds						
2007	A	Variable	2009	Any	-	250,000
CVP Water System:						
1992	J	5.5-7.0%	2013	2001	53,535	82,085
1996	O	4.8-7.0%	2030	2006	125,595	126,160
1997	Q	5.1-6.0%	2027	2007	81,860	94,585
1998	S	4.4-5.0%	2030	2008	42,765	108,885
1998	T	5.0-5.5%	2013	2009	89,410	90,460
1999	U	4.1-5.1%	2030	2009	139,545	149,340
1999	V	6.25%	2025	None	20,235	20,580
2001	W	4.1-5.5%	2030	2012	218,255	221,775
2002	X	4.0-5.5%	2030	2013	149,540	152,665
2003	Y	5.0-5.3%	2026	2013	298,345	316,555
2003	Z	2.4-5.0%	2020	2013	147,095	155,365
2003	AA	5.00%	2024	2013	107,215	108,705
2004	AB	Variable	2030	2004	-	189,625
2005	AC	2.8-5.0%	2030	2015	267,875	270,580
2006	AD	3.0-5.0%	2030	2016	110,785	112,370
2008	AE	3.0-5.0%	2030	2019	632,890	-
Total revenue bond debt outstanding at par					2,574,770	2,543,200
Net unamortized bond issuance premiums/discounts					85,674	46,025
Net deferred amount on refunding					(23,675)	(21,142)
Current fiscal maturities					(78,035)	(75,535)
Total long-term revenue bond debt outstanding					$ 2,558,734	$ 2,492,548

For the years ended June 30, 2008 and 2007 (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on bonds are as follows at June 30, 2008:

	General Obligation Bonds		Revenue Bonds		
Year	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2009	$ 52,695	$ 24,806	$ 78,035	$ 127,638	$ 283,174
2010	54,785	22,474	101,705	123,233	302,197
2011	56,375	20,061	106,395	118,204	301,035
2012	58,165	17,563	113,605	112,640	301,973
2013	59,455	15,008	119,915	106,450	300,828
2014-2018	248,855	39,796	586,410	445,623	1,320,684
2019-2023	53,945	4,446	632,565	291,363	982,319
2024-2028	120	6	598,765	132,956	731,847
2029-2030	-	-	237,375	12,015	249,390
	$ 584,395	$ 144,160	$ 2,574,770	$ 1,470,122	$ 4,773,447

Pooled Money Investment Loan (PMIA)

The System applied for and received a loan from the Pooled Money Investment Account pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that defeased certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related cost of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b)(4). The Department executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first payment was made on September 1, 2008. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed. The Variable Rate means (a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and (b) for each Renewal Period thereafter, the greater of (i) five percent per annum, or (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences.

For the years ended June 30, 2008 and 2007 (in thousands)

The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2008:

Year	Principal	Interest	Total
2009	$ 2,311,612	$ 1,688,388	$ 4,000,000
2010	2,685,411	1,314,589	4,000,000
2011	2,822,220	1,177,780	4,000,000
2012	2,965,999	1,034,001	4,000,000
2013	3,117,103	882,897	4,000,000
2014 - 2018	15,697,655	1,880,064	17,577,719
	$ 29,600,000	$ 7,977,719	$ 37,577,719

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $141.5 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. At June 30, 2008 and 2007, there were borrowings of $19,352 and $133,362, respectively, outstanding under this program. The weighted average for interest expense approximated 2.95% and 3.54% for the years ended June 30, 2008, and 2007, respectively. The proceeds from the issuance of commercial paper are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the commercial paper notes. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of CVP Revenue Bonds. The System's obligation to make debt service payments on the commercial paper notes is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and WRD General Obligation Bonds. The water supply contracts in their original form provide for two charges to the Water Contractors: (a) a Delta Water Charge and (b) a Transportation Charge. These charges are computed so as to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to redeem its commercial paper liability with proceeds of the additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with commercial paper.

7. Debt Refundings

In May 2008, the System issued CVP Water System Revenue Bonds-Series AE in the amount of $632,890 plus the premium of $35,714, for a total of $668,604 with an average yield on the bonds of 4.38%. The bond proceeds were used to defease $500,375 of outstanding bonds, redeem commercial paper borrowings of $133,910, fund capitalized interest of $9,475, fund deposits to the debt service reserve account of $16,990 and cover costs of issuance of $3,538. The proceeds of the Series AE were used to refund CVP Water System Revenue Bonds Series AB with a par amount of $184,825 and CVP Water

System Bond Anticipation Bonds (BAB) Series 2007 with a par amount of $250,000 and advance refund CVP Water System Revenue Bonds Series S and U with a par amount of $65,550. The proceeds (after payment of underwriting refunding fees, other issuance costs, redeeming commercial paper borrowings and deposits to the debt service reserve account) were deposited in an irrevocable trust with an escrow agent to current refund Series AB and the BABs and provide for future debt service payments on the advance refunded bonds Series S and U. As a result the current and advance refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

Revenue Bond debt service increased by $612,932 over the life of the bonds when compared to debt service prior to the issuance of Series AE.

The refunding of Series S and Series U bonds resulted in a total economic gain (Net Present Value) of approximately $4,942 and $71 respectively. In addition, the refunding transactions resulted in cash flow savings of approximately $6,614 on the Series S bonds, and $74 on the Series U bonds.

The refunding of the Series AB bonds from auction rate mode to fixed rate bonds generated a projected total economic gain (Net Present Value) of approximately $8,929, and cash flow savings of $14,877, assuming future projected variable rate of 5.06%; representing the Bond Buyer Revenue Bond Index as of the Series AE pricing date.

The total amount of bonds refunded in advance and still outstanding was $124,640 and $171,910 as of June 30, 2008 and 2007, respectively.

8. Retirement Plan

Plan Description

The State is a member of the California Public Employees’ Retirement System (PERS), an agent multiple-employer pension system which provides a contributory defined-benefit pension for substantially all State employees. The System is included in the State Miscellaneous Category (Tier 1 and Tier 2) within PERS, thereby limiting the availability of certain System pension data. PERS functions as an investment and administrative agent for participating public agencies within the State of California. Departments and agencies within the State of California, including the System, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Copies of PERS’ comprehensive annual financial report may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon employee’s years of credited service, age and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Several survivor benefit options that reduce a retiree’s unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

Funding Policy

Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 5% of their annual covered salary after excluding the first

For the years ended June 30, 2008 and 2007 (in thousands)

$513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 6% of their annual covered salary after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Miscellaneous Tier 2 category are not required to make contributions to PERS.

The System is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2008, was 16.63% and 16.57% for State Miscellaneous Tier 1 and Tier 2, respectively. For the fiscal year ended June 30, 2007, the required employer contribution rate for Tiers 1 and 2 were 17.00% and 16.78%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

For the years ended June 30, 2008 and 2007, the System's annual pension cost and actual contribution amounted to approximately $18.4 million and $19.5 million, respectively. Annual covered payroll is not available for the System. However the actuarially determined contributions for the years ended June 30, 2008 and 2007, approximated 1.2% and 1.3%, respectively, of the total actuarially determined contribution requirements for the State Miscellaneous Category and approximately 14.51% and 14.84%, respectively, of the total System payroll. The required contribution for the 2008 fiscal year was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of covered payroll.

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
2006	$ 16,700	100%
2007	19,500	100%
2008	18,400	100%

9. Postemployment Benefits Other Than Pensions

The State provides health care and dental benefits to annuitants of the retirement systems to which the State contributes as an employer. To be eligible for these benefits, first-tier plan annuitants must retire on or after age 50 with a least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with a least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The System participates in the State's plan on a cost sharing basis. The system recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and is funded on a pay-as-you-go basis.

For the years ended June 30, 2008 and 2007 (in thousands)

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

Annual required contribution (ARC)	$	29,952
Contributions made		(10,244)
Increase in net OPEB obligation		19,708
Net OPEB obligation - beginning of year		-
Net OPEB obligation - end of year	$	19,708

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OBEB obligation for the fiscal year ended June 30, 2008 were as follows:

Year Ended	Annual OPEB	OPEB Cost	Net OPEB Obligation
6/30/2008	$29,952	34%	$19,708

The OPEB liability of the System is not evaluated at the fund level. Additional disclosure detail required by GASB Statement No. 45, regarding the State's post-retirement benefit plan are presented in the financial statements of the State of California for the year ended June 30, 2008.

10. Commitments and Contingencies

Commitments

Construction

The System has entered into long-term construction contract commitments for the State water facilities. The remaining value of contracts in process as of June 30, 2008 and June 30, 2007, approximated $44,876 and $82,838 respectively.

Power Transmission and Purchase

The System has long-term power transmission service contracts requiring future payments of approximately $143,782 over periods ranging from one to 32 years. Payments made under these contracts approximated $15,671 and $17,873 for the years ended June 30, 2008 and 2007, respectively.

The System has also entered into long-term power purchase contracts requiring future payments of approximately $573,464 over periods ranging from one to 26 years. Payments made under these contracts, excluding payments to the Kings River Conservation District (District) to cover debt service, approximated $73,525 and $63,330 for the years ended June 30, 2008 and 2007, respectively.

For the years ended June 30, 2008 and 2007 (in thousands)

The remaining amounts of fixed obligations under the long-term power purchase and transmission contracts as of June 30, 2008, are as follows:

For the year ended	Fixed Obligations
2009	$ 91,527
2010	90,079
2011	69,211
2012	69,211
2013	69,211
Thereafter	328,007
	$ 717,246

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 2020. Payments to the District totaled approximately $11,751 and $16,492 during the years ended June 30, 2008 and 2007, 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, 2008 are as follows:

For the year ended	Fixed Obligations
2009	$ 4,885
2010	4,874
2011	4,862
2012	5,089
2013	5,077
Thereafter	35,160
	$ 59,947

Market value information for certain power purchase, sale and exchange contracts is required to be disclosed under the provisions of Governmental Accounting Standards Board Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets.* The fair value of these contracts at June 30, 2008 is disclosed below, using forward market prices discounted at the prevailing risk-free interest rate. Except as discussed below, all energy sale, purchase and exchange contracts expire before December 31, 2008. Two purchase contracts expire in 2010 and 2015. One exchange and one sales contract expire in 2009. The long-term energy purchase contracts involve energy delivered from the Reid Gardner and Pine Flat Power Plants which expire in 2013 and 2035, respectively, and a contract with Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, which has no explicit termination date, although either party can terminate the contract with a ten-year notice. As such, the Metropolitan contract was valued out to ten years. Amounts paid to Metropolitan approximated $13 million and $13 million for the years ended June 30, 2008 and 2007, respectively.

For the years ended June 30, 2008 and 2007 (in thousands)

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2008
Energy sales	13	490	$ (4,074)
Energy purchases	11	550	(1,680)
Energy exchanges	1	150 sales; 126 purchases	10,993
Long-term energy purchases	3	465	565,199
Total			$ 570,438

The System also has entered into transactions to hedge the price of natural gas through bilateral arrangements and has 599 contracts outstanding at June 30, 2008 with a total fair value approximating $22 million, using forward market prices. Each transaction volume is for 10,000 mmBtu per month. The contracts expire at various times from July 2008 through February 2011. The System recognized a loss of $4.3 million and $11.2 million for fiscal 2008 and 2007, respectively.

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 validity of 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 has been required to prepare a new EIR, which the Final EIR is expected to be completed by the end of 2008. After the EIR process is completed, the plaintiffs involved could again challenge, on limited grounds, the EIR and certain provisions of the Monterey Amendment. The System, however, does not expect that there would be any material adverse impact on the ability of the System to meet its payment obligations, even if such a challenge occurs and is successful.

2005 Contractor Lawsuit Regarding Oroville Power Credits

On April 25, 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 has failed, to credit all revenues from power generated by certain project conservation facilities (primarily the Hyatt-Thermalito Power Plants) to certain capital billings, and, as a result, has overcharged 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 on December 12, 2005 to intervene in the lawsuit as defendants. Plaintiffs have filed an amended complaint joining two additional contractors and adding several new causes of action. The court has granted the System's motion to bifurcate the trial into liability and damages phases. The trail began on November 5, 2008. If the Water Contractor plaintiffs are ultimately successful, the System believes certain Water Contractors would pay more to the System under the Water Supply Contracts, while others would pay less and that this cost shifting would not materially adversely impact the System's financial position or results from operations.

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. To rectify the situation, the System restated past bills to Water Contractors to credit back approximately $9.5 million, which the System has determined to be the amount of such charges, plus interest. The System also took other actions to provide 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 for such costs. 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 beginning in September 2008 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 also tolled (i.e. suspended) until December 31, 2008 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the Department's bills to the Water Contractors for 2007 and 2008, (2) claims arising from the Department'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 Victims Compensation and Government Claims Board claim regarding the 2006 invoice that was filed by one of the Water Contractors.

The System and the Water Contractors are considering extending the Tolling and Waiver Agreement to September 30, 2009 and adding the invoices for 2009 to the items being tolled. 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 Agreement expires.

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 Department. 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 have been consolidated, although the fourth lawsuit does not involve the Department or any other state agency. The consolidated cases are now in the pre-trial stage. The Department does not believe that an adverse court decision in any of these consolidated cases would have a material adverse impact on the System 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, including the Monterey Amendment, will not have a material effect on the System's financial position or results of operations. If incurred, such costs would be recoverable from project beneficiaries under the long-term water supply contracts.

Federal Energy Regulatory Commission Proceedings

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

Claims for Partial Energy Purchase Refunds
FERC proceedings have also been instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including the System. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as the System, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victims Compensation and Government Claims Board (Claims Board) against the governmental entity sellers, including the System. The claims were denied by the Claims Board in April, 2006. In August, DWR and a group of California entities agreed to suspend the running of the statute of limitations through March 1, 2009. Denial of these claims may allow the claimants to file lawsuits against the governmental entity sellers, including the System. However, the System believes that amounts, if any, that the System might be required to refund as a result of these claims would not have a material impact on the System's financial position or results from operations because the impact of any refunds would be passed through to the Water Contractors under the water supply contracts in the form of higher operating charges.

11. Self-Insurance

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

12. Economic Dependency

The System's water supply revenue is derived from 29 Water Contractors, including the Metropolitan Water District of Southern California whose System billings constituted 62% and 61% of total System water supply revenue for the years ended June 30, 2008 and 2007, respectively, and Kern County Water Agency whose System billings constituted 7% and 8% of total System water supply revenue for the years ended June 30, 2008 and 2007, respectively.

For the years ended June 30, 2008 and 2007 (in thousands)

The System sold power to 47 power companies during the fiscal year ended June 30, 2008. 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.

	2008	% Total	2007	% Total
California Independent System Operator	$ 28,530	13.16%	$ 22,540	10.54%
Southern California Edison	25,753	11.88%	15,897	7.43%
Coral Power LLC	16,630	7.67%	18,869	8.82%
Pacific Gas & Electric Company	15,817	7.30%	-	-
San Diego Gas and Electric Company	15,762	7.27%	-	-
Cargill Inc.	15,058	6.95%	-	-
Citigroup Energy Inc.	11,907	5.49%	-	-
Nevada Power Company	11,662	5.38%	17,218	8.05%
UBS Energy	11,645	5.37%	19,641	9.18%
Constellation Energy Commodities	-	-	16,689	7.80%
Morgan Stanley Capital Group Inc.	-	-	16,489	7.71%
City of Riverside	-	-	12,452	5.82%

Similarly, the System purchased power from 46 power suppliers during the fiscal year ended June 30, 2008 with Morgan Stanley Group, Inc. providing the highest percentage to the System at 25.01% of the total. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

	2008	% Total	2007	% Total
Morgan Stanley Capital Group Inc.	$ 85,928	25.01%	$ 97,398	24.56%
California Independent System Operator	50,275	14.64%	52,592	13.26%
UBS Energy	28,141	8.19%	29,670	7.48%
Metropolitan Water District of Southern California	26,757	7.79%	32,233	8.13%

For the years ended June 30, 2008 and 2007 (in thousands)

13. Segment Information

The table below presents the condensed statements of net assets, the statements of activities and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2008 and 2007.

	2008			2007		
	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 Assets:						
Assets						
Capital assets	$ 847,114	$ 2,227,641	$ 3,074,755	$ 872,425	$ 2,165,238	$ 3,037,663
Other assets	1,117,144	334,002	1,451,146	1,125,408	452,351	1,577,759
Current assets	217,575	428,502	646,077	198,034	380,709	578,743
Total assets	$ 2,181,833	$ 2,990,145	$ 5,171,978	$ 2,195,867	$ 2,998,298	$ 5,194,165
Capitalization and Liabilities						
Capitalization:						
Net assets:						
Capital (deficit), net of related debt	$ 520,278	$ (392,420)	$ 127,858	$ 530,127	$ (431,637)	$ 98,490
Restricted	688,980	388,593	1,077,573	669,284	437,657	1,106,941
Total net assets	1,209,258	(3,827)	1,205,431	1,199,411	6,020	1,205,431
Long-term liabilities	578,440	2,578,086	3,156,526	584,395	2,625,910	3,210,305
Total capitalization	1,787,698	2,574,259	4,361,957	1,783,806	2,631,930	4,415,736
Current liabilities	154,310	253,939	408,249	172,116	200,343	372,459
Other liabilities	239,825	161,947	401,772	239,950	166,020	405,970
Total capitalization and liabilities	$ 2,181,833	$ 2,990,145	$ 5,171,978	$ 2,195,872	$ 2,998,293	$ 5,194,165
Condensed Statements of Activities:						
Operating revenues:						
Water supply	$ 467,291	$ 285,562	$ 752,853	$ 441,261	$ 263,660	$ 704,921
Power sales	203,978	11,452	215,430	204,582	17,624	222,206
Federal reimbursements	20,209	783	20,992	23,355	1,108	24,463
	691,478	297,797	989,275	669,198	282,392	951,590
Depreciation expense	(28,806)	(50,330)	(79,136)	(27,768)	(50,297)	(78,065)
Other operating expense	(634,277)	(139,085)	(773,362)	(626,665)	(67,395)	(694,060)
Income from operations	28,395	108,382	136,777	14,765	164,700	179,465
Capital expenses (deferred) recovered	(20,595)	-	(20,595)	4,377	-	4,377
Interest expense	(27,178)	(129,538)	(156,716)	(26,647)	(125,099)	(151,746)
Transfers In	(6,064)	(144,792)	(150,856)	(6,105)	(313,378)	(319,483)
Transfers Out	118,390	32,466	150,856	80,061	239,422	319,483
Other (expense) income	(92,948)	133,482	40,534	(66,451)	34,355	(32,096)
Increase (decrease) in net assets	-	-	-	-	-	-
Net assets, beginning of year	1,178,475	26,956	1,205,431	1,178,475	26,956	1,205,431
Net assets, end of year	$ 1,178,475	$ 26,956	$ 1,205,431	$ 1,178,475	$ 26,956	$ 1,205,431
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	$ 159,875	$ 120,916	$ 280,791	$ 131,399	$ 54,712	$ 186,111
Noncapital financing activities	(6,301)	-	(6,301)	(5,292)		(5,292)
Capital and related financing activities	(157,993)	(165,898)	(323,891)	(160,450)	47,551	(112,899)
Investing activities	32,931	56,654	89,585	7,823	(29,683)	(21,860)
Net (decrease) increase in cash and cash equivalents	28,512	11,672	40,184	(26,520)	72,580	46,060
Cash and equivalents, beginning of year	107,880	404,340	512,220	134,400	331,760	466,160
Cash and equivalents, end of year	$ 136,392	$ 416,012	$ 552,404	$ 107,880	$ 404,340	$ 512,220

Supplementary Information

State Water Resources Development System
Calculation of Adequacy of Debt Service Coverage
For the years ended June 30, 2008 and 2007 (in thousands)

	2008	2007
Water supply revenues, including $45,264 in 2008 and $43,119 in 2007 in refundable proceeds	$ 328,655	$ 285,091
Less: Operation and maintenance expense	(83,311)	(43,750)
Net revenues available for debt service	245,344	241,341
Principal and interest for revenue bonds	$ 181,116	$ 178,964
Debt service coverage	135.5%	134.9%

Note: The general bond resolution for the Central Valley Project (CVP) Water System Revenue Bonds requires the System to collect revenues under the long-term water supply contracts equal to 1.25 times the annual debt service. The calculation above includes the amounts applicable to the CVP Revenue Bonds and excludes amounts applicable to the State Water Resources Development General Obligation Bonds.