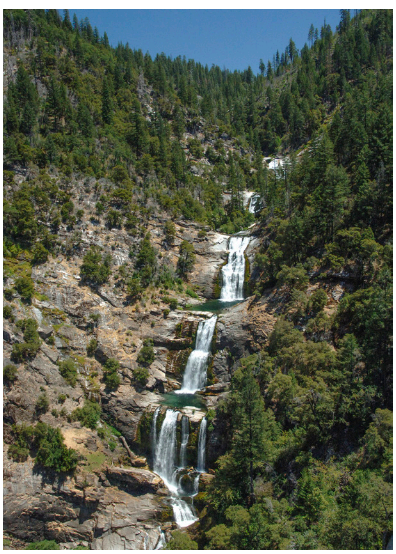
State of California
Natural Resources Agency
Department of Water Resources

State Water Resources Development System

Financial Statements and Supplementary Information

ANNUAL REPORT
Years Ended June 30
2012-2011



Cover photo shows an aerial view of Seven Falls.

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State Water Resources Development System

Financial Statements and
Supplementary Information
For the years ended June 30, 2012 and 2011

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State Water Resources Development System
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Walnut Creek

Oakland

LA/Century City

Newport Beach

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Seattle

To 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, 2012 and 2011, as listed in the table of contents. 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, 2012 and 2011, 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.

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

Our audit was conducted for the purpose of forming an opinion on the System's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Macias Gini & O'Connell LLP

Sacramento, California
November 29, 2012

Management's Discussion and Analysis (Required Supplementary Information)

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

The SWP encompasses a complex of dams, reservoirs, pumping plants, power plants, aqueducts and pipelines owned and operated by the State of California. The SWP was developed in order to deliver water to areas of need throughout the State for domestic, industrial and agricultural purposes, as well as to provide flood control, recreation, fish and wildlife enhancement, hydroelectric power and other benefits. DWR is responsible for the planning, construction and operation of the SWP. The construction program commenced in 1957 and approximately 700 miles of the System 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 an increase in total assets of $21.3 million on total operating revenues of $1.0 billion. This did not cause an increase in net assets as a result of appropriately reflecting the timing differences in the deferral of expenses incurred and the deferral of capital recovery.

- On September 7, 2011, the System issued $92.3 million of CVP Water System Revenue Bonds Series AI with an average yield on the bonds of 3.06% to refund $103.2 million of CVP Water System Revenue Bonds Series W.

- On October 13, 2011, the System issued $216.9 million of CVP Water System Revenue Bonds Series AJ with an average yield on the bonds of 3.13% to retire $155.2 million of CVP Water System Revenue Bonds Series X, Y, Z, AA, AC, and AD.

- On March 13, 2012, the System issued $36.4 million of CVP Water System Revenue Bonds Series AK with an average yield on the bonds of 3.05% to refund $8.4 million of CVP Water System Revenue Bonds Series X and AC.

Overview of Financial Statements

Reports Included in Financial Statements

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

State Water Resources Development System
Management's Discussion and Analysis (Unaudited)
For the years ended June 30, 2012 and 2011

Condensed Statements of Net Assets

	2012	2011	2010	%Change 2012-2011	%Change 2011-2010
	(amounts in thousands)				
Total utility plant	$ 3,212,952	$ 3,201,464	$ 3,215,188	0.4%	-0.4%
Other assets	1,755,503	1,745,724	1,797,764	0.6%	-2.9%
Total assets	$ 4,968,455	$ 4,947,188	$ 5,012,952	0.4%	-1.3%
Capitalization:					
Net assets:					
Capital, net of related debt	$ 684,025	$ 554,854	$ 486,347	23.3%	14.1%
Restricted	521,406	650,577	719,084	-19.9%	-9.5%
Total net assets	1,205,431	1,205,431	1,205,431	0.0%	0.0%
Total long-term liabilities	2,809,583	2,913,479	2,975,096	-3.6%	-2.1%
Total capitalization	4,015,014	4,118,910	4,180,527	-2.5%	-1.5%
Other liabilities	953,441	828,278	832,425	15.1%	-0.5%
Total net assets and liabilities	$ 4,968,455	$ 4,947,188	$ 5,012,952	0.4%	-1.3%

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

	2012	2011*	2010	%Change 2012-2011	%Change 2011-2010
	(amounts in thousands)				
Water supply	$ 860,891	$ 874,748	$ 853,158	-1.6%	2.5%
Power sales	148,360	193,154	165,664	-23.2%	16.6%
Federal reimbursements	36,561	28,294	24,021	29.2%	17.8%
Total operating revenues	1,045,812	1,096,196	1,042,843	-4.6%	5.1%
Operations and maintenance expense	523,951	428,559	435,801	22.3%	-1.7%
Purchased power expense	271,377	342,446	212,658	-20.8%	61.0%
Depreciation expense	87,400	100,257	80,813	-12.8%	24.1%
Operating expenses recovered, net	57,076	109,535	189,000	-47.9%	-42.0%
Total operating expenses	939,804	980,797	918,272	-4.2%	6.8%
Income from operations	106,008	115,399	124,571	-8.1%	-7.4%
Capital revenues recovered	31,396	14,022	19,823	123.9%	-29.3%
Interest expense	(107,770)	(134,996)	(151,390)	-20.2%	-10.8%
Other revenue (expenses), net	(29,634)	5,575	6,996	-631.6%	-20.3%
Change 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%

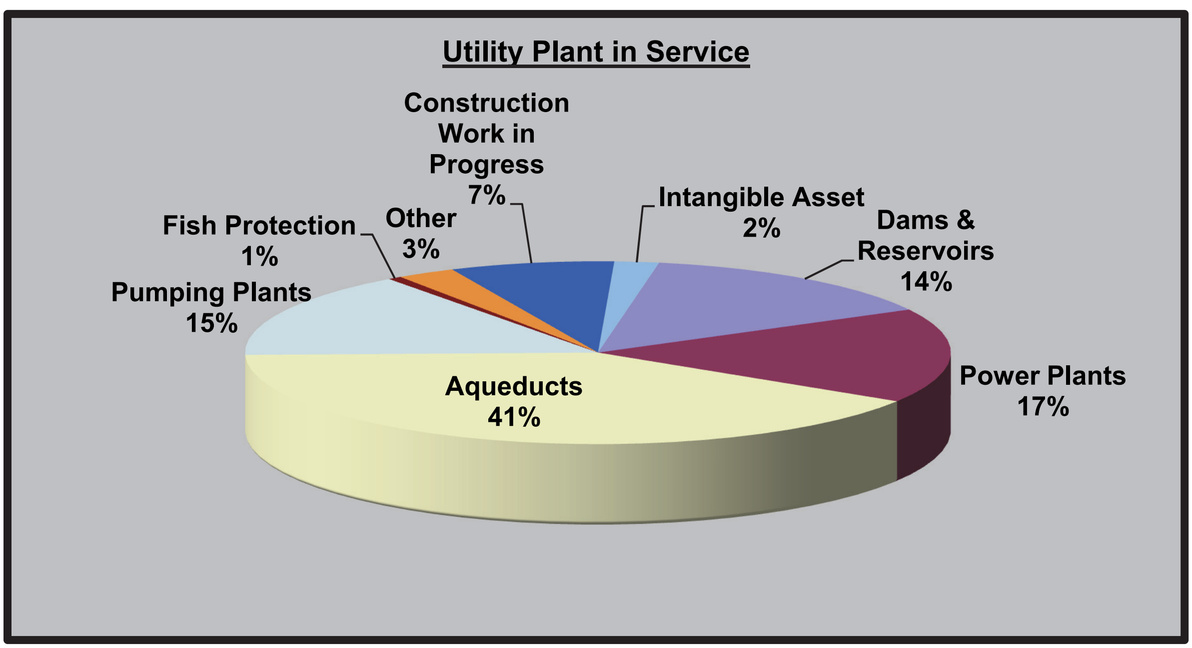
* Certain amounts have been reclassified from amounts previously reported to conform with the current year presentation.

Assets

Utility Plant

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

Utility plant in service, net of accumulated depreciation (UPIS) decreased by $29.6 million during fiscal 2012 to a balance of $2,805 million. Transfers were made from Construction Work in Progress to UPIS of $47.2 million including Edmonston Pump Replacement of $39.3 million, Facilities Repair and Improvement of $7.3 million, South Bay Aqueduct Del Valle Pipeline of $2.9 million, and a reduction of $2.3 million for Hyatt Refurbishment in fiscal 2012 in comparison to $117.1 million in fiscal 2011. The amount of additions and transfers to UPIS in the current year was $57.8 million compared to $119.8 million in 2011. While depreciation expense usually remains fairly constant each year, fiscal 2012 experienced a decrease of $12.9 million in depreciation expense due to several pumping plants being fully depreciated at the end of fiscal 2011 and post capitalization of certain capital projects. These fiscal 2011 post capitalized projects included Tehachapi East Afterbay, Hyatt Refurbishment, and Reid Gardner. This caused an increase in the depreciation expense for fiscal 2011 that did not occur in fiscal 2012. Depreciation expense for fiscal 2012 was $87.4 million compared to 2011 of $100.3 million. Ensuing annual depreciation expense should remain relatively constant, as the majority of the System's is complete and depreciation is recorded on a straight-line basis over the estimated useful life of the assets, which generally range from 20 to 100 years.



Construction Work in Progress

Construction work in progress increased by $41.1 million during the year, which represents an 11.2% increase from fiscal 2011. In fiscal 2011, construction work in progress decreased by $33.3 million, or 8.3% from fiscal 2010. The current year increase is attributable to new and on-going projects including South Bay Aqueduct Enlargement projects of $25.8 million, Facilities Repair and Improvement of $20.9 million, East Branch Extension Phase II projects of $13.4 million, South Bay Aqueduct Improvement projects of $12.4 million, South Bay Aqueduct Del Valle Pipeline of $2.9 million, Edmonston Pump Replacement of $2.7 million, Oroville Complex facilities of $2.4 million, Perris Dam Remediation of $2.3 million, Delta Fish Survival Improvement of $1.3 million, and $4.2 million of Intangible Assets including the Federal Energy Regulatory Commission (FERC) re-licensing costs and internally generated computer software. These increases were offset by the transfer of $47.2 million from Construction Work in Progress to UPIS for projects including Edmonston Pump Replacement of $39.3 million, Facilities Repair and Improvement of $7.3 million, South Bay Aqueduct Del Valle Pipeline of $2.9 million, and a reduction of $2.3 million for Hyatt Refurbishment.

The decrease in fiscal 2011 from 2010 was primarily due to transfers of $117.1 million from Construction Work in Progress to UPIS offset by an increase of $83.8 million for new and on-going projects. The transfers to UPIS included Facilities Repair and Improvement of $60.1 million, Arroyo Pasajero of $19.5 million, South Bay Aqueduct Del Valle Pipeline of $15.4 million, North Bay Aqueduct New Terminal of $13.6 million, and Delta Facilities of $8 million. These decreases were mitigated in part by increases of new and on-going projects including the South Bay Aqueduct Enlargement projects of $27.5 million, South Bay Aqueduct Improvement projects of $14.1 million, East Branch Extension Phase II projects of $10.3 million, Edmonston Pump Replacement of $8.8 million, Fish Restoration Program Agreement - Battle Creek project of $5.3 million, Pearblossom Administration Building project of $2.3 million, Perris Dam Remediation project of $1.8 million, other Water Systems projects totaling $14.7 million, $1.9 million of Intangible Assets, and a decrease of $2.9 million for the Reid Gardner project.

At June 30, 2012, total construction work in progress comprised of $188 million for the South Bay Aqueduct Enlargement projects, $154.3 million of other Water Systems projects, $59.2 million of East Branch Extension Phase II projects, $6.1 million of Intangible Assets, and $0.4 million of East Branch Improvement projects.

Restricted Cash and Investments

Restricted cash and cash equivalents decreased by $5.1 million during fiscal 2012 to a total of $156.9 million. This compares to a balance of $162 million in fiscal 2011. The current year decrease is attributed to a decline in the cash for plant replacement of $6.2 million, offset by an increase of $1.1 million in the debt service reserve requirement associated with the issuance of bond Series AI, AJ, and AK. The $6.2 million decline in cash for plant replacement represents the excess total disbursements of $20.4 million over total collections of $14.2 million. Major disbursements include a $10 million refund paid to water contractors to reduce excess reserves as well as other payments, such as charges relating to the Gianelli Power Generating Plant. The prior year increase of $2.5 million was in the cash restricted for debt service due to the issuance of Series AH bonds.

Other Long-term Assets

Long term loans receivable from local water agencies decreased by $1.9 million to a total of $19.1 million. As required by the Davis-Grunsky Act, the System has made loans to local water agencies of which a long-term portion of $17 million remains outstanding at the end of fiscal 2012 compared to an outstanding balance of $18.8 million at the end of fiscal 2011. Additionally, $2.1 million remained outstanding in the Groundwater loan receivable compared to an outstanding balance of $2.2 million in 2011. Advances to other State Funds represent the System's advance of $92 million to DWR's internal service fund, which functions as a revolving working capital facility for DWR.

Cash and Cash Equivalents

In fiscal year 2012, cash and cash equivalents decreased by $42.6 million to a balance of $422.4 million. This decrease is due in part to a $30 million release of debt service reserves in accordance with the Springing Amendment and decreases in receipts from power sales and from the Water Contractors, offset by an increase in Federal reimbursements and a decrease in power purchases.

Receivables

In fiscal 2012, water supply and power billings receivable increased by $30.3 million as compared to fiscal 2011. The increase is primarily due to a reduction in refunds and credits issued to water contractors. Other increases included an increase in receivables of $3.4 million in variable invoices and an increase in power sales accruals of $3.8 million. In fiscal 2011, water supply and power billings receivable decreased by $4.8 million. The decrease was primarily due to a decrease of $6.4 million in power sales accruals, a decrease of $2.1 million for reduction of aged receivables for Angeles Tunnel billings, offset by an increase of $2.4 million in SWP Contractors receivables, and an increase of $1.3 million for Highway 12 and 46 encasements receivables.

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 2012, the deferred charges increased by $37 million to an ending balance of $908 million compared to $871 million for 2011, as the System defers expenses to be recovered from future revenues from the Water Contractors. In fiscal 2011, recoveries resulted in a decrease of deferred charges of $60 million.

Liabilities

General Obligation Bonds

In addition to the revenue bond obligation described below, a large portion of the SWP was financed by the sale of general obligation bonds of the State pursuant to the provisions of the Burns-Porter Act, which authorized the issuance of $1,750 million of such bonds for the construction of the SWP. The Burns-Porter Act was adopted by the voters at the State's general election of November 1960. Of that authorization, $1,582 million (including the entire amount available for construction of the initial components of the SWP) has been issued, of which $362 million remains outstanding at the end of fiscal 2012 compared to $421 million at fiscal 2011 and $477 million at fiscal 2010. The un-issued $168 million of the authorization is available only to provide funds for the construction of certain additional water conservation facilities.

Revenue Bonds

The System has issued 37 series of Water System Revenue Bonds totaling $7,003 million in the aggregate principal, of which $2,343 million remains outstanding at the end of fiscal 2012. This compares to outstanding balances of $2,380 million and $2,421 million at the end of fiscal year 2011 and 2010, respectively. During the year, the System completed the issuance of CVP Water Systems Revenue Bond Series AI, AJ, and AK totaling $346 million. The majority of the proceeds from the issuance were used to retire portions of the Series W, X, Y, Z, AA, AC, and AD bonds, pay off all outstanding commercial paper as of the date of issuances, make deposits to the Debt Service Reserve Account, fund interest on a portion of the Series AI, AJ and AK Bonds, and pay costs of issuance.

The System has also issued $139 million of revenue bonds to finance the Devil Canyon-Castaic power facility. Under the Devil Canyon-Castaic bond resolution, $73 million is outstanding at the end of fiscal 2012, compared to $78 million at fiscal 2011 and $82 million at fiscal 2010.

	2012	2011	2010
	(amounts in thousands)		
CVP revenue bonds par amount	$ 2,269,900	$ 2,302,665	$ 2,339,310
Unamortized bond issuance premiums/(discounts)	144,892	111,649	104,948
Deferred amount on refunding	(60,381)	(29,260)	(26,084)
Total CVP revenue bonds outstanding	2,354,411	2,385,054	2,418,174
Devil Canyon - Castaic revenue bond par amount	72,945	77,540	81,875
Total revenue bonds outstanding	2,427,356	2,462,594	2,500,049
Less current maturities	(124,155)	(116,150)	(108,870)
Total long-term portion	$ 2,303,201	$ 2,346,444	$ 2,391,179

Pooled Money Investment Loan

The System applied for and received a loan from the Pooled Money Investment Account (PMIA) pursuant to Government Code section 16313 for $29.6 million. The proceeds of the loan were used to establish escrow accounts that defeased certain Water System Revenue Bonds that financed recreation, fish, and wildlife enhancement related costs of the acquisition and construction of the System. The loan is to be repaid with surplus revenues of the System made available under Water Code section 12937(b) (4). DWR executed the Pooled Money Investment Board Loan on March 26, 2008. The loan agreement requires minimum quarterly payments of $1 million on the first day of every March, June, September and December; the first payment was made on September 1, 2008. Interest is computed on the unpaid principal balance of the loan at the Variable Rate on the basis of a 360-day year or twelve 30-day months and the number of days elapsed. The Variable Rate means (a) for the period from the date of the Loan Agreement, March 26, 2008, through and including the day before the first Reset Date (March 25, 2009), five percent per annum, and (b) for each Renewal Period thereafter, the greater of (i) five percent per annum, or (ii) the last available daily rate of return by the PMIA on the day before the Reset Date on which such Renewal Period commences. In fiscal year 2012, the outstanding balance decreased from $21.1 million to $18.1 million due to $3.0 million of principal payments made during fiscal year 2012. In fiscal year 2011, the outstanding balance decreased from $23.9 million to $21.1 million due to $2.8 million of principal payments made during fiscal year 2011.

Postemployment Benefits Other than Pensions

The Postemployment Benefits Other than Pensions (OPEB) increased by $20 million to a net OPEB obligation ending balance of $117.9 million in fiscal 2012 due to the difference between the Annual Required Contribution (ARC) to fully fund the obligation as calculated pursuant to the requirements of GASB Statement No. 45 in the amount of $31.1 million and the actual contribution charged by the California Department of Finance through pro rata charges of $11.1 million. The $20 million increase for fiscal 2012 and $26.4 million increase in fiscal 2011 reflect the System's under funding of the ARC.

Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities totaled $335.5 million at June 30, 2012, compared to $299.2 million in fiscal 2011, and $303 million in fiscal 2010. The increase of $36.3 million in the current year is due to an increase in accounts payable vendor liabilities of $28.1 million which resulted from increased invoices billed to the System for Reid Gardner power activities and significant contract and consulting services performed during the current fiscal year and billed in the next fiscal year. Other changes included an increase of $9.3 million for the current portion of long term bond principal; an increase of $1 million for the current portion of the System's pollution remediation obligations for the Delta Methylmercury Control Program; an increase of $686 thousand to the current liability portion of accrued vacation; a decrease of $2.8 million due to a timing differences in the transfer of cash settlements with DWR's Internal Service Fund and slight decreases in accrued bond interest and current portions of loans payables.

In fiscal 2011, the decrease of $3.8 million is due to increased production in payables invoice processing resulting in a decrease of $18.1 million in accounts payable vendor liabilities; a decrease of $4.2 million to the current liability portion of accrued vacation; an increase of $9.2 million for the current portion of long term bond principal; an increase of $600 thousand for the current portion of the System's pollution remediation obligations for the Delta Methylmercury Control Program; an increase of $8.3 million due to a timing difference in the transfer of cash settlements with DWR's Internal Service Fund; and an increase of $444 thousand attributable to slight increases in accrued bond interest current portions of loans payables.

Proceeds Due to Water Contractors

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

Proceeds Due to Water Contractors increased by $31 million during fiscal 2012 to an ending balance of $142 million. The increase in fiscal 2012 can be primarily attributed to a $36.4 million increase in refunds due to the Water Contractors resulting from a release in debt service reserves. The debt service reserve requirement was lowered with the implementation of the Springing Amendment and excess funds are returned to the water contractors. Other increases include $3.3 million refund due to the water contractors for adjustments in the Off Aqueduct Power facility charges for fiscal years 2000 to 2008, $6.3 million increase in deferred operating revenue prepayments for Off Aqueduct Power, and a $2.3 million increase in cover. These increases were offset by $9.9 million refund to the Water Contractors for the discontinued gas hedging activities, $5.2 million net decrease in interest earnings to be refunded to the water contractors, and $2.2 million decrease as delivery structure revenue was recognized for the North Bay Aqueduct Alternate Project.

In fiscal year 2011, Proceeds Due to Water Contractors decreased from $121 million to $111 million, a decrease of $10 million. The decrease was due to the discontinuation of gas hedging activities and a decrease in deferred operating revenue prepayments in Off Aqueduct power facilities

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 $3.6 million in fiscal 2012 to $149.3 million. This compares to a $1 million decrease in fiscal 2011. These decreases represent the recognition of revenue equal to the amount of depreciation recorded.

Deferred Capital Costs
The system had $123 million in deferred revenues for capital costs for 2012 compared to $25 million in deferred revenues in fiscal 2011, an increase of $98 million. This is a result of principal recoveries of $176 million netted with capital costs of $78 million. Principal recovery of capital costs was $176 million in 2012 in comparison to $159 million in 2011, generally as a result of an increase in Water Systems capital recovery and an additional $2 million added to the component of capital recovery after the Tehachapi Afterbay project was placed in service and began depreciating in fiscal 2012. Deferred capital costs for Transportation and Conservation facilities were $78 million in 2012 compared to $93 million in 2011. The decrease was primarily due to the post capitalization of Tehachapi Afterbay and Reid Gardner projects in 2011 resulting in additional depreciation in 2011 which did not occur in 2012.

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 2012, the credits issued through the Delta Water Charge of $24.6 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 $9.9 million decrease in the deferral for the 2012 fiscal year. This compares to fiscal year 2011 where the credits issued through the Delta Water Charge were $23.5 million, offset in part by $14.7 million of revenue collected through the Variable charge for power generated at Hyatt-Thermalito for an $8.8 million decrease in the deferral.

Advances for Plant Replacements
Advances for plant replacements represents amounts collected in advance from the Water Contractors for future plant equipment replacements. Advances for plant replacements decreased from $36.5 million in fiscal 2011 to a total of $35.2 million in fiscal 2012. The $1.3 million decrease in fiscal 2012 is primarily due to revenue collection of $14.4 million that was offset by $10 million in refunds to the Metropolitan Water District and $5.7 million paid for replacements at Gianelli, Banks, Buena Vista, and Hyatt pumping plants.

Advances for plant replacements decreased from $39.5 million in fiscal 2010 to a total of $36.5 million in fiscal 2011. The $3 million decrease in 2011 is due to revenue collection of $6.5 million offset by $9.8 million paid for replacements at Gianelli, Banks, Buena Vista, and Hyatt pumping plants.

Operating Revenues

Operating revenues for fiscal 2012 were $1.04 billion compared to $1.09 billion in fiscal 2011 and $1.04 billion in fiscal 2010. The decrease of $50.4 million in fiscal 2012 was primarily due to a decrease in water supply revenue of $13.9 million, a decrease in power sales revenue of $44.8 million offset by an increase of $8.3 million in federal reimbursements. The increase of $53.4 million in fiscal 2011 was primarily due to an increase in water supply revenue of $32 million, an increase in power sales revenue of $27.5 million, and a decrease of $6.1 million in federal reimbursements.

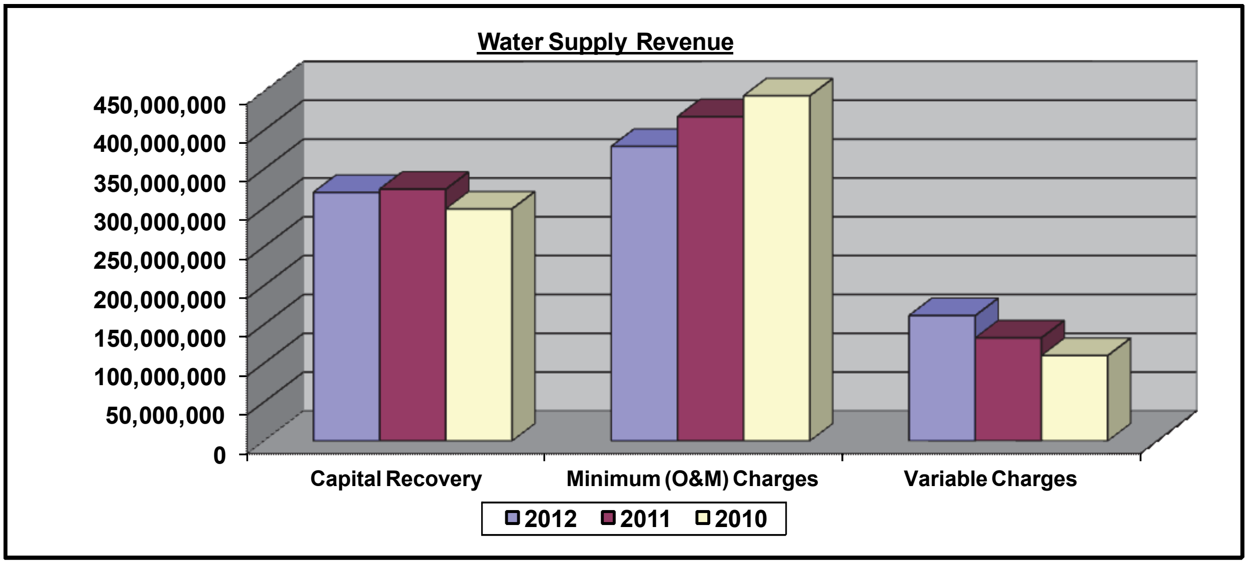
Water Supply Revenue

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

Water supply revenues consist of three main categories, as defined in the water supply contracts: Capital, Minimum and Variable. The Capital component of revenue enables the System to recover all the costs plus interest related to the construction of the System facilities, including its dams, aqueducts, pumping stations and power plants. Once a project is completed, its cost plus interest are amortized and recovered over the remaining term of the water supply contracts (through 2035). The Minimum component of revenue enables the System to recover the operating and maintenance costs associated with operating the System. These costs are generally recovered as they are incurred. Finally, the Variable component of revenue enables the System to recover the net cost of energy used to deliver water to the Water Contractors. Similar to Minimum, these costs, net of power sales, are generally recovered as they are incurred.

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

In 2012, the System generated $860.9 million in water supply revenue, compared to $874.8 million in fiscal 2011, and $853.2 million in fiscal 2010. The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2012, 2011 and 2010.



Water Supply Billings decreased by $13.9 million in 2012 to a total of $860.9 million. This decrease is due to a decrease of $38.4 million in minimum operating & maintenance (O&M) recovery, a $4.1 million decrease in Capital recovery, offset by an increase of $28.6 million in Variable recovery.

The Capital recovery revenues decrease of $4.1 million is primarily due to increases in rate management credits given to the Water Contractors for Capital Delta Water Charge and Capital Transportation.

The $28.6 million increase in Variable recovery revenues is primarily due to a 6.78 mills/kWh increase in the average mil rate. The average mil rate in 2012 was 36.62 mills/kWh compared to 29.84 mills/kWh in 2011. Actual water deliveries in fiscal 2012 were 3.39 million acre-feet compared to 3.53 million acre-feet in fiscal 2011. Although the water deliveries decreased by 0.14 million acre-feet, the increase in the average mil rate results in $18.9 million additional recovery revenues. An additional $9 million increase in revenues resulted from prior year under collections which amounted to $44.8 million in fiscal 2012 compared to $53.8 million in fiscal 2011.

Minimum O&M recovery revenues for FY 2012 decreased by $38.4 million. The largest decrease of $57.6 million was in recovery revenues for the Delta Habitat Conservation and Conveyance Program (DHCCP) due to lack of a funding source. A decrease of $19.3 million was for adjustments in the Off-Aqueduct Power recovery revenues due to lower fuel and transmission costs and higher Off-Aqueduct power sales. Although replacement recoveries increased by $4.1 million, $10 million was refunded to the water contractors to lower the balance in the reserve account which resulted in a net decrease in replacements of $5.9 million. These decreases were offset in part by a $10.4 million increase in the Minimum Delta Water

Charge billings and $29.1 million in the Transportation Minimum billings to recover operational costs to meet environmental compliances. Additional increases include $3.8 million in recovery for the Reid Gardner Unit 4 separation costs and $2.7 million increase of Delivery Structure revenues collected in advance for the North Bay Aqueduct Alternate Intake Project, and by $1 million in East Branch Enlargement revenues, offset by $2.7 million in decreases in other revenues.

In fiscal 2011, Water Supply Billings increased by $21.6 million to a total of $874.7 million. There were several contributing factors. A $25.4 million increase occurred as a result of Capital recovery, a $23 million increase was in Variable recovery, with an offsetting decrease of $16.4 million in O&M recovery and a $10.4 million in reclassification of DHCCP revenues. The increase in Capital recovery revenues was primarily due to an increase of $12 million in Capital Transportation costs for completion of the Del Valle Surge Tank Pipeline repair and design and an increase of $8.8 million due to increased Capital costs in the Delta. The increase in Variable recovery was primarily due to increased water deliveries in the southern part of the state where the cost to deliver water is higher, offset by a decrease in revenues for prior year over collections. The decrease in O&M recovery was primarily due to a decrease of $25.9 million recovery and a $10.4 million in reclassification for DHCCP revenues, a $7.5 million decrease for prior year over collections, and $3.8 million for replacements. These decreases were offset by increases of $20.5 million in the Delta Water Charge recovery and $4.6 million increase in recovery for Reid Gardner Unit 4 separations.

Overview of the System's Power Activities

The SWP is one of the largest consumers and suppliers of electric power in the western United States. Since the commencement of the major facilities of the SWP in the 1960s, the System has been an active participant in the power markets of California and the western United States. The System has provided for the financing, construction and operation of a variety of power projects including hydroelectric, geothermal and coal-fired electric generating facilities and facilities to transmit electric energy. The System currently owns eight power plants with a total nameplate capacity of approximately 1,800 Mw and with total annual energy generation in recent years ranging between approximately 3,100 and 7,500 Gwh. The System also owns and operates 23 pumping plants with a total load, when operational, of approximately 2,000 Mw and total annual energy consumption in recent years ranging between 5,300 and 10,000 Gwh. Typically, the majority of generation is during the on-peak hours; however, ancillary services are provided in all hours of the day.

Every hour the SWP must enter the power market to facilitate the operation of the California aqueduct. Operations continue 24 hours a day, seven days a week, with constant coordination with other utilities, water contractors, the California Independent System Operator (CAISO), and State Water Project pumping and generating plants. The power market controlled by CAISO can affect the bottom line cost or revenue from the System's hydro-electric facilities.

Every year the DWR is confronted with factors that affect how the operation of the SWP is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuation in natural gas prices, transmission line outages and wild fires. Average rainfall during fiscal 2012 allowed for System reservoirs to maintain levels and schedule reasonable allocation of entitlement water to the water contractors. The SWP experienced both a decrease in energy sales and purchases in fiscal 2012. The CAISO cost increased during fiscal year 2012 due to continued increased pumping demand and limited resources at Oroville Reservoir.

Unavailability of units at DWR's Oroville complex continued to effect power activities in fiscal 2012.

Fiscal 2012 is the third year under the implemented Market Redesign and Technology Upgrades (MRTU). The new CAISO market requires all SWP load and generation be submitted into the market and priced using Locational Marginal Pricing (LMP). The implementation of the new energy market by the CAISO has completely changed the way the SWP handles bi-lateral transactions. In prior years, the financial aspect of the bi-lateral market was handled between the counterparties. In today's market, the bi-lateral trades have financial impact with both the CAISO and the trading counterparty. In addition, the new market requires every megawatt of generation or load to have a price and therefore a financial impact to the scheduling party.

Power Sales

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

In Fiscal 2012, power sales decreased by $44.8 million to a total of $148.3 million. Transmission sold decreased by $2.4 million. CAISO market reruns for prior years invoicing amounts applied by CAISO in Fiscal Year 2012 accounted for a $12.2 million reduction in power sales revenues. An audit settlement agreement concerning payments made by PG&E during calendar years 2009 and 2010 required the reclassification of revenues to power purchases. This reclassification resulted in a decrease of current year power sales by $4.0 million. The remaining $28.5 million decrease is attributable to the fact that the system experienced a decrease in the quantity of energy sold and a slight decrease in the MWh rate. In Fiscal 2011, 1,338,296 MWh were sold compared to 988,839 MWh in fiscal 2012, a 26.11% decline from the prior year. The MWh rate decreased by less than 1%, from $119.40 in fiscal 2011 to $118.74 in fiscal 2012. The drop in sales was partially impacted by the new MRTU market's requirement of LMP and water deliveries.

The non-physical bi-lateral power sales transactions (financial only) when netted with the non-physical bi-lateral power purchase transactions between counterparties, resulted in less of a need to hedge the physical energy or generation to the CAISO. Average amounts of rainfall in fiscal 2012 resulted in only minor decreases to scheduled water deliveries. Water deliveries decreased from 3,531,739 acre feet in fiscal 2011 to 3,388,305 acre feet in 2012, a decrease of 143,434 acre feet or 4.06%.

In Fiscal 2011, power sales increased by $27.5 million to a total of $193 million. Although, the system experienced a decrease in the quantity of energy sold there was a substantial increase in the MWh rate as well as a slight increase in Transmission sold. In Fiscal 2010, 1,850,294 MWh were sold compared to 1,338,296 MWh in fiscal 2011, a 27.67% decline from the prior year. The overall rate increased by 65.4%, from $72.19 in fiscal 2010 to $119.4 in fiscal 2011. The drop in sales was also partially impacted by the new MRTU market's requirement of LMP.

The following tables shows the relationship between volume and rate for fiscal 2012 compared to fiscal 2011, and fiscal 2011 compared to fiscal 2010:

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

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

	Total Sold	Transmission Sold	Power Sold	MWh Sold	Rate/MWh
2010	$ 165,663,966	$ (32,091,514)	$ 133,572,452	1,850,294	$ 72.19
2011	193,153,799	(33,357,996)	159,795,803	1,338,296	119.40

Change in total MWh sold	(511,998)
Multiplied by 2010 rate/MWh	$ 72.19
Difference attributed to decrease in sales	$ (36,961,000)
Change in MWh rate	$ 47.21
Multiplied by 2011 MWh sold	1,338,296
Difference attributed to rate change	$ 63,181,000
Total increase in power sales	$ 26,220,000

Federal Reimbursements Revenue

Federal reimbursements revenue for fiscal 2012 was $36.6 million, compared to $28.3 million for fiscal year 2011. The current year increase of $8.3 million is due to an increase of $5 million in DHCCP revenue; a $4 million increase in expenses incurred at the Gianelli Pumping Plant, Dos Amigos Pumping Plant, and the San Luis Canal; and a $3.3 million increase in Suisun Marsh facilities due to the change in recreation allocation from 14% to 3.4% in 2011. These increases were offset by a $4.1 million decrease in USBR for disputed charges. These facilities are located within the Delta, San Luis, and Suisun Marsh facilities for which the System is reimbursed by the Federal government.

Operating Expenses

Total operating expenses decreased by $41 million for 2012 to a total of $940 million. The decrease is due to a decrease in power purchases of $71 million, a decrease in depreciation expense of $13 million and a decrease in deferred expenses of $52 million, offset by an increase of $95 million in operations and maintenance expense. The decrease in deferred expenses is represented by $57 million of recognized expense in 2012 compared to $110 million of recognized expense in 2011.

Total operating expenses for 2011 increased by $62.5 million to a total of $981 million. The increase is due to an increase in power purchases of $129.8 million, and an increase in depreciation expense of $19.4 million offset by a decrease in deferred expenses of $79.5 million, and a decrease of $7.2 million in operations and maintenance expense.

Operations and Maintenance Expense

Total operations and maintenance expenses were $524 million for fiscal 2012, compared to $428.6 million for fiscal 2011 and $435.8 million for fiscal 2010. The increase of $95.4 million in fiscal 2012 can be attributed to the following factors; increases of $29.8 million related to the valuation of Easements and internally generated software that were classified as intangible assets in fiscal 2011; increases in salaries and wages of $26.2 million mainly due to increased personnel to address heightened environmental responsibilities and continued maintenance of the aging infrastructure of the SWP; an increase of $11.5 million in the procurement of external consultants and professional and legal service providers due to heightened environmental compliance efforts; $10 million in increases for operation and maintenance of the Reid Gardner Power Plant; increases of $3.8 million for maintenance and repairs; an increase of $3.6 million in Pollution Remediation expense accrual; an increase of $3.1 million in pro rata charges for services provided by the State Controller's Office; $1.5 million in increased bond issuance cost; $1.5 million increases in taxes and assessments; $10.8 million in increases in overhead, supplies and miscellaneous expenses offset by a decrease in Post Retirement Employment Benefit Costs of $6.4 million.

The decrease of $7.2 million in fiscal 2011 was mainly attributable to the post capitalization of intangible assets. Operations and maintenance expenses were reduced in fiscal 2011 by $29.8 million related to the valuation of easements and internally generated computer software which were reclassified as intangible assets pursuant to GASB Statement No. 51. Other decreases totaling $17.3 million included Pollution Remediation accruals, reductions in Federal Cooperative contracts; reductions in the repairs and maintenance costs for South Bay and Edmonston Pumping Plants, and decreases in expense accruals. The fiscal 2011 decreases were offset by $39.9 million in increases in environmental compliance cost, labor cost, bond issuance cost, and other operations and maintenance expenses.

Power Purchases

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

Power purchases decreased $71 million in fiscal 2012 to a total of $271 million. In fiscal 2012 the results of an audit agreement regarding power sales reached with PG&E accounted for a $4.0 million of this decrease. Transmission purchases decreased by $8.2 million. Another decrease of $4.9 million in power purchases resulted when all remaining settlement expenses terminating the Gas Hedging program ceased after fiscal 2011. The remaining $53.9 million decrease is attributable to the fact that the system experienced a decrease in the quantity of energy purchased offset by an increase in MWh rate. In Fiscal 2011 4,703,953 MWh were purchased compared to 3,396,958 MWh in fiscal 2012, a 27.79% decline from the prior year. The MWh rate increased by less than 1% from $60.69 in fiscal 2011 to $65.54 in fiscal 2012. The decrease in purchases was impacted by the new MRTU market's requirement of LMP.

Power purchases are generally for off-peak pumping and are a reflection of water demand. Average rainfall in 2012 allowed for maintained reservoir levels and similar water deliveries from 2011. The result of this rainfall stability indicates the decrease in purchases was not significantly impacted by hydrological production in 2012. DWR tends to be more of a net energy purchaser in the energy market due to required water deliveries, which remained reasonable and similar from fiscal 2011 to 2012.

In fiscal 2011, purchased power increased $130 million from fiscal 2010 to a total of $342 million. Of that amount, $67 million was attributed to increased units purchased and $51.7 million was attributed to increase in the average rate per MWh purchased, while changes in transmission increased by $11 million.

The following tables show the relationship between volume and rate for fiscal 2012 compared to fiscal 2011, and fiscal 2011 compared to fiscal 2010.

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2011	$ 342,445,800	$ (56,971,668)	$ 285,474,132	4,703,953	$ 60.69
2012	271,377,161	(48,734,005)	222,643,156	3,396,958	65.54

Change in MWh purchased	(1,306,995)
Multiplied by 2012 rate	$ 65.54
Difference attributed to increased purchases	$ (85,660,000)
Change in MWh rate	$ 4.85
Multiplied by 2011 purchased	4,703,953
Difference attributed to rate change	$ 22,814,000
Total increase in power purchases	$ 62,846,000

	Total Purchased	Transmission Purchased	Power Purchased	MWh Purchased	Rate/MWh
2010	$ 212,658,256	$ (45,960,886)	$ 166,697,370	3,599,322	$ 46.31
2011	342,445,800	(56,971,668)	285,474,132	4,703,953	60.69

Change in MWh purchased	1,104,631
Multiplied by 2011 rate	$ 60.69
Difference attributed to increased purchases	$ 67,040,000
Change in MWh rate	$ 14.37
Multiplied by 2010 purchased	3,599,322
Difference attributed to rate change	$ 51,758,000
Total increase in power purchases	$ 118,798,000

Operating Expenses Recovered

In fiscal 2012, $57.1 million in operating expenses were recognized, compared to fiscal 2011 in which the System recognized $109.5 million in operating expenses. The 2012 net change of $52.4 million is the result of a $72.5 million decrease in deferred operation and maintenance expense; a $9.6 million decrease in unbilled interest; a $1.2 million decrease in power sales credit; and a $548 thousand decrease in unamortized projects. These decreases were offset by an increase of $31.4 million in deferred depreciation.

In fiscal 2011, $109.5 million in operating expenses were recognized, compared to fiscal 2010 in which the System recognized $189 million in operating expenses. The 2011 net change of $79.5 million is the result of a $14.6 million decrease in deferred depreciation due to Tehachapi East Afterbay, Hyatt Refurbishment, and Reid Gardner being placed into service; a $2.2 million decrease in power sales credit; and a $92.8 million decrease in deferred operation and maintenance expense. These decreases are offset by an increase of $27.5 million in unbilled interest and $2.7 million in unamortized projects.

Capital Revenues Recovered

Capital revenues recovered represents the timing difference between net capital revenue recovered, and certain operating costs incurred. Capital revenues recovered increased by $17.4 million in 2012 to a total of $31.4 million recovered compared to $14 million in capital revenues recovered from the Water Contractors in fiscal 2011.

Capital revenues recovered decreased by $5.8 million in 2011 to a total of $14 million recovered compared to $19.8 million in capital revenues recovered from the Water Contractors in fiscal 2010.

Interest Expense

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

Interest expense for fiscal 2011 was $135 million, which represents a decrease of $16.4 million from the prior year. This $16.4 million decrease is attributable to three major factors; a $7.4 million decrease in amortization of bond premium and discount, a $6 million decrease in amortization of deferred losses on defeased bonds, and a $3 million decrease in Interest Expense on debt service. The $7.4 million in the amortization of premium and discount variance occurred as a result of a larger amount of discount written off during fiscal 2010 than in fiscal 2011 and an adjustment relating to a change in the method of amortization to the straight line effective in fiscal 2010. The $6 million variance in amortization gain and loss is attributed to a larger amount of discount written off during fiscal 2010 than in fiscal 2011 and an adjustment relating to a change in the method for recording amortization of gain and loss from the effective interest to the straight line in FY 2010. The $3 million decrease in interest expense reflects the decrease in bonds outstanding and the savings resulting from the current year debt refunding.

Other Revenues (Expenses)

Other revenues, net of expenses decreased by $35.2 million from $5.6 million in revenues for fiscal year 2011 to $29.6 million in expenses for fiscal year 2012. This decrease is attributable to a $36.3 million accrual for a debt service release representing excess reserves, partially offset by a $1.4 million increase in bond proceeds related to the issuance of bond Series AI, AJ, and AK. In addition, interest income decreased by $1.1 million due to declines in interest rates. The decrease in revenues was partially offset by an $800 thousand decrease in the amount of refunds paid to the water contractors.

Other revenues were $5.5 million in fiscal year 2011, versus $7 million in fiscal 2010. The $1.5 million decrease in 2011 is primarily the result of a $10 million decrease in unrealized gains and losses due to the discontinuance of gas hedging activities, offset by a $500 thousand increase in investment income and $8.9 million increase in bond proceeds. The $8.9 million increase is primarily the result of a $5.8 million Springing Amendment debt service reserves released in fiscal 2010, and a $3.8 million increase in bond proceeds for Series AH.

Basic Financial Statements

State Water Resources Development System
Statements of Net Assets
June 30, 2012 and 2011 (in thousands)

	2012	2011
Assets		
Utility plant:		
Utility plant in service	$ 5,086,686	$ 5,028,895
Less accumulated depreciation	(2,281,806)	(2,194,406)
Net utility plant in service	2,804,880	2,834,489
Construction work in progress	408,072	366,975
Total utility plant	3,212,952	3,201,464
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	32,227	38,502
Cash and investments restricted for debt service	115,481	114,346
Cash and cash equivalents on deposit with revenue bond trustee	9,205	9,208
Loans receivable from local water agencies	19,142	21,040
Advance to other state funds	91,517	91,517
Total long-term assets	267,572	274,613
Current assets:		
Cash and cash equivalents	422,404	464,978
Receivables:		
Interest on investments	1,288	1,726
Water supply and power billings (net)	110,649	80,301
Due from federal government	15,787	19,625
Due from others	-	480
Inventories	29,653	32,984
Total current assets	579,781	600,094
Deferred charges:		
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	27,733	-
Capital credit due from water contractors	80,483	49,087
Unamortized project costs	332,302	341,585
Unbilled interest incurred on unrecovered capital costs	467,632	480,345
Total deferred charges	908,150	871,017
Total assets	$ 4,968,455	$ 4,947,188

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

State Water Resources Development System
Statements of Net Assets (continued)
June 30, 2012 and 2011 (in thousands)

	2012	2011
Capitalization and Liabilities		
Capitalization:		
Net assets:		
Capital, net of related debt	$ 684,025	$ 554,854
Restricted	521,406	650,577
Total net assets	1,205,431	1,205,431
Long-term liabilities		
General obligation bonds	302,920	362,375
Revenue bonds	2,303,201	2,346,444
Commercial paper	28,783	54,578
Other postemployment benefits	117,924	97,898
Pooled Money Investment Account (PMIA) Loan	14,896	18,052
Accrued vacation	32,939	29,052
Pollution remediation	8,920	5,080
Total long-term liabilities	2,809,583	2,913,479
Total capitalization	4,015,014	4,118,910
Current liabilities:		
Current maturities of bonds	183,610	174,315
Accounts payable	88,025	59,852
Accrued vacation	7,318	6,632
Pollution remediation	2,000	1,000
Accrued interest on long-term debt	17,370	17,845
Pooled Money Investment Account (PMIA) Loan	3,156	3,003
Due to other state funds	34,024	36,547
Proceeds due to water contractors	142,048	111,004
Total current liabilities	477,551	410,198
Deferred credits:		
Deferred revenue - State and Federal capital recovery	149,348	152,982
Operations and maintenance expense	-	25,281
Capital costs	123,153	25,123
Power sales credit due to water contractors	168,236	178,222
Advances for plant replacements	35,153	36,472
Total deferred credits	475,890	418,080
Total net assets and liabilities	$ 4,968,455	$ 4,947,188

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, 2012 and 2011 (in thousands)

	2012	2011
Operating revenues:		
Water supply	$ 860,891	$ 874,748
Power sales	148,360	193,154
Federal reimbursements	36,561	28,294
Total operating revenues	1,045,812	1,096,196
Operating expenses:		
Operations and maintenance	523,951	428,559
Purchased power	271,377	342,446
Depreciation expense	87,400	100,257
Operating expenses recovered, principally under long-term water supply contracts, net	57,076	109,535
Total operating expenses	939,804	980,797
Income from operations	106,008	115,399
Nonoperating revenue (expenses):		
Capital revenues recovered	31,396	14,022
Interest expense	(107,770)	(134,996)
Other revenues (expenses), net	(29,634)	5,575
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.

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State Water Resources Development System
Statements of Cash Flows
For the years ended June 30, 2012 and 2011 (in thousands)

	2012	2011
Cash flows from operating activities:		
Receipts from customers	$ 1,045,826	$ 1,068,964
Payments to employees for services	(258,226)	(232,016)
Payments to suppliers	(478,686)	(526,170)
Other expenses	(36,488)	(3,040)
Net cash provided by operating activities	272,426	307,738
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	112,033	74,591
Principal payments on long-term debt	(174,315)	(165,245)
Commercial paper notes issued	75,444	79,643
Principal payments on commercial paper notes	(101,239)	(71,538)
Principal payments on PMIA note	(3,003)	(2,857)
Interest payments on long-term debt	(139,367)	(137,729)
Additions to utility plant and CWIP	(98,887)	(86,537)
Net cash used by capital and related financing activities	(329,334)	(309,672)
Cash flows from investing activities:		
Cash received from investment earnings	6,991	8,944
Proceeds of investments matured	302,608	252,174
Purchases of investments	(302,608)	(252,174)
Loan payments from local water agencies	1,898	1,570
Net cash provided by investing activities	8,889	10,514
Net increase (decrease) in cash and cash equivalents	(48,019)	8,580
Cash and cash equivalents, beginning of year	551,721	543,141
Cash and cash equivalents, end of year	$ 503,702	$ 551,721

	2012	2011
Noncash capital and related financing activities:		
Amortization of Bond Premium/Discount	$ 16,431	$ 6,677
Principal retirements of long-term debt on proceeds received from issuance of Series AH, AI, AJ and AK Water System Revenue Bonds	266,785	29,785
Noncash capital and related financing activities:	$ 283,216	$ 36,462

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, 2012 and 2011 (in thousands)

	2012	2011
Reconciliation to the statement of net assets:		
Cash and cash equivalents	$ 422,404	$ 464,978
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	32,227	38,502
Cash and cash equivalents restricted for debt service (net of $75,615 and $75,313 of U.S. Agency securities for 2012 and 2011, respectively)	39,866	39,033
Cash and cash equivalents on deposit with revenue bond trustee	9,205	9,208
Cash and cash equivalents	$ 503,702	$ 551,721

	2012	2011
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 106,008	$ 115,399
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	87,400	100,257
Other expenses	(36,488)	(3,040)
Decrease in deferred charges and credits, net	52,072	83,383
Changes in assets and liabilities:		
(Increase) decrease in receivables	(29,868)	4,266
(Increase) decrease in inventories	3,331	(9,902)
Decrease in due from federal government	3,838	4,689
Increase in accounts payable, accrued vacation, pollution remediation and other postemployment benefits	57,612	14,456
Increase (decrease) in due to other state funds	(2,523)	8,264
Increase (decrease) in proceeds due to Water Contractors	31,044	(10,034)
Total adjustments	166,418	192,339
Net cash provided by operating activities	$ 272,426	$ 307,738

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

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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. Under the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the System applies all GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, except for those that conflict or contradict GASB pronouncements. The System has elected not to follow subsequent FASB pronouncements issued 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.

For the years ended June 30, 2012 and 2011 (in thousands)

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

Aqueducts	80 - 100 years
Dams and reservoirs	85 years
Environmental preservation and mitigation	50 years
Power plants	30 - 50 years
Pumping plants	30 - 40 years
Fish protection	35 - 36 years
Facilities	20 - 30 years
Machinery, equipment and vehicles	3 - 5 years
General	5 years

The System's intangible assets, consisting of software, land use and legal rights, and costs associated with the FERC licenses, are included in utility plant in service. Software costs are being amortized on a straight-line basis over a 10 year useful life. Easements are land use rights and are considered as either permanent or temporary. Permanent easements have an indefinite useful life and are non-depreciable while temporary easements are being depreciated over a 5 year useful life, unless otherwise specified in the purchase agreement.

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

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

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

Investments
Cash not required for current use, including restricted cash, is invested in the Surplus Money Investment Fund (SMIF), which is stated at fair value. SMIF is part of the State of California Pooled Money Investment Account (PMIA), which as of June 30, 2012 and 2011 had a balance of $62.7 billion and $68.2 billion, respectively. The weighted average to maturity of PMIA investments was 270 days and 237 days as of June 30, 2012 and 2011, respectively. The total amount of deposits in SMIF as of June 30, 2012 and 2011 was $30 billion and $35 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 $800 million and $1.3 billion as of June 30, 2012 and $1.1 billion and $2.2 billion as of June 30, 2011.

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, 2012, are of a similar nature as those held at June 30, 2011.

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

Receivables
Receivables include amounts due from the Water Contractors and organizations that purchase power from the System, totaling $110,649 and $80,301, net of the allowance for uncollectible amounts, at June 30, 2012 and 2011, respectively. Additionally, the Federal government owed the System $15,787 and $19,625 at June 30, 2012 and 2011, respectively, as reimbursement for certain costs related to flood control and jointly owned facilities. The allowance for uncollectible amounts totaled $197 and $24,275 at June 30, 2012 and 2011, 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 FASB ASC 980, *Regulated Operations*, formerly known as SFAS 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 4.610% and 4.608% for the years ended June 30, 2012 and 2011 respectively.

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 power sales credit arises from revenue collected for the power generated by the Hyatt-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
Gains or 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 $32,926 and $16,788 during the years ended June 30, 2012 and 2011, 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 $56,385 and $55,542 for the years ended June 30, 2012 and 2011, respectively, are recorded as Proceeds due to water contractors in the financial statements. The System refunded $55,849 and $52,967 for the years ended June 30, 2012 and 2011, respectively, to the Water Contractors for the 25% bond cover requirement.

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

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

Segments

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

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

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

Reclassifications

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

For the years ended June 30, 2012 and 2011 (in thousands)

3. Interests in Jointly Owned Facilities

At June 30, 2012 and 2011, the System owned the following undivided interests in jointly owned facilities:

	% Owned by System		System's Share			
			Utility Plant in Service		Accumulated Depreciation	
	2012	2011	2012	2011	2012	2011
Reid Gardner Power Plant Unit No. 4	67.8%	67.8%	$ 359,959	$ 360,539	$ 344,857	$ 323,859
San Luis joint use facilities	55.0%	55.0%	281,455	281,140	125,068	120,960

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, 2012 and 2011 (in thousands)

4. Utility Plant

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

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

For the years ended June 30, 2012 and 2011 (in thousands)

The summarized activity of the System's utility plant during 2011 is presented below:

	Beginning Balance June 30, 2010	Transfers and Additions	Transfers and Deletions	Ending Balance June 30, 2011
Nondepreciable Utility Plant:				
Land	$ 136,129	$ -	$ -	$ 136,129
CWIP	400,229	83,880	(117,134)	366,975
Land use rights	10,925	80	-	11,005
Other intangible assets	81,976	-	-	81,976
Total nondepreciable utility plant	629,259	83,960	(117,134)	596,085
Depreciable Utility Plant:				
Aqueducts	2,029,898	27,539	-	2,057,437
Dams & reservoirs	765,246	15,864	-	781,110
Power plants	909,904	196	-	910,100
Pumping plants	784,247	2,761	-	787,008
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	-	64,810	-	64,810
Equipment and other depreciable assets	65,580	2,616	(200)	67,996
Computer software	23,629	-	-	23,629
General	-	5,964	-	5,964
	4,680,235	119,750	(200)	4,799,785
Less: accumulated depreciation	(2,084,854)	(97,894)	157	(2,182,591)
Less: accumulated amortization	(9,452)	(2,363)	-	(11,815)
	(2,094,306)	(100,257)	157	(2,194,406)
Total depreciable plant	2,585,929	19,493	(43)	2,605,379
Total Utility Plant - net	$ 3,215,188	$ 103,453	$ (117,177)	$ 3,201,464

5. Investments

As of June 30, 2012, 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	Not Rated	$ 3	$ -	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	494,494	-	-	494,494
US Federal Agency Notes							
Federal National Mortgage Association	AA+	-	51,160	-	12,202	12,253	75,615
							570,112
Investment with Fiscal Agent							
Money Market Mutual Funds	AAA	9,205	-	-	-	-	9,205
Total Investments							$ 579,317

For the years ended June 30, 2012 and 2011 (in thousands)

As of June 30, 2011, 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	Not Rated	$ 3	$ -	$ -	$ -	$ -	$ 3
PMIA	Not Rated	-	-	542,510	-	-	542,510
US Federal Agency Notes							
Federal National Mortgage Association	AAA	-	51,000	-	-	24,313	75,313
							617,826
Investment with Fiscal Agent							
Money Market Mutual Funds	AAA	9,208	-	-	-	-	9,208
Total Investments							$ 627,034

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

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

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

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. As of June 30, 2012 and 2011, nearly 13% and 12%, respectively of the System's investments at year-end were in U.S. Agency Securities. There is no limitation on amounts invested in these types of issues. Investments in any one issuer (other than U.S. Treasury Notes, mutual funds and external investment pools) that represented 5% or more of the total investments of the System as of June 30, 2012 and 2011, was as follows:

For the years ended June 30, 2012 and 2011 (in thousands)

	2012	2011
Federal National Mortgage Association	$ 75,615	$ 75,313

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.382% and 0.495% for the years ended June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, interest earned on the deposits with PMIA approximated $2,188 and $2,947, respectively and are included in the other expenses line item on the statement of revenues, expenses and change in net assets.

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

	2012	2011
Fair Value of Investments at the beginning of the fiscal year	$ 75,313	$ 75,593
Less: Proceeds of investments matured in fiscal year	(302,608)	(252,174)
Add: Purchase of investments in fiscal year	302,608	252,174
Add: Amortization of Discounts	63	63
Change in fair value of investments during fiscal year	239	(343)
Fair value of investments at the end of the fiscal year	$ 75,615	$ 75,313

6. Long-term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2012 and 2011:

	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, 2010	$ 476,915	$ 2,421,185	$ 104,948	$ (26,084)	$ 2,500,049	$ 46,473	$ 23,912	$ 3,047,349
Additions	-	97,675	13,378	(4,809)	106,244	79,643	-	185,887
Payments/amortization	(56,375)	(138,655)	(6,677)	1,633	(143,699)	(71,538)	(2,857)	(274,469)
Balance at June 30, 2011	420,540	2,380,205	111,649	(29,260)	2,462,594	54,578	21,055	2,958,767
Additions	-	345,575	49,674	(35,647)	359,602	75,444	-	435,046
Payments/amortization	(58,165)	(382,935)	(16,431)	4,526	(394,840)	(101,239)	(3,003)	(557,247)
Balance at June 30, 2012	362,375	2,342,845	144,892	(60,381)	2,427,356	28,783	18,052	2,836,566
Less current portion	(59,455)	(124,155)	-	-	(124,155)	-	(3,156)	(186,766)
Total Long-term Debt	$ 302,920	$ 2,218,690	$ 144,892	$ (60,381)	$ 2,303,201	$ 28,783	$ 14,896	$ 2,649,800

General Obligation Bonds

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

Under the Burns-Porter Act, revenues of the System, other than revenues attributable to facilities financed with Central Valley Project Water System (CVP) Revenue Bonds, are deposited in the California Water Resources Development Bond Fund and are to be used annually only for the following purposes and in the following order of priority:
(1) To pay the maintenance, operation and replacement costs of the System,
(2) To pay, or reimburse the General Fund of the State for, the principal of and interest on the WRD General Obligation Bonds issued for the System as it becomes due,
(3) To reimburse the California Water Fund for funds utilized from said fund for construction of the System (complete reimbursement has been made), and
(4) To pay additional costs of the acquisition and construction of the System.

All such revenues are pledged for those uses and purposes for the benefit of the owners of the WRD General Obligation Bonds.

As of June 30, 2012, the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service is $421,631 with payments through 2025. Principal and interest paid for the current year were $75,728 and Burns-Porter Act water supply operating revenues were $499,140. As of June 30, 2011 the amount of the revenues pledged to repay the Burns-Porter Act WRD General Obligation Bonds debt service were $497,359 with payments through 2025. Principal and interest paid for 2011 were $76,436 and Burns-Porter Act WRD Water supply operating revenues were $564,520.

WRD General Obligation Bonds of $168 million are authorized but un-issued as of June 30, 2012 and 2011, 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, 2012 and 2011 (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 2012	Amounts Outstanding 2011
1964	A	0.1-3.6%	2014	$ 8,000	$ 12,000
1964	B&C	0.05-3.7%	2015	16,000	22,000
1965	D&E	3.0-3.8%	2016	30,500	38,600
1966	F&G	3.5-4.1%	2017	42,600	50,400
1967	H,J&K	3.0-4.8%	2018	71,700	83,000
1968	L&M	4.0-4.9%	2019	57,800	65,000
1970	N&P	5.0-5.8%	2020	65,000	72,000
1971	Q&R	4.8-5.2%	2021	54,000	58,950
1972	S	5.3-5.5%	2022	15,720	17,000
1991	W	10.0%	2012	-	450
1993	X	4.80%	2024	600	650
1994	Y	7.0-7.1%	2025	455	490
Total General Obligation bond debt outstanding at par				362,375	420,540
Less current maturities				(59,455)	(58,165)
Total Long term General Obligation bond debt outstanding				$ 302,920	$ 362,375

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

As of June 30, 2012, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service is $3,441,169 with payments through 2036. Principal and interest paid for the current year were $229,011 and Central Valley Project Act water supply operating revenues were $307,438. As of June 30, 2011, the amount of the revenues pledged to repay the (CVP) Revenue Bonds debt service were $3,541,604 with payments through 2036. Principal and Interest paid for the year were $228,511 and Central Valley Project Act Water Supply operating revenues were $320,631.

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

For the years ended June 30, 2012 and 2011 (in thousands)

CVP Revenue Bonds consist of the following at June 30:

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amounts Outstanding 2012	Amounts Outstanding 2011
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 72,945	$ 77,540
CVP Water System:						
1992	J	7.0%	2013	2001	27,720	53,535
1999	V	6.3%	2025	None	20,235	20,235
2001	W	5.5%	2015	2012	48,845	153,365
2002	X	4.2-5.5%	2030	2013	119,290	122,550
2003	Y	5.0-5.3%	2026	2013	160,305	251,975
2003	Z	3.3-5.0%	2020	2013	82,550	110,525
2003	AA	5.0%	2024	2013	69,630	107,215
2005	AC	3.3-5.0%	2030	2015	222,110	262,470
2006	AD	3.3-5.0%	2030	2015	107,515	109,520
2008	AE	3.0-5.0%	2030	2018	577,790	595,565
2009	AF	2.0-5.0%	2033	2019	221,860	248,920
2010	AG	3.0-5.0%	2033	2020	168,800	169,115
2011	AH	3.0-5.3%	2036	2021	97,675	97,675
2012	AI	5.0%	2030	2022	92,275	-
2012	AJ	3.0-5.0%	2036	2022	216,930	-
2012	AK	2.0-5.0%	2036	2022	36,370	-
	Total revenue bond debt outstanding at par				2,342,845	2,380,205
	Net Unamortized bond issuance premiums/discounts				144,892	111,649
	Net Deferred amount on refunding				(60,381)	(29,260)
	Current fiscal maturities				(124,155)	(116,150)
	Total long term bond debt outstanding				$2,303,201	$2,346,444

For the years ended June 30, 2012 and 2011 (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2012:

	General Obligation Bonds		Revenue Bonds		
Year	Principal	Interest	Principal	Interest	Total
2013	$ 59,455	$ 15,008	$ 124,155	$ 112,714	$ 311,332
2014	61,085	12,503	118,430	106,778	298,796
2015	56,875	10,098	115,710	101,291	283,974
2016	49,915	7,742	120,715	95,611	273,983
2017	46,745	5,661	126,770	89,577	268,753
2018-2022	88,095	8,228	648,025	353,381	1,097,729
2023-2027	205	16	637,250	189,615	827,086
2028-2032	-	-	406,570	44,793	451,363
2033-2036	-	-	45,220	4,564	49,784
	$ 362,375	$ 59,256	$ 2,342,845	$ 1,098,324	$ 3,862,800

Pooled Money Investment Loan (PMIA)

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

For the years ended June 30, 2012 and 2011 (in thousands)

The minimum future principal and interest payment requirements on the PMIA loan are as follows at June 30, 2012:

Year	Principal	Interest	Total
2013	$ 3,156	$ 844	$ 4,000
2014	3,317	683	4,000
2015	3,486	514	4,000
2016	3,663	337	4,000
2017	3,850	150	4,000
2018	580	7	587
	$ 18,052	$ 2,535	$ 20,587

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $139,668. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011, the bank has agreed to make advances to the System if necessary, to provide moneys for the payment of the commercial paper notes. The bank is obligated to provide $150,000 with the principal amount of commercial paper notes limited to $139,668 and $10,332 of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $139,668. The Line of Credit is scheduled to expire on October 24, 2014 but can be extended for up to three years upon written request and approval of the bank. The credit agreement requires quarterly payments the first day of July and October and on the last day of December and March. As of June 30, 2012, there were no borrowings with the bank under the credit agreement. At June 30, 2012 and 2011, there were commercial paper borrowings of $28,783 and $54,578, respectively, outstanding under this program. The weighted average for interest expense approximated 0.18% and 0.31% for the years ended June 30, 2012, and 2011, respectively. The proceeds from the issuance of commercial paper are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the commercial paper notes. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of CVP Revenue Bonds. The System's obligation to make debt service payments on the commercial paper notes is subordinate to its payment obligations under the resolutions for the CVP Revenue Bonds and WRD General Obligation Bonds.

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

DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with commercial paper.

7. **Bond Refundings and Defeasances**

The System has issued CVP Water System Revenue Refunding Bonds to refund various issues of CVP Water System Revenue Bonds previously issued. The net proceeds from these sales were used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with an escrow agent as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered to be defeased and the related liabilities have been excluded from the System's basic financial statements. At June 30, 2012 and 2011, outstanding CVP Water System Revenue Bonds of $58,705 and $83,250, respectively, are considered to be defeased.

Refunding and defeasance transactions during fiscal 2012 were as follows:

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

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

- On March 13, 2012, the System issued $36,370 of CVP Water System Revenue Bonds Series AK with an average yield on the bonds of 3.05% to refund $410 of

CVP Water System Revenue Bonds Series X, and $7,945 of CVP Water System Revenue Bonds Series AC. The bond proceeds of $36,370 and $6,678, par and premium respectively, along with System funds on hand in the amount of $125 were used to refund $8,355 of bonds, fund $1,131 of future interest on the defeased bonds, redeem commercial paper borrowings of $32,035, fund capitalized interest of $903, fund deposits to the debt service reserve account of $451, and cover costs of issuance of $298.

Refunding and defeasance transactions during fiscal 2011 were as follows:

- On November 9, 2010, the System issued $97,675 of CVP Water System Revenue Bonds Series AH with an average yield on the bonds of 3.33% to advance refund $2,905 of CVP Water System Revenue Bonds Series W, to refund $22,630 of CVP Water System Revenue Bonds Series X, to refund $4,250 of CVP Water System Revenue Bonds Series AC. The bond proceeds of $97,675 and $13,378, par and premium respectively, along with System funds on hand in the amount of $684 were used to refund $29,785 of bonds, fund $3,641 of future interest on the defeased bonds, redeem commercial paper borrowings of $71,538, fund capitalized interest of $3,630, fund deposits to the debt service reserve account of $2,525, and cover costs of issuance of $618.

These refundings and defeasances were accomplished to take advantage of lower interest rates. The transactions resulted in cash flow savings of $34,049 and $2,276 and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $25,480 and $1,984 for fiscal years 2012 and 2011, respectively. The difference between the book value of the old debt and the amount required to retire the debt is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. Bonds payable are reported net of these deferred costs. In fiscal years 2012 and 2011, approximately $35,647 and $4,809 of cost were deferred. Amortization of all deferred refunding costs was approximately $4,526 and $1,633 in fiscal years 2012 and 2011, respectively.

8. Retirement Plan

Plan Description

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

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

Funding Policy

Active members who participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 5% of their annual covered salary after excluding the first $513 of gross monthly pay. Active members who do not participate in Social Security under the State Miscellaneous Tier 1 category are required to contribute 6% of their annual covered salary after excluding the first $317 of gross monthly pay. Active members who participate in Social Security under the State Miscellaneous Tier 2 category are not required to make contributions to PERS.

The System is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2012, were 18.175% and 17.025% for State Miscellaneous Tiers 1 and 2 respectively. For the fiscal year ended June 30, 2011, the required employer contribution rate for Tiers 1 and 2 were 17.528% and 16.442% 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, 2012 and 2011, the System's annual pension cost and actual contribution amounted to approximately $25 million and $23 million, respectively. Annual covered payroll is not available for the System. However the actuarially determined contributions for the years ended June 30, 2012 and 2011, approximated 1.3% and 1.1%, respectively, of the total actuarially determined contribution requirements for the State Miscellaneous Category and approximately 15.84% and 16.12%, respectively, of the total System payroll. The required contribution for the year ended June 30, 2012 was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of covered payroll. Likewise, the required contribution for the year ended June 30, 2011 was determined as part of the June 30, 2009, actuarial valuation.

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

For the years ended June 30, 2012 and 2011 (in thousands)

Three-year Trend Information

Year Ended June 30,	Required Contribution	Percentage of Required Contribution Contributed
2010	$ 18,384	100%
2011	23,013	100%
2012	24,895	100%

9. Postemployment Benefits Other Than Pensions

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

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

	2012	2011
Annual required contribution (ARC)	$ 30,732	$ 41,382
Interest on net OPEB obligation	2,922	3,248
Adjustment to the ARC	(2,563)	(2,849)
Annual OPEB cost	31,091	41,781
Contributions made	(11,065)	(15,331)
Increase in net OPEB obligation	20,026	26,450
Net OPEB obligation - beginning of year	97,898	71,448
Net OPEB obligation - end of year	$ 117,924	$ 97,898

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2012, 2011 and 2010, were as follows:

For the years ended June 30, 2012 and 2011 (in thousands)

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/2010	$35,525	34%	$71,448
6/30/2011	41,382	37%	97,898
6/30/2012	31,091	36%	117,924

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

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller John Chiang, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's Web site at www.SCO.ca.gov. The System's ARC, AOC and Net OPEB obligation will be calculated and adjusted for on an annual basis.

10. Commitments and Contingencies

Commitments

Construction

The System has entered into long-term construction contract commitments for the State Water Project facilities. The remaining value of contracts in process as of June 30, 2012 and June 30, 2011, approximated $65,544 and $62,532, respectively.

Power Transmission and Purchase

The System has long-term power transmission service contracts requiring future payments of approximately $235,630 over periods ranging from one to 30 years. Payments made under these contracts approximated $16,984 and $14,885 for the years ended June 30, 2012 and 2011, respectively.

The System has also entered into long-term power purchase contracts requiring future payments of approximately $297,976 over periods ranging from one to 30 years. Payments made under these contracts, excluding payments to the Kings River Conservation District (District) to cover debt service, approximated $48,051 and $26,706 for the years ended June 30, 2012 and 2011, respectively.

The remaining amounts of fixed obligations under the long-term power purchase and transmission contracts as of June 30, 2012, are as follows:

For the years ended June 30, 2012 and 2011 (in thousands)

For the year ended	Fixed Obligations
2013	$ 73,739
2014	66,856
2015	59,269
2016	18,959
2017	18,959
2018 - 2042	295,824
	$ 533,606

The System has a contract with the District that provides that the System receive all power generated by the Pine Flat Power Plant Project (Project). Under the contract, the System is obligated to pay fixed amounts each year to cover the debt service on bonds issued by the District to build the Project, operations and maintenance expenses, and a charge for power supplied. Such payments are to be made until all of the bonds issued by the District to finance the Project have been retired in 2019. Payments to the District totaled approximately $14,500 and $14,212 during the years ended June 30, 2012 and 2011, 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, 2012 are as follows:

For the year ended	Fixed Obligations
2013	$ 4,310
2014	4,302
2015	4,272
2016	4,270
2017	4,253
2018 - 2019	8,496
	$ 29,903

DWR entered into a Power Sales Agreement with the Northern California Power Agency (NCPA) and other project participants on May 24, 2010 to participate in the Lodi Energy Center Project (LEC Project), which consists of a 296 megawatt natural gas-fired combined cycle power plant constructed by NCPA in Lodi, California. The terms of the agreement provide that DWR will receive 33.5 percent of the output of the LEC Project and purchase power on a long term basis. Participation in the LEC Project will assist DWR in meeting future State Water Project energy requirements, including the replacement of energy currently provided by the Reid Gardner Project. NCPA issued revenue bonds on June 24, 2010 for the DWR's share of construction costs. Construction of the LEC Project commenced in early August 2010 with Commercial Operation currently scheduled for late October 2012. DWR anticipates that the LEC will be one of the most efficient thermal generating units in California and that it will be economically dispatched before other gas-fired units, resulting in power revenues that are sufficient to cover the operational costs and a portion of DWR's debt service on the bonds.

For the years ended June 30, 2012 and 2011 (in thousands)

The amounts of fixed obligations of the System related to future principal and interest payments of the LEC's bonds as of June 30, 2012 are as follows:

For the year ended	Fixed Obligations
2013	$ 6,173
2014	9,131
2015	9,207
2016	9,209
2017	9,206
2018 - 2022	46,041
2022 - 2027	46,043
2027 - 2032	46,037
2032 - 2035	27,625
	$ 208,672

Market value information for certain power purchase, sale and exchange contracts are disclosed at June 30, 2012, using forward market prices discounted at the prevailing risk-free interest rate. All five sales contracts extending beyond June 30, 2012 expire in Fiscal Year 2013. There are twenty-one purchase contracts that will expire in Fiscal Year 2013, three purchase contracts will expire in Fiscal Year 2014, two purchase contracts will expire in Fiscal Year 2015, and two will expire in Fiscal Year 2016. The long-term energy purchase contracts involve energy delivered from the Reid Gardner and Pine Flat Power Plants which expire in 2013 and 2037, respectively, and a contract with Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, which expires in 2019. An agreement with the Northern California Power Agency (NCPA), operator of the Lodi Energy Center (LEC) which commits DWR to purchase power on a long term basis subject to the agreement, has no explicit termination date. The fair value of power purchases and sales commitments extending beyond June 30, 2012 are as follows:

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2012
Energy sales	5	125	$ (493)
Energy purchases	28	950	(6,411)
Long-term energy purchases	4	543.8	252
Total			$ (6,652)

The System suspended the natural gas hedging program. Previously the System entered into transactions to hedge the price of natural gas through bilateral arrangements, but has terminated and settled all contracts effectively as of June 30, 2010. The System did not enter into any transactions during fiscal year 2011-12. During fiscal year 2010-11, the System transferred the balance of $15.8 million that remained from the deposit back to the State Treasury, leaving a minimal balance with the brokerage firm. During fiscal year 2011-12, the System returned the remaining deposit of $9.8 million plus accrued interest to the

Water Contractors. The System did not recognize a loss in fiscal year 2012 and recognized a loss of $4.9 million in fiscal year 2011.

Contingencies

Litigation and Claims

Monterey Amendment

In 1994, the System and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the water supply contracts have since been negotiated (Monterey Amendment). The Monterey Amendment includes provisions related to the transfer of land and related assets, known as the Kern Water Bank, to the Kern County Water Agency (KCWA) (one of the Water Contractors), the operation of certain System reservoirs, transfers of water allocations between contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenue. Certain parties have disputed the Monterey Amendment by challenging the validity of the related environmental impact report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. DWR completed the new Final EIR in February 2010 and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento Superior Court challenging DWR's California Environmental Quality Act (CEQA) compliance and the validity of the Monterey Amendment, including DWR's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, primarily challenging DWR's CEQA compliance with respect to the Kern Fan Element transfer from DWR to KCWA. The two lawsuits filed in Kern County Superior Court have been transferred to the Sacramento Superior Court. All three cases are in the pre-trial stage. The System, however, does not believe that there would be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

2005 Contractor Lawsuit Regarding Oroville Power Credits

In April, 2005 the Kern County Water Agency and thirteen other Water Contractors filed a lawsuit against the System in Sacramento County Superior Court for declaratory relief and breach of contract. The complaint alleges that pursuant to the water supply contracts, the System is required, but failed, to credit all revenues from power generated by certain project conservation facilities (primarily the Hyatt-Thermalito Power Plants) to the Delta Water charge in the Water Contractor billings, and, as a result, was overcharging the Water Contractor plaintiffs. The complaint seeks a declaration that all "benefits" derived from the sale or other disposal of power from project conservation facilities be credited "in conformity with the terms of the water supply contracts," along with damages and costs in an unspecified amount. The Metropolitan Water District of Southern California and entities representing 12 other southern Water Contractors received court permission in December, 2005 to intervene in the lawsuit as defendants. Plaintiffs thereafter filed an amended complaint joining two additional contractors. A non-jury trial was held in November and December 2008. In October 2009, the Court issued its decision in favor of DWR and the Water Contractors which intervened in support of DWR, finding that DWR's determinations and administration of the provisions regarding Oroville power credits were consistent with the water supply contracts. In May 2010, the Superior Court entered its judgment in favor of DWR and in July 2010, the Water Contractor plaintiffs appealed the lower court's decision to the Court of Appeal, but no hearing date has been set. If the Water Contractor plaintiffs are ultimately successful in their efforts to reverse the Superior Court's decision, DWR 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. The System rectified the situation by restating past bills to provide appropriate credits back to the Water Contractors for the contested charges and taking other actions to pay for the costs of the recreation and fish and wildlife enhancement portion of System facilities with sources other than direct charges to the Water Contractors. Such actions included obtaining a loan from the State Pooled Money Investment Account (PMIA) in the amount of $29.6 million, which was used together with certain other available funds to retire or provide for the defeasance of approximately $28.2 million principal amount of revenue bonds and commercial paper notes, the proceeds of which had been used to pay costs allocated by the System to the development of recreation or fish and wildlife enhancement. The System has agreed to pay a minimum of $4 million per year to repay the PMIA loan.

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

In addition to waivers included in the 2007 and 2008 Tolling and Waiver Agreements, which helped to facilitate the resumption of the sale of System revenue bonds, the Tolling and Waiver Agreements, as amended, also tolled (i.e. suspended) until December 31, 2012 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the System's bills to the Water Contractors for the years 2007 through 2013, (2) claims arising from the System's revisions to prior year invoices that were made to adjust for improper charges to the Water Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The Tolling and Waiver Agreement also tolled the running of the time period for bringing an action on the Victim Compensation and Government Claims Board claim regarding the 2006 invoice that was filed by one of the Water Contractors. In the meantime, the System and Water Contractors are continuing their efforts to resolve issues that are covered by the Tolling and Waiver Agreement. However, no assurance can be given that the Water Contractors will not file additional Notices of Contest, claims and/or lawsuits with respect to the issues under discussion once the Tolling and Waiver Agreements expire.

Lawsuits Regarding 2004 Delta Levee Failure

Four lawsuits have been filed to recover damages caused when a Delta levee failed and flooded the Upper Jones Tract and Lower Jones Tract in June 2004. Three of the lawsuits name as defendants a local Delta reclamation district, the State Reclamation Board and the DWR. A cause of action in each of these three lawsuits alleges that the System's operations and activities in the Delta were a cause of the damage. All four lawsuits were consolidated for trial, although the fourth lawsuit does not involve DWR or any other state agency. Upon completion of the trial, the judge issued a decision in August 2012 in favor of DWR. All the plaintiffs, except for two insurance companies, have appealed the decision. The System does not believe that an adverse court decision in any of these consolidated cases would have a material adverse impact on the System's finances or operations because such costs would be recoverable under the long-term water supply contracts.

General

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

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

Federal Energy Regulatory Commission Proceedings

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

Claims for Partial Energy Purchase Refunds

FERC proceedings have also been instituted to address power purchaser requests for partial refunds from sellers of energy and related services in 2000 and 2001, including the System. However, in September 2005, the United States Ninth Circuit Court of Appeals ruled that FERC lacked jurisdiction under the Federal Power Act to order governmental entities, such as the System, to provide refunds in these types of proceedings. As a result of this Ninth Circuit Court of Appeals' ruling, a group of California entities filed similar claims for partial energy purchase refunds with the California Victim Compensation and Government Claims Board (Claims Board) against the governmental entity sellers, including the System. The claims were denied by the Claims Board in April, 2006, which allows the claimants to file lawsuits against the governmental entity sellers, including the System. However, DWR and a group of California entities have agreed to suspend the running of the statute of limitations for the filing of a lawsuit through February 28, 2013. The System believes that amounts, if any, that the System might be required to refund as a result of these claims would not have a material impact on the System's financial position or results from operations because the impact of any refunds would be passed through to the Water Contractors under the water supply contracts in the form of higher operating charges.

Pollution Remediation

Reid Gardner Power Plant

The Reid Gardner (R-G) Power Plant, located near Moapa, Nevada, is operated by Nevada Energy (NVE) and consists of four coal-powered generators—Units 1 through 4. Units 1–3 are 100% owned by NVE, whereas the capital ownership of Unit 4 is shared between the DWR and NVE at 67.8% and 32.2%, respectively. Additionally, DWR has a 29.2% share of the R-G facilities necessary for and common to all four units.

In February 2008, NVE entered into an Administrative Order on Consent (AOC) with the Nevada Division of Environmental Protection (NDEP). Pursuant to the AOC, NVE agreed to undertake investigatory activities into various potential areas of contamination at R-G and also to ultimately remediate groundwater and other contamination attributable to the R-G facility. Groundwater and soils have been affected by certain chemicals of interest associated with flue gas desulfurization effluent settlement and evaporation ponds. Since some of this contamination can be associated with the Unit 4 generation related facilities such as the evaporation ponds, DWR, as co-owner of Unit 4, has voluntarily commenced participation in NVE's investigatory activities which will ultimately lead to the remediation measures prescribed by NDEP to NVE. These activities are projected to continue through at least 2023.

Based on a review of NVE's ongoing and planned investigations and overall AOC planning activities, it is estimated that DWR's equitable share of the current value of outlays could range between $6 million and $12.0 million; a quantitative estimate of the ultimate invesitgory and remediation cost is difficult at this time as baseline conditions are still being assessed by NDEP. DWR's current estimate is based upon a quantitative assessment of constituents of concern currently known to DWR applied to a range of potential and applicable remediation strategies. DWR calculated the potential financial liability by estimating a reasonable range of potential outlays and applying an estimated probability of occurrence to the potential outlays, yielding a current total expected liability of $9.42 million.

The System expended approximately $175 in FY 2011/2012 and DWR expects to pay $1.4 million of the total estimated liability during FY 2012/2013. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information is available to DWR.

Delta Basin Plan: Mercury Control Program

In June 2011, the State Water Resources Control Board adopted an amendment to the Sacramento-San Joaquin Delta Basin Plan regarding the control in the Delta of methylmercury. The amendment, among other things, assigns certain responsibilities jointly to DWR (with regard to both the System and DWR's flood management programs), the Central Valley Flood Protection Board and the State Lands Commission to reduce methylmercury in the open waters of the Delta. In addition, DWR and others are assigned certain responsibilities regarding the discharge of methylmercury from wetland and other aquatic restoration and enhancement projects. The required actions are divided into two phases. Phase I, which lasts for up to nine years until June 2020, emphasizes studies and pilot projects to control methylmercury, along with some implementation, and Phase II requires implementation of measures to achieve required methylmercury levels by 2030. In July 2011, an organization representing twenty-seven System Water Contractors filed a lawsuit against the State Water Resources Control Board and the Central Valley Regional Water Quality Control Board challenging the portion of the Basin Plan amendment that requires DWR in its capacity as operator of the System to reduce methylmercury in the open waters of the Delta. DWR was named as a real party in interest in the lawsuit. The Contractors contend that since the System's water management activities do not add or introduce methylmercury into the Delta, there is no basis in law for assigning responsibility to the System to reduce the methylmercury that is present in the open waters of the Delta.

The System expended approximately $213 in fiscal year 2011-2012 and DWR estimates that the System may incur up to about $600 in fiscal year 2012-2013 and $900 in fiscal year 2013-2014 on Phase I activities. The ultimate amount to be expended by the System will depend, among other things, upon the results of the Phase I studies and pilot projects, the outcome of the Water Contractors lawsuit challenging the inclusion of the System in the assignment of responsibility for reducing methylmercury in the open waters of the Delta and the distribution of costs among the parties ultimately determined to be responsible.

11. Self-Insurance

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

For the years ended June 30, 2012 and 2011 (in thousands)

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 56% and 55% of total System water supply revenue for the years ended June 30, 2012 and 2011, respectively, and Kern County Water Agency whose System billings constituted 10% of total System water supply revenue for the years ended June 30, 2012 and 2011.

The System sold power to 13 power companies during the fiscal years ended June 30, 2012 and 2011. The highest percentage of power revenues came from the California Independent System Operator. The following table shows power sales to companies which exceeded 5% of the total power sold by the System excluding power sold to the water contractors in the amount of $21.6 million and $25.8 million, for the years ended June 30, 2012 and 2011, respectively.

	2012	% Total	2011	% Total
California Independent System Operator	$ 73,722	58.16%	$ 104,079	62.19%
Morgan Stanley Capital Group Inc.	10,216	8.06%	11,914	7.12%
Constellation Energy Commodities Gr	15,557	12.27%	-	-
Sempra Energy Trading Corp.	6,787	5.35%	-	-
BP Energy Company	-	-	19,012	11.36%
Citigroup Energy Inc.	-	-	15,333	9.16%

Similarly, the System purchased power from 22 and 17 power suppliers during the fiscal years ended June 30, 2012 and 2011, respectively. The highest percentage of power provided to the System came from the California Independent System Operator. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

	2012	% Total	2011	% Total
California Independent System Operator	$ 138,257	50.95%	$ 168,338	49.16%
Morgan Stanley Capital Group Inc.	40,311	14.85%	55,199	16.12%
Citigroup Energy Inc.	13,768	5.07%	20,241	5.91%
Sempra Energy Trading Corp.	-	-	17,811	5.20%
B P Energy Company	-	-	22,667	6.62%
Kings River Conservation District	-	-	17,950	5.24%

For the years ended June 30, 2012 and 2011 (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, 2012 and 2011.

	2012			2011		
	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	$ 874,474	$ 2,338,478	$ 3,212,952	$ 882,579	$ 2,318,885	$ 3,201,464
Other assets	627,050	548,672	1,175,722	793,817	351,813	1,145,630
Current assets	248,567	331,214	579,781	261,298	338,796	600,094
Total assets	$ 1,750,091	$ 3,218,364	$ 4,968,455	$ 1,937,694	$ 3,009,494	$ 4,947,188
Capitalization and Liabilities						
Capitalization:						
Net assets:						
Capital (deficit), net of related debt	$ 781,205	$ (97,180)	$ 684,025	$ 728,142	$ (173,288)	$ 554,854
Restricted	397,270	124,136	521,406	450,333	200,244	650,577
Total net assets	1,178,475	26,956	1,205,431	1,178,475	26,956	1,205,431
Long-term liabilities	469,579	2,340,004	2,809,583	507,979	2,405,500	2,913,479
Total capitalization	1,648,054	2,366,960	4,015,014	1,717,237	2,401,673	4,118,910
Current liabilities	149,456	328,095	477,551	145,319	264,879	410,198
Other liabilities	(78,202)	554,092	475,890	75,139	342,941	418,080
Total capitalization and liabilities	$ 1,719,308	$ 3,249,147	$ 4,968,455	$ 1,937,695	$ 3,009,493	$ 4,947,188
Condensed Statements of Revenues, Expenses and Changes in Net Assets:						
Operating revenues:						
Water supply	$ 553,453	$ 307,438	$ 860,891	$ 554,117	$ 320,631	$ 874,748
Power sales	146,219	2,141	148,360	190,993	2,161	193,154
Federal reimbursements	35,490	1,071	36,561	28,828	(534)	28,294
	735,162	310,650	1,045,812	773,938	322,258	1,096,196
Depreciation expense	(22,302)	(65,098)	(87,400)	(29,264)	(70,993)	(100,257)
Other operating expense	(666,122)	(186,282)	(852,404)	(707,463)	(173,077)	(880,540)
Income from operations	46,738	59,270	106,008	37,211	78,188	115,399
Capital expenses (deferred) recovered	702	30,694	31,396	(18,570)	32,592	14,022
Interest expense	(17,783)	(89,987)	(107,770)	(20,255)	(114,741)	(134,996)
Transfers In	7,543	65,945	73,488	(8,385)	(24,309)	(32,694)
Transfers Out	(38,325)	(35,163)	(73,488)	12,648	20,046	32,694
Other (expense) income	1,125	(30,759)	(29,634)	(2,649)	8,224	5,575
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	$ 77,071	$ 195,355	$ 272,426	$ 73,429	$ 234,309	$ 307,738
Capital and related financing activities	(124,566)	(204,768)	(329,334)	(88,894)	(220,778)	(309,672)
Investing activities	2,944	5,945	8,889	3,713	6,801	10,514
Net (decrease) increase in						
cash and cash equivalents	(44,551)	(3,468)	(48,019)	(11,752)	20,332	8,580
Cash and equivalents, beginning of year	244,128	307,593	551,721	255,880	287,261	543,141
Cash and equivalents, end of year	$ 199,577	$ 304,125	$ 503,702	$ 244,128	$ 307,593	$ 551,721

14. New Governmental Accounting Standards

GASB Statement No. 60
In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* This statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The requirements of GASB No. 60 are effective for fiscal year 2013 and thereafter. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 61
In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus.* This statement amends GASB Statement No. 14 and GASB Statement No. 34, to modify certain requirements for inclusion of component units in the financial reporting entity, to amend the criteria for reporting component units as if they were part of the primary government in certain circumstances, and clarifies the reporting of equity interests in legally separate organizations. The requirements of GASB No. 61 are effective for fiscal year 2013 and thereafter. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 62
In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The requirements of Statement No. 62 are effective for the System beginning in fiscal 2013. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 63
In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance which standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The requirements of Statement No. 63 are effective for the System beginning in fiscal 2013. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 64
In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The requirements of Statement No. 64 are effective for the System beginning in fiscal 2013. The System does not expect this statement to have any impact on its financial statements.

GASB Statement No. 65
In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements*. The provisions of this Statement are effective for the System beginning in fiscal 2014. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 66
In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The requirements of GASB No. 66 are effective for fiscal year 2014 and thereafter. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

GASB Statement No. 68
In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of GASB No. 68 are effective for fiscal year 2015 and thereafter. The System is currently evaluating the impact this statement will have, if any, on its financial statements.

15. Subsequent Events

On September 5, 2012, The System delivered the CVP Water System Revenue Bonds Series AL (Tax-Exempt) pursuant to a purchase agreement among the Department, the State Treasurer and the Underwriters executed on February 28, 2012. The delayed delivery of the Series AL Bonds was necessary in order to achieve a current refunding of the Series X and Series Z Refunded Bonds for purposes of the Internal Revenue Code 1986, as amended. The CVP Water System Revenue Bonds Series AL was issued with a par amount of $105,875 and a premium of $18,176 with an average yield on bonds of 2.33%. The bond proceeds, along with System funds on hand in the amount of $1,466 were used to retire $121,945 of outstanding bonds by depositing $124,927 in an irrevocable escrow account, and to cover costs of issuance of $590.

On September 27, 2012, the System issued the CVP Water System Revenue Bonds Series AN (Tax-Exempt) with a par amount of $49,525 and a premium of $10,113 with an average yield on bonds of 2.98%. The bond proceeds, along with System funds on hand in the amount of $211 were used to retire $12,550 of outstanding bonds by depositing $14,322 in an irrevocable trust with an escrow agent, redeem commercial paper borrowings of $44,807, fund capitalized interest of $318, fund deposits to the debt service reserve account of $159 and cover costs of issuance of $243.

On September 27, 2012, the System issued CVP Water System Revenue Bonds Series AO (Federally Taxable) with a par amount of $317,505 with an average yield on bonds of 2.54%. The bond proceeds, along with System funds on hand in the amount of $5,331 were used to retire $285,790 of outstanding bonds by depositing $321,409 in an irrevocable escrow account, and to cover costs of issuance of $1,427.

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Supplementary Information

State Water Resources Development System
Calculation of Adequacy of Debt Service Coverage for the Central Valley Project Revenue Bonds
For the years ended June 30, 2012 and 2011 (in thousands)

	2012	2011
Water supply revenues, Central Valley Project Act	$307,438	$320,631
Add: Cover Collected as Proceeds Due To Water Contractors	56,385	55,542
Less: Devil Canyon Castaic Revenues	(16,979)	(16,385)
Revenues not available for Debt Service	(68,469)	(79,631)
Net CVP revenues available for debt service	278,375	280,157
Principal and interest for revenue bonds	$220,455	$219,974
Debt service coverage	126.3%	127.4%

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

The Supplementary Information, Calculation of Adequacy of Debt Service Coverage for the Central Valley Project (CVP) Revenue Bonds is based on $307.4 million in fiscal 2012 and $320.6 million in 2011, respectively in Water Supply Revenues of the System's (CVP) segment. In fiscal 2012 the revenues include: an increase of $56.4 million in refundable proceeds, a decrease of $16.9 million for principal and interest payments for the Devil Canyon Castaic Facilities Bonds (DCC) since the DCC General Bond resolution does not require cover to be collected for these bonds, and a decrease of $68.5 million of which $59.3 million is primarily related to operations and maintenance and $9.2 million is related to miscellaneous revenues not intended for debt service.

In fiscal 2011 the revenues include: an increase of $55.6 million in refundable proceeds, a decrease of $16.4 million for principal and interest payments for the DCC Facilities Bonds, and a decrease of $79.6 million of which $77.4 million is primarily related to operations and maintenance and $2.2 million is related to miscellaneous revenues not intended for debt service.

Edmund G. Brown Jr.
Governor, State of California

John Laird
Secretary of Resources,
Natural Resources Agency

Mark Cowin
Director, Department of Water Resources