State of California | Natural Resources Agency | Department of Water Resources

State Water Resources Development System

An Enterprise Fund of the State of California

Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2016 and 2015

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Comprehensive Annual Financial Report
For the years ended June 30, 2016 and 2015

STATE OF CALIFORNIA
Edmund G. Brown Jr., Governor

NATURAL RESOURCES AGENCY
John Laird, Secretary for Natural Resources

DEPARTMENT OF WATER RESOURCES
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INTRODUCTORY SECTION

December 5, 2016

To the Citizens of the State of California:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the State Water Resources Development System ("the System") for the fiscal years ended June 30, 2016 and 2015, along with the Independent Auditors' Report. The CAFR has been prepared by the California Department of Water Resources (DWR) in conformance with the principles and standards for financial reporting set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the DWR. We believe that the data, as presented, is accurate in all material respects; that its presentation fairly shows the financial position and the results of the System's operations as measured by the financial activity of its various funds; and that the included disclosures will provide the reader with an understanding of the System's financial affairs.

This CAFR was prepared using the financial reporting requirements as prescribed by the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

THE REPORTING ENTITY AND ITS SERVICES

Reporting Entity

The System operates as an Enterprise fund administered by the California Department of Water Resources (DWR)[1]. The DWR operates within the Natural Resources Agency of the State of California, and is responsible for the planning, construction, and operation of the System. DWR was established in 1956 by an act of the State Legislature that combined the functions of the Water Project Authority and certain responsibilities of the Department of Public Works' former Division of Water Resources. At present, DWR employs 3,294 full-time staff throughout the State, of which approximately 2,400 are allocated to the System.

The System includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

DWR's operations, with respect to the SWP, are accounted for and conducted under Segments[2] consisting of special funds established by the California Water Code. These Segments are (a) the State Water Resources Development Bond Fund (Bond Fund), which was formed when the voters of the State of California passed the Burns-Porter Act in 1960; and (b) the Central Valley Project Construction Fund (Construction Fund) and the Central Valley Project Revenue Fund (Revenue Fund), which were enabled under California's Central Valley Project Act of 1933.

DWR's operations, with respect to the System, are separate and apart from DWR's operations that are primarily funded by State General Fund appropriations and from DWR's Power Supply Program.

Services

The System encompasses dams, reservoirs, pumping plants, power plants, aqueducts, and pipelines owned[3] and operated by the State of California. The System 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 System. All 647 miles of the initially planned aqueduct system have been completed. The 444-mile main stem of the California Aqueduct runs from a point near Stockton southward to a terminus in Riverside County. The dependable annual water supply available for delivery by the existing System varies yearly depending on hydrologic conditions and regulatory mandates.

Joint-Use Facilities

Portions of the System consist of facilities developed and used jointly with the Federal Central Valley Water Project (FCVP) operated by the U.S. Bureau of Reclamation (USBR). In addition, both projects have primary sources of water north of the Sacramento-San Joaquin Delta (Delta), transport water across the Delta and draw water from the southern edge of the Delta. The FCVP, like the System, provides water for irrigation in the Central Valley, urban water supply, water quality, flood control, power, recreation, and fish and wildlife enhancement. Capital costs,

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[1] See the accompanying MD&A for more on Enterprise Funds

[2] See the accompanying MD&A for more on the System's Segments

[3] Certain assets are owned jointly by the State and the United States Bureau of Reclamation. See *Joint-Use Facilities*

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 System and the FCVP coordinate operations, including releases from upstream reservoirs and pumping from the Delta. The COA permits increases 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.

The Water Supply Contracts

DWR has entered into Water Supply Contracts with 29 local public agencies (Water Contractors), which provide for DWR to recover substantially all System costs. The Water Contractors are principally located in the San Francisco Bay Area, the Central Coast, the Central Valley, and Southern California, and their service areas encompass approximately 25 percent of the State's land area and approximately 69 percent of its population.

Payments by the Water Contractors under the Water Supply Contracts provide for the operation, maintenance, planning, and capital costs, including interest, of the SWP. The Water Contractors may request up to a maximum annual aggregate amount 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 and certain costs among the Water Contractors.

Generally, the existing Water Supply Contracts are to remain in effect until 2035 or until all bonds issued to finance construction costs of SWP facilities have been repaid (currently 2029), whichever period is longer. Under its Water Supply Contract, each Water Contractor may request water deliveries from the SWP up to a maximum specified annual amount, and agrees to pay its allocated share of the costs of gathering, storing, conveying, and delivering water. Generally, DWR's costs of providing the facilities of the SWP, including interest, are payable by the Water Contractors whether or not water is delivered. If a Water Contractor defaults under their Water Supply Contract, DWR may, upon six months' notice, suspend water deliveries to that Water Contractor. During such period, the Water Contractor remains obligated to make all payments required by the Water Supply Contract. If a Water Contractor fails or is unable to raise sufficient funds, by other means, to make Contract payments, the Water Contractor is required, by the Contract, to levy a tax or assessment sufficient for such purpose.

DWR and the affected Water Contractors have entered into an Off-Aqueduct Power Facilities Amendment, East Branch Enlargement Amendment, Water System Revenue Bond Amendment, Coastal Branch Extension Amendment, East Branch Extension Amendment, and a South Bay Aqueduct Enlargement Amendment to the Water Supply Contracts for the purpose of financing certain Water System Projects. These Amendments established procedures to provide for the payment of construction costs financed with Revenue Bonds by establishing separate subcategories of charges to produce the revenues required to pay all of the annual financing costs, including coverage, of the Bonds allocable to such Amendment Projects. If any Water Contractor defaults on payment under any of these Amendments, other than the Coastal Branch Extension Amendment, East Branch Extension Amendment, and the South Bay

Aqueduct Enlargement Amendment, the shortfall may be collected from non-defaulting affected Water Contractors, subject to certain limitations.

In December 1994, representatives of DWR and certain Water Contractors adopted a set of principles pursuant to which additional amendments to the Water Supply Contracts have since been negotiated. This amendment is known as the "Monterey Amendment."

ECONOMIC OUTLOOK

The System recovers the majority of its construction and operating costs from the Water Contractors, who are obligated to pay for such costs whether or not water deliveries are made. If a Water Contractor fails or is unable to raise sufficient funds by other means to make Water Supply Contract payments, the Contractor is required, by the Contract, to levy a tax or assessment sufficient for such purpose. With such protections, the financial viability of the System remains strong even in times of drought or other significant events.

MAJOR INITIATIVES AND ACHIEVEMENTS

Water Supply Contract Extension

In May 2013, DWR and the Water Contractors began negotiations in a public forum to develop contract amendments to extend the term and change certain financial provisions of the Water Supply Contracts. In June 2014, the negotiators for DWR and the Water Contractors reached a general agreement on principles for such an amendment. DWR and 25 of the 29 Contractors have signed the Agreement in Principle (AIP). The County of Butte, Plumas County Flood Control and Water Conservation District, San Luis Obispo Flood Control and Water Conservation District, and the Santa Barbara Flood Control and Water Conservation District have not signed the AIP.

Currently, subject to individual elections for continued service by each Water Contractor, the Water Supply Contracts are to remain in effect for the longest of 75 years, December 31, 2035, or until all bonds issued to finance construction costs of SWP facilities have been repaid, whichever period is longest. No Bonds have been sold with a maturity date later than December 1, 2035. The 75-year term provision currently results in the Water Supply Contracts having varying termination dates that range between December 31, 2035 and 2042, subject to the aforementioned election. For each Water Contractor that signs an amendment under the AIP, the term of the Water Supply Contract would be extended until December 31, 2085.

Also under the AIP, certain provisions that provide for charges to the Water Contractors for capital costs and certain other costs, currently made on an amortized basis, would be amended to provide for charges to the Contractors on an annual "pay-as-you-go" basis to provide the revenues needed by DWR to make debt service payments each year. The current provisions authorizing DWR to charge the Water Contractors annually for the full amount of the required annual debt service and coverage on the Bonds will continue in any extended contract. Other provisions addressed in the AIP would provide for, among other things, an increase in DWR's operating reserves; a mechanism for financing capital projects, using System funds, and recovering those costs with interest from the Water Contractors; establishment of an account to pay for certain System expenses not chargeable to the Water Contractors; and the establishment of a Finance Committee consisting of DWR and Water Contractor representatives to serve as a forum for discussions and to provide a channel for recommendations to the Director of DWR concerning financial policies of the System.

Environmental review pursuant to the California Environmental Quality Act (CEQA) and a presentation by DWR in an informational hearing to the Legislature will be part of the contract extension amendment process before any contract amendment is adopted. In August 2016, DWR released, for public comment, a draft Environmental Impact Report (EIR) for the proposed contract extension amendment. The public comment period on the draft EIR is scheduled to close on October 17, 2016. Any amendment that is ultimately adopted will comply with DWR's covenant in the General Bond Resolution not to agree to any amendment to the Water Supply Contracts, which would materially adversely affect the security for the Bonds.

Renewable Energy

The System plans to procure approximately 920 GW of renewable energy by 2025. Purchase agreements for such power include:

- An ongoing contract with Alameda Municipal Power, purchased under the counterparty Northern California Power Agency (NCPA), through December 31, 2016, for renewable geothermal and landfill gas energy bundled with Renewable Energy Credits.
- A 20-year contract with RE Camelot Solar Photovoltaic Project[4] for the purchase of 45 MW of solar photovoltaic energy and associated capacity bundled with Renewable Energy Credits from their facility located in southeastern Kern County. The RE Camelot Plant is expected to deliver 125,000 MW of annual generation.
- A 20-year contract for 85 MW from Solverde 1, LLC whose facility, built near Lancaster in northern Los Angeles County, is expected to be operational by late December 2016 and from which the System will receive approximately 230,000 MW of annual generation.
- A 20-year contract for 9.5 MW with Sun Power Corporation, Systems for a facility built at the Pearblossom power plant. This Pearblossom facility is expected to be operational by December 2016 and includes an additional 10-year option to extend, and a forecasted annual generation of approximately 28,000 MW.

OTHER FINANCIAL INFORMATION

Internal Controls

In developing and evaluating the System's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. We believe

[4] Owned and operated by Dominion Solar Holdings, Inc.

that the System's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Pension Fund Operations

The net pension liability represents the System's share of DWR's portion of the unfunded liability of the California Public Employees' Retirement System's (CalPERS) defined benefit plan.

INDEPENDENT AUDIT

The System requires an annual audit of its financial records. These records, represented in the CAFR, have been audited with an unqualified opinion by a certified public accounting firm, Gallina LLP. The Independent Auditors' Report on our current financial statements is presented in the Financial Section.

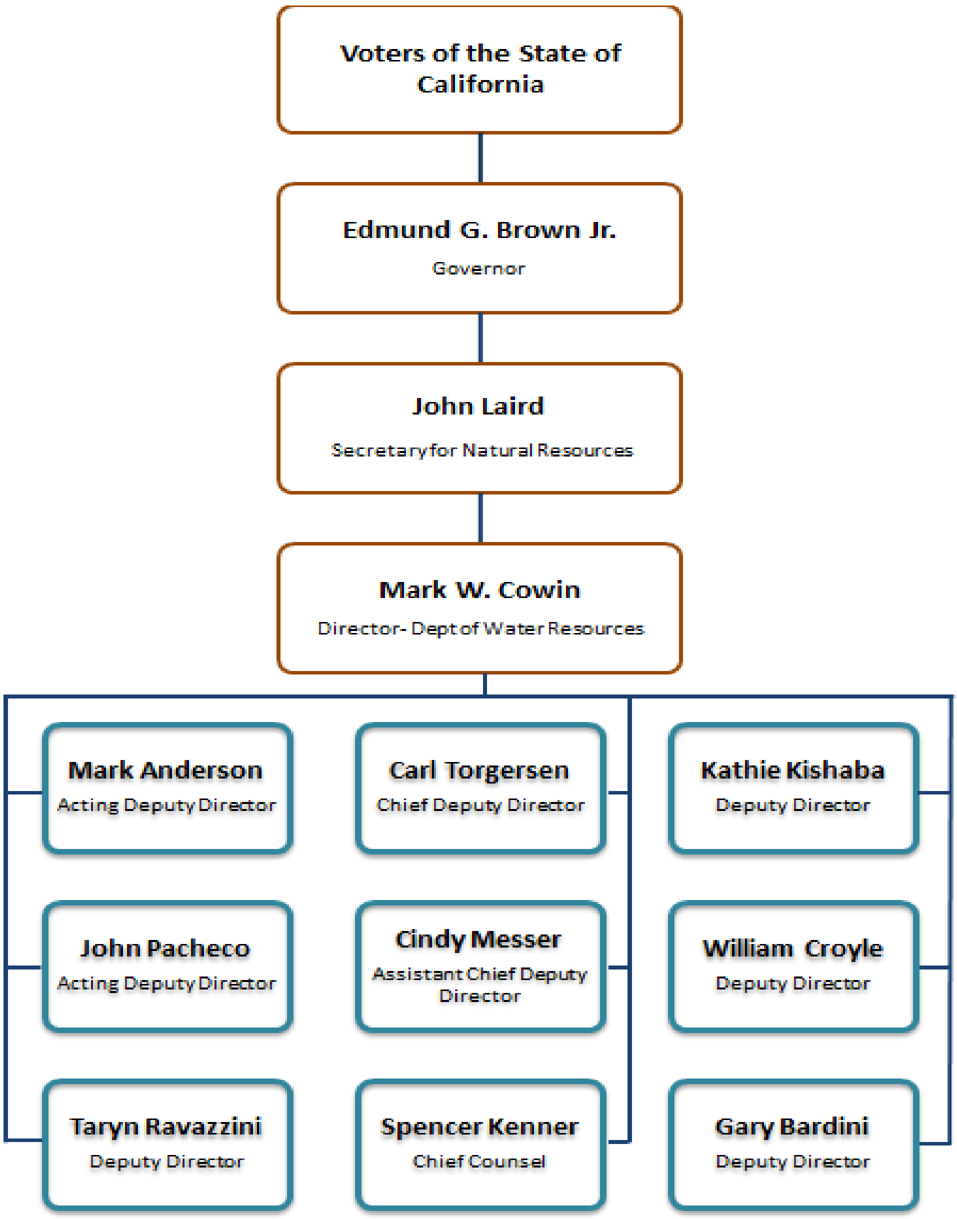
ACKNOWLEDGMENTS

We would like to express our appreciation to the entire staff of the Fiscal Services Division and the State Water Project Analysis Office, whose professionalism, dedication, and efficiency are responsible for the preparation of this report. We would also like to thank Gallina, LLP for their invaluable professional support in the preparation of the CAFR.

Respectfully submitted,

Alicia Ramirez	Lisa Toms	Pedro Villalobos
Accounting Admin II	Accounting Admin III	Prin HEP Engineer

ORGANIZATION CHART



FINANCIAL SECTION

GALLINA LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Resources Development System (System), as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of June 30, 2016 and 2015, and the respective changes in its financial position and cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in note 1, the financial statements present only the State Water Resources Development System, and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2016 and 2015, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, statistical section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Gallina LLP

Roseville, California
December 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in the financial position of the State Water Resources Development System (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.

Financial Highlights

- During fiscal 2016, the System recorded an increase in total assets of $90.9 million on total operating revenues of $1,087 million. However, this did not cause an increase in net position because of the deferral of timing differences in revenues collected and expenses incurred.

- Deferred inflows of resources for capital costs increased by $90.7 million to an ending balance of $774.2 million in fiscal 2016 compared to $683.5 million in fiscal 2015. The increase is primarily due to net revenues collected for principal payments of previous costs incurred to construct Utility Plant in Service (UPIS) assets.

- On August 25, 2015, the System issued $109.3 million of Water System Revenue Bonds (Series AU) to redeem $104.6 million of Water Revenue Commercial Paper Notes Series 1. Series AU was issued as index floating rate bonds using the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread to calculate monthly debt service payments. Series AU assumes a 2.07% variable rate for the life of the bonds.

- On May 24, 2016, the System issued Water System Revenue Bonds (Series AV) with a par amount of $106.5 million and a $22.2 million premium to redeem $128.7 million of Water Revenue Commercial Paper Notes Series 1. Series AV was issued with fixed rates and an average yield of 1.84%.

- On June 24, 2016, the System defeased $35.6 million of Water System Revenue Bonds relating to the System's Off-Aqueduct Projects, which included Reid Gardner Unit 4, Bottle Rock, and South Geysers. The System used proceeds from a settlement agreement received from the Nevada Power Company for the termination of participation in the Reid Gardner Unit 4 power-generating joint venture. The System deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, acting as Trustee and Escrow Agent.

- On December 1, 2015, the System paid off the Pooled Money Investment Account (PMIA) loan. The loan, which was scheduled to be fully paid and amortized in fiscal 2018, was paid off early from funds available in fiscal 2016. See Disclosure Note 6.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements are comprised of three components: 1) Financial Statements, 2) Notes to the Financial Statements, and 3) Other Information.

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. These financial statements report information using accounting methods similar (although not identical) to those used by private sector companies. The Statements of Net Position include all the assets, liabilities, deferred outflows and inflows of resources, and net position. The Statements of Revenues, Expenses and Changes in Net Position report all of the revenues and expenses incurred during the fiscal years presented. The Statements of Cash Flows report the cash inflows and outflows classified by operating, investing, noncapital financing, and capital and related financing activities during the reporting periods presented.

The Financial Statements can be found on pages 27 - 33 of this report.

Notes to the Financial Statements

The notes to the financial statements communicate certain information required by Generally Accepted Accounting Principles (GAAP). The notes to the financial statements can be found on pages 35 - 75 of this report.

Other Information

In additional to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the System's adequacy of debt service coverage. Supplementary information can be found on pages 81 - 82 of this report.

Financial Analysis

The SWP is considered a regulated entity, as such rates are permitted to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital. If revenues intended to cover some costs are provided before costs are incurred those revenues are reported as deferred inflows of resources and recognized as revenue when the associated costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, those costs are capitalized as receivables and recovered through future billings. As a result, net position does not change over time. The total net position of the System exceeded liabilities and deferred outflows at June 30, 2016 and 2015 by $1,205.4 million each year.

Condensed Statements of Net Position

	2016	2015 (As restated)	2014	% Change 2016-2015	% Change 2015-2014
		(amounts in thousands)			
Other assets	$ 2,268,741	$ 2,344,435	$ 2,035,702	-3.2%	15.2%
Total utility plant	3,699,323	3,532,682	3,469,661	4.7%	1.8%
Total assets	5,968,064	5,877,117	5,505,363	1.5%	6.8%
Total deferred outflows of resources	230,231	219,326	116,741	5.0%	87.9%
Total assets and deferred outflows of resources	$ 6,198,295	$ 6,096,443	$ 5,622,104	1.7%	8.4%
Other liabilities	$ 460,713	$ 425,428	$ 419,875	8.3%	1.3%
Long-term liabilities	3,599,051	3,550,835	3,173,915	1.4%	11.9%
Total liabilities	4,059,764	3,976,263	3,593,790	2.1%	10.6%
Total deferred inflows of resources	933,103	914,752	822,886	2.0%	11.2%
Net position:					
Net investment in capital assets	1,155,487	1,165,253	994,561	-0.8%	17.2%
Restricted	49,941	40,175	210,867	24.3%	-80.9%
Total net position	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Total liabilities, deferred inflows of resources, and net position	$ 6,198,295	$ 6,096,443	$ 5,622,104	1.7%	8.4%

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

The largest portion of the System's current fiscal year net position is investments in capital assets, including but not limited to land, improvements, buildings, machinery, and equipment. Investments in capital assets are reflected net of accumulated depreciation less any outstanding related debt used to construct or acquire those assets. The main use of these capital assets is to provide water delivery and storage, flood control, recreation, fish and wildlife enhancement, and hydroelectric power. There was an increase in capital assets of $166.6 million offset by a decrease of $75.7 million primarily in amounts recoverable through future billings under the Water Supply Contracts, and an increase in debt and deferrals related to capital assets of $100.7 million, causing an overall decrease in net investment in capital assets of $9.8 million. Although the System's investments in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, mainly contractual billings to the Water Contractors, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of the System's current fiscal year net position represents restricted net position, which are resources subject to external restrictions on how they may be used. The System's restricted net position is for the support of the SWP, the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

The following table reflects how the System recognized revenues and expenses during the year:

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

	2016	2015	2014	% Change 2016-2015	% Change 2015-2014
		(amounts in thousands)			
Operating revenues:					
Water supply	$ 948,105	$ 883,538	$ 789,370	7.3%	11.9%
Power sales	71,236	91,780	131,952	-22.4%	-30.4%
Federal and State reimbursements	67,309	44,060	52,186	52.8%	-15.6%
Total operating revenues	1,086,650	1,019,378	973,508	6.6%	4.7%
Operating expenses:					
Operations and maintenance expense	511,926	404,627	557,209	26.5%	-27.4%
Purchased power expense	219,661	202,780	241,444	8.3%	-16.0%
Depreciation expense	77,170	81,495	68,896	-5.3%	18.3%
Operating expenses recovered, net	65,004	-	-	0.0%	0.0%
Total operating expenses	873,761	688,902	867,549	26.8%	-20.6%
Income from operations	212,889	330,476	105,959	-35.6%	211.9%
Capital revenues recovered (deferred), net	(118,510)	(243,945)	(42,934)	-51.4%	468.2%
Interest expense	(106,978)	(96,082)	(115,499)	11.3%	-16.8%
Other revenues (expenses), net	12,599	9,551	52,474	31.9%	-81.8%
Change in net position	-	-	-	-	-
Net position, beginning of year	1,205,428	1,205,428	1,205,428	0.0%	0.0%
Net position, end of year	$ 1,205,428	$ 1,205,428	$ 1,205,428	0.0%	0.0%

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

Revenues

Operating Revenues

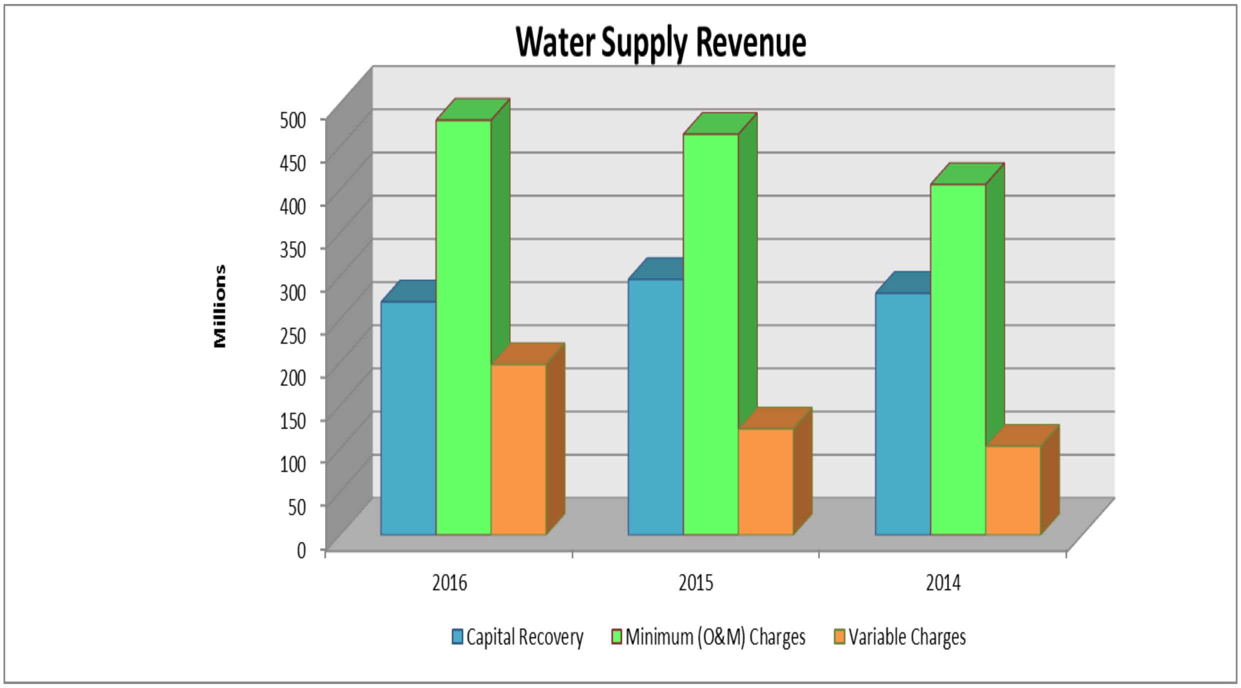
The increase in operating revenues for fiscal 2016 is attributable to an increase in water supply revenue billings due to increased Water Contractor allocations, which resulted in increased water deliveries, and an increase in federal and state reimbursements. These increases were offset by a 7.52% decrease in power sales of 547,144 MWh in fiscal 2016 compared to 591,615 MWh sold in fiscal 2015.

Increases in operating revenues for fiscal 2015 were primarily due to an increase in water supply revenue billings which were based on higher projected capital costs and an increase in the average mill rate. However, power sales decreased 37.11% from 591,615 MWh in fiscal 2015 compared to 940,679 MWh sold in fiscal 2014.

Water Supply Revenue

The largest portion of revenues, approximately 87.25%, comes from Water Supply Revenue. In fiscal 2016, the System generated $948.1 million in water supply revenue, compared to $883.5 million in fiscal 2015, and $789.4 million in fiscal 2014.

The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2016, 2015, and 2014:

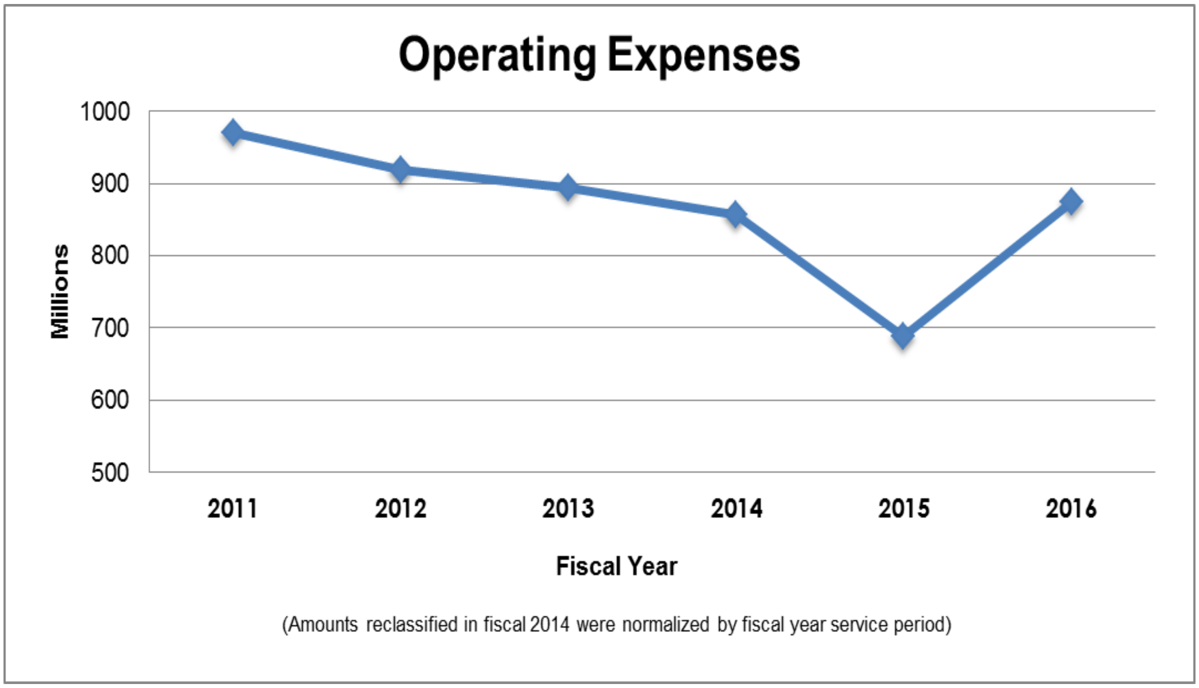


Expenses

Operating Expenses

Total operating expenses increased by $184.9 million for fiscal 2016 to a total of $873.8 million. The increase is due to an increment in operations and maintenance expenses, an increment in operating expenses recovered, and increased power purchases.

Total operating expenses decreased by $178.6 million for fiscal 2015 to a total of $688.9 million. The decrease is due to a reduction in operations and maintenance expenses and a decrease in power purchases.



Operations and Maintenance Expenses

Total operations and maintenance expenses increase of $107.3 million in fiscal 2016 was mostly attributed to the following factors:

- $43.4 million timing difference in the capitalization of construction related expenses for the Perris Dam Remediation Program and other extraordinary repair projects
- $26.5 million net increase in expenses related to consultant and professional services and repair expenses, pollution remediation, general supplies, and miscellaneous expenses related to general operations and maintenance expenses
- $28.6 million increase in wages, salaries and pension expense
- $8.8 million increase in purchased water supply expenses due to the purchase of environmental pulse flow water from Goodwin Dam and the reimbursement to Contra Costa Water District

Total operations and maintenance expenses decrease of $152.6 million in fiscal 2015 was most significantly attributed to the following factors: $64.2 million timing difference in the capitalization of construction related expenses for the Hyatt-Thermalito Plant fire recovery and other extraordinary repair projects; $55.7 million reduction in expenses related to pollution remediation, general supplies, and miscellaneous expenses, as the system deferred extraordinary repair projects and began cost reduction efforts to general operations and maintenance expenses; $22.8 million reduction in purchased water supply expenses due to the absence of demand under the new multi-year Turnback Water Pool Program; and $9.8 million reduction in Postemployment Benefits other than Pensions (OPEB).

Power Purchases
In fiscal 2016, power purchases increased by $16.9 million. This was mainly due to incremental increases in Water Contractor allocations throughout fiscal 2016. The primary factor that contributed to increased water deliveries was attributed to several winter storms during January 2016 through April 2016, which created a run-off into DWR's reservoirs. The increased water allocations resulted in increased pumping demand.

In fiscal 2015, power purchases decreased by $38.7 million. This is due mainly to a reduction in water deliveries during the year. Primary factors that contributed to decreased water deliveries were continued drought conditions, low reservoir storages and near zero percent snow pack throughout the Sierras.

Operating and Maintenance Expense Recovered
Operating and maintenance expense recovered increased by $65 million in fiscal 2016. This increase was primarily due to the recognition of $73 million in deferred operation and maintenance expenses offset by $8 million decrease in net suspended costs.

In fiscal 2015, the System did not recognize any recovery of operations and maintenance expense.

Capital Revenues Deferred
Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered decreased by $125.4 million in fiscal 2016. This decrease was primarily due to the System's reclassification of amounts of Utility Plant Assets (net of accumulated depreciation) for assets co-owned by the System and the United States Bureau of Reclamation, and the defeasance of certain Water System Revenue Bonds related to unamortized capital projects.

Capital revenues recovered increased by $201 million in fiscal 2015. This increase was primarily due to the System having recognized current year capital revenues of $202.2 million in excess of annual amounts in depreciation related to the timing difference of capitalized construction expenses on extraordinary repair projects.

Interest Expense
Interest expense increased $10.8 million in fiscal 2016. A total of $6.5 million of this increase was attributable to payments related to the issuance of new Revenue Bonds, as well as interest of $4.8 million related to the cash-defeasance of certain Revenue Bonds during fiscal 2016.

Interest expense for fiscal 2015 decreased $19.4 million from fiscal 2014. This decrease was predominantly attributed to the lower interest rates achieved through Water System Revenue Bonds refunding.

Capital Assets and Debt Administration

Capital Assets
Investments in capital assets include utility plant and equipment, land, construction work in progress (CWIP), land use rights, computer software, and other intangible assets. The increase in the System's investment in capital assets for fiscal 2016 was $167 million and for fiscal 2015 was $63 million, an increase of 4.72% and 1.82%, respectively. Additional details of capital assets are in Note 4.

The System's investment in capital assets is presented below:

Capital Assets	Balance (in thousands)		
	2016	2015 (As restated)	2014
Nondepreciable Utility Plant	$ 1,029,435	$ 868,849	$ 690,600
Depreciable Utility Plant	4,754,564	4,678,487	4,773,756
Total Utility Plant	5,783,999	5,547,336	5,464,356
Less Accumulated depreciation / amortization	(2,084,676)	(2,014,654)	(1,994,695)
Utility Plant, Net	$ 3,699,323	$ 3,532,682	$ 3,469,661

Long-Term Debt

The System's total debt decreased by $56.3 million (1.87%) during fiscal 2016. This was comprised of the issuance of approximately $137.7 million in new debt, net of refunding and defeasances, including financing costs related to construction projects, offset in part by bond principal payments of $194 million. The change in debt included a cash-defeasance of $35.6 million of certain Revenue bonds relating to the Off-Aqueduct power facilities. During fiscal 2015, the System's total debt increased by $67.6 million. This was comprised of new debt of $259.1 million, net of refunding, and principal payments of $175.9 million.

The System's long-term debt is presented below:

Long-Term Debt	Balance (in thousands)		
	2016	2015	2014
Revenue Bonds	$ 2,770,888	$ 2,724,008	$ 2,647,814
General Obligation Bonds	135,045	184,960	241,835
Commercial Paper	42,776	87,901	36,136
PMIA Loan	-	8,094	11,579
Total	2,948,709	3,004,963	2,937,364
Less current portion	(180,930)	(189,479)	(175,941)
Long-term portion	$ 2,767,779	$ 2,815,484	$ 2,761,423

Additional information on the System's long-term debt can be found in Notes 6 and 7 of this report.

Economic Factors

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

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

As a result of these new laws, California will require a higher percentage of the System's pumping load to be served by renewable energy sources. By 2050, approximately 50% of the System pump load will need to be supplied by renewable energy. During fiscal 2015, the System began purchasing renewable energy under a purchase contract with Dominion Solar-RE Camelot, a 45 MW solar plant. Future solar energy purchases are also forecasted under contracts with Solverde 1 and Pearblossom Solar, which are scheduled to come on line near the end of calendar year 2016 and will add an additional 95 MW of renewable power.

Every year, the SWP is confronted with factors that affect how the operation of the System is conducted. Some factors include plant or unit outages, environmental concerns, weather, fluctuations in natural gas prices, transmission line outages, and wild fires.

Increased water allocations resulted in increased water deliveries and pumping through the SWP. Water deliveries increased from 1.41 million acre-feet in fiscal 2015 to 1.77 million acre-feet in fiscal 2016, an increase of 0.36 million acre-feet or 25.53%. The primary factor that contributed to increased water deliveries in fiscal 2016 was attributed to several winter storms occurring during January 2016 through April 2016, which resulted in an Oroville Lake storage increase from 1 million acre-feet to 3.3 million acre-feet or at 95% full capacity. This increase in the System reservoirs allowed incremental increases to the water allocations.

Since the State of California still remains in a drought condition and the System reservoirs still have not recovered to maintain consistent pre-drought allocations of approximately 60% to the Water Contractors, the priority throughout the State of California is to conserve the limited water that is available. All these factors indicate power sales may remain at lower levels.

Requests for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief, Financial Reporting and Analysis Office, 1416 Ninth Street Room 804, Sacramento, CA 95814.

FINANCIAL STATEMENTS

Statements of Net Position

(amounts in thousands)

		2016		2015 (As restated)
Assets				
Current assets:				
Cash and cash equivalents	$	550,968	$	517,663
Receivables:				
Interest on investments		1,265		996
Water supply and power billings (net)		119,235		79,527
Due from federal and state governments		38,596		37,406
Due from others		466		408
Inventories		5,171		5,160
Total current assets		715,701		641,160
Long-term assets:				
Restricted assets:				
Cash and cash equivalents restricted for plant replacements		29,436		28,348
Cash and investments restricted for debt service		114,459		118,075
Cash and cash equivalents on deposit with revenue bond trustee		33,435		9,435
Amounts recoverable through future billings under long-term water supply contracts:				
Operations and maintenance expense		277,024		441,755
Capital credit due from water contractors		297,814		231,033
Unamortized project costs		313,045		347,858
Unbilled interest incurred on capital costs		382,848		419,663
Loans receivable from local water agencies		12,968		14,061
Advances to other state funds		92,011		93,047
Total long-term assets		1,553,040		1,703,275
Utility plant:				
Utility plant in service		5,014,128		4,935,436
Less accumulated depreciation		(2,084,676)		(2,014,654)
Net utility plant in service		2,929,452		2,920,782
Construction work in progress		769,871		611,900
Total utility plant		3,699,323		3,532,682
Total assets		5,968,064		5,877,117
Deferred outflows of resources:				
Deferral of loss on refunding		161,656		174,933
Deferral of employer pension contribution		47,978		44,393
Deferral of resources related to pensions		20,597		-
Total deferred outflows of resources		230,231		219,326
Total assets and deferred outflows of resources	$	6,198,295	$	6,096,443

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

Statements of Net Position (continued)

(amounts in thousands)

	2016	2015 (As restated)
Liabilities		
Current liabilities:		
Current maturities of bonds	$ 180,930	$ 185,815
Accounts payable	115,898	67,575
Accrued vacation	14,528	13,326
Pollution remediation	4,207	10,245
Accrued interest on long-term debt	11,229	11,900
Pooled Money Investment Account (PMIA) Loan	-	3,663
Due to other state funds	39,370	45,065
Proceeds due to water contractors	94,551	86,900
Other current liabilities	-	939
Total current liabilities	460,713	425,428
Long-term liabilities		
General obligation bonds	88,300	135,045
Revenue bonds	2,636,703	2,588,108
Commercial paper	42,776	87,901
Other postemployment benefits	230,198	203,219
Net pension liability	485,502	426,935
Pooled Money Investment Account (PMIA) Loan	-	4,431
Accrued vacation	25,888	29,392
Pollution remediation	44,854	33,579
Unearned revenue - State and Federal capital recovery	12,766	12,766
Advances for plant replacements	32,064	29,459
Total long-term liabilities	3,599,051	3,550,835
Total liabilities	4,059,764	3,976,263
Deferred inflows of resources:		
Operations and maintenance expense	1,929	1,989
Capital costs	774,159	683,469
Power sales credit due to Water Contractors	146,417	149,728
Deferral of resources related to pensions	10,598	79,566
Total deferred inflows of resources	933,103	914,752
Total liabilities and deferred inflows of resources	4,992,867	4,891,015
Net position:		
Net investment in capital assets	1,155,487	1,165,253
Restricted	49,941	40,175
Total net position	1,205,428	1,205,428
Total liabilities, deferred inflows of resources, and net position	$ 6,198,295	$ 6,096,443

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

Statements of Revenues, Expenses, and Changes in Net Position

(amounts in thousands)

	2016	2015
Operating revenues:		
Water supply	$ 948,105	$ 883,538
Power sales	71,236	91,780
Federal and State reimbursements	67,309	44,060
Total operating revenues	1,086,650	1,019,378
Operating expenses:		
Operations and maintenance	511,926	404,627
Purchased power	219,661	202,780
Depreciation and amortization expense	77,170	81,495
Operating expenses recovered, net	65,004	-
Total operating expenses	873,761	688,902
Income from operations	212,889	330,476
Nonoperating revenue (expenses):		
Capital revenues recovered (deferred), net	(118,510)	(243,945)
Interest expense	(106,978)	(96,082)
Other revenues (expenses), net	12,599	9,551
Change in net position	-	-
Net position, beginning of year	1,205,428	1,205,428
Net position, end of year	$ 1,205,428	$ 1,205,428

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

Statements of Cash Flows

(amounts in thousands)

	2016	2015 (As restated)
Cash flows from operating activities:		
Receipts from customers	$ 1,129,333	$ 865,978
Payments to employees for services	(363,980)	(351,480)
Payments to suppliers	(319,699)	(283,286)
Other receipts	5,741	2,647
Net cash provided by operating activities	451,395	233,859
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	215,805	246,873
Principal payments on long-term debt	(221,370)	(172,455)
Commercial paper notes issued	180,375	191,229
Principal payments on commercial paper notes	(225,500)	(139,465)
Principal payments on PMIA note	(8,094)	(3,486)
Interest payments on long-term debt	(91,841)	(210,661)
Change in long-term provision and net pension liability	(10,400)	30,797
Additions to utility plant and construction work in progress	(243,811)	(144,515)
Net cash used by capital and related financing activities	(404,836)	(201,683)
Cash flows from investing activities:		
Cash received from investment earnings	27,667	6,393
Proceeds of investments matured	100,870	100,865
Purchases of investments	(110,585)	(100,866)
Loan payments from local water agencies	1,094	1,170
Net cash provided by investing activities	19,046	7,562
Net increase (decrease) in cash and cash equivalents	65,605	39,738
Cash and cash equivalents, beginning of year	601,024	561,286
Cash and cash equivalents, end of year	$ 666,629	$ 601,024

Noncash capital and related financing activities:		
Amortization of bond premium/discount	$ 19,637	$ 15,614
Amortization of deferred loss on refunding	(10,902)	(10,000)
Principal retirements of long-term debt on proceeds received from issuance of Series AS Water System Revenue Bonds	-	689,780
Noncash capital and related financing activities:	$ 8,735	$ 695,394

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

Statements of Cash Flows (continued)

(amounts in thousands)

		2016		2015 (As restated)
Reconciliation to the statement of net position:				
Cash and cash equivalents	$	550,968	$	517,663
Restricted assets:				
Cash and cash equivalents restricted for plant replacements		29,436		28,348
Cash and cash equivalents restricted for debt service (net of $61,669 and $72,496 of U.S. Agency securities for 2016 and 2015, respectively)		52,790		45,578
Cash and cash equivalents on deposit with revenue bond trustee		33,435		9,435
Cash and cash equivalents	$	666,629	$	601,024

		2016		2015 (As restated)
Reconciliation of income from operations to net cash provided by operating activities:				
Income from operations	$	212,889	$	330,475
Adjustment to reconcile income from operations to net cash provided by operating activities				
Depreciation expense		77,170		81,494
Other receipts		5,741		2,647
(Increase) decrease in deferred charges and credits, net		116,809		(156,123)
Changes in assets and liabilities:				
(Increase) in receivables		(39,766)		(44,866)
(Increase) decrease in inventories		(12)		43
(Increase) decrease in due from federal government		(1,189)		2,023
Increase in accounts payable, accrued vacation, pollution remediation, and other postemployment benefits		77,797		19,607
(Decrease) in due to other state funds		(5,695)		(2,616)
Increase in proceeds due to Water Contractors		7,651		1,175
Total adjustments		238,506		(96,616)
Net cash provided by operating activities	$	451,395	$	233,859

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

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

The State Water Resources Development System (System), administered by the Department of Water Resources (DWR), includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program, was constructed as the result of initial legislation in 1951 and subsequent legislation in the 1960s providing various financing mechanisms. The funds of the System are a part of the primary government of the State of California and are reported as a proprietary fund and business-type activity (non-governmental cost funds) within the State of California's financial statements. The SWP is a system of dams, water storage facilities, aqueducts, pumping stations and electric generation facilities, which have been constructed for purposes of developing firm water supply and conveying water to areas of need within the State and providing flood control, recreation, fish and wildlife enhancement, and hydroelectric power. The System has entered into 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 Coast, the Central Valley and Southern California and their service areas encompass approximately 25% of the State's land area and 69% of its population.

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

2. Summary of Significant Accounting Policies

DWR is a department within the California Natural Resources Agency of the State, and is responsible for the planning, construction, and operation of the System's SWP. The System's operating revenues include water supply, power sales, and Federal and State Reimbursements. Under the Water Supply Contracts, the Water Contractors are required to pay to the System amounts calculated and billed as operating revenues, thus returning to the System substantially all annual operating costs. These operating expenses are comprised of the costs of sales and services, depreciation and amortization of capital assets, power and transmission costs, and administrative expenses.

Revenues from the Water Contractors pledged to the payment of debt, and net investment income are related to capital and financing activities and are defined as non-operating revenues and expenses.

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.

Notes to Financial Statements (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:

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

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

A central element of California's Global Warming Solutions Act (AB 32) requires the System to obtain and surrender emission credits and allowances. Currently, these compliance instruments consist of Green House Gas (GHG) emission allowances for the System's share of compliance cost for the Lodi Energy Center (LEC). Since the economic benefit is not diminished until the credits are consumed, they will not be amortized. The credits will be included in UPIS and charged to expense as they are surrendered.

Cash and Cash Equivalents

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

Restricted Cash and Investments

Cash and cash equivalents on deposit with revenue bond trustee consists of debt service reserve funds held with a major national bank for the Series 1973 Devil Canyon – Castaic Facilities bonds and amounts held for Reid Gardner Unit 4 contingencies under the termination agreement.

Cash and cash equivalents with the State Treasurer for plant replacements and debt service are restricted as required by the provisions of the Water Supply Contracts and bond resolutions. Restricted funds consist of investments of the same type as those described below.

Investments

Cash not required for current use, including restricted cash, is invested in SMIF, which is stated at fair value. SMIF is part of the State's PMIA, which as of June 30, 2016 and 2015 had a balance of $77.7 billion and $71.6 billion, respectively. The weighted average to maturity of PMIA investments was 167 days as of June 30, 2016 and 239 days as of June 30, 2015. The total amount of deposits in SMIF was $38.0 billion as of June 30, 2016 and $34.4 billion as of June 30, 2015. The Pooled Money Investment Board (PMIB) has oversight responsibility for SMIF. The Board consists of three members as designated by state statute which shall consist of the State Controller, State Treasurer and Director of Finance. The value of the pool shares in SMIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the System's portion of the pool. PMIA funds are on deposit with the State's Centralized Treasury System and are not SEC registered, but are managed in compliance with the California Government Code and State policy. The State's Investment Policy for the PMIA, which is managed by the State Treasurer's Office, sets forth the permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally-sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, bankers' acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements subject to limits of no more than 10% of PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA's investment portfolio included deposits in structured notes totaling $400 million as of June 30, 2016, whereas it did not have any deposits in structured notes as of June 30, 2015. The investment portfolio also included asset-backed securities totaling $1.719 million as of June 30, 2016 and $1.448 million as of June 30, 2015.

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. Because investing is not a core part of the System's mission, the Systems determines that the disclosure related to these investments only need to be disaggregated by major type. 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 (quoted prices) 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, 2016 are of a similar nature as those held at June 30, 2015.

Advances to Other State Funds

Advances to Other State Funds represent the System's advances to DWR's internal service fund that functions as a revolving working capital account for the System.

Receivables

Receivables include amounts due from Water Contractors, organizations that purchase power from the System, Federal and State governments, accrued interest from financial institutions, and other miscellaneous customers.

Notes to Financial Statements (in thousands)

Inventories

The System carries two types of inventories, operating supplies and fuel. The method of accounting used for operating supplies is first-in, first-out inventory valuation. Fuel station tanks are located throughout the System, and fuel inventory is accounted for using the moving average cost method. Components of inventories at June 30, 2016 and 2015 were as follows:

Inventories	2016	2015
Operating supplies	$ 4,915	$ 4,967
Fuel	256	193
Total	$ 5,171	$ 5,160

Amounts Recoverable through Future Billings

The System records unbilled costs as assets recoverable through future billings under the Water Supply Contracts. These costs include operations and maintenance costs and capital costs.

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

Unbilled interest incurred on unrecovered capital costs are classified as other long-term assets until billed under the terms of the Water Supply Contracts. Unbilled interest incurred represents the System's unrecovered interest since inception, recalculated annually at the System's cumulative weighted average cost of borrowing (Project Interest Rate). The System's Project Interest Rate was 4.61% for the years ended June 30, 2016 and 2015.

Deferred Outflows and Inflows

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

Deferred Outflows of Resources

Deferral of loss on refunding represents the difference between the reacquisition price and the net carrying amount of the refunded debt. The unamortized balance of deferred loss on refunding was $161.6 million as of June 30, 2016 and $174.9 million as of June 30, 2015. The $13.3 million decrease is due to the scheduled annual amortization of $10.9 million on loss of refunding and the write-off of unamortized loss relating to the defeasance of the Off-Aqueduct Power Facilities revenue bonds of $2.4 million.

The System implemented GASB Statement No. 68 during fiscal 2015. Amounts reported as deferral of employer pension contributions represent the pension contributions made subsequent to the measurement date of the net pension liability. The System paid $48 million in employer pension contributions during fiscal 2016. Additionally, differences between expected and actual experience are required to be recognized in pension expense in a systematic and a rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees), beginning with the current period. The System is also required to report its share of the deferred unamortized net loss reported by the CalPERS and the change in proportionate share of net pension liability. The System's allocated share of the deferred outflows of resources related to pensions was $20.6 million as of June 30, 2016.

Deferred Inflows of Resources

Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of the Water Supply Contracts and timing differences. The System had an ending balance of $1.9 million and $2 million in deferred inflows of operations and maintenance expenses as of June 30, 2016 and 2015, respectively.

Since the capital component of revenue allows for the recovery of capital costs plus interest related to the construction of the System's facilities, these revenues are presented as deferred inflows of resources. As these facilities are depreciated over time, the deferred capital costs are recovered.

The power sales credit due to Water Contractors arises from revenue collected for the power generated by the Hyatt-Thermalito Power Plant (HTPP). The power sales credit is amortized over time by a credit issued to the Water Contractors through the Delta Water Charge. The power sales credit decreased by $3.3 million to an ending balance of $146.4 million in fiscal 2016 compared to $149.7 million in fiscal 2015.

The System's allocated share of the deferral of net difference between projected and actual earnings was $10.6 million during fiscal 2016.

Unearned Revenue – State and Federal Capital Recovery

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

Advances for Plant Replacements

Advances for plant replacements represent billings under the terms of the Water Supply Contracts for future replacement of certain System assets. Receipts from such billings are restricted. Costs of plant replacements are charged to this reserve, as incurred.

Bond Issuance Discounts and Premiums

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

Net Position

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

Revenues

The cost of providing services from the System is required to be recovered through user charges and other reimbursements. Under the terms of the Water Supply Contracts, the System granted the Water Contractors rate management reductions of approximately $40.5 million for the years ended June 30, 2016 and 2015. Rate management reductions are reductions in capital related billings to the Water Contractors.

Revenues under the Water Supply Contracts are recognized when billings are due and payable. The billings cover debt service requirements, an additional 25% of revenue bond debt service to satisfy certain bond covenants, current operations and maintenance costs, and past unrecovered costs. The 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 $57.8 million and $54.3 million for the years ended June 30, 2016 and 2015, respectively, are included as Proceeds Due to Water Contractors as presented in the Supplementary Information Debt Service Coverage. The System refunded $55.1 million and $53.3 million for the years ended June 30, 2016 and 2015, 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 39.72% share of the operating costs of the San Luis joint use facilities and other water facilities. The State of California also reimburses the System for certain operating and capital costs incurred by the System for facilities located within the SWP. Revenue from the State and Federal government in excess of their share of the related depreciation expense is deferred until the related depreciation expense is recognized.

Notes to Financial Statements (in thousands)

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 (GO) bonds as authorized by the Burns-Porter Act. Transportation and conservation revenues from the Water Contractors are recorded in this segment as well as power sales and reimbursements from Federal and State governments and interest on investments. Expenses are limited to operations and maintenance of the SWP constructed with GO bond proceeds, power purchases, replacements, and debt service on the GO bonds.

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

Restatements

Certain amounts presented in the prior year have been restated in order to conform to the current year's presentation. These restatements were necessary in order to more accurately present amounts of Utility Plant Assets, net of accumulated depreciation, for assets co-owned by the System and the United States Bureau of Reclamation.

Statements of Net Position

	Balance Previously reported at June 30, 2015	Restatement	June 30, 2015 (After Restatement)
Assets			
Utility plant:			
Utility plant in service	$ 5,064,102	(128,666)	$ 4,935,436
Less accumulated depreciation	(2,074,899)	60,245	(2,014,654)
Construction work in progress	626,600	(14,700)	611,900
Long-term liabilities			
Unearned revenue - State and Federal capital recovery	155,448	(142,682)	12,766
Deferred inflows of resources:			
Capital costs	623,908	59,561	683,469
Net position:			
Net investment in capital assets	$ 1,105,692	59,561	$ 1,165,253
Restricted	99,736	(59,561)	40,175

Notes to Financial Statements (in thousands)

3. Interests in Jointly Owned Facilities

At June 30, 2016 and 2015, the System owned the following undivided interests in jointly-owned facilities:

Interests in Joint-Use Facilities						
			System's Portion Based on % Owned			
	Joint Party	% Owned by System	UPIS/CWIP		Accum Depreciation	
			2016	2015	2016	2015
San Luis Joint-Use Facilities	USBR	55%	$ 244,741	$ 230,020	$ 80,392	$ 75,281
SWP Hydropower Facilities License	LADWP	50%	$ 1,499	$ 215	$ -	$ -

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

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

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

Notes to Financial Statements (in thousands)

4. Utility Plant

The summarized activity of the System's utility plant during 2016 is presented below:

Utility Plant June 30, 2016

	Beginning Balance (As restated)	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	$ 141,874	$ 5,807	$ -	$ 147,681
Construction work in progress (CWIP)	611,900	232,017	(74,046)	769,871
Land use rights	11,630	130	-	11,760
Other intangible assets	103,445	3,551	(6,873)	100,123
Total nondepreciable utility plant	868,849	241,505	(80,919)	1,029,435
Depreciable Utility Plant:				
Aqueducts	2,169,352	2,629	-	2,171,981
Dams & reservoirs	708,303	-	-	708,303
Power plants	441,202	29,616	-	470,818
Pumping plants	826,704	12,176	-	838,880
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	1,610	-	35,544
Facilities	254,741	17,224	-	271,965
Equipment and other depreciable assets	77,384	9,001	(7,156)	79,229
Computer software	24,531	186	-	24,717
Land use rights	272	-	-	272
Other intangible assets	12,005	-	-	12,005
General	62,262	10,791	-	73,053
	4,678,487	83,233	(7,156)	4,754,564
Less: accumulated depreciation	(1,990,485)	(73,406)	7,148	(2,056,743)
Less: accumulated amortization	(24,169)	(3,764)	-	(27,933)
	(2,014,654)	(77,170)	7,148	(2,084,676)
Total depreciable plant	2,663,833	6,063	(8)	2,669,888
Total Utility Plant - net	$ 3,532,682	$ 247,568	$ (80,927)	$ 3,699,323

Notes to Financial Statements (in thousands)

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

Utility Plant June 30, 2015

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance (As restated)
Nondepreciable Utility Plant:				
Land	$ 137,033	$ 4,841	$ -	$ 141,874
Construction work in progress (CWIP)	438,244	222,089	(48,433)	611,900
Land use rights	11,583	47	-	11,630
Other intangible assets	103,740	3,815	(4,110)	103,445
Total nondepreciable utility plant	690,600	230,792	(52,543)	868,849
Depreciable Utility Plant:				
Aqueducts	2,167,237	22,266	(20,151)	2,169,352
Dams & reservoirs	781,408	-	(73,105)	708,303
Power plants	466,358	-	(25,156)	441,202
Pumping plants	836,814	-	(10,110)	826,704
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	33,934	-	-	33,934
Facilities	246,397	10,515	(2,171)	254,741
Equipment and other depreciable assets	75,705	3,138	(1,459)	77,384
Computer software	24,529	12	(10)	24,531
Land use rights	272	-	-	272
Other intangible assets	11,995	10	-	12,005
General	61,310	952	-	62,262
	4,773,756	36,893	(132,162)	4,678,487
Less: accumulated depreciation	(1,974,282)	(77,739)	61,536	(1,990,485)
Less: accumulated amortization	(20,413)	(3,756)	-	(24,169)
	(1,994,695)	(81,495)	61,536	(2,014,654)
Total depreciable plant	2,779,061	(44,602)	(70,626)	2,663,833
Total Utility Plant - net	$ 3,469,661	$ 186,190	$ (123,169)	$ 3,532,682

Notes to Financial Statements (in thousands)

5. Investments

The following is a summary of the System's investments by percentage of total and their related credit ratings as of June 30, 2016:

Investments 2016

	% of Total Inv	Credit Rating (S&P)	Maturities: Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Investment Value
Investments:							
PMIA	87%	Not Rated	$ -	$ -	$ 633,193	$ -	$ 633,193
US Federal Agency Notes							
Federal National Mortgage Association	1%	AA+	-	-	-	9,913	9,913
Federal Home Loan Bank	7%	AA+	-	51,756	-	-	51,756
							694,862
Investment with Fiscal Agent							
US Bank Money Market Funds	5%	AAA	33,435	-	-	-	33,435
Total Investments							$ 728,297

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

Investments 2015

	% of Total	Credit Rating (S&P)	Maturities: Under 30 Days	31-180 Days	181-365 Days	1-5 Years	Investment Value
Investments:							
Money Market Mutual Funds	0%	Not Rated	$ 3	$ -	$ -	$ -	$ 3
PMIA	88%	Not Rated	-	-	591,586	-	591,586
US Federal Agency Notes							
Federal National Mortgage Association	3%	AA+	-	-	10,211	10,472	20,683
Federal Home Loan Bank	8%	AA+	-	51,814	-	-	51,814
							664,086
Investment with Fiscal Agent							
US Bank Money Market Funds	1%	AAA	9,435	-	-	-	9,435
Total Investments							$ 673,521

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, 270 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year; negotiable order of withdrawal, open ended.

Custodial Credit Risk: For deposits, custodial credit risk is that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

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

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

Concentration of Credit Risk: The PMIA's concentration of credit risk is limited by spreading the investment mix over different investment types, credit ratings and issuers to minimize the impact any one industry, investment class, or institution can have on the PMIA portfolio. The System's PMIA investments totaled $633,193 and $591,586 for the fiscal years ended June 30, 2016 and 2015, respectively. Investments outside the State's Centralized Treasury System totaled $95,104 and $81,132 for the fiscal years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, 8% and 11%, respectively, of the System's investments were in U.S. Agency Securities. There is no limitation on amounts invested in these quoted market price Level 1 types of issues. The remaining investments, $33,435 and $9,435 for the years ended are comprised of cash on deposit with Fiscal Agents in short term money market instruments (cash and cash equivalents).

Interest on deposits in PMIA varies with the rate of return of the underlying portfolio and averaged 0.434% and 0.269% for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, interest earned on the deposits with PMIA approximated $ 2.9 million and $1.6 million, respectively. Interest earned is included in the other revenues (expenses) line item on the statement of revenues, expenses, and changes in net position.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP) and in accordance with GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The U.S. Federal Agency Securities of $61.7 million are valued using quoted market prices (Level 1 input). 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 recurring fair value of the System's Level 1 investments, U.S. Federal Agency Securities, is calculated as follows:

Notes to Financial Statements (in thousands)

Change in Fair Value Level 1 Investments	2016	2015
Fair Value of investments at the beginning of the fiscal year	$ 72,497	$ 72,388
Less: Proceeds of investments matured in fiscal year	(110,585)	(100,865)
Add: Purchase of investments in fiscal year	100,870	100,866
Add: Amortization of discounts	47	1,440
Change in fair value of investments during fiscal year	(1,160)	(1,332)
Fair value of investments at the end of the fiscal year	$ 61,669	$ 72,497

6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2016 and 2015:

Long-Term Debt

	Revenue Bonds				General Obligation	Commercial Paper	PMIA Loan	Total Long Term Debt
	Par Amount	Unamortized Discount	Unamortized Premium	Total Revenue Bonds	Par Amount	Par Amount	Loan Amount	
Balance at June 30, 2014	$2,455,645	$ (10)	$ 192,179	$ 2,647,814	$ 241,835	$ 36,136	$11,579	$ 2,937,364
Additions	795,040	-	141,613	936,653	-	191,230	-	1,127,883
Retirements	(689,780)	-	(39,485)	(729,265)	-	(139,465)	-	(868,730)
Amortization	-	1	(15,615)	(15,614)	-	-	-	(15,614)
Payments	(115,580)	-	-	(115,580)	(56,875)	-	(3,485)	(175,940)
Balance at June 30, 2015	2,445,325	(9)	278,692	2,724,008	184,960	87,901	8,094	3,004,963
Additions	215,805	-	22,167	237,972	-	180,375	-	418,347
Retirements	(35,555)	1	(3,012)	(38,566)	-	(225,500)	-	(264,066)
Amortization	-	1	(16,627)	(16,626)	-	-	-	(16,626)
Payments	(135,900)	-	-	(135,900)	(49,915)	-	(8,094)	(193,909)
Balance at June 30, 2016	2,489,675	(7)	281,220	2,770,888	135,045	42,776	-	2,948,709
Less current portion	(134,185)	-	-	(134,185)	(46,745)	-	-	(180,930)
Total Long-term Debt	$2,355,490	$ (7)	$ 281,220	$ 2,636,703	$ 88,300	$ 42,776	$ -	$ 2,767,779

General Obligation Bonds

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

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

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

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

As of June 30, 2016, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is $148.9 million with payments through 2025. Principal and interest paid for the current year was $57.7 million and Burns-Porter Act water supply operating revenues were $693 million. As of June 30, 2015, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was $206.6 million. Principal and interest paid for 2015 was $66.9 million and Burns-Porter Act SWRDS water supply operating revenues were $657.6 million.

SWRDS GO Bonds of $168 million are authorized but un-issued as of June 30, 2016 and 2015, and may only be used for additional facilities, meeting certain requirements of the Burns-Porter Act.

Outstanding SWRDS GO Bonds include Series F through Series S, which may be called at any time for early redemption. SWRDS GO Bonds Series X and Y do not have early redemption provisions.

Notes to Financial Statements (in thousands)

SWRDS GO Bonds consist of the following at June 30, 2016:

General Obligation Bonds

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2016	Amounts Outstanding 2015
1966	E	3.0%	2016	$ -	$ 4,500
1967	F	3.5%	2017	4,500	8,900
1967	G	3.5%	2017	4,500	8,900
1967	H	3.0%	2017	4,500	8,900
1968	J	3.5%	2018	8,900	13,200
1968	K	4.0%	2018	8,900	13,200
1969	L	4.5%	2019	13,200	17,300
1969	M	4.0-4.9%	2019	13,200	17,300
1970	N	5.0%	2020	17,300	21,300
1970	P	5.0-5.8%	2020	17,300	21,300
1971	Q	4.8-5.0%	2021	21,300	25,200
1971	R	4.8-5.0%	2021	10,650	12,600
1972	S	5.3-5.5%	2022	10,080	11,560
1994	X	4.8%	2024	400	450
1995	Y	7.0-7.1%	2025	315	350
Total General Obligation bond debt outstanding at par				135,045	184,960
Less current maturities				(46,745)	(49,915)
Total Long-term General Obligation bond debt outstanding				$ 88,300	$ 135,045

Revenue Bonds

The Water System Revenue Bonds have been issued for the acquisition or construction of projects to provide water and power for the SWP. Under the statute pursuant to which Water System Revenue Bonds are issued, principal and interest on the bonds are secured by and payable solely from revenues attributable to the facilities financed by the bonds. These are primarily payments under the Water Supply Contracts between the System and Water Contractors.

As of June 30, 2016, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service is $3,457 million with payments through Fiscal 2036. Principal and interest paid for the current year was $237.2 million and CVP water supply operating revenues were $255.1 million. As of June 30, 2015, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service were $3,429 million with payments through 2036. Principal and interest paid for the year was $208 million and CVP water supply operating revenues were $225.9 million.

On September 2, 2015, the System issued $109.3 million of Water System Revenue bonds (Series AU) to redeem $104.6 million of Commercial Paper Notes Series 1. The Series AU was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.62% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AU bonds have a mandatory tender date of September 1, 2017 and can be called on or after March 1, 2017, at a purchase price of 100% of the principal amount. The Series AU bonds are not subject to optional tender by the holders of the bonds. The interest rates for Series AU bonds ranged from 0.63% to 1.05% and averaged 0.76% in fiscal year 2016.

On May 24, 2016, the System issued tax-exempt Water System Revenue bonds (Series AV) with a par amount of $106.5 million and a Premium of $22.2 million to redeem $120.9 million of Commercial Paper Notes Series 1. The Series AV was issued with fixed coupon rates of 4.0% and 5.0%, and maturities ranging from 2018 to 2035. The Series AV bonds maturing on or after December 1, 2026 will be subject to redemption prior to their stated maturities, at a redemption price equal to the bonds being redeemed, plus accrued interest, without premium.

On November 6, 2014, the System issued $149.2 million of Water System Revenue bonds (Series AT) to redeem $139.5 million of Commercial Paper Notes Series 1. The Series AT was issued as index floating rate notes using the weekly SIFMA Index, plus a 0.30% spread to calculate monthly debt service payments, with a rate not to exceed 8.0% per annum. The Series AT bonds have a mandatory tender date of December 1, 2017 and can be called on or after June 1, 2017, at a purchase price of 100% of the principal amount. The Series AT bonds are not subject to optional tender by the holders of the bonds. The interest rates for the Series AT bonds ranged from 0.31% to 0.73% and averaged 0.42% in fiscal year 2016.

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

Notes to Financial Statements (in thousands)

Water System Revenue Bonds consist of the following at June 30, 2016:

CVP Revenue Bonds						
					Amounts Outstanding	
Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	2016	2015
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3-5.4%	2023	1983	$ 51,625	$ 57,430
CVP Water System:						
1999	V	6.3%	2025	None	18,050	20,235
2002	X	5.5%	2018	2013	29,975	51,465
2008	AE	3.4-5.0%	2030	2018	74,365	96,080
2009	AF	3.0-5.0%	2030	2019	98,765	103,445
2010	AG	3.0-5.0%	2033	2020	26,980	27,330
2011	AH	3.3-5.3%	2036	2021	58,640	63,985
2012	AI	5.0%	2030	2022	74,910	92,275
2012	AJ	4.0-5.0%	2036	2022	161,960	185,985
2012	AK	3.0-5.0%	2036	2022	27,415	29,695
2013	AL	5.0%	2030	2023	67,750	78,855
2013	AM	5.0%	2026	2023	156,045	157,570
2013	AN	4.0-5.0%	2036	2023	41,330	42,855
2013	AO	1.0-3.5%	2030	None	278,240	317,505
2013	AP	3.0-5.0%	2036	2023	42,460	43,925
2013	AQ	4.0-5.0%	2036	2023	117,855	120,205
2014	AR	4.0-5.0%	2036	2024	156,400	161,445
2015	AS	2.0-5.0%	2033	2025	641,860	645,795
2015	AT	Variable	2036	2017	149,245	149,245
2016	AU	Variable	2036	2017	109,275	-
2016	AV	4.0-5.0%	2029	2026	106,530	-
Total CVP Water System Revenue Bonds					2,438,050	2,387,895
Total revenue bond debt outstanding at par					2,489,675	2,445,325
Unamortized bond issuance premiums					281,220	278,692
Unamortized bond issuance discounts					(7)	(9)
Current fiscal maturities					(134,185)	(135,900)
Total long-term bond debt outstanding					$ 2,636,703	$ 2,588,108

Notes to Financial Statements (in thousands)

Future Debt Service Requirements

Future principal and interest payment requirements on the bonds are as follows at June 30, 2016:

Future Debt Service Requirements

	Revenue Bonds			General Obligation Bonds			All Bonds
Year	Principal	Interest*	Total	Principal	Interest	Total	Total
2017	$ 134,185	$104,649	$ 238,834	$ 46,745	$ 5,660	$ 52,405	$ 291,239
2018	138,570	98,710	237,280	34,235	3,792	38,027	275,307
2019	131,360	93,178	224,538	25,975	2,414	28,389	252,927
2020	140,945	87,471	228,416	17,405	1,386	18,791	247,207
2021	141,200	81,282	222,482	8,595	527	9,122	231,604
2022-2026	704,690	309,332	1,014,022	2,090	125	2,215	1,016,237
2027-2031	622,850	150,015	772,865	-	-	-	772,865
2032-2036	475,875	42,724	518,599	-	-	-	518,599
	$2,489,675	$967,361	$3,457,036	$135,045	$13,904	$148,949	$3,605,985

* Includes variable rate bonds for Series AT and Series AU, which bear interest at a weekly rate. An assumed rate of 3.0% for Series AT and 2.07% for Series AU was used to project the variable portion of the interest payments in this table. The interest rate still in effect was determined at issuance date using the Securities Industry and Financial Markets Association (SIFMA) Swap 10 year average Index plus an applicable basis point spread.

Pooled Money Investment Loan (PMIA)

On March 26, 2008, the System received a loan of $29.6 million from the Pooled Money Investment Account (PMIA) pursuant to California Government Code section 16313. The proceeds of the loan were used to establish escrow accounts that facilitated defeasance of certain Water System Revenue Bonds that financed recreation, and fish and wildlife enhancement related costs of the acquisition and construction of the System. The loan, which was scheduled to be repaid in fiscal year 2018, was paid in full on December 1, 2015.

The loan was repaid with surplus revenues of the System made available under California Water Code section 12937(b)(4). The loan agreement required minimum quarterly payments of $1 million on the first day of every March, June, September, and December, which included principal and interest, beginning on September 1, 2008. Principal and interest paid during fiscal years 2016 and 2015 were $8.3 million and $4 million, respectively. Interest was 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.

Commercial Paper Notes

The System has a commercial paper borrowing program of up to $139.7 million. Under this program, the System may issue commercial paper at prevailing interest rates for periods of not more than 270 days from the date of issuance. To provide liquidity for the programs, the System entered into a revolving credit agreement with a commercial bank equal to the authorized amount of commercial paper. Under the credit agreement dated October 1, 2011 and the first amendment dated May 28, 2014, the bank has agreed to make advances to the System, if necessary, to provide monies for the payment of the Commercial Paper Notes Series 1. The bank is obligated to provide $150 million, with the principal amount of Commercial Paper Notes Series 1 limited to $139.7 million and $10.3 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $139.7 million. The Line of Credit was extended on May 11, 2014 and is scheduled to expire on October 24, 2017, but can be extended for up to three years upon the System's written request and approval from the bank. The credit agreement requires quarterly payments on the first day of July and October and on the last day of December and March. As of June 30 2016, there were no borrowings with the bank under the revolving credit agreement; however, the amounts of Commercial Paper Notes Series 1 outstanding under this program were $42.8 million on June 30, 2016 and $87.9 million on June 30, 2015. The weighted average rate for interest expense approximated 0.12% for the year ended June 30, 2016 and 0.07% for the year ended June 30, 2015. The proceeds from the issuance of Commercial Paper Notes Series 1 are restricted to construction costs of certain State water projects, reimbursements of construction costs of certain State water projects, and interest and issuance costs of the Commercial Paper Notes Series 1. The liability has been classified as long-term as it is the System's policy to redeem the commercial paper outstanding with the issuance of Water System Revenue Bonds. The System's obligation to make debt service payments on the Commercial Paper Notes Series 1 is subordinate to its payment obligations under the resolutions for the Water System Revenue Bonds and SWRDS GO 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 to return to the State the costs of the facilities necessary to deliver water to the Water Contractors, including capital costs (with interest) and operation and maintenance costs, and expressly including in the case of the facilities to be financed with commercial paper and the related Water System Revenue Bonds, debt service and 1.25 debt service coverage requirements to be satisfied from revenues. DWR expects to redeem its commercial paper liability with proceeds of the additional commercial paper draws until DWR issues Water System Revenue Bonds to provide permanent financing for those Water System Projects financed with Commercial Paper Notes Series 1.

Notes to Financial Statements (in thousands)

7. Bond Refundings and Defeasances

During fiscal 2016, the System defeased certain Water System Revenue Bonds relating to the Off-Aqueduct Power Facilities. The System did not have any refunding transactions during fiscal 2016. However, in prior years, the System has issued refunding bonds to refund various previous issues. The net proceeds from refunding sales or cash defeasances are used to purchase State and Local Government Series Securities (SLGS) and U.S. Treasury securities, and are 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, 2016 and 2015, outstanding Water System Revenue Bonds of $726.2 million and $690.8 million, respectively, are considered to be defeased.

On June 24, 2016, the System cash-defeased $35.6 million of Water System Revenue bonds relating to the Off-Aqueduct Power Facilities, which included Reid Gardner, Bottle Rock, and South Geysers, using proceeds from a termination settlement agreement with the Nevada Power Company. This defeasance resulted in a cash flow savings of $2 million. The System deposited cash and certain investment securities in an irrevocable escrow with the Treasurer of the State of California, acting as Trustee and Escrow Agent. The par amounts of the defeased bonds are as follows:

Summary of Off-Aqueduct Defeased Bonds

Bond Series	Amount
Series AE	$ 2,005
Series AH	3,075
Series AI	2,775
Series AJ	790
Series AK	60
Series AL	6,395
Series AN	385
Series AO	6,175
Series AS	3,935
Series V	2,185
Series X	7,775
Total	$ 35,555

Amortization of all deferred refunding costs was approximately $13.3 million in fiscal 2016 and $10 million in fiscal 2015.

8. Retirement Plan

The State is a member of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan. As an enterprise fund, the System is required under GASB 68 to report results pertaining to liability and asset information as of specific dates and within certain time frames. For this report, the following time frames apply:

- Valuation Date — June 30, 2014
- Measurement Date — June 30, 2015
- Measurement Period — July 1, 2014 to June 30, 2015

Plan Description

The State of California is the employer, the Department of Water Resources is the participating Department of the State, and the System reports an allocated share. 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. The System, for the most part has all its employees enrolled in the State Miscellaneous Plan (Tier 1 and Tier 2). CalPERS functions as a common investment and administrative agent for participating public agencies within the State of California using the accrual basis of accounting. All state agencies are considered collectively to be a single employer, and the actuarial present value of vested and non-vested accumulated plan benefits attributable to the System's employees is determined as the System's percentage of the State as a single employer. Net assets available for benefits of the System's employees are also determined as the Systems percentage of the State.

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

Benefits Provided and Employees Covered

CalPERS provides retirement benefits, survivor benefits, and death and disability benefits based upon employee's years of credited service, age, and final compensation. Vesting occurs after five years of credited service except for second tier benefits, which require ten years of credited service. Most employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit. New members with service credit beginning on or after January 1, 2013 must be at least age 52. Benefits are payable monthly for the remainder of their lives. Health care and dental benefits, described in Note 10, may be provided to members depending on the date hired and the years of credited service of a member. Several survivor benefit options that reduce a retiree's unmodified benefit are available. Benefit provisions and all other requirements are established by State statute.

Contributions

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Section 20814(c) of the California Public Employees' Retirement Law (PERF) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of the plan members or employees. These rates reflect section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer toward the unfunded liability. The following table shows the average active employee and the employer contribution rates for two PERF plans applicable to the System as a percentage of annual pay for the measurement period ended June 30, 2015.

Notes to Financial Statements (in thousands)

Contribution Rates

June 30, 2015	State Miscellaneous	State Safety
Average active employee rate	6.525%	10.421%
Employer rate of annual payroll	21.137%	17.905%
Total	27.662%	28.326%

Actuarial Methods and Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% net of Pension Plan Investment Expenses, Includes Inflation
Mortality Rate Table	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public

Notes to Financial Statements (in thousands)

Employees Retirement Fund. The stress test results are presented in a detailed report (GASB Crossover Testing Report) that can be obtained at the CalPERS' website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected PERF fund's cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the fund's asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest ¼ of 1%.

The table below reflects long-term expected real rate of return by asset class for PERF. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Long-Term Expected Real Rate of Return by Asset Class

Asset Class	Current Target Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

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

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

Notes to Financial Statements (in thousands)

Pensionable Compensation

The System's allocated share of DWR's annual pensionable compensation as a calculated percentage of the State Employer total for the measurement periods ended June 30, 2015 and 2014 is illustrated in the following tables:

Compensation Amounts and Calculated Percentages

Measurement period July 1, 2014 to June 30, 2015

Defined Benefit Retirement Plans	Burns Porter (0502)[1]	Central Valley (0506)[2]	System	State Pensionable Compensation
Misc. Tier 1 & 2 Combined	$ 155,827	$ 27,099	$ 182,926	$ 10,640,884
State Peace Officers & Firefighters	-	-	-	3,115,287
California Highway Patrol	-	-	-	809,610
State Safety	-	-	-	2,003,777
State Industrial	-	-	-	577,711
Judges	-	-	-	28,770
Judges II	-	-	-	180,230
Legislators	-	-	-	1,397
	-	-	-	
Total	$ 155,827	$ 27,099	$ 182,926	$ 17,357,665

[1]Calculated share of total State pensionable compensation issued by the Office of State Controller at 1.4644% of total miscellaneous plan.
[2]Calculated share of total State pensionable compensation issued by the Office of State Controller at 0.2547% of total miscellaneous plan.

Compensation Amounts and Calculated Percentages

Measurement period July 1, 2013 to June 30, 2014

Defined Benefit Retirement Plans	Burns Porter (0502)[1]	Central Valley (0506)[2]	System	State Pensionable Compensation
Misc. Tier 1 & 2 Combined	$ 142,898	$ 23,843	$ 166,742	$ 9,850,666
State Peace Officers & Firefighters	-	-	-	3,028,235
California Highway Patrol	-	-	-	765,283
State Safety	-	-	-	1,901,180
State Industrial	-	-	-	532,489
Judges	-	-	-	199,245
Judges II	-	-	-	4,805
Legislators	-	-	-	1,471
	-	-	-	
Total	$ 142,898	$ 23,843	$ 166,742	$ 16,283,375

[1]Calculated share of total State pensionable compensation issued by the Office of State Controller at 1.4506% of total miscellaneous plan.
[2]Calculated share of total State pensionable compensation issued by the Office of State Controller at 0.2420% of total miscellaneous plan.

Notes to Financial Statements (in thousands)

Discount Rate Sensitivity

The discount rate used to measure the total pension liability was 7.65% for the System's allocated share of the Plan. In preparation of the GASB 68 Accounting Valuation Report, CalPERS stress tested plans and determined that the 7.65% is adequate. CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of pension plan investment expenses for GASB Statement No. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as CalPERS has changed its methodology.

The following presents the net pension liability of the System's proportionate share of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

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

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Net Pension Liability	$ 685,705	$ 485,502	$ 317,532

Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period, July 1, 2014, the net pension liability was $426.9 million.

For the measurement period ending June 30, 2015 (the measurement date), the System incurred a pension expense of $45.5 million in fiscal 2016.

As of June 30, 2015, the System had deferred outflows and deferred inflows of resources related to pensions as follows:

- Pension contributions made subsequent to the measurement date of $48 million
- Deferred outflows related to the differences between expected and actual experiences of $8.9 million and the change in the proportionate share of the net pension liability of $11.7 million
- Deferred inflows related to the net difference between projected and actual earnings on pension plan investments of $10.6 million

Exclusive of deferred outflows related to payments after the measurement date, the net amount of deferred outflows (inflows) of resources to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

Notes to Financial Statements (in thousands)

Amortization of Deferred Outflows/(Inflows)			
Measurement Period Ended June 30:	Miscellaneous Plan (Inflows)	Miscellaneous Plan Outflows	Miscellaneous Plan Net Deferred
2016	$ (2,649)	$ 5,149	$ 2,500
2017	(2,649)	5,149	2,500
2018	(2,650)	5,149	2,499
2019	(2,650)	5,150	2,500
2020	-	-	-
Thereafter	-	-	-
Total	$ (10,598)	$ 20,597	$ 9,999

9. Postemployment Benefits Other Than Pensions

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

During fiscal 2016, State paid 100% of the health insurance premium for annuitants, and 90% of the additional premium required for the retiree's dependents according to the California Government Code. The maximum monthly State contribution amounts were $655 for single, $1,246 for two parties, and $1,605 for family plan tiers. Dental care insurance premium varies by plan and number of dependents. The contribution requirements of retirees and the State are established and may be amended by the State legislature.

Notes to Financial Statements (in thousands)

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

Net OPEB Obligations	2016	2015
Annual required contribution (ARC)	$ 41,174	$ 42,008
Interest on net OPEB obligation	7,010	6,824
Adjustment to the ARC	(6,513)	(6,340)
Annual OPEB cost	41,671	42,492
Contributions made	(14,692)	(16,042)
Increase in net OPEB obligation	26,979	26,450
Net OPEB obligation - beginning of year	203,219	176,769
Net OPEB obligation - end of year	$ 230,198	$ 203,219

The System's annual required contribution, percentage of the ARC contributed to the plan, and the net OPEB obligation for the years ended June 30, 2016, 2015 and 2014, were as follows:

Annual Required Contribution

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/14	$ 55,239	35%	$ 176,769
6/30/15	42,008	38%	203,219
6/30/16	41,174	35%	230,198

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

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

Notes to Financial Statements (in thousands)

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, 2016 and 2015, approximated $51.1 million and $61.7 million, respectively.

Power Transmission and Purchase

The System enters into contracts to purchase power as well as transmission service contracts to transmit power. Additionally, the System has expanded the power purchase portfolio to include solar energy and is exploring other potential renewable energies.

The System has long-term transmission service contracts with anticipated future payments of approximately $101.6 million over periods ranging from one to 26 years. Payments made under these contracts approximated $4.5 million and $6.2 million for the years ended June 30, 2016 and 2015, respectively.

The System has long-term power purchase contracts with anticipated future payments of approximately $662.6 million over periods ranging from one to 26 years. The remaining amounts of fixed obligations under the long-term power contracts as of June 30, 2016, are as follows:

Fixed Obligations

Year	Transmission	Power	Total
2017	$ 4,741	$ 35,726	$ 40,467
2018	4,741	35,726	40,467
2019	4,741	35,726	40,467
2020	4,741	29,497	34,238
2021	4,741	28,128	32,869
2022-2042	77,935	497,791	575,726
Total	$ 101,640	$ 662,594	$ 764,234

The System has a contract with the Kings River Conservation District, which provides that the System receive all power generated by the Pine Flat Power Plant Project (the 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 fiscal 2019. Payments to the District totaled approximately $9.4 million and $8.8 million during the years ended June 30, 2016, and 2015, respectively.

Notes to Financial Statements (in thousands)

The amounts of the System's fixed obligations related to future principal and interest payments of the District's bonds as of June 30, 2016 are as follows:

Fixed Obligations

Year	Total
2017	$ 4,253
2018	4,239
2019	4,257
	$ 12,749

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

The amounts of the System's fixed obligations related to future principal and interest payments of the LEC Project's bonds as of June 30, 2016 are as follows:

LEC Bonds Fixed Obligations

Year	Total
2017	$ 9,206
2018	9,208
2019	9,207
2020	9,209
2021	9,207
2022-2026	46,044
2027-2031	46,038
2032-2035	36,833
	$ 174,952

Notes to Financial Statements (in thousands)

Market value information for certain power purchases, sales and exchange contracts are disclosed at June 30, 2016, using forward market prices discounted at the prevailing risk-free interest rate. All ten sales contracts extending beyond June 30, 2016 expire in fiscal 2017. There are nineteen purchase contracts expiring in fiscal 2017, twelve purchase contracts will expire in fiscal 2018, and six purchase contracts will expire in fiscal 2019. The long-term energy purchase contracts involving energy delivered from the Pine Flat Power Plants and Solverde Solar will expire in fiscal 2037; Dominion Solar Holdings purchase contract will expire in fiscal 2035; two purchase contracts with the Metropolitan Water District of Southern California (Metropolitan), one of the Water Contractors, will expire in fiscal 2020 and 2021; and a purchase contract with Alameda Municipal Power will expire in fiscal 2017. An exchange agreement with the NCPA, operator of the Lodi Energy Center Project which commits DWR to purchase power on a long-term basis subject to the agreement, has no explicit termination date. Fair value of power purchase and sales commitments extending beyond June 30, 2016 are as follows:

Energy Commitments' Market Values

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2016
Energy sales	10	325	$ 308
Energy purchases	37	1,050	(21,142)
Long-term energy purchases	7	467	(103,718)
Total			$ (124,552)

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 Water Contractors, establishment of certain operating reserves, and the revision of calculating certain Water Contractor billings. The Monterey Amendment has been executed by the System and 27 of the 29 Water Contractors, who receive approximately 99% of water delivered annually and who pay approximately 99% of annual water supply revenues. Certain parties have disputed the Monterey Amendment by challenging the validity of the related Environmental Impact Report (EIR). While the courts have allowed the System to proceed with the implementation of the Monterey Amendment, the System was required to prepare a new EIR. DWR completed the new Final EIR in February 2010 and filed its Notice of Determination in May 2010. In June 2010, two Delta water agencies and several environmental organizations and individuals filed a lawsuit in Sacramento Superior Court challenging DWR's California Environmental Quality Act (CEQA) compliance and the validity of the Monterey Amendment, including DWR's transfer of the Kern Fan Element to the KCWA. In July 2010, the same plaintiffs in the Sacramento Superior Court case filed a lawsuit in Kern County Superior Court challenging the transfer of the Kern Fan Element from KCWA to the Kern Water Bank Authority, a local joint powers agency which now has responsibility for the management of the Kern Fan Element and Kern Water Bank. In addition, in June 2010, two water districts in Kern County filed a separate lawsuit in Kern County Superior Court, primarily challenging DWR's CEQA compliance with respect to the Kern Fan Element transfer from DWR to KCWA. The two lawsuits filed in Kern County Superior Court were transferred to the Sacramento Superior Court. In December 2012, DWR prevailed on its challenge to the plaintiffs' validation causes of action (including the validity of the Kern Fan Element transfer) on the grounds that they were not filed timely. This left only the plaintiffs' CEQA compliance challenge. After holding a hearing on the CEQA challenges in the remaining two cases, the trial court ruled that most of the EIR was adequate under CEQA, but that the EIR's discussion of impacts on continued use and operation of the Kern Water Bank was insufficient. The court therefore issued a decision in favor of the plaintiffs in the two cases finding that the EIR failed to analyze impacts associated with the use and operation of the Kern Water Bank, particularly as to potential groundwater and water quality impacts. In October 2014, the Court ordered DWR, as the remedy for the deficiency, to provide additional environmental analysis on the future impacts of the continued use and operation of the Kern Water Bank and upon completion of the EIR process, to determine whether to continue the use and operation of the Kern Water Bank. DWR released the Draft Revised EIR on the Kern Water Bank for public comment in April 2016 and expects to release the Final Revised EIR in the fall of 2016. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. The plaintiffs are appealing the lower court's final CEQA and validation decisions. The System; however, does not believe that there will be any material adverse impact on the System's financial position or results from operations, even if these lawsuits are successful.

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

In accordance with the 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 charges to the Water Contractors. Such actions included DWR entering into Tolling and Waiver Agreements in 2007 and 2008 with the 27 Water Contractors that signed the Monterey Amendment, which included certain waivers allowing DWR to resume issuing 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, 2017 the running of the time period and statute of limitations for filing by the Water Contractors of (1) protests regarding the System's bills to the Water Contractors for the years 2007 through 2016, (2) claims arising from the System's revisions to prior year invoices that were made to adjust for improper charges to the Water Contractors for recreation and fish and wildlife enhancement costs, and (3) certain other specified claims. The Tolling and Waiver Agreements 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.

General

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

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

Federal Energy Regulatory Commission Proceedings

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

Pollution Remediation

Pollution remediation obligations are recorded by the System when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the engineering estimated contract costs. The remediation obligation estimates that appear in this report are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the System's obligation.

Notes to Financial Statements (in thousands)

The System recognized Pollution Remediation Liabilities of $4.2 million in current portion and $44.8 million in long-term portion totaling $49 million at June 30, 2016. This liability is comprised of two components. There are two identified locations of required pollution remediation, previously owned, Reid Gardner Unit 4 in Nevada and the Methyl Mercury Control programs in the Delta. In addition, the total liability for pollution remediation includes the GHG emissions credits to be surrendered to California Air Resources Board (CARB). The following table shows pollution remediation liability for the years ended June 30, 2016 and 2015:

Pollution Remediation Liabilities	2016	2015
Current liabilities:		
Reid Gardner Power Plant	$ 2,000	$ 3,500
Delta Mercury Control Program	1,285	1,288
Green House Gas Emissions Credits	922	5,457
Total current liabilities	$ 4,207	$ 10,245
Long-term liabilities:		
Reid Gardner Power Plant	$ 24,300	$ 25,600
Delta Mercury Control Program	5,025	5,120
Green House Gas Emissions Credits	15,529	2,859
Total Long-term liabilities	$ 44,854	$ 33,579

Reid Gardner Power Plant

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

In February 2008, NVE entered into an Administrative Order on Consent (AOC) with the Nevada Division of Environmental Protection (NDEP). Pursuant to the AOC, NVE agreed to undertake investigatory activities into various potential areas of contamination at RG and also to ultimately remediate groundwater, soils and other contamination at the RG facility, or mitigate adverse impacts. Groundwater and soils have been affected by certain constituents of concern associated with flue gas desulfurization effluent settlement in evaporation ponds. Since some of this contamination can be associated with the Unit No. 4 generation related facilities, such as the Unit 4 evaporation ponds, DWR, as prior co-owner of Unit No. 4, has agreed to share the cost of NVE's investigatory activities, which may ultimately lead to the remediation measures prescribed by NDEP to NVE. These activities are projected to continue through at least 2032.
During calendar year 2014, NVE provided DWR their projected schedule and budget by source area based on ongoing and planned investigations and overall AOC planning activities. Using NVE's projections and applying DWR's agreed upon cost sharing

percentages in the Environmental Agreement, DWR's estimated equitable share of the current value of outlays is $26.3 million. The System expended approximately $2.8 million in fiscal 2016 and DWR expects to pay $2 million of the total estimated financial liability during fiscal 2017. The total remediation outlay estimate is expected to be refined, and adjusted accordingly, as additional site assessment and final remediation disposition information becomes available.

Delta Mercury Control Program

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

DWR's mercury program was created to address its obligations under the Delta Mercury Control Program. The System's estimated value of remediation outlays remaining for this program is $6.3 million. The System has expended approximately $4.1 million through June 30, 2016. DWR estimates that the System will incur costs of approximately $1.3 million in fiscal 2017 and estimates remaining long-term costs through 2020 at approximately $5 million.

The State Water Resources Control Board (SWRCB) is currently developing a statewide mercury regulation applicable to inland waters, including reservoirs. Draft regulatory language and associated environmental analysis is currently expected to be released in 2016, with adoption by the SWRCB in 2017. Once promulgated, DWR will be responsible for meeting fish tissue and or water quality objectives statewide in DWR reservoirs identified by the regulation. Currently, nine DWR reservoirs have been identified by the SWRCB for regulation. These include Oroville, San Luis, Castaic, and Pyramid. There is insufficient information available to enable DWR to estimate the timing, magnitude or the System's share of potential compliance costs, if any, at this time.

Green House Gas Emissions Credits

The System is required to report and recognize the liability related to certain vintage years of the LEC Project under AB32. Each year the GHG allowances held in UPIS as an Intangible Asset, are evaluated and reported by the Power and Risk Analysis Office to CARB to be charged as pollution remediation expenses and a liability is recognized. The System's market analysis value of total compliance instruments to be surrendered is $16.4 million. The System surrendered $6.9 million of compliance instruments during fiscal 2016 under this program. The System expects to surrender approximately $922 thousand due in November of fiscal 2017 and estimates remaining long-term portion at approximately $15.5 million.

Notes to Financial Statements (in thousands)

11. Self-Insurance

The System is self-insured for all completed facilities of the SWP. The System is also self-insured for workers' compensation, general liability and other risks. All workers' compensation claims and other losses are on a pay-as-you-go basis. The 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.

DWR has purchased automobile insurance for its fleet of vehicles through the California Department of General Services, Office of Risk & Insurance Management, and certain amounts are assessed to the System while some amounts may be directly charged for those vehicles owned specifically by the System.

12. Economic Dependency

The System's water supply revenue is generally derived from the 29 Water Contractors. The highest percentage of water supply revenues came from the Metropolitan Water District of Southern California. The following table shows total water supply revenues billed to Water Contractors including cover, refunds, and adjustments that exceeded 5% of the total water supply revenues sold by the System.

Water Supply Revenues	2016	% Total	2015	% Total
The Metropolitan Water District	$ 586,992	53.72%	$ 493,380	53.49%
Kern County Water Agency	110,799	10.14%	95,398	10.34%
Coachella Valley Water District	54,676	5.01%	-	-

The System sold power to 9 power companies for both fiscal years ended June 30, 2016 and 2015. The highest percentage of power revenues came from the CAISO. The following table shows power sales to companies which exceeded 5% of the total power sold by the System excluding power sold to the Water Contractors in the amount of $520 and $2.7 million, for the years ended June 30, 2016 and 2015, respectively.

Power Sales	2016	% Total	2015	% Total
California Independent System Operator	$ 52,597	73.83%	$ 61,759	69.59%
Northern California Power Agency	13,143	18.45%	24,502	27.61%

Notes to Financial Statements (in thousands)

Similarly, the System purchased power from 16 and 17 power suppliers during the years ended June 30, 2016 and 2015, respectively. The highest percentage of power provided to the System came from the CAISO. The following table shows power purchases from suppliers which exceeded 5% of the total power purchased by the System.

Power Purchases

	2016	% Total	2015	% Total
California Independent System Operator	$ 105,356	47.89%	$ 95,827	47.70%
Northern California Power Agency	32,724	14.88%	42,178	20.99%
Morgan Stanley Capital Group Inc.	31,748	14.43%	34,907	17.38%

Notes to Financial Statements (in thousands)

13. Segment Information

The table below presents the condensed statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows for the System's two segments, as of and for the years ended June 30, 2016 and 2015.

Segment

	2016			2015 (As restated)		
	Activities Allowed Under			Activities Allowed Under		
	Burns-Porter Act	Central Valley Project Act	Total	Burns-Porter Act	Central Valley Project Act	Total
Condensed Statements of Net Position:						
Assets						
Current assets	$ 386,990	$ 328,711	$ 715,701	$ 274,012	$ 367,148	$ 641,160
Other assets	1,187,719	365,321	1,553,040	1,308,557	394,718	1,703,275
Capital assets	803,230	2,896,093	3,699,323	821,616	2,711,066	3,532,682
Total assets	2,377,939	3,590,125	5,968,064	2,404,185	3,472,932	5,877,117
Deferred outflows of resources	56,533	173,698	230,231	38,045	181,281	219,326
Total assets and deferred outflows of resources	$ 2,434,472	$ 3,763,823	$ 6,198,295	$ 2,442,230	$ 3,654,213	$ 6,096,443
Liabilities						
Current liabilities	$ 153,042	$ 307,671	$ 460,713	$ 148,904	$ 276,524	$ 425,428
Long-term liabilities	788,039	2,811,012	3,599,051	752,867	2,797,968	3,550,835
Total liabilities	941,081	3,118,683	4,059,764	901,771	3,074,492	3,976,263
Deferred inflows of resources	284,135	648,968	933,103	331,203	583,549	914,752
Total liabilities and deferred inflows of resources	1,225,216	3,767,651	4,992,867	1,232,974	3,658,041	4,891,015
Net position:						
Net investment in capital assets	831,288	324,199	1,155,487	929,050	236,203	1,165,253
Restricted	377,968	(328,027)	49,941	280,206	(240,031)	40,175
Total net position	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Total liabilities, deferred inflows of resources, and net position	$ 2,434,472	$ 3,763,823	$ 6,198,295	$ 2,442,230	$ 3,654,213	$ 6,096,443
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	$ 692,999	$ 255,106	$ 948,105	$ 657,639	$ 225,899	$ 883,538
Power sales	71,163	73	71,236	92,066	(286)	91,780
Federal and State reimbursements	29,396	37,913	67,309	16,669	27,391	44,060
	793,558	293,092	1,086,650	766,374	253,004	1,019,378
Depreciation expense	(21,939)	(55,231)	(77,170)	(21,680)	(59,815)	(81,495)
Other operating expense	(744,200)	(52,391)	(796,591)	(581,987)	(25,420)	(607,407)
Income from operations	27,419	185,470	212,889	162,707	167,769	330,476
Capital revenues recovered (deferred), net	(8,471)	(110,039)	(118,510)	(164,868)	(79,077)	(243,945)
Interest expense	(7,376)	(99,602)	(106,978)	(9,945)	(86,137)	(96,082)
Transfers In/(Out)	(13,241)	13,241	-	10,855	(10,855)	-
Other revenues (expenses), net	1,669	10,930	12,599	1,251	8,300	9,551
Increase (decrease) in net position	-	-	-	-	-	-
Net position, beginning of year	1,209,256	(3,828)	1,205,428	1,209,256	(3,828)	1,205,428
Net position, end of year	$ 1,209,256	$ (3,828)	$ 1,205,428	$ 1,209,256	$ (3,828)	$ 1,205,428
Condensed Statements of Cash Flows:						
Net cash provided by (used in):						
Operating activities	$ 173,755	$ 277,640	$ 451,395	$ 60,676	$ 173,183	$ 233,859
Capital and related financing activities	(94,170)	(310,666)	(404,836)	13,107	(214,790)	(201,683)
Investing activities	2,212	16,834	19,046	1,689	5,873	7,562
Net (decrease) increase in cash and cash equivalents	81,797	(16,192)	65,605	75,472	(35,734)	39,738
Cash and equivalents, beginning of year	230,925	370,099	601,024	155,453	405,833	561,286
Cash and equivalents, end of year	$ 312,722	$ 353,907	$ 666,629	$ 230,925	$ 370,099	$ 601,024

14. New Governmental Accounting Standards

GASB Statement No. 68

In January 2016, after the California State Auditor issued their unmodified opinion on the reports related to the GASB Statement No 68, the State Controller communicated to State Departments that the original allocations and GASB 68 accounting elements that were provided to each entity on August 5, 2015 had been adjusted. Each entity was given the option of either restating their fiscal year 2014-15 financial statements or to account for those adjustments to the allocation in the current 2015-16 fiscal year. The System chose to incorporate the allocation adjustments in the current fiscal year.

GASB Statement No. 72

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

GASB Statement No. 73

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

GASB Statement No. 74

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

GASB Statement No. 75

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

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarch of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The requirements of GASB No. 76 are effective for fiscal year 2016 and thereafter. It has been determined that GASB No. 76 did not have a material effect on the System's financial statement.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. The requirements of GASB No. 77 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 77 did not impact the System.

GASB Statement No. 78

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local government employers whose employees are provided with such pensions. The requirements of GASB No. 78 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 78 did not impact the System.

GASB Statement No. 79

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of GASB No. 79 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 79 did not impact the System.

GASB Statement No. 80

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of GASB No. 80 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 80 did not impact the System.

GASB Statement No. 81
In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of GASB No. 81 are effective for fiscal year 2017 and thereafter. The System is currently evaluating the impact this statement will have on its financial statements.

GASB Statement No. 82
In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of GASB No. 82 are effective for fiscal 2016 and thereafter. It has been determined that GASB No. 82 did not impact the System.

15. Subsequent Events

On October 20, 2016, the System issued tax-exempt CVP Revenue Bonds, Series AW, with a par amount of $428.1 million and $93.5 million premium. The average yield on the bonds is 2.71%. The bond proceeds of $521.2, combined with the System's cash contribution of $1.3 million will be used to redeem $96 million of Commercial Paper Notes Series 1, refund $97.4 million of outstanding bonds, and deposit $267 million in the construction account to fund new projects. Bond proceeds will also be used to fund the debt service reserve account, pay capitalized interest, and cover costs of issuance. The System expects to achieve a net present value savings of $7 million representing 7.15% of the refunded bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the System's Proportionate Share of the Net Pension Liability

Last 10 Years* (in thousands)

	2016	2015
The System's proportion of the net pension liability	1.7191%	1.6927%
The System's proportionate share of the net pension liability	$ 485,502	$ 426,935
The System's covered-employee payroll	$ 181,151	$ 164,571
The System's proportionate share of the net pension liability as a percentage of their covered-employee payroll	268.01%	259.42%
Plan fiduciary net position as a percentage of the total pension liability	70.68%	73.05%

Notes to Schedule:

Changes of benefit terms:

In 2016, the figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

* - Fiscal year 2016 was the 2nd year of implementation, therefore only two years are shown.

Schedule of the System's Contributions

Last 10 Years* (in thousands)

	2016	2015
Contractually required contribution	$ 47,978	$ 44,393
Contributions in relation to the contractually required contribution	47,978	44,393
Contribution deficiency (excess)	$ -	$ -
Fund's covered-employee payroll	$ 181,151	$ 164,571
Contributions as a percentage of covered-employee payroll	26.49%	26.97%

Notes to Schedule:

The actuarial methods and assumptions used to determine contribution rates for year ended June 30, 2016 was from the June 30, 2014 Valuation Date.

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment Expenses; includes Inflation.
Retirement Age	The probabilities of Retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	The probabilities of mortality rates are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

* - Fiscal year 2016 was the 2nd year of implementation, therefore only two years are shown.

SUPPLEMENTARY INFORMATION

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

Debt Service Coverage	*(amounts in thousands)*	
	2016	2015
Water supply revenues, Central Valley Project Act	$255,106	$225,899
Add: Cover Collected as Proceeds Due To Water Contractors	57,779	54,316
Less: Devil Canyon Castaic Revenues	(19,646)	(18,171)
Revenues not available for Debt Service	(8,679)	(8,234)
Net CVP revenues available for debt service	284,560	253,810
Principal and interest for revenue bonds	$227,350	$192,924
Debt service coverage	125.2%	131.6%

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 DWR, 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 $255.1 million in fiscal 2016 and $225.9 million in fiscal 2015, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2016, the revenues include: an increase of $57.8 million in refundable proceeds, a decrease of $19.6 million for principal and interest payments for the Devil Canyon Castaic Facilities Bonds (DCC) since the DCC General Bond resolution does not require cover to be collected for these bonds, and a decrease of $8.7 million in miscellaneous revenue not available for debt service.

In fiscal 2015, the revenues include: an increase of $54.3 million in refundable proceeds, a decrease of $18.2 million for principal and interest payments for the DCC Facilities bonds, and a decrease of $8.2 million in revenue not available for debt service of which $5.4 million are amounts to be refunded to the Water Contractors and $2.8 million related to operations and maintenance.

STATISTICAL SECTION

STATISTICAL SECTION

This part of the California State Water Resources Development System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures say about the government's overall financial health.

Contents **Page**

Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

	2007	2008	2009	2010
OPERATING REVENUES:				
Water supply	$ 704,921	$ 752,853	$ 721,253	$ 853,158
Power sales	222,206	215,430	175,318	165,664
Federal and State reimbursements	24,463	20,992	18,266	24,021
Total operating revenues	**951,590**	**989,275**	**914,837**	**1,042,843**
OPERATING EXPENSES:				
Operations and maintenance	344,464	409,150	466,708	435,801
Purchased power	374,568	323,236	206,632	212,658
Depreciation and amortization expense	78,065	79,136	79,632	80,813
Operating expenses recovered (deferred), net	(24,972)	40,976	21,257	189,000
Total operating expense	**772,125**	**852,498**	**774,229**	**918,272**
NET OPERATING INCOME (LOSS)	**179,465**	**136,777**	**140,608**	**124,571**
NONOPERATING REVENUES (EXPENSES):				
Capital revenues recovered (deferred), net	4,377	(20,595)	44,344	19,823
Interest expense	(151,746)	(156,716)	(131,481)	(151,390)
Other revenues (expenses), net	(32,096)	40,534	(53,471)	6,996
Total nonoperating revenues (expenses)	**(179,465)**	**(136,777)**	**(140,608)**	**(124,571)**
CHANGE IN NET POSITION	$ -	$ -	$ -	$ -

Source: State Water Resources Development System

Statements of Revenues, Expenses and Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

2011	2012	2013	2014	2015	2016
$ 874,748	$ 860,891	$ 931,808	$ 789,370	$ 883,538	$ 948,105
193,154	148,360	146,277	131,952	91,780	71,236
28,294	36,561	52,397	52,186	44,060	67,309
1,096,196	**1,045,812**	**1,130,482**	**973,508**	**1,019,378**	**1,086,650**
428,559	526,402	545,413	557,209	404,627	511,926
342,446	271,377	258,899	241,444	202,780	219,661
100,257	87,400	85,236	68,896	81,495	77,170
118,325	67,063	22,261	-	-	65,004
989,587	**952,242**	**911,809**	**867,549**	**688,902**	**873,761**
106,609	**93,570**	**218,673**	**105,959**	**330,476**	**212,889**
22,812	43,834	(174,356)	(42,934)	(243,945)	(118,510)
(134,996)	(107,770)	(53,492)	(115,499)	(96,082)	(106,978)
5,575	(29,634)	9,175	52,474	9,551	12,599
(106,609)	**(93,570)**	**(218,673)**	**(105,959)**	**(330,476)**	**(212,889)**
$ -	$ -	$ -	$ -	$ -	$ -

Source: State Water Resources Development System

Net Position by Component (Unaudited)

Last Ten Fiscal Years (in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NET POSITION										
Net investment in capital assets	$ 98,490	$ 127,858	$ 381,106	$ 486,347	$ 554,854	$ 684,025	$ 832,147	$ 994,561	$ 1,165,253	$ 1,155,487
Restricted	1,106,941	1,077,573	824,325	719,084	650,574	521,403	373,281	210,867	40,175	49,941
TOTAL NET POSITION	**$ 1,205,431**	**$ 1,205,431**	**$ 1,205,431**	**$ 1,205,431**	**$ 1,205,428**	**$ 1,205,428**	**$ 1,205,428**	**$ 1,205,428**	**$ 1,205,428**	**$ 1,205,428**

Source: State Water Resources Development System

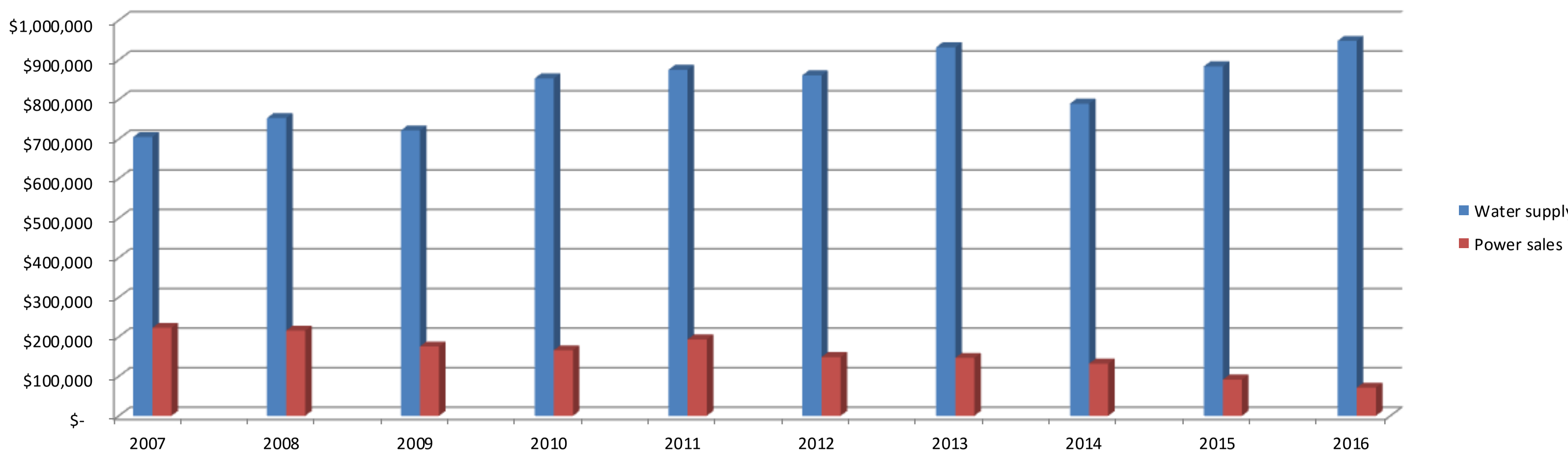
Significant Revenues By Source (Unaudited)

Last Ten Fiscal Years (in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues by Source										
Water supply	$ 704,921	$ 752,853	$ 721,253	$ 853,158	$ 874,748	$ 860,891	$ 931,808	$ 789,370	$ 883,538	$ 948,105
Power sales	222,206	215,430	175,318	165,664	193,154	148,360	146,277	131,952	91,780	71,236
TOTAL	**$ 927,127**	**$ 968,283**	**$ 896,571**	**$1,018,822**	**$1,067,902**	**$1,009,251**	**$1,078,085**	**$ 921,322**	**$ 975,318**	**$1,019,341**

Source: State Water Resources Development System

Operating Revenues by Source



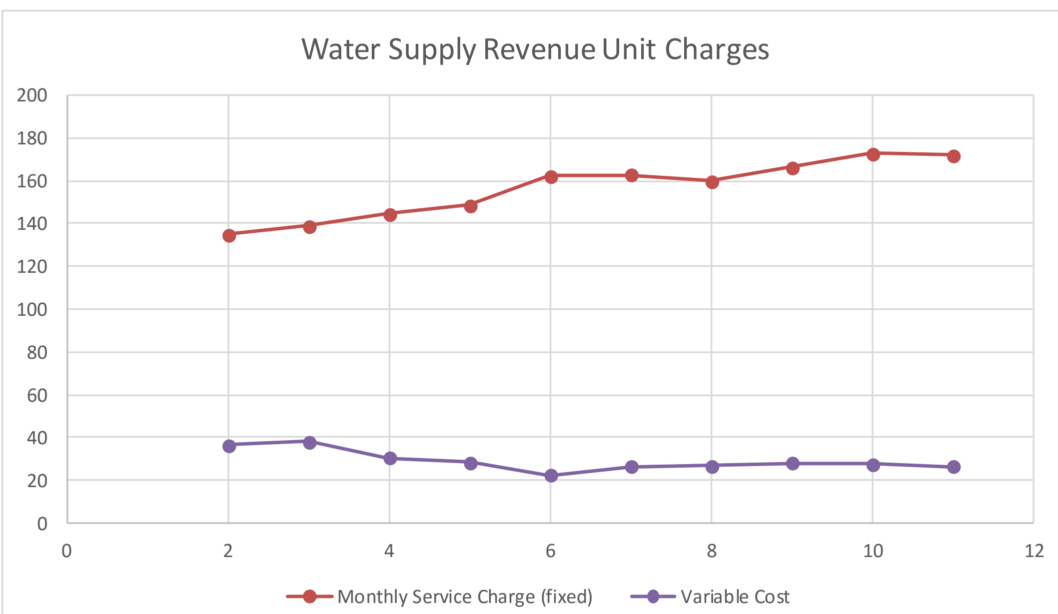
Summary of Schedule of Water and Power Sales Rates (Unaudited)

Last Ten Years

Financial Statement Year	Calendar Year	Water Supply[a] Monthly Service Charge (fixed)	Water Supply[a] Variable Cost
2007	2006	$ 134.82	$ 36.43
2008	2007	138.71	38.19
2009	2008	144.41	30.53
2010	2009	148.49	28.33
2011	2010	162.20	22.45
2012	2011	162.64	26.36
2013	2012	159.89	26.79
2014	2013	166.37	28.21
2015	2014[c]	172.81	27.52
2016	2015[c]	171.99	26.34

Source: State Water Project Analysis Office Bulletin 132-xx Table B-24

a) Hypothetical charges, w hich, if assessed on all Table A of Bulletin 132 w ater delivered to date, all surplus w ater delivered prior to May 1, 1973, and all Table A w ater estimated to be delivered during the remainder of the project repayment period (Table B-5B of Bulletin 132), w ould provide a sum at the end of the period financially equivalent to all Transportation Charge and Delta Water Charge payments required under a w ater supply contract, considering interest at the Project Interest Rate, 4.610 percent per annum.
b) Numbers reflect amounts on a Calendar Year basis
c) Amounts for these years are preliminary and subject to change



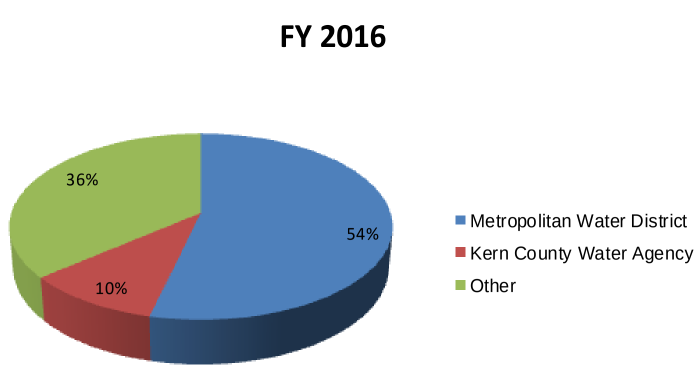
Largest Distribution Water Revenue Accounts (Unaudited)

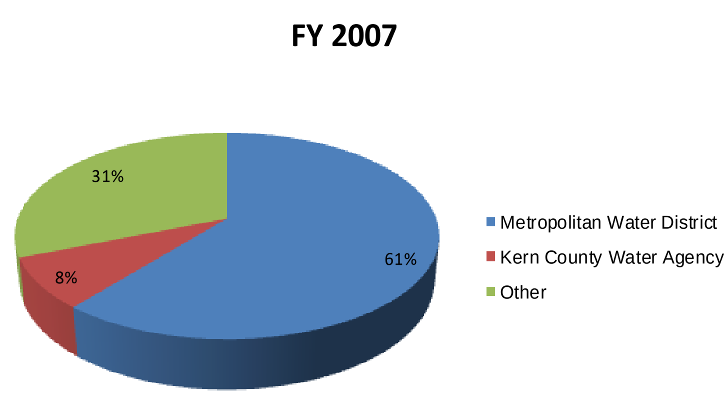
Current Year and Nine Years Prior

	FY 2016				FY 2007		
Customer	**Annual Water Sales**	**Rank**	**Percentage of Total[a]**	**Customer**	**Annual Water Sales**	**Rank**	**Percentage of Total[a]**
THE METROPOLITAN WATER DISTRICT	$ 511,976,442	1	54%	THE METROPOLITAN WATER DISTRICT	$ 430,001,810	1	61%
KERN COUNTY WA - AG	94,810,452	2	10%	KERN COUNTY WA - AG	56,393,680	2	8%
Subtotal	$ 606,786,894		64%	Subtotal	$ 486,395,490		69%
Total Water Consumption	$ 948,104,522				$ 704,921,000		

Source: State Water Resources Development System

a) Percentage of total is based on total revenues billed under the w ater supply contracts





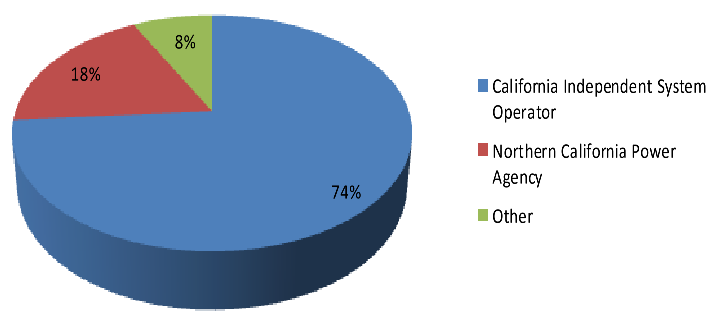
Largest Distribution Power Sales Revenue Accounts (Unaudited)

Current Year and Nine Years Prior

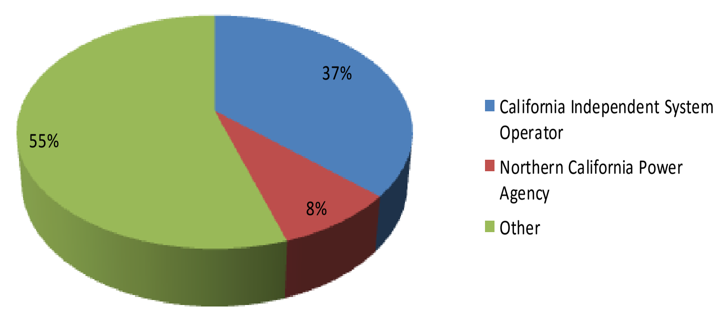
	FY 2016				FY 2007		
Customer	Annual Revenues	Rank	Percentage of Total	Customer	Annual Revenues	Rank	Percentage of Total
CALIFORNIA INDEPENDENT SYSTEM OPERATOR	$ 52,597,411	1	74%	CALIFORNIA INDEPENDENT SYSTEM OPERATOR	$ 81,403,067	1	37%
NORTHERN CALIFORNIA POWER AGENCY	13,143,096	2	18%	NV ENERGY	18,684,041	2	8%
Subtotal	$ 65,740,507		92%	Subtotal	$100,087,108		45%
Total Power Sales	$ 71,236,463			Total Power Sales	$222,205,762		

Source: State Water Resources Development System

FY 2016



FY 2007



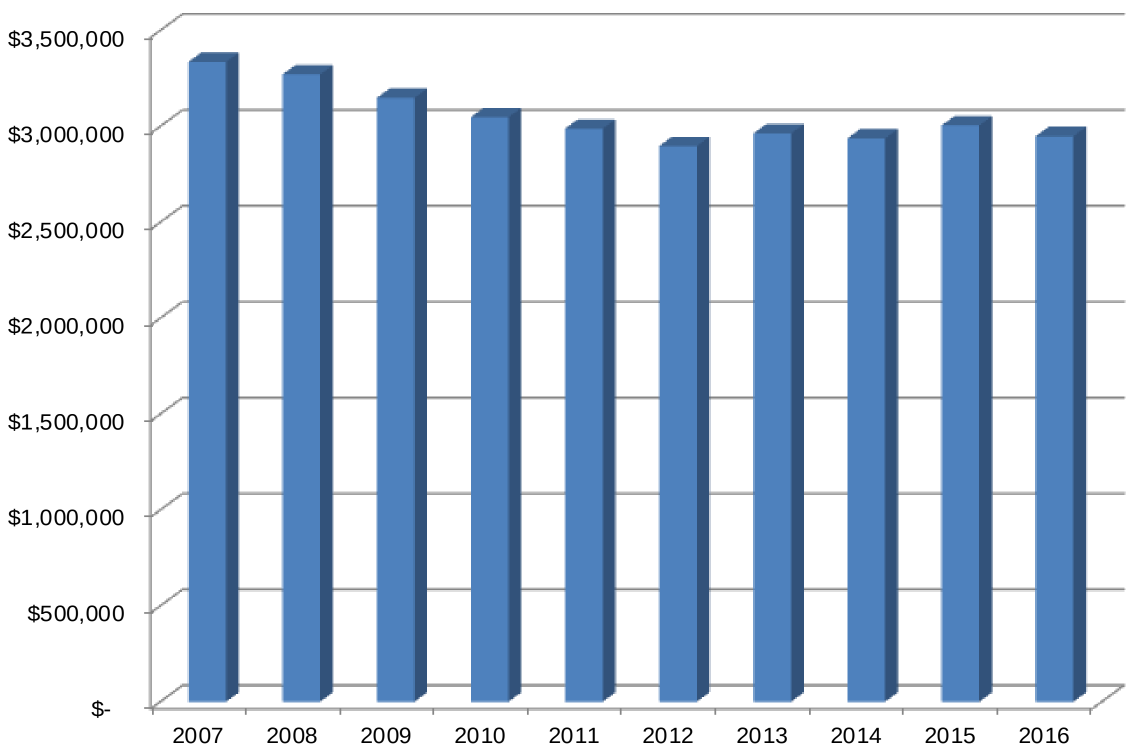
Ratios of Outstanding Debt by Type (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Revenue Bonds	General Obligation Bonds	Commercial Paper	PMIA Loan	Total
2007	$ 2,568,083	$ 634,750	$ 133,362	$ -	$ 3,336,195
2008	2,636,769	584,395	19,352	29,600	3,270,116
2009	2,579,158	531,700	9,897	27,288	3,148,043
2010	2,500,049	476,915	46,473	23,912	3,047,349
2011	2,491,854	420,540	54,578	21,055	2,988,027
2012	2,487,737	362,375	28,783	18,052	2,896,947
2013	2,594,459	302,920	50,505	14,896	2,962,780
2014	2,647,814	241,835	36,136	11,579	2,937,364
2015	2,724,008	184,960	87,900	8,094	3,004,962
2016	2,770,888	135,045	42,776	-	2,948,709

Source: State Water Resources Development System

Outstanding Debt



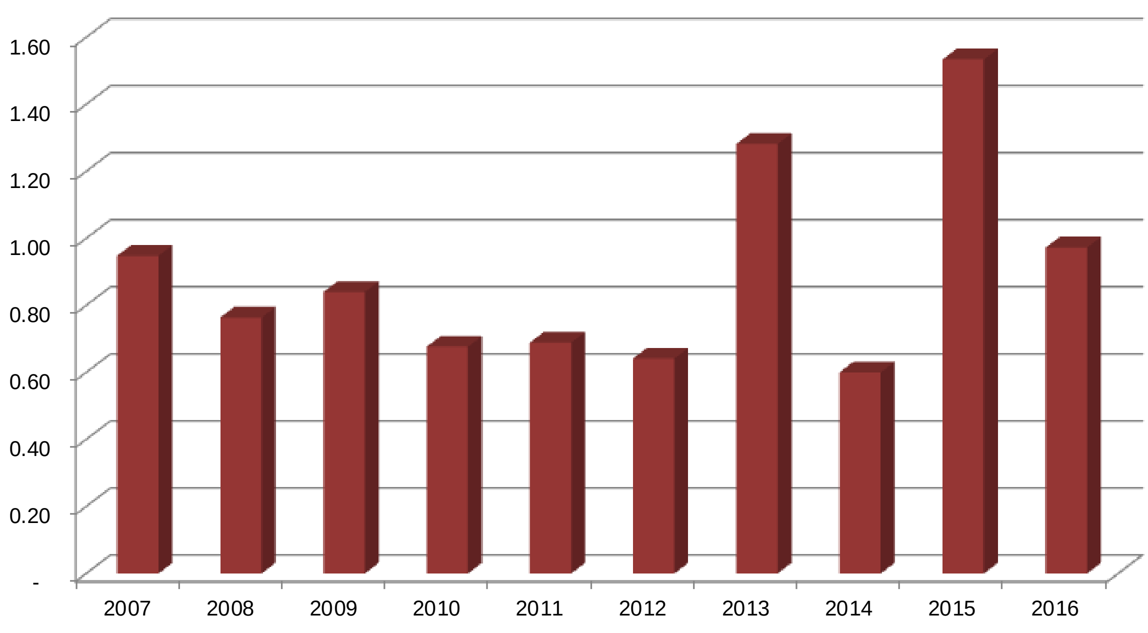
Pledged Revenue Coverage (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Gross Revenue	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements: Principal	Interest	Total	Coverage
2007	$ 951,590	$ 694,060	$ 257,530	$ 119,825	$ 151,746	$ 271,571	0.95
2008	989,275	773,362	215,913	125,890	156,716	282,606	0.76
2009	914,837	694,597	220,240	130,730	131,481	262,211	0.84
2010	1,042,843	837,459	205,384	152,144	151,390	303,534	0.68
2011	1,096,196	889,330	206,866	165,245	134,996	300,241	0.69
2012	1,045,812	864,842	180,970	174,315	107,770	282,085	0.64
2013	1,130,482	826,573	303,909	183,610	53,492	237,102	1.28
2014	973,508	798,653	174,855	175,860	115,499	291,359	0.60
2015	1,019,378	607,407	411,971	172,455	96,082	268,537	1.53
2016	1,086,650	796,591	290,059	185,815	112,345	298,160	0.97

Source: State Water Resources Development System

Debt Coverage Ratio



Demographic and Economic Information (Unaudited)

Last Ten Years

Year	Population (in thousands)	Personal Income (in millions)	Per Capita Personal Income	Unemployment Rate
2006	36,247	$ 1,501,831	$ 41,693	4.9%
2007	36,553	1,565,343	43,182	5.3%
2008	36,856	1,602,749	43,786	7.2%
2009	37,077	1,537,136	41,588	11.3%
2010	37,339	1,583,447	42,399	12.1%
2011	37,679	1,691,003	44,844	11.7%
2012	38,044	1,812,315	47,600	10.4%
2013	38,375	1,849,505	48,115	8.9%
2014	38,737	1,939,528	49,976	7.5%
2015	39,093	2,061,149	52,644	6.2%

1 - Source: Economic Research Unit, California Department of Finance

2 - Note: 2016 information is not available and therefore not presented

California Number of Employees By Industry (Unaudited)

	2006	2007	2008	2009	2010
Agriculture, Forestry, Fishing, Hunting	437,617	444,478	459,723	434,275	440,265
Mining	24,723	25,282	26,698	23,244	25,011
Utilities	56,978	58,276	58,575	60,288	57,175
Construction	957,256	900,386	782,432	601,982	562,922
Manufacturing	1,512,772	1,464,136	1,425,225	1,261,582	1,250,589
Wholesale Trade	706,834	719,608	705,036	636,330	647,193
Retail Trade	1,672,636	1,673,198	1,615,574	1,495,711	1,496,821
Transportation and Warehousing	425,350	434,105	432,622	396,512	397,932
Information	467,757	476,419	472,152	436,865	429,065
Finance and Insurance	641,764	607,118	563,136	528,813	509,852
Real Estate and Rental and Leasing	291,700	282,800	274,778	250,908	248,452
Services	6,077,509	6,200,250	6,232,695	5,947,240	6,063,638
Nonclassifiable Establishments (3)	29,514	56,682	73,151	72,563	44,336
Federal, State and Local Government	2,336,653	2,404,511	2,405,547	2,352,014	2,302,160
Total for all Industries	**15,639,063**	**15,747,249**	**15,527,344**	**14,498,327**	**14,475,411**

	2011	2012	2013	2014	2015
Agriculture, Forestry, Fishing, Hunting	449,614	463,476	463,169	467,923	471,566
Mining	27,016	28,475	27,986	29,142	25,668
Utilities	58,199	59,160	58,240	57,829	57,577
Construction	580,550	609,365	656,000	691,811	748,872
Manufacturing	1,257,097	1,264,017	1,265,860	1,283,779	1,303,651
Wholesale Trade	661,757	679,339	702,319	713,642	719,576
Retail Trade	1,522,619	1,553,812	1,587,467	1,615,557	1,645,332
Transportation and Warehousing	404,582	415,488	433,112	455,070	488,428
Information	425,193	426,056	445,121	459,781	486,838
Finance and Insurance	512,160	522,529	520,579	514,826	523,933
Real Estate and Rental and Leasing	247,476	253,154	260,584	265,335	271,617
Services	6,216,242	6,519,084	6,809,757	7,056,066	7,247,138
Nonclassifiable Establishments (3)	58,663	59,443	36,808	63,478	102,851
Federal, State and Local Government	2,276,153	2,260,320	2,276,164	2,317,813	2,388,336
Total for all Industries	**14,697,321**	**15,113,718**	**15,543,166**	**15,992,052**	**16,481,383**

(1) Source: California Employment Development Department

(2) The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California Economy. Due to confidentiality issues, the names of the top individual employers are not available.

(3) Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification.

(4) Note: 2016 information is not available and therefore not presented
Definitions of Terms and Source Notes: www.labormarketinfo.edd.ca.gov

Number of Employees (Unaudited)

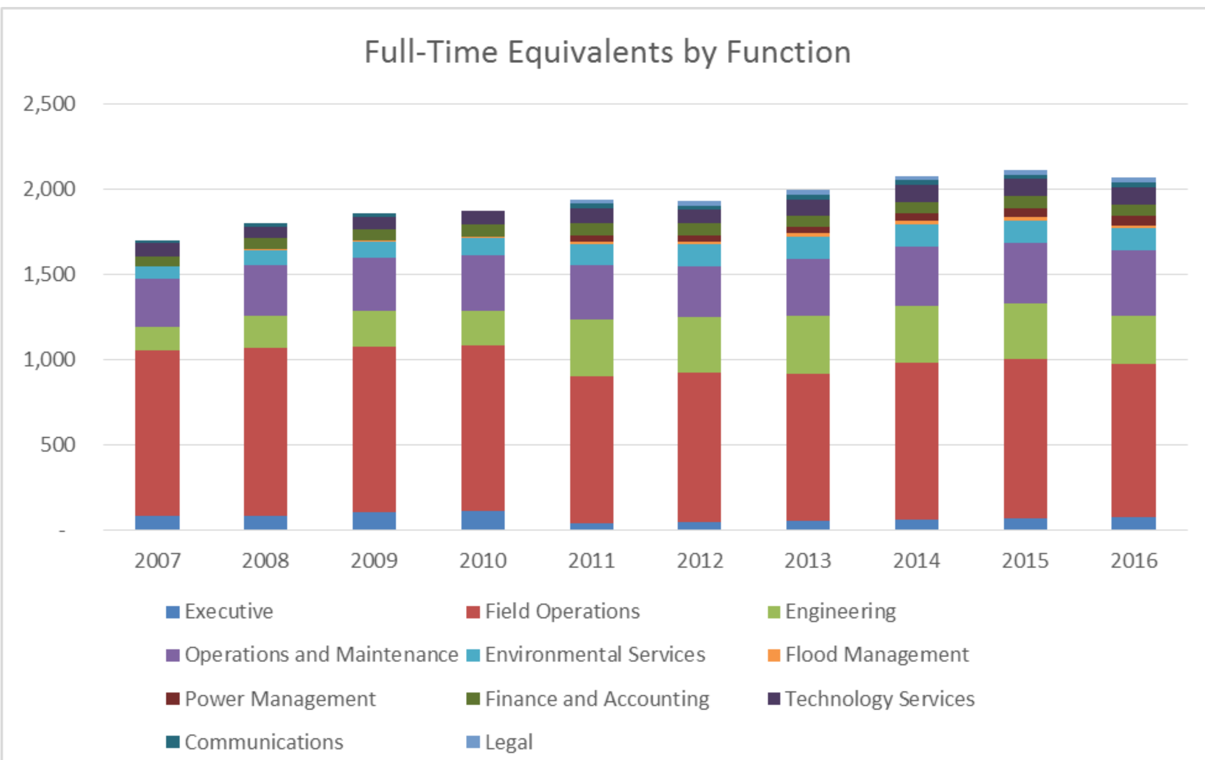
Last Ten Fiscal Years

Full-Time Equivalents

	Full-Time Equivalents as of June 30,[1]									
Function	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Executive	83	88	109	117	42	49	55	61	69	75
Field Operations	972	983	965	964	863	872	864	920	935	899
Engineering	140	189	210	207	330	331	338	332	326	281
Operations and Maintenance	277	293	312	321	318	294	337	346	354	386
Environmental Services	75	87	95	103	124	129	130	137	133	130
Flood Management	3	7	8	8	16	18	17	17	17	16
Power Management					38	38	35	47	52	53
Finance and Accounting	58	64	66	71	66	69	69	66	72	66
Technology Services	74	70	74	78	91	76	96	101	102	104
Communications	17	17	17		27	25	26	23	26	27
Legal					25	28	27	27	29	29
Grand Total	**1,699**	**1,798**	**1,856**	**1,869**	**1,940**	**1,929**	**1,993**	**2,078**	**2,113**	**2,066**

1 - Excludes Retired Annuitants; FTEs calculated using the most recently available allocation factors

Source: California Department of Water Resources



Operating and Capital Indicators (Unaudited)

Last Ten Years

	2006	2007	2008	2009	2010	2011	2012	2013	2014[a]	2015[a]
Water										
Water Deliveries (AF)	4,837,034	4,300,681	3,174,228	3,164,327	3,695,808	4,711,558	4,009,663	3,371,000	1,992,157	2,104,264
Percentage of Requested Water Delivered	65%	60%	35%	40%	50%	80%	65%	35%	5%	20%
Gross Area Served (Acres)	25,024,175	25,063,045	25,063,586	25,091,434	25,091,780	25,091,780	23,509,885	23,847,530	23,527,540	23,514,148
Estimated Population Served[3]	25,967,312	26,041,804	26,314,962	26,216,435	21,462,843	26,324,019	26,201,400	26,267,499	26,520,624	26,876,859
Statewide Precipitation (% of Avg)[1]	136%	65%	78%	81%	108%	135%	77%	79%	56	74
Statewide Snowpack (% of Apr 1 Avg)	161%	58%	100+%	88%	n/a	165%	54%	47%	33	5
Statewide River Runoff (% of Avg)[1]	170%	53%	60%	65%	91%	146%	62%	60%	35	45
Total Storage (% of Maximum)[2]	82%	50%	38%	39%	52%	85%	56%	41%	43	30
Total Miles of Aqueducts	705	705	705	705	705	705	705	705	705	705
Number of Storage Facilities	20	20	20	20	20	20	20	20	20	20
Gross Storage Capacity (AF)	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600	6,761,600
Number of Pumping Plants	23	23	23	23	23	23	23	23	23	23
Number of Pumps	162	162	162	162	162	162	162	162	162	162
Power										
Energy Generated (Mwh)	7,056,000	5,577,000	3,541,000	3,650,000	3,920,000	4,846,000	4,198,000	3,068,539	1,132,659	1,274,706
Energy Purchased (Mwh)	5,811,000	6,642,000	4,603,000	3,970,000	5,081,000	4,895,000	3,741,000	3,604,135	1,691,424	2,780,643
Energy Sold (Mwh)	3,709,000	2,446,000	2,399,000	1,530,000	1,814,000	1,192,000	533,000	936,975	33,000	566,891
Net Power Consumption (Mwh)	9,158,000	9,773,000	5,745,000	6,090,000	7,187,000	8,549,000	7,406,000	5,735,699	2,791,083	3,488,458
Number of Power Plants	10	10	10	10	10	10	10	10	9	9
Number of Power Generating Units	37	37	37	37	37	37	37	37	36	36

Note: *Unless otherwise noted, amounts are reported on a calendar year basis*

Source: *State Water Project Analysis Office Annual Bulletin 132*

1 - Measured in Water Years, w hich run from October of the prior year to September of the reported year
2 - Measured at the end of the Water Year
3 - Contains duplicate values. Some areas that are in tw o or more Contractor areas are included in each Contractor's total.
a - Amounts for these years are preliminary and subject to change

Legend
AF- Acre Feet
Mwh- Megawatt Hours

Capital Assets, Net (in thousands) (Unaudited)

Last Ten Fiscal Years

	2007	2008	2009	2010	2011
Nondepreciable Utility Plant					
Land	$ 137,353	$ 137,353	$ 138,156	$ 136,129	$ 136,129
Construction work in progress	253,152	365,297	461,208	400,229	366,975
Land use rights	-	-	10,925	10,925	11,005
Other intangible assets	-	-	80,659	81,976	81,976
Total Nondepreciable Utility Plant	**390,504**	**502,649**	**690,948**	**629,259**	**596,085**
Depreciable Utility Plant					
Aqueducts	1,949,071	1,949,071	1,949,071	2,029,898	2,057,437
Dams & reservoirs	765,246	765,246	765,246	765,246	781,110
Power plants	845,977	845,977	845,977	909,904	910,100
Pumping plants	784,247	784,247	784,247	784,247	787,008
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	33,934	33,934	33,934	33,934	33,934
Facilities	-	-	-	-	64,810
Equipment	55,427	58,246	62,487	65,580	67,996
Computer software	-	-	23,629	23,629	23,629
Land use rights	-	-	-	-	-
Other intangible assets	-	-	-	-	-
General	-	-	-	-	5,964
Total Depreciable Utility Plant	**4,501,699**	**4,504,517**	**4,532,388**	**4,680,235**	**4,799,785**
Less Accumulated Depreciation/Amortization	**(1,854,541)**	**(1,932,412)**	**(2,015,610)**	**(2,094,306)**	**(2,194,406)**
Total Utility Plant, Net	**$ 3,037,662**	**$ 3,074,755**	**$ 3,207,726**	**$ 3,215,188**	**$ 3,201,464**

Source: State Water Resources Development System

Capital Assets, Net (in thousands) (Unaudited)

Last Ten Fiscal Years

	2012	2013	2014	2015	2016
Nondepreciable Utility Plant					
Land	$ 136,129	$ 136,797	$ 137,033	$ 141,874	$ 147,681
Construction work in progress	408,072	528,836	438,244	611,900	769,871
Land use rights	11,250	11,549	11,583	11,630	11,760
Other intangible assets	88,930	100,064	103,740	103,445	100,123
Total Nondepreciable Utility Plant	**644,381**	**777,246**	**690,600**	**868,849**	**1,029,435**
Depreciable Utility Plant					
Aqueducts	2,064,208	2,071,255	2,167,237	2,169,352	2,171,981
Dams & reservoirs	781,202	781,408	781,408	708,303	708,303
Power plants	906,554	911,703	466,358	441,202	470,818
Pumping plants	829,344	836,655	836,814	826,704	838,880
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	33,934	33,934	33,934	33,934	35,544
Facilities	65,820	66,230	246,397	254,741	271,965
Equipment	70,593	71,819	75,705	77,384	79,229
Computer software	24,162	24,501	24,529	24,531	24,717
Land use rights	272	272	272	272	272
Other intangible assets	-	11,995	11,995	12,005	12,005
General	6,491	39,579	61,310	62,262	73,053
Total Depreciable Utility Plant	**4,850,377**	**4,917,148**	**4,773,756**	**4,678,487**	**4,754,564**
Less Accumulated Depreciation/Amortization	**(2,281,806)**	**(2,366,429)**	**(1,994,695)**	**(2,014,654)**	**(2,084,676)**
Total Utility Plant, Net	**$ 3,212,952**	**$ 3,327,965**	**$ 3,469,661**	**$ 3,532,682**	**$ 3,699,323**

Source: State Water Resources Development System

Edmund G. Brown Jr.
Governor,
State of California

John Laird
Secretary of Resources,
Natural Resources Agency

Mark Cowin
Director,
Department of Water Resources