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, 2017 and 2016

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Edmund G. Brown Jr., Governor

NATURAL RESOURCES AGENCY
John Laird, Secretary for Natural Resources

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Introductory Section

A serpentine stretch of the California Aqueduct in Palmdale, California

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January 17, 2018

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, 2017 and 2016, 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 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. The System includes the State Water Project (SWP), the Davis-Grunsky Act Program, and the San Joaquin Drainage Implementation Program.

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 3,216 full-time staff throughout the State, of which approximately 2,079 are allocated to the

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

System. The Director of DWR oversees the Department's activities, with the assistance of a Chief Deputy Director and six Deputy Directors. The Director, Chief Deputy Director, and the State Water Project Deputy Director are each appointed by the Governor.

During fiscal year 2017, the DWR saw many changes within these high level Executive Management positions as employees either retired or moved on from the department. Despite the changes within these key roles of responsibility, DWR continues to maintain its strong leadership abilities and sustainably manage the water resources of California.

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, 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.

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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*

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 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 closed in October 2016 and DWR is in the process of preparing a final EIR. 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:

- 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 deliver 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 includes an additional 10-year option to extend and is expected to deliver 28,000 MW of annual generation.

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 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.

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4 Owned and operated by Dominion Solar Holdings, Inc.

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, CliftonLarsonAllen LLP. The Independent Auditors' Report on our current financial statements is presented in the Financial Section.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30. 2016. This was the first year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the System published an easily readable and efficiently organized CAFR. This report satisfies both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 CliftonLarsonAllen LLP for their invaluable professional support in the preparation of the CAFR.

Respectfully submitted,

Joel Ledesma
SWP Deputy Director

Vinay Narjit Singh Behl, CPA
Comptroller & Chief Financial Officer
Chief, Division of Fiscal Services

Lisa Toms
Accounting Admin III

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Water Resources Development System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

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Financial Section

Located beneath Oroville Dam, the Edward Hyatt Powerplant contains six units, three to pump water and three to generate power for the operational needs of the California Department of Water Resources facility.

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

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, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents. The financial statements as of and for the year ended June 30, 2016, were audited by GALLINA LLP, whose practice became part of CliftonLarsonAllen on January 1, 2017, and whose report dated December 2, 2016, expressed an unmodified opinion on those financial statements.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*; 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.

Auditors' 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, 2017 and 2016, 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, 2017 and 2016, 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.

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 January 10, 2018, 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 solely 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 the effectiveness of the System's 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP
Roseville, California
January 10, 2018

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 2017, the System recorded an increase in total assets of $582.7 million on total operating revenues of $1,223 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 $178.1 million to an ending balance of $952.2 million in fiscal 2017 compared to $774.2 million in fiscal 2016. 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 October 20, 2016, the System issued Central Valley Project Water System Revenue Bonds (Series AW) with a par amount of $428.1 million and $93.5 million premium 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. Series AW was issued with fixed rates and an average yield of 2.71%.

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 25 - 31 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 33 - 77 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 83 - 84 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, 2017 and 2016 by $1,205.4 million each year.

Condensed Statements of Net Position

	June 30, 2017	June 30, 2016	June 30, 2015	% Change 2017-2016	% Change 2016-2015
	(amounts in thousands)				
Other assets	$ 2,477,088	$ 2,268,741	$ 2,344,435	9.2%	-3.2%
Total utility plant	4,073,662	3,699,323	3,532,682	10.1%	4.7%
Total assets	6,550,750	5,968,064	5,877,117	9.8%	1.5%
Total deferred outflows of resources	282,685	230,231	219,326	22.8%	5.0%
Total assets and deferred outflows of resources	$ 6,833,435	$ 6,198,295	$ 6,096,443	10.2%	1.7%
Other liabilities	$ 499,386	$ 460,713	$ 425,428	8.4%	8.3%
Long-term liabilities	4,025,771	3,599,051	3,550,835	11.9%	1.4%
Total liabilities	4,525,157	4,059,764	3,976,263	11.5%	2.1%
Total deferred inflows of resources	1,102,850	933,103	914,752	18.2%	2.0%
Net position:					
Net investment in capital assets	825,218	884,097	1,165,253	-6.7%	-24.1%
Restricted	380,210	321,331	40,175	18.3%	699.8%
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	$ 6,833,435	$ 6,198,295	$ 6,096,443	10.2%	1.7%

* 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 $374.3 million primarily due to the construction of the Oroville Dam Spillway Recovery and Restoration Project and an increase in cash and cash equivalents of $208.3 million due to the pre-funded amount of $267 million received from issuance of Series AW to fund new projects. These increases were offset by an increase in debt and deferrals related to capital assets of $641.5 million, causing an overall decrease in net investment in capital assets of $58.9 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

	Fiscal Year Ended June 30,				
	2017	2016	2015	% Change 2017-2016	% Change 2016-2015
	(amounts in thousands)				
Operating revenues:					
Water supply	$ 1,082,587	$ 948,105	$ 883,538	14.2%	7.3%
Power sales	85,089	71,236	91,780	19.4%	-22.4%
Federal and State reimbursements	55,664	67,309	44,060	-17.3%	52.8%
Total operating revenues	1,223,340	1,086,650	1,019,378	12.6%	6.6%
Operating expenses:					
Operations and maintenance expense	544,925	511,926	404,627	6.4%	26.5%
Purchased power expense	339,993	219,661	202,780	54.8%	8.3%
Depreciation expense	77,265	77,170	81,495	0.1%	-5.3%
Operating expenses recovered, net	57,066	65,004	-	0.0%	0.0%
Total operating expenses	1,019,249	873,761	688,902	16.7%	26.8%
Income from operations	204,091	212,889	330,476	-4.1%	-35.6%
Capital revenues recovered (deferred), net	(130,147)	(118,510)	(243,945)	9.8%	-51.4%
Interest expense	(105,768)	(106,978)	(96,082)	-1.1%	11.3%
Other revenues (expenses), net	31,824	12,599	9,551	152.6%	31.9%
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

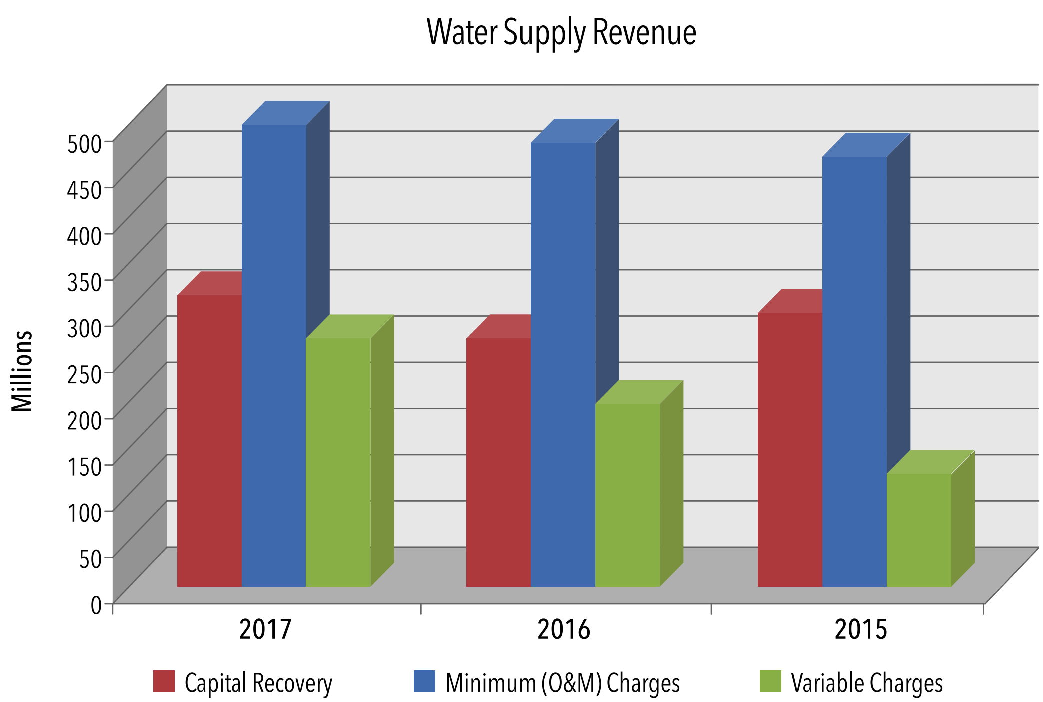
The increase of $136.7 million in operating revenues for fiscal 2017 is attributable to an increase of $134.5 million in water supply revenue billings due to significant increases in precipitation throughout Northern California, which resulted in increased water deliveries, and an increase of $13.8 million in power sales. These increases were offset by a decrease of $11.6 million in federal and state reimbursements.

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.

WATER SUPPLY REVENUE

The largest portion of revenues, approximately 88.49%, comes from Water Supply Revenue. In fiscal 2017, the System generated $1,082.6 million in water supply revenue, compared to $948.1 million in fiscal 2016, and $883.5 million in fiscal 2015.

The following table shows a comparative breakdown of the components of water supply revenue for fiscal years 2017, 2016, and 2015:

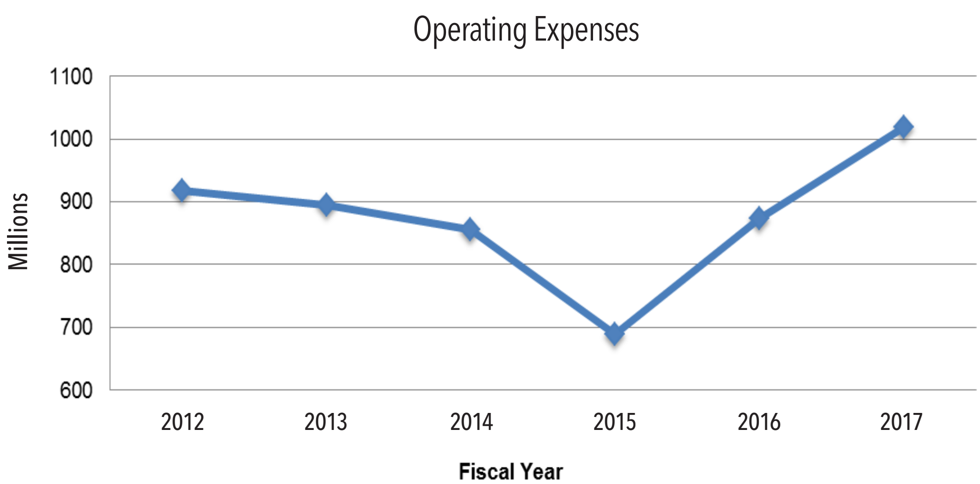


Expenses

OPERATING EXPENSES

Total operating expenses increased by $145.4 million for fiscal 2017 to a total of $1,019.2 million. The increase included $120.3 million of higher power purchases and increased operations and maintenance 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.



(Amounts reclassified in fiscal 2014 were normalized by fiscal year service period)

OPERATIONS AND MAINTENANCE EXPENSES

Total operations and maintenance expenses increase of $33 million in fiscal 2017 was mostly attributed to the following factors:

- $48.1 million increase in wages and salaries costs related to the Oroville Dam Spillway Recovery and Restoration Project, pension expense and Other Postemployment Benefits other than Pensions (OPEB)
- $7.5 million increase in purchased water supply expenses due to the purchase of environmental pulse flow water from Goodwin Dam and resold under the new multi-year Turnback Water Pool Program
- $22.6 million net decrease in expenses included reduction in pollution remediation costs, general supplies, and miscellaneous expenses related to general 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; $28.6 million increase in wages, salaries and pension expense; $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; and $8.8 million increase in purchased water supply expenses due to the purchase of environmental purse flow water from Goodwin Dam and the reimbursement to Contra Costa Water District.

POWER PURCHASES

In fiscal 2017, power purchases increased by $120.3 million to a total of $340 million. This was mainly due to significant increases in water deliveries. Heavy rains from January through April of 2017 helped refill the System's reservoirs, and allowed for greater water deliveries than in previous years. The increased water deliveries resulted in increased pumping demand, and hence greater power purchases and increased transmission costs.

In fiscal 2016, power purchases increased by $16.9 million to a total of $219.7. 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.

OPERATING AND MAINTENANCE EXPENSE RECOVERED

Operating and maintenance expense recovered decreased by $7.9 million in fiscal 2017. This decrease resulted from increased power costs due to increased pumping demand and a decrease in net suspended costs.

In fiscal 2016, operating and maintenance expense recovered increased by $69 million. This increase is primarily due to the recognition of $77 million in deferred operation and maintenance expenses offset by $8 million decrease in net suspended costs.

CAPITAL REVENUES DEFERRED

Capital revenues deferred represents the timing difference between net capital revenue recovered and certain operating costs incurred. Capital revenues recovered increased by $11.6 million in fiscal 2017. This increase was primarily due to the System having recognized current year capital revenues in excess of annual amounts in depreciation expense.

In fiscal 2016, Capital revenues recovered decreased by $125.4 million. The 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.

INTEREST EXPENSE

Interest expense decreased $1.2 million in fiscal 2017. The $1.2 million decrease was attributable to the issuance of Revenue Bonds Series AW, which refunded other bonds, as well as the gradual decrease in interest paid on the GO and DCC bonds as those bonds continue to mature.

Interest expense for fiscal 2016 increased $10.8 million from fiscal 2015. 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.

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 2017 was $374 million and for fiscal 2016 was $167 million, an increase of 10.12% and 4.72%, respectively. Additional details of capital assets are contained in Note 4.

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

Capital Assets

	Balance (in thousands)		
	2017	2016	2015 (As restated)
Nondepreciable Utility Plant	$ 1,363,938	$ 1,029,435	$ 868,849
Depreciable Utility Plant	4,826,862	4,754,564	4,678,487
Total Utility Plant	6,190,800	5,783,999	5,547,336
Less Accumulated depreciation / amortization	(2,117,138)	(2,084,676)	(2,014,654)
Utility Plant, Net	$ 4,073,662	$ 3,699,323	$ 3,532,682

LONG-TERM DEBT

The System's total debt increased $313.1 million (10.62 %) during fiscal 2017. This was comprised of the issuance of approximately $515.1 million in new debt, including Premiums, net of refundings. This increase was offset in part by bond principal payments and amortization of Premiums and Discounts of $202 million. The change in debt included the issuance of new bond Series AW with a par amount of $428.1 million, and the issuance of $200.4 million of commercial paper notes, which was partially offset by an advance refunding of $97.4 million to advance refund portions of certain CVP Water Systems Revenue Bonds, and $96 million refunding of commercial paper notes. In addition, bond proceeds of $267 million were deposited in a construction account to fund future projects, and $200.4 million was issued in commercial paper to pay for construction costs for new projects and for costs relating to the Oroville Dam Spillway Recovery and Restauration project. During fiscal 2016, the System's total debt decreased by $56.3 million. This was comprised of new debt of $137.7 million, net of refunding and defeasances, and principal payments of $194 million.

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

Long-Term Debt

	Balance (in thousands) 2017	2016	2015
Revenue Bonds	$ 3,026,368	$ 2,770,888	$ 2,724,008
General Obligation Bonds	88,300	135,045	184,960
Commercial Paper	147,165	42,776	87,901
PMIA Loan	-	-	8,094
Total	3,261,833	2,948,709	3,004,963
Less current portion	(172,805)	(180,930)	(189,479)
Long-term portion	$ 3,089,028	$ 2,767,779	$ 2,815,484

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. In fiscal 2015, the System began purchasing renewable energy under a purchase contract with Dominion Solar-RE Camelot, a 45 MW solar plant. The System is also under contract for solar energy purchases with Solverde 1 and Solar Star California XLIV, which came on line near the end of calendar year 2016 and added 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. In fiscal 2017, the SWP was still affected by the loss of the Thermalito Hyatt Power Plant (THPP) causing ongoing unavailability of units at DWR's Oroville complex.

Increased water allocations resulted in increased water deliveries and pumping through the SWP. Water deliveries increased from 1.77 million acre-feet in fiscal 2016 to 2.94 million acre-feet in fiscal 2017, an increase of 1.17 million acre-feet or 66.10%. The primary factor that contributed to increased water deliveries in fiscal 2017 were the severe winter storms that occurred from October 2016 to April 2017 throughout Northern California. This resulted in Northern California receiving approximately 26 inches of precipitation, which created extremely high water inflows into Oroville Lake. The increase in precipitation allowed the water contractor allocation to increase to 85% in April 2017.

Significant increases in precipitation throughout Northern California in this fiscal year have resulted in excess water inflows to the System reservoirs, allowing Water Contractor allocations to recover to their pre-drought levels of nearly 60%. As a result, Governor Edmund G. Brown Jr. issued an Executive Order in April 2017 lifting the statewide drought emergency across the state except for a few counties near Fresno. However, the effort to make water conservation a way of life in California still remains in effect.

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, Enterprise Accounting Branch, 1416 Ninth Street Room 816, Sacramento, CA 95814.

FINANCIAL STATEMENTS

Statements of Net Position)

(amounts in thousands)

	June 30, 2017	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 808,769	$ 550,968
Receivables:		
Interest on investments	2,552	1,265
Water supply and power billings (net)	106,591	119,235
Due from federal and state governments	35,253	38,596
Due from others	85	466
Inventories	5,011	5,171
Total current assets	958,261	715,701
Long-term assets:		
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	33,204	29,436
Cash and investments restricted for debt service	126,990	114,459
Cash and cash equivalents on deposit with revenue bond trustee	33,695	33,435
Amounts recoverable through future billings under long-term water supply contracts:		
Operations and maintenance expense	202,725	277,024
Capital credit due from water contractors	348,845	297,814
Unamortized project costs	318,574	313,045
Unbilled interest incurred on capital costs	347,724	382,848
Loans receivable from local water agencies	11,934	12,968
Advances to other state funds	95,136	92,011
Total long-term assets	1,518,827	1,553,040
Utility plant:		
Utility plant in service	5,094,803	5,014,128
Less accumulated depreciation	(2,117,138)	(2,084,676)
Net utility plant in service	2,977,665	2,929,452
Construction work in progress	1,095,997	769,871
Total utility plant	4,073,662	3,699,323
Total assets	6,550,750	5,968,064
Deferred outflows of resources:		
Deferral of loss on refunding	155,183	161,656
Deferral of employer pension contribution	51,594	47,978
Deferral of resources related to pensions	75,908	20,597
Total deferred outflows of resources	282,685	230,231
Total assets and deferred outflows of resources	$ 6,833,435	$ 6,198,295

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

Statements of Net Position (continued) *(amounts in thousands)*

	June 30, 2017	June 30, 2016
Liabilities		
Current liabilities:		
Current maturities of bonds	$ 172,805	$ 180,930
Accounts payable	147,651	115,898
Accrued vacation	15,590	14,528
Pollution remediation	4,207	4,207
Accrued interest on long-term debt	11,491	11,229
Due to other state funds	52,292	39,370
Proceeds due to water contractors	95,350	94,551
Total current liabilities	499,386	460,713
Long-term liabilities		
General obligation bonds	54,065	88,300
Revenue bonds	2,887,798	2,636,703
Commercial paper	147,165	42,776
Other postemployment benefits	262,390	230,198
Net pension liability	556,748	485,502
Accrued vacation	25,313	25,888
Pollution remediation	37,909	44,854
Unearned revenue - State and Federal capital recovery	17,653	12,766
Advances for plant replacements	36,730	32,064
Total long-term liabilities	4,025,771	3,599,051
Total liabilities	4,525,157	4,059,764
Deferred inflows of resources:		
Operations and maintenance expense	1,866	1,929
Capital costs	952,245	774,159
Power sales credit due to Water Contractors	137,348	146,417
Deferral of resources related to pensions	11,391	10,598
Total deferred inflows of resources	1,102,850	933,103
Total liabilities and deferred inflows of resources	5,628,007	4,992,867
Net position:		
Net investment in capital assets	825,218	884,097
Restricted by legislation	380,210	321,331
Total net position	1,205,428	1,205,428
Total liabilities, deferred inflows of resources, and net position	$ 6,833,435	$ 6,198,295

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

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Statements of Revenues, Expenses, and Changes in Net Position

(amounts in thousands)

	Fiscal Year Ended June 30, 2017	Fiscal Year Ended June 30, 2016
Operating revenues:		
Water supply	$ 1,082,587	$ 948,105
Power sales	85,089	71,236
Federal and State reimbursements	55,664	67,309
Total operating revenues	1,223,340	1,086,650
Operating expenses:		
Operations and maintenance	544,925	511,926
Purchased power	339,993	219,661
Depreciation and amortization expense	77,265	77,170
Operating expenses recovered, net	57,066	65,004
Total operating expenses	1,019,249	873,761
Income from operations	204,091	212,889
Nonoperating revenue (expenses):		
Capital revenues recovered (deferred), net	(130,147)	(118,510)
Interest expense	(105,768)	(106,978)
Other revenues (expenses), net	31,824	12,599
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)

	Fiscal Year Ended June 30, 2017	2016
Cash flows from operating activities:		
Receipts from customers	$ 1,249,998	$ 1,129,333
Payments to employees for services	(367,083)	(374,380)
Payments to suppliers	(437,278)	(319,699)
Other receipts	21,044	5,741
Net cash provided by operating activities	466,681	440,995
Cash flows from capital and related financing activities:		
Proceeds from issuance of revenue obligation bonds including premium	330,700	215,805
Principal payments on long-term debt	(180,930)	(221,370)
Commercial paper notes issued	200,379	180,375
Principal payments on commercial paper notes	(95,990)	(225,500)
Principal payments on PMIA note	-	(8,094)
Interest payments on long-term debt	(40,069)	(91,841)
Additions to utility plant and construction work in progress	(416,936)	(243,811)
Net cash used by capital and related financing activities	(202,846)	(394,436)
Cash flows from investing activities:		
Cash received from investment earnings	11,247	27,667
Proceeds of investments matured	102,111	100,870
Purchases of investments	(102,110)	(110,585)
Loan payments from local water agencies	1,034	1,094
Net cash provided by investing activities	12,282	19,046
Net increase (decrease) in cash and cash equivalents	276,117	65,605
Cash and cash equivalents, beginning of year	666,629	601,024
Cash and cash equivalents, end of year	$ 942,746	$ 666,629
Noncash capital and related financing activities:		
Amortization of bond premium/discount	$ 34,541	$ 19,637
Amortization of deferred loss on refunding	(11,109)	(10,902)
Principal retirements of long-term debt on proceeds received from issuance of Series AW Water System Revenue Bonds	97,430	-
Noncash capital and related financing activities:	$ 120,862	$ 8,735

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

Statements of Cash Flows (continued) *(amounts in thousands)*

	Fiscal Year Ended June 30, 2017	2016
Reconciliation to the statement of net position:		
Cash and cash equivalents	$ 808,769	$ 550,968
Restricted assets:		
Cash and cash equivalents restricted for plant replacements	33,204	29,436
Cash and cash equivalents restricted for debt service (net of $59,913 and $61,669 of U.S. Agency securities for 2017 and 2016, respectively)	67,077	52,790
Cash and cash equivalents on deposit with revenue bond trustee	33,696	33,435
Cash and cash equivalents	$ 942,746	$ 666,629

	2017	2016
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 204,091	$ 212,889
Adjustment to reconcile income from operations to net cash provided by operating activities		
Depreciation expense	77,265	77,170
Other receipts	21,044	5,741
(Increase) decrease in deferred charges and credits, net	7,631	116,809
Changes in assets and liabilities:		
(Increase) decrease in receivables	13,025	(39,766)
(Increase) decrease in inventories	161	(12)
(Increase) decrease in due from federal government	3,343	(1,189)
Increase (decrease) in other non current liabilities	72,038	(10,400)
Increase in accounts payable, accrued vacation, pollution remediation, and other postemployment benefits	54,362	77,797
Increase(decrease) in due to other state funds	12,922	(5,695)
Increase in proceeds due to Water Contractors	799	7,651
Total adjustments	262,590	228,106
Net cash provided by operating activities	$ 466,681	$ 440,995

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

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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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

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, 2017 and 2016 had a balance of $78.3 billion and $77.7 billion, respectively. The weighted average to maturity of PMIA investments was 194 days as of June 30, 2017 and 167 days as of June 30, 2016. The total amount of deposits in SMIF was $37.3 billion as of June 30, 2017 and $38 billion as of June 30, 2016. 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 $825 million as of June 30, 2017 and 400 million as of June 30, 2016. The investment portfolio also included asset-backed securities totaling $1,419 million as of June 30, 2017, and $1,719 million as of June 30, 2016.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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, 2017 are of a similar nature as those held at June 30, 2016.

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. The other Advances to Other State Funds represent the System's advances to the Department of General Services to fund the Rio Vista Science Center, a joint venture between DWR and the United States Fish and Wildlife Services.

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.

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, 2017 and 2016 were as follows:

Inventories

	2017	2016
Operating supplies	$ 4,793	$ 4,915
Fuel	218	256
Total	$ 5,011	$ 5,171

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, 2017 and 2016.

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, change in proportionate share, 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, change in proportionate share, differences between expected and actual experiences, 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 $155.2 million as of June 30, 2017 and $161.7 million as of June 30, 2016. The $6.4 million decrease is due to the scheduled annual amortization of $11 million offset with a net increase of $4.6 million unamortized loss resulting from the refunding of Series AW.

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 $51.6 million in employer pension contributions during fiscal 2017. Additionally, differences between expected and actual experience are required to be recognized in pension expense in a systematic and 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 $75.9 million and $20.6 million as of June 30, 2017 and 2016, respectively.

Deferred Inflows of Resources

Deferred operations and maintenance expenses represent operations and maintenance revenues collected in excess of operations and maintenance expenses incurred resulting from specific terms of the Water Supply Contracts and timing differences. The System had an ending balance of $1.8 million and $1.9 million in deferred inflows of operations and maintenance expenses as of June 30, 2017 and 2016, 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 System had an ending balance of $952.2 million and $774.2 million in deferred inflows of capital costs as of June 30, 2017 and 2016, respectively.

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 $9.1 million to an ending balance of $137.3 million in fiscal 2017 compared to $146.4 million in fiscal 2016.

The System's allocated share of the deferred inflows of resources related to pensions was $11.4 million and $10.6 million as of June 30, 2017 and 2016, respectively.

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, 2017 and 2016. 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 $56.3 million and $57.8 million for the years ended June 30, 2017 and 2016, respectively, are included as Proceeds Due to Water Contractors as presented in the Supplementary Information Debt Service Coverage. The Water Contractors received bond cover refunds of $57.9 million and $55.1 million in the years 2017 and 2016, respectively.

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 39.90% 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.

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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

RECLASSIFICATIONS

Certain amounts presented in the prior year have been reclassified in order to conform to the current year's presentation. These reclassifications were necessary to accurately present amounts of the System's net position by its two components: net investment in capital assets and restricted net position.

Statements of Net Position

	Balance Previously Reported at June 30, 2016	Reclassification	June 30, 2016 (After Reclassification)
Net position:			
Net investment in capital assets	$ 1,155,487	(271,390)	$ 884,097
Restricted by legislation	49,941	271,390	$ 321,331

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

3. Interests in Jointly Owned Facilities

At June 30, 2017 and 2016, the System owned the following undivided interests in jointly-owned facilities:

Interests in Joint-Use Facilities

	Joint Party	% Owned by System	System's Portion Based on % Owned — UPIS/CWIP 2017	UPIS/CWIP 2016	Accum Depreciation 2017	Accum Depreciation 2016
San Luis Joint-Use Facilities	USBR	55%	$ 241,307	$ 244,741	$ 54,223	$ 80,392
SWP Hydropower Facilities License	LADWP	50%	$ 1,735	$ 1,499	$ -	$ -

* 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 2017 is presented below:

Utility Plant June 30, 2017

	Beginning Balance	Transfers and Additions	Transfers and Deletions	Ending Balance
Nondepreciable Utility Plant:				
Land	$ 147,681	$ 9,279	$ (26)	$ 156,934
Construction work in progress (CWIP)	769,871	405,719	(79,593)	1,095,997
Land use rights	11,760	7	-	11,767
Other intangible assets	100,123	-	(883)	99,240
Total nondepreciable utility plant	1,029,435	415,005	(80,502)	1,363,938
Depreciable Utility Plant:				
Aqueducts	2,171,981		(45,268)	2,126,713
Dams & reservoirs	708,303	34,921	(13,703)	729,521
Power plants	470,818	8,839	(2,613)	477,044
Pumping plants	838,880	11,595		850,475
Environmental preservation and mitigation	67,797	-	-	67,797
Fish protection	35,544	-	-	35,544
Facilities	271,965	33,101	(6,771)	298,295
Equipment and other depreciable assets	79,229	9,680	(6,383)	82,526
Computer software	24,717	2,391	-	27,108
Land use rights	272	-	-	272
Other intangible assets	12,005	-	-	12,005
General	73,053	46,509	-	119,562
	4,754,564	147,036	(74,738)	4,826,862
Less: accumulated depreciation and amortization				
Aqueducts	(614,557)	(24,832)	22,954	(616,435)
Dams & reservoirs	(382,522)	(9,715)	11,701	(380,536)
Power plants	(297,433)	(11,146)	2,568	(306,011)
Pumping plants	(588,036)	(11,030)	(1,913)	(600,979)
Environmental preservation and mitigation	(35,014)	(1,366)	-	(36,380)
Fish protection	(29,842)	(703)	-	(30,545)
Facilities	(23,425)	(9,113)	3,120	(29,418)
Equipment and other depreciable assets	(67,364)	(4,546)	6,373	(65,537)
Computer software	(24,100)	(434)	-	(24,534)
Land use rights	(229)	(43)	-	(272)
Other intangible assets	(3,603)	(1,203)	-	(4,806)
General	(18,551)	(3,134)	-	(21,685)
	(2,084,676)	(77,265)	44,803	(2,117,138)
Total depreciable plant	2,669,888	69,771	(29,935)	2,709,724
Total Utility Plant - net	$ 3,699,323	$ 484,776	$ (110,437)	$ 4,073,662

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

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 and amortization				
Aqueducts	(589,750)	(24,807)	-	(614,557)
Dams & reservoirs	(372,857)	(9,665)	-	(382,522)
Power plants	(286,820)	(10,613)	-	(297,433)
Pumping plants	(577,361)	(10,675)	-	(588,036)
Environmental preservation and mitigation	(33,648)	(1,366)	-	(35,014)
Fish protection	(29,160)	(682)	-	(29,842)
Facilities	(14,857)	(8,568)	-	(23,425)
Equipment and other depreciable assets	(71,240)	(3,272)	7,148	(67,364)
Computer software	(21,582)	(2,518)		(24,100)
Land use rights	(186)	(43)		(229)
Other intangible assets	(2,401)	(1,202)		(3,603)
General	(14,792)	(3,759)	-	(18,551)
	(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)

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, 2017:

Investments 2017

	% of Total Inv	Credit Rating (S&P)	Maturities: Under 30 Days	Maturities: 31-180 Days	Maturities: 181-365 Days	Maturities: 1-5 Years	Investment Value
Investments:							
US Federal Agency Notes							
Federal National Mortgage Association	10%	AA+	-	-	9,172	-	9,172
Federal Home Loan Bank	54%	AA+	50,741	-	-	-	50,741
							59,913
Investment with Fiscal Agent							
US Bank Money Market Funds	36%	AAA	33,695	-	-	-	33,695
Total Investments							$ 93,608

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	Maturities: 31-180 Days	Maturities: 181-365 Days	Maturities: 1-5 Years	Investment Value
Investments:							
US Federal Agency Notes							
Federal National Mortgage Association	1%	AA+	-	-	-	9,913	9,913
Federal Home Loan Bank	7%	AA+	-	51,756	-	-	51,756
							61,669
Investment with Fiscal Agent							
US Bank Money Market Funds	5%	AAA	33,435	-	-	-	33,435
Total Investments							$ 95,104

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 $909,050 and $633,193 for the fiscal years ended June 30, 2017 and 2016, respectively. Investments outside the State's Centralized Treasury System totaled $93,608 and $95,104 for the fiscal years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, 6% and 8%, 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, $33,695 and $33,435 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 0.754%, and 0.434% for the years ended June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, interest earned on the deposits with PMIA approximated $6.9 million and $2.9 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 $59.9 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

	2017	2016
Fair Value of investments at the beginning of the fiscal year	$ 61,669	$ 72,497
Less: Proceeds of investments matured in fiscal year	(100,869)	(110,585)
Add: Purchase of investments in fiscal year	100,869	100,870
Add: Amortization of discounts	13	47
Change in fair value of investments during fiscal year	(1,769)	(1,160)
Fair value of investments at the end of the fiscal year	$ 59,913	$ 61,669

6. Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2017 and 2016:

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, 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
Additions	428,130	-	93,506	521,636	-	200,379	-	722,015
Retirements	(97,430)	-	(13,404)	(110,834)	-	(95,990)	-	(206,824)
Amortization		1	(21,138)	(21,137)	-	-	-	(21,137)
Payments	(134,185)	-	-	(134,185)	(46,745)	-	-	(180,930)
Balance at June 30, 2017	2,686,190	(6)	340,184	3,026,368	88,300	147,165	-	3,261,833
Less current portion	(138,570)	-	-	(138,570)	(34,235)	-	-	(172,805)
Total Long-term Debt	$ 2,547,620	$ (6)	$ 340,184	$ 2,887,798	$ 54,065	$ 147,165	$ -	$ 3,089,028

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, 2017, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service is $96.5 million with payments through 2025. Principal and interest paid for the current year was $52.4 million and Burns-Porter Act water supply operating revenues were $841.5 million. As of June 30, 2016, the amount of the revenues pledged to repay the Burns-Porter Act SWRDS GO Bonds debt service was $148.9 million. Principal and interest paid for 2016 was $57.7 million and Burns-Porter Act SWRDS water supply operating revenues were $693 million.

SWRDS GO Bonds of $168 million are authorized but un-issued as of June 30, 2017 and 2016, 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, 2017:

General Obligation Bonds

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Amounts Outstanding 2017	Amounts Outstanding 2016
1967	F	3.5%	2017	$ -	$ 4,500
1967	G	3.5%	2017	-	4,500
1967	H	3.0%	2017	-	4,500
1968	J	3.5%	2018	4,500	8,900
1968	K	4.0%	2018	4,500	8,900
1969	L	4.5%	2019	8,900	13,200
1969	M	4.0-4.9%	2019	8,900	13,200
1970	N	5.0%	2020	13,200	17,300
1970	P	5.0%	2020	13,200	17,300
1971	Q	4.8%	2021	17,300	21,300
1971	R	4.8%	2021	8,650	10,650
1972	S	5.3%	2022	8,520	10,080
1994	X	4.8%	2024	350	400
1995	Y	7.0-7.1%	2025	280	315
Total General Obligation bond debt outstanding at par				88,300	135,045
Less current maturities				(34,235)	(46,745)
Total Long-term General Obligation bond debt outstanding				$ 54,065	$ 88,300

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, 2017, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service is $3,726.7 million with payments through Fiscal 2036. Principal and interest paid for the current year was $242.6 million and CVP water supply operating revenues were $241.1 million. As of June 30, 2016, the amount of the revenues pledged to repay the Water System Revenue Bonds debt service were $3,457 million with payments through 2036. Principal and interest paid for the previous year was $237.2 million and CVP water supply operating revenues were $255.1 million.

On October 20, 2016, the System issued tax-exempt Water System Revenue bonds (Series AW) with a par amount of $428.1 million and a Premium of $93.5 million. The proceeds from the Series AW bond issuance were used to (1) provide $267 million of advance funds for the construction of certain Water System Projects, (2) pay off $96 million outstanding Water Revenue Commercial Paper Notes Series 1, and (3) refund certain of the outstanding Water System Revenue Bonds with par value of $97.4 million. The Series AW was issued with fixed coupon rates at 3.0% and 5.0%, and maturities ranging from 2018 to 2035. The Series AW 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 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 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 1.05% to 1.54% and averaged 1.30% in fiscal year 2017.

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, 2017:

CVP Revenue Bonds

Fiscal Year of Issue	Series	Fixed Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amounts Outstanding 2017	Amounts Outstanding 2016
Devil Canyon-Castaic Facilities:						
1973	A&B	5.3%	2023	1983	$ 45,475	$ 51,625
CVP Water System:						
1999	V	6.3%	2025	None	18,050	18,050
2002	X	5.5%	2018	None	16,135	29,975
2008	AE	3.5-5.0%	2030	2018	54,910	74,365
2009	AF	3.3-5.0%	2030	2019	93,855	98,765
2010	AG	4.0-5.0%	2030	2020	20,505	26,980
2011	AH	3.8-5.3%	2030	2021	31,930	58,640
2012	AI	5.0%	2030	2022	62,845	74,910
2012	AJ	4.0-5.0%	2030	2022	101,230	161,960
2012	AK	3.0-5.0%	2030	2022	11,965	27,415
2013	AL	5.0%	2030	2023	62,375	67,750
2013	AM	5.0%	2026	2023	145,830	156,045
2013	AN	4.0-5.0%	2036	2023	28,500	41,330
2013	AO	1.3-3.5%	2030	None	259,975	278,240
2013	AP	3.0-4.0%	2036	2023	31,040	42,460
2013	AQ	4.0-5.0%	2036	2023	115,445	117,855
2014	AR	4.0-5.0%	2036	2024	151,085	156,400
2015	AS	2.0-5.0%	2033	2025	641,860	641,860
2015	AT	Variable	2036	2017	149,245	149,245
2016	AU	Variable	2036	2017	109,275	109,275
2016	AV	4.0-5.0%	2036	2026	106,530	106,530
2017	AW	3.0-5.0%	2036	2027	428,130	-
Total CVP Water System Revenue Bonds					2,640,715	2,438,050
Total revenue bond debt outstanding at par					2,686,190	2,489,675
Unamortized bond issuance premiums					340,184	281,220
Unamortized bond issuance discounts					(6)	(7)
Current fiscal maturities					(138,570)	(134,185)
Total long-term bond debt outstanding					$ 2,887,798	$ 2,636,703

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, 2017:

Future Debt Service Requirements

	Revenue Bonds			General Obligation Bonds			All Bonds
Year	Principal	Interest*	Total	Principal	Interest	Total	Total
2018	$ 138,570	$ 114,284	$ 252,854	$ 34,235	$ 3,792	$ 38,027	$ 290,881
2019	134,515	108,095	242,610	25,975	2,414	28,389	270,999
2020	153,990	103,298	257,288	17,405	1,386	18,791	276,079
2021	154,780	95,967	250,747	8,595	527	9,122	259,869
2022	157,575	89,064	246,639	1,885	109	1,994	248,633
2023-2027	765,515	335,428	1,100,943	205	16	221	1,101,164
2028-2032	692,670	158,269	850,939	-	-	-	850,939
2033-2036	488,575	36,131	524,706	-	-	-	524,706
	$ 2,686,190	$ 1,040,536	$ 3,726,726	$ 88,300	$ 8,244	$ 96,544	$ 3,823,270

*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 year 2016 was $8.3 million. 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

In March 1993, the System launched its commercial paper (CP) program to pay for Water System Capital costs relating to State Water System Projects. Pursuant to the original Resolution No. DWR-CP-1, adopted as of March 1, 1993, the Department authorized the issuance of CP Notes Series 1 in an aggregate amount not to exceed $150 million, limited to $139.7 million in principal and $10.3 million of accrued interest. To provide liquidity for the program, the System entered into two separate credit agreements with two commercial banks on May 3, 2017. Pursuant to Resolution No. DWR-CP-5, adopted on May 1, 2017, the Department authorized the increase of the issuance of CP Notes Series 1 (Series 1) in an amount not to exceed $300 million in principal and $22.2 million in interest. On the same date, pursuant to Resolution DWR-CP-Series 2-1 (Series 2), the Department authorized the issuance of new CP Notes Series 2, with a limit not to exceed $500 million in principal and $37 million in accrued interest to expand its total CP capacity to $800 in principal and $59.2 million in accrued interest. The Series 2 program was established to pay for costs relating to the Oroville Dam Spillway Recovery and Restoration Project.

The Department has two revolving credit agreements supporting its $800 million CP program. The department entered into credit agreements with two banks on May 4, 2017. Both Lines of Credit are scheduled to expire on May 1, 2020, but can be extended for up to three years upon written request and approval of the banks. They require quarterly commitment fee payments on the first business day of each July, October, January and April. As of June 30, 2017, there were no borrowings with the banks under the current revolving credit agreements.

The Series 1 is supported by a credit agreement with Bank of America, N.A. The Series 1 program, which was originally supported by a $150 million, credit agreement with Bank of Montreal, was scheduled to expire on October 24, 2017, but was terminated early on May 4, 2017. Under the old credit agreement, Bank of Montreal was obligated to provide $150 million, with principal 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. There were no borrowings with Bank of Montreal under this revolving credit agreement before it was terminated. Under the new credit agreement for the Series 1, Bank of America N.A. is obligated to provide up to $300 million in principal at any one time and $22.2 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $300 million.

The Series 2 is supported by a credit agreement with Wells Fargo Bank, National Association. Under this agreement, the bank is obligated to provide up to $500 million in principal at any one time and up to $37 million of accrued interest, calculated for sizing purposes at 10% per annum for 270 days on a maximum principal commitment of $500 million.

As of June 30, 2017, there were no CP notes outstanding for the Series 1 and the amount of CP outstanding for the Series 2 Notes was $147.2 million. As of June 30, 2016, the CP outstanding for the Series 1 Notes was $42.8 million. Based on the projected capitalization and future expenses of Water System Projects, the System is expected to issue Series 1 Notes based on liquidity needs in 2018. The weighted average rate for interest expense approximated 0.86% for the year ended June 30, 2017 and 0.12% for the year ended June 30, 2016. The System expects a significant portion of Series 2 Notes to be paid with proceeds from the federal government as reimbursement for costs relating to the Oroville Dam Spillway Recovery and Restoration Project. Any CP outstanding remaining after all reimbursements have been received will be refunded with Revenue Bonds.

Proceeds from the sale of Notes are used to finance Water System Projects prior to permanent financing from the sale of Water System Revenue Bonds. Proceeds from the Series 2 Notes are restricted to be used to provide funds for costs related to the Oroville Dam Spillway Recovery and Restoration Project and proceeds from the Series 1 Notes are restricted to be used to provide funds for costs related to other Water System projects. 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 Commercial Paper Notes is subordinate to its payment obligations with respect to 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, or obtains other sources or funds, 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 the current fiscal year, the System issued CVP Water System Revenue Bonds Series AW to advance refund portions of previous issuances. In prior years, the System has also defeased various bond issuances by depositing bonds proceeds in escrows and creating irrevocable trusts. The net proceeds from these advance refundings were used to purchase State and Local Government Securities (SLGS) and U.S. Treasury Securities to meet the requirements of the refunded debt. Those securities were deposited in irrevocable escrow trust accounts with the State Treasurer acting as escrow 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, 2017 and 2016, outstanding Water System Revenue Bonds of $817.1 million and $726.2 million, respectively, are considered to be defeased.

On October 20, 2016, the System issued tax-exempt CVP Water System Revenue bonds Series AW with an average yield of 2.71% to advance refund portions of previous issues. The bond proceeds with a par of $93.9 million and premium of $21.9 million, along with System funds on-hand in the amount of $1.3 million were used to advance refund $97.4 million of bonds, fund $19.4 million of future interest on the defeased bonds, and cover costs of issuance of $0.4 million. The par amounts of the refunded bonds are as follows:

Bonds Refunded by Series AW

Bond Series	Amount
Series AG	$ 6,115
Series AH	22,885
Series AJ	32,230
Series AK	14,595
Series AN	11,665
Series AP	9,940
Total	$ 97,430

Series AW was issued to take advantage of lower interest rates. This transaction resulted in cash flow savings of $9 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $7 million. The refunding resulted in a difference between the book value of the old debt and the amount required to retire the debt of $4.6 million. This difference is considered to be a deferred loss on the refunding and is being amortized over the original remaining life of the old debt or the life of the new debt, whichever is less, using the straight-line method.

Amortization of all deferred refunding costs was approximately $11.1 million in fiscal 2017 and $13.3 million in fiscal 2016.

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, 2015
- Measurement Date June 30, 2016
- Measurement Period July 1, 2015 to June 30, 2016

PLAN DESCRIPTION

As a participant in the State of California's defined benefit pension plan, the System reports an allocated share of the total net pension liability reported by the State. 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 System's 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 9, 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 (PERL) 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 PERL Section 20683.2, which mandates that certain employees 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 the State Miscellaneous and State Safety plans applicable to the System as a percentage of annual pay for the measurement period ended June 30, 2016.

Contribution Rates

June 30, 2016	State Miscellaneous	State Safety
Average active employee rate	6.669%	10.433%
Employer rate of annual payroll	25.153%	19.192%
Total	31.822%	29.625%

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

ACTUARIAL METHODS AND ASSUMPTIONS

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2015 and the June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Methods and Assumptions

Valuation Date:	June 30, 2015	
Actuarial Cost Method:	Entry Age Normal in accordance with the requirements of GASB Statement No. 68	
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 expense but without reduction for administrative 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 the Purchasing Power Protection Allowance floor on purchasing power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report may be accessed on the CalPERS' website under Forms and Publications.

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 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 pension fund 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. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation used to measure the total pension liability.

Long-Term Expected Rate of Return by Asset Class

Asset Class	Current Target Allocation	Real Return Years 1 - 10 [1]	Real Return Years 11+ [2]
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	12.0%	6.83%	6.95%
Real Estate	11.0%	4.50%	5.13%
Infrastructure and Forestland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
	100.0%		

[1] An expected inflation of 2.5% used for this period
[2] An expected inflation of 3.0% used for this period

In December 2016, the CalPERS Board of Administration voted to lower the discount rate used in its actuarial assumptions from 7.5% to 7.0% (net of 0.15% administrative expenses) effective July 1, 2017. This reduction to the discount in accordance with GASB 68 will increase the net pension liability. This increase will be amortized over the expected remaining service lives of all employees provided with benefits through the pension plans. For the State Miscellaneous and State Safety plans, this period ranges from 3.5 to 5.3 years.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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:

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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	$ 757,948	$ 556,748	$ 387,836

PENSION PLANS FIDUCIARY NET POSITION

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

As of June 30, 2017, the System reported net pension liability for its proportionate share of $556.7 million.

The System's net pension liability for the State Miscellaneous and State Safety plans is measured as the proportionate share of the net pension liability. The net pension liability of the State Miscellaneous and State Safety plans is measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016. The System's proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the System. The SCO calculated and provided the System with its allocated pensionable compensation percentage. The System's pensionable compensation percentage as of June 30, 2016 and 2015 was 1.6813% and 1.7191%, respectively.

For the measurement period ending June 30, 2016 (the measurement date), the System incurred a pension expense of $64.7 million in fiscal 2017.

As of the measurement date of June 30, 2016, the System had deferred outflows and deferred inflows of resources related to pensions as follows:

Deferred Outflows of Resources and Deferred Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
System contribution subsequent to the measurement date	$ 51,594	$ -
Change in proportion	8,723	(10,113)
Difference between expected and actual experience	5,682	(1,278)
Net difference between projected and actual earnings on pension plan investment	61,503	-
Total	$ 127,502	$ (11,391)

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System reported $51.6 million as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal ending June 30, 2018. 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:

Amortization of Deferred Outflows/(Inflows)

Year Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	$ 11,596
2019	11,297
2020	28,068
2021	13,556
2022	-
Total	$ 64,517

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 accordance with the California Government Code, the State generally pays all or a portion of the health and dental insurance costs for retirees, depending upon the completed years of credited state service at retirement and the coverage selected by the retiree. The System participates in the State's single-employer plan on a cost sharing, 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 2017, the State paid 100% of the health insurance premium for retirees, 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 $707 for single, $1,349 for two parties, and $1,727 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 are as follows:

Net OPEB Obligations

	2017	2016
Annual required contribution (ARC)	$ 49,354	$ 41,174
Interest on net OPEB obligation	9,499	7,010
Adjustment to the ARC	(8,826)	(6,513)
Annual OPEB cost	50,027	41,671
Contributions made	(17,835)	(14,692)
Increase in net OPEB obligation	32,192	26,979
Net OPEB obligation - beginning of year	230,198	203,219
Net OPEB obligation - end of year	$ 262,390	$ 230,198

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, 2017, 2016 and 2015, were as follows:

Annual Required Contribution

Fiscal Year Ended	Annual Required Contribution	Percentage of ARC Contributed	Net OPEB Obligation
6/30/15	$ 42,008	38%	$ 203,219
6/30/16	41,174	35%	230,198
6/30/17	49,354	36%	262,390

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, 2017 and 2016, were approximately $57.5 million and $51.1 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 $91.2 million over periods ranging from one to 25 years. Payments made under these contracts approximated $3.8 million and $4.5 million for the years ended June 30, 2017 and 2016, respectively.

The System has long-term power purchase contracts with anticipated future payments of approximately $651.6 million over periods ranging from one to 25 years. The remaining amounts of fixed obligations under the long-term power contracts as of June 30, 2017, are as follows:

Fixed Obligations

Year	Transmission	Power	Total
2018	$ 4,572	$ 37,433	$ 42,005
2019	4,572	37,433	42,005
2020	4,572	31,988	36,560
2021	4,572	31,029	35,601
2022	4,572	31,029	35,601
2023-2042	68,358	482,696	551,054
Total	$ 91,218	$ 651,608	$ 742,826

The System has a contract with the Kings River Conservation District, which provides the System 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 $13.3 million and $9.4 million during the years ended June 30, 2017, and 2016, 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, 2017 are as follows:

Fixed Obligations

Year	Total
2018	$ 4,239
2019	4,257
	$ 8,496

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 % of the construction and operating costs in exchange for receiving 33.5 % 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, 2017 are as follows:

LEC Bonds Fixed Obligations

Year	Total
2018	$ 9,208
2019	9,207
2020	9,209
2021	9,207
2022	9,209
2023-2027	46,043
2028-2032	46,037
2033-2035	27,625
	$ 165,745

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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

Energy Commitments' Market Values

	Number of Contracts	Total Capacity (MWh)	Fair Value at June 30, 2017
Energy purchases	18	525	$ (7,724)
Long-term energy purchases	7	443	(351,732)
Total			$ (359,456)

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 long-term 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 deficient. In October 2014, the Court ordered DWR, as the remedy for the deficiency, to provide additional environmental analysis on the impacts of the continued use and operation of the Kern Water Bank in a revised EIR and upon completion of the revised EIR, to determine whether to continue the use and operation of the Kern Water Bank by the Kern Water Bank Authority. The court limited its decision to the Kern Water Bank by ruling that only those portions of the revised EIR that are new or changed shall be subject to challenge under CEQA by petitioners or other interested parties and that no other challenges that were raised or could have been raised with respect to the EIR may be raised in any challenge to the revised EIR. The trial court's decision, therefore, leaves all matters related to the System and the Monterey Amendment untouched. In December 2014, one set of plaintiffs filed a notice of appeal with the Court of Appeal. These plaintiffs are appealing the trial court's final CEQA and validation decisions. In September 2016, the Department issued the revised EIR in compliance with the trial court's decision. Shortly thereafter, one set of plaintiffs, as well as a new party, filed a new action challenging the revised EIR. The new action challenges the Department's certification of the revised EIR and approval of the "Kern Water Bank Development and Continued Use and Operation" project and is currently in the pre-trial stage. 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 long-term 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 Contractors who 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 long-term water supply contracts.

Federal Energy Regulatory Commission Proceedings

There are a number of proceedings pending before the Federal Energy Regulatory Commission (FERC) that may impact the cost of System operations. Some of these proceedings address requests from the California Independent System Operator (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 long-term water supply contracts in the form of higher operations charges.

2017-Oroville Dam Spillway Emergency and Feather River Flooding

As described in detail in Note 15, "Significant Events," historical amounts of rainfall occurred in January and February 2017 causing widespread flooding throughout California, including in the Oroville and Feather River area. As further described in Note 15, during the storms and rainfall, significant damage occurred to both the control spillway and emergency spillway at Oroville Dam. As a result, DWR operated the control spillway and Dam facilities to address this situation. In addition, because of a concern about the potential failure of the emergency spillway, the Butte County Sherriff issued an evacuation order for Oroville and the surrounding communities on February 12, 2017. The evacuation order was lifted on February 14, 2017.

To ensure public safety, the Department set a goal of November 1, 2017, to reconstruct the main spillway to handle flows of 100,000 cubic feet per second. While the Department met its November 1, 2017, goal, work still continues. Due to the enormity of the project, construction will be done over multiple phases. The Department is targeting January 2018 to complete construction of a cut-off wall 730 feet downhill of the emergency spillway which will prevent uphill erosion beyond the wall if the emergency spillway is ever used again. As weather permits, the Department will also begin construction of a buttress and splash pad on the emergency spillway, which will bolster the integrity of the spillway and the hillside downstream. In spring of 2018, work on the main spillway will ramp back up to finish the reconstruction of the main spillway, which will bring it back to original design capacity of 270,000 cubic feet per second.

The Oroville Dam Spillway Recovery and Restoration Project consists of emergency protective measures and debris removal, reconstruction of the main spillway and on the emergency spillway. The total costs of the Oroville Dam Spillway Recovery and Restoration Project prior to any federal or other reimbursement on this project are estimated to be in the range of $500 to $600 million; to date the Department has received approximately $68 million in federal reimbursement. In conjunction with the Oroville Dam Spillway Recovery and Restoration Project, the Department is undertaking certain other improvements to the Oroville Dam, which, through calendar year 2019, are estimated to be in the range of $100 to $150 million.

A number of claims have now been filed with the Government Claims Program within the Department of General Services. (This Program was formerly a program within The Victims Compensation and Government Claims Board). Several of these claims have been filed by agricultural land owners whose property adjacent to the Feather River was flooded. These claims allege, among other things, that DWR's operation of the Oroville Dam facilities caused damage to their property and agricultural crops.

Pacific Gas and Electric Company filed a claim seeking reimbursement and damages for costs it incurred to relocate electric facilities and to engineer and construct temporary electric facilities in the vicinity of Oroville Dam during the emergency.

A separate claim and subsequent lawsuit has also been filed, as a class action, on behalf of approximately 188,000 potential class members residing in areas along the Feather River, including Oroville, Marysville, and Yuba City. This suit alleges, among other things, that property values have decreased due to the proximity to the Oroville Dam.

The Government Claims Program has rejected or is expected to reject these initial claims due to the complex factual and legal issues involved. Claimants must file a lawsuit within six months of the rejection of their claim to be entitled to pursue their claim in court. Additional claims may also be filed with the Government Claims Program. The eventual outcome of these claims is uncertain.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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.

The System recognized current Pollution Remediation liabilities of $4.2 million and long-term liabilities of $37.9 million for a total liability of $42.1 million at June 30, 2017. This liability is comprised of three 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 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, 2017 and 2016:

Pollution Remediation Liabilities

	2017	2016
Current liabilities:		
Reid Gardner Power Plant	$ 2,000	$ 2,000
Delta Mercury Control Program	1,950	1,285
Green House Gas Emissions Credits	257	922
Total current liabilities	$ 4,207	$ 4,207
Long-term liabilities:		
Reid Gardner Power Plant	$ 21,800	$ 24,300
Delta Mercury Control Program	5,248	5,025
Green House Gas Emissions Credits	10,861	15,529
Total Long-term liabilities	$ 37,909	$ 44,854

Reid Gardner Power Plant

The Reid Gardner Power Plant (RG), located near Moapa, Nevada, was operated by Nevada Energy (NVE) and consisted 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 plant continued to generate electricity until early 2017. The remediation costs described below are being shared under an Environmental Agreement, executed along with the Termination Agreement 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 $23.8 million. The System expended approximately $2.5 million in fiscal 2017 and DWR expects to pay $2 million of the total estimated financial liability during fiscal 2018. 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 $7.2 million. The System has expended approximately $5.2 million through June 30, 2017. DWR estimates that the System will incur costs of approximately $2 million in fiscal 2018 and estimates remaining long-term costs through 2020 at approximately $5.2 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 2017, with adoption by the SWRCB in 2018. 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.

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

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 $11.1 million. The System surrendered $883 thousand of compliance instruments during fiscal 2017 under this program. The System expects to surrender approximately $257 thousand due in November of fiscal 2018 and estimates remaining long-term portion at approximately $10.9 million.

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 which exceeded 5% of the total water supply revenues sold by the System.

Water Supply Revenues

	2017	% Total	2016	% Total
The Metropolitan Water District	$ 609,453	52.87%	$ 586,992	53.72%
Kern County Water Agency	131,484	11.41%	110,799	10.14%
San Bernardino Valley MWD	58,102	5.04%	-	-
Coachella Valley Water District	-	-	54,676	5.01%

NOTES TO FINANCIAL STATEMENTS (IN THOUSANDS)

The System sold power to 8 and 9 power companies for fiscal years ended June 30, 2017 and 2016, respectively. 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.

Power Sales

	2017	% Total	2016	% Total
California Independent System Operator	$ 67,669	79.50%	$ 52,597	73.83%
Northern California Power Agency	7,775	9.14%	13,143	18.45%
Exelon Generation Company LLC	5,764	6.77%	-	-

Similarly, the System purchased power from 17 and 16 power suppliers during the years ended June 30, 2017 and 2016, 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

	2017	% Total	2016	% Total
California Independent System Operator	$ 219,633	64.60%	$ 105,356	47.89%
Northern California Power Agency	23,458	6.90%	32,724	14.88%
Morgan Stanley Capital Group Inc.	-	-	31,748	14.43%

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, 2017 and 2016.

Segment

	2017			2016		
	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	$ 457,380	$ 500,881	$ 958,261	$ 386,990	$ 328,711	$ 715,701
Other assets	1,192,052	326,775	1,518,827	1,187,719	365,321	1,553,040
Capital assets	792,169	3,281,493	4,073,662	803,230	2,896,093	3,699,323
Total assets	2,441,601	4,109,149	6,550,750	2,377,939	3,590,125	5,968,064
Deferred outflows of resources	107,571	175,114	282,685	56,533	173,698	230,231
Total assets and deferred outflows of resources	$ 2,549,172	$ 4,284,263	$ 6,833,435	$ 2,434,472	$ 3,763,823	$ 6,198,295
Liabilities						
Current liabilities	$ 129,088	$ 370,298	$ 499,386	$ 153,042	$ 307,671	$ 460,713
Long-term liabilities	864,327	3,161,444	4,025,771	788,039	2,811,012	3,599,051
Total liabilities	993,415	3,531,742	4,525,157	941,081	3,118,683	4,059,764
Deferred inflows of resources	346,501	756,349	1,102,850	284,135	648,968	933,103
Total liabilities and deferred inflows of resources	1,339,916	4,288,091	5,628,007	1,225,216	3,767,651	4,992,867
Net position:						
Net investment in capital assets	1,148,262	(323,044)	825,218	1,148,940	(264,843)	884,097
Restricted	60,994	319,216	380,210	60,316	261,015	321,331
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	$ 2,549,172	$ 4,284,263	$ 6,833,435	$ 2,434,472	$ 3,763,823	$ 6,198,295
Condensed Statements of Revenues, Expenses and Changes in Net Position:						
Operating revenues:						
Water supply	$ 841,470	$ 241,117	$ 1,082,587	$ 692,999	$ 255,106	$ 948,105
Power sales	85,053	36	85,089	71,163	73	71,236
Federal and State reimbursements	22,430	33,234	55,664	29,396	37,913	67,309
	948,953	274,387	1,223,340	793,558	293,092	1,086,650
Depreciation expense	(20,376)	(56,889)	(77,265)	(21,939)	(55,231)	(77,170)
Other operating expense	(841,938)	(100,046)	(941,984)	(744,200)	(52,391)	(796,591)
Income from operations	86,639	117,452	204,091	27,419	185,470	212,889
Capital revenues recovered (deferred), net	(67,956)	(62,191)	(130,147)	(8,471)	(110,039)	(118,510)
Interest expense	(5,149)	(100,619)	(105,768)	(7,376)	(99,602)	(106,978)
Transfers In/(Out)	(16,336)	16,336	-	(13,241)	13,241	-
Other revenues (expenses), net	2,802	29,022	31,824	1,669	10,930	12,599
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	$ 169,447	$ 297,234	$ 466,681	$ 173,755	$ 277,640	$ 451,395
Capital and related financing activities	(88,905)	(113,941)	(202,846)	(94,170)	(310,666)	(404,836)
Investing activities	3,368	8,914	12,282	2,212	16,834	19,046
Net (decrease) increase in cash and cash equivalents	83,910	192,207	276,117	81,797	(16,192)	65,605
Cash and equivalents, beginning of year	312,722	353,907	666,629	230,925	370,099	601,024
Cash and equivalents, end of year	$ 396,632	$ 546,114	$ 942,746	$ 312,722	$ 353,907	$ 666,629

14. New Governmental Accounting Standards

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 financial statement items in connection with GASB No. 72 were presented in fiscal 2016 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. It has been determined that GASB No. 74 did not impact the System.

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. The System is currently evaluating the impact this Statement will have on its financial statements.

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 2017 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. It has been determined that GASB No. 81 did not impact the System.

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 2017 and thereafter. It has been determined that GASB No. 82 did not impact the System.

GASB Statement No. 83

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of GASB No. 83 are effective for fiscal 2019 and thereafter.

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB No. 84 are effective for fiscal 2019 and thereafter.

GASB Statement No. 85

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and applications, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of GASB No. 85 are effective for fiscal year 2018 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 86

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of GASB No. 86 are effective for fiscal year 2018 and thereafter. The System is currently evaluating the impact this Statement will have on its financial statements.

GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of GASB No. 85 are effective for fiscal year 2020 and thereafter.

15. Significant Events

After historical amounts of rainfall during the 2017 rainy season, California Governor Edmund G. Brown issued four Proclamations of a State of Emergency between, January 23, 2017 and March 7, 2017, addressing areas of flooding and potential flooding throughout the State, including at Oroville Dam. In February of 2017, after a particularly significant amount of rainfall, the Department of Water Resources (the Department) determined that a large slab of concrete was missing from the control spillway of the Oroville Dam, the tallest dam in the United States that serves mainly for water supply, hydroelectricity generation and flood control. The Department immediately reduced the outflows in order to assess the damage to the control spillway.

As a result of reduced releases from the damaged control spillway and continued rainfall, the inflows to Lake Oroville exceeded the outflows requiring the use of the emergency spillway for the first time in history. Within a short period, signs of erosion below the emergency spillway were detected, causing the Department to once again increase the outflows from the damaged control spillway in order to prevent a potential failure of the emergency spillway. This action dropped the Lake down to a level where the emergency spillway was no longer in use. To ensure the system is safe to operate by the next flood season, the Department is actively working to return both the control spillway and the emergency spillway to original design capacity. The expedited construction schedule has a planned completion date of November 1, 2017 and includes the reconstruction of the control spillway to be able to safely handle the release of outflows up to 100,000 cubic feet per second. The control spillway is expected to reach its overall outflow capacity (based on its original design) by November 2018.

While the Oroville Dam itself has not shown any signs of adverse effects from the spillway incident and remains structurally sound, costs associated with the current recovery and restoration efforts of the Oroville Dam spillways are expected to be substantial. Costs associated with the Oroville Spillway incident have had a material financial impact on the State Water Resources Development System in Fiscal 2017 and will continue to have a financial impact in Fiscal 2018. On April 2, 2017, the President issued a Federal Major Disaster Declaration, for areas in California affected by the severe storms and flooding, which will provide for, among other things, a federal contribution to the costs of the Department's emergency response activities and to the repair and replacement work at Oroville Dam.

In August 2017, the California Office of Emergency Services issued official Obligation Notifications totaling approximately $69 million that were approved through a Federal Emergency Management Agency (FEMA) Disaster Grant awarded to the Department. Additional FEMA disaster grants are anticipated to be received in subsequent years. This non-exchange disaster grant will mitigate response and recovery costs of the Oroville Spillway Emergency. These emergency grant amounts will generally be used to pay commercial paper borrowings made to finance Fiscal 2017 and ongoing emergency Oroville Spillway recovery and restoration capital costs. Adverse financial impact is not anticipated as any remaining Oroville Emergency Spillway short-term commercial paper liability, amounts, not reimbursed by FEMA, will be financed with long-term Revenue Bonds, issued by the Department, and collected through Debt Service from the State Water Project Contractors.

16. Subsequent Events

On August 3, 2017, the System remarketed its Central Valley Project (CVP) Water System Revenue variable rate bonds Series AT and AU with par amounts of $149.2 million and $109.3 million, respectively. The variable rate bonds were remarketed in connection with upcoming mandatory tender dates resulting in the System's election to adjust the interest rate period, for each series of such bonds. The Series AT bonds were originally issued on November 6, 2014, and had a mandatory tender date of December 1, 2017. The Series AU bonds were originally issued on September 2, 2015, and had a mandatory tender date of September 1, 2017. As a result of this remarketing transaction, the weighted average interest rate for both series decreased 0.13% from 0.44% to 0.31%, and the weighted average remarketing term increased from 2.6 years to 4.5 years. The System retained the Securities Industry and Financial Markets Association (SIFMA) index for calculating interest payments.

On August 29, 2017, the System received an $18.6 million FEMA disaster grant to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.

On November 21, 2017, the System received an additional $50.4 million FEMA disaster grant to reimburse the System for costs associated with the Oroville Dam Spillway Recovery and Restoration Project.

On December 19, 2017, the System issued its CVP Water System Revenue Bonds Series AX (Tax-Exempt) and its CVP Water System Revenue Bonds Series AY (Federally Taxable) with par amounts of $350.7 million and $140.8 million, respectively, to advance refund Series AE, AF, AG, AH, AI, AK, AN, AO, AP, AQ, and AR. The Series AX was issued with a premium of $71.5 million and the Series AY was issued at par. The System achieved a net present value savings of $27.6 million, representing 5.2% of the refunded bonds. The Series AX and AY Bonds were issued using a fixed rate structure and the final maturity of these bonds will be 2035.

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REQUIRED SUPPLEMENTARY INFORMATION

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

Last 10 Years* (in thousands)

Measurement Period	2016	2015	2014
The System's proportion of the net pension liability	1.6813%	1.7191%	1.6927%
The System's proportionate share of the net pension liability	$ 556,748	$ 485,502	$ 426,935
The System's covered payroll	$ 188,680	$ 181,151	$ 164,571
The System's proportionate share of the net pension liability as a percentage of their covered payroll	295.08%	268.01%	259.42%
Plan fiduciary net position as a percentage of the total pension liability	66.81%	70.68%	73.05%

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 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 2015 was the 3rd year of implementation, therefore only three years are shown.

Schedule of the System's Contributions

Last 10 Years* (in thousands)

Fiscal Year	2017	2016	2015
Contractually required contribution	$ 51,594	$ 47,978	$ 44,393
Contributions in relation to the contractually required contribution	51,594	47,978	44,393
Contribution deficiency (excess)	$ -	$ -	$ -
Fund's covered payroll	$ 194,340	$ 188,680	$ 181,151
Contributions as a percentage of covered payroll	26.55%	25.43%	24.51%

Notes to Schedule:

The actuarial methods and assumptions used to determine contribution rates for year ended June 30, 2017 was from the June 30, 2015 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 and Administrative 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 2015 was the 3rd year of implementation, therefore only three years are shown.

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SUPPLEMENTARY INFORMATION

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

Debt Service Coverage *(amounts in thousands)*

	2017	2016
Water supply revenues, Central Valley Project Act	$ 241,117	$ 255,106
Add: Cover Collected as Proceeds Due To Water Contractors	56,321	57,779
Less: Devil Canyon Castaic Revenues	(20,392)	(19,646)
Revenues not available for Debt Service	(5,856)	(8,679)
Net CVP revenues available for debt service	271,190	284,560
Principal and interest for revenue bonds	$ 199,619	$ 227,350
Debt service coverage	135.9%	125.2%

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) 1.36 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 $241.1 million in fiscal 2017 and $255.1 million in fiscal 2016, respectively in Water Supply Revenues of the System's (CVP) segment.

In fiscal 2017, the revenues include: an increase of $56.3 million in refundable proceeds, a decrease of $20.4 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 $5.9 million in miscellaneous revenue not available for debt service.

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.

Statistical Section

A Hitachi pump at the A.D. Edmonston Pumping Plant, southeast of Bakersfield, California. Each pump is 57 feet tall and weighs 420 tons. They elevate California Aqueduct water nearly 2,000 feet over the Tehachapi Mountains.

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.

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Contents

Schedule of Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

	2008	2009	2010	2011
OPERATING REVENUES:				
Water supply	$ 752,853	$ 721,253	$ 853,158	$ 874,748
Power sales	215,430	175,318	165,664	193,154
Federal and State reimbursements	20,992	18,266	24,021	28,294
Total operating revenues	**989,275**	**914,837**	**1,042,843**	**1,096,196**
OPERATING EXPENSES:				
Operations and maintenance	409,150	466,708	435,801	428,559
Purchased power	323,236	206,632	212,658	342,446
Depreciation and amortization expense	79,136	79,632	80,813	100,257
Operating expenses recovered (deferred), net	40,976	21,257	189,000	118,325
Total operating expense	**852,498**	**774,229**	**918,272**	**989,587**
NET OPERATING INCOME (LOSS)	**136,777**	**140,608**	**124,571**	**106,609**
NONOPERATING REVENUES (EXPENSES):				
Capital revenues recovered (deferred), net	(20,595)	44,344	19,823	22,812
Interest expense	(156,716)	(131,481)	(151,390)	(134,996)
Other revenues (expenses), net	40,534	(53,471)	6,996	5,575
Total nonoperating revenues (expenses)	**(136,777)**	**(140,608)**	**(124,571)**	**(106,609)**
CHANGE IN NET POSITION	$ -	$ -	$ -	$ -

Source: State Water Resources Development System

Schedule of Changes in Net Position (Unaudited)

Last Ten Fiscal Years (in thousands)

2012	2013	2014	2015	2016	2017
$ 860,891	$ 931,808	$ 789,370	$ 883,538	$ 948,105	$ 1,082,587
148,360	146,277	131,952	91,780	71,236	85,089
36,561	52,397	52,186	44,060	67,309	55,664
1,045,812	**1,130,482**	**973,508**	**1,019,378**	**1,086,650**	**1,223,340**
526,402	545,413	557,209	404,627	511,926	544,925
271,377	258,899	241,444	202,780	219,661	339,993
87,400	85,236	68,896	81,495	77,170	77,265
67,063	22,261	-	-	65,004	57,066
952,242	**911,809**	**867,549**	**688,902**	**873,761**	**1,019,249**
93,570	**218,673**	**105,959**	**330,476**	**212,889**	**204,091**
43,834	(174,356)	(42,934)	(243,945)	(118,510)	(130,147)
(107,770)	(53,492)	(115,499)	(96,082)	(106,978)	(105,768)
(29,634)	9,175	52,474	9,551	12,599	31,824
(93,570)	**(218,673)**	**(105,959)**	**(330,476)**	**(212,889)**	**(204,091)**
$ -	$ -	$ -	$ -	$ -	$ -

Source: State Water Resources Development System

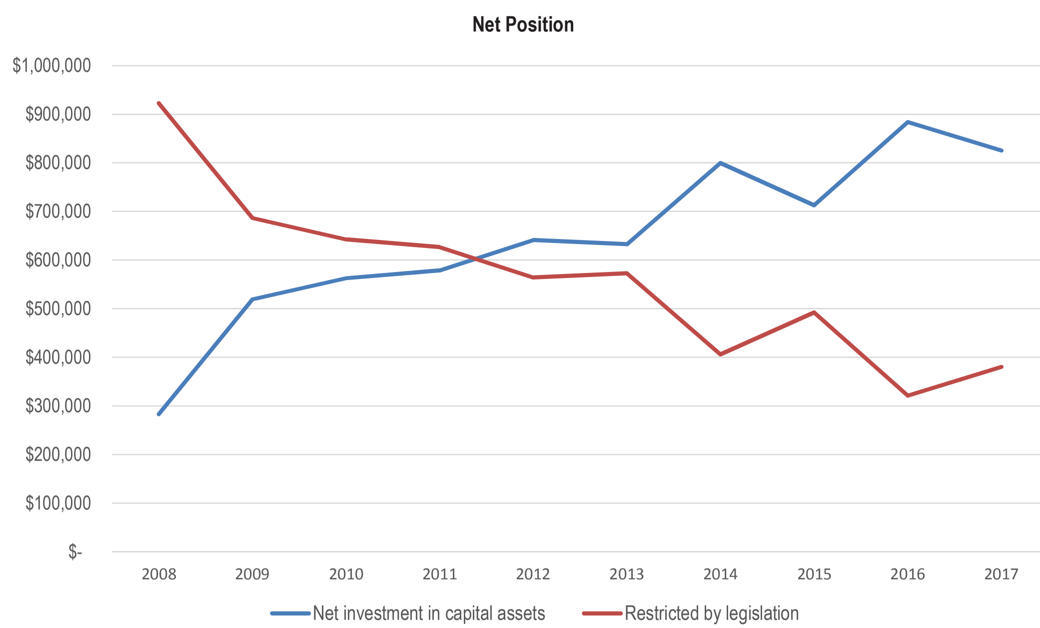
Schedule of Net Position by Component (Unaudited)

Last Ten Fiscal Years (in thousands)

	2008[a]	2009	2010	2011	2012	2013	2014	2015	2016	2017
NET POSITION										
Net investment in capital assets	$ 282,853	$ 519,091	$ 562,901	$ 578,818	$ 641,356	$ 632,680	$ 799,502	$ 712,818	$ 884,097	$ 825,218
Restricted by legislation	922,578	686,340	642,530	626,610	564,072	572,748	405,926	492,610	321,331	380,210
TOTAL NET POSITION	**$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**	**$1,205,428**

Source: State Water Resources Development System

a) For fiscal years 2008 through 2016, certain amounts previsouly classified as restricted were reclassified to net capital assets.



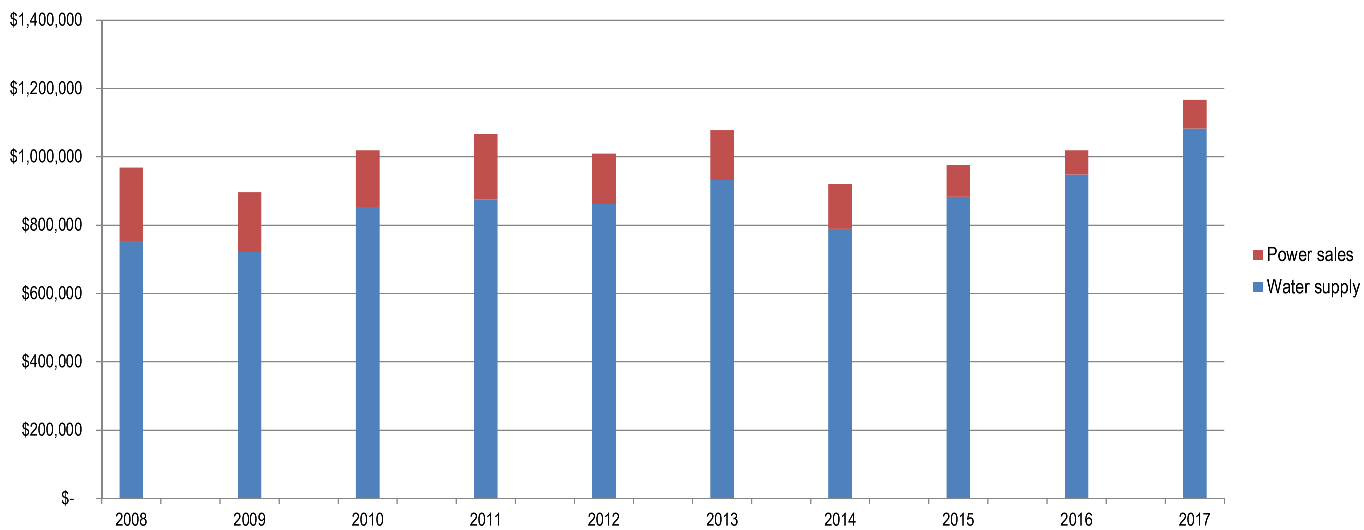
Schedule of Significant Revenues By Source (Unaudited)

Last Ten Fiscal Years (in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating Revenues by Source										
Water supply	$ 752,853	$ 721,253	$ 853,158	$ 874,748	$ 860,891	$ 931,808	$ 789,370	$ 883,538	$ 948,105	$ 1,082,587
Power sales	215,430	175,318	165,664	193,154	148,360	146,277	131,952	91,780	71,236	85,089
TOTAL	**$ 968,283**	**$ 896,571**	**$ 1,018,822**	**$ 1,067,902**	**$ 1,009,251**	**$ 1,078,085**	**$ 921,322**	**$ 975,318**	**$ 1,019,341**	**$ 1,167,676**

Source: State Water Resources Development System

Operating Revenues by Source



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

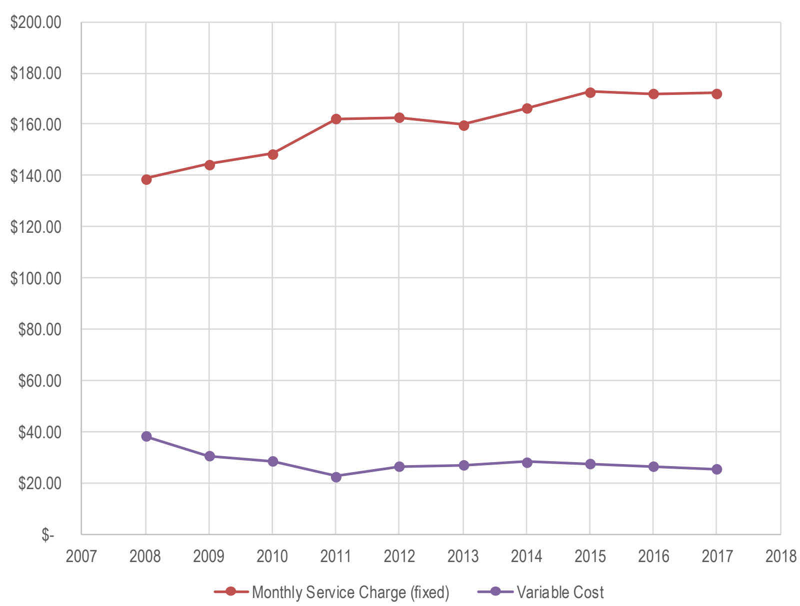
Last Ten Years

Financial Statement Year	Calendar Year	Water Supply[a] Monthly Service Charge (fixed)	Water Supply[a] Variable Cost
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	172.81	27.52
2016	2015[c]	171.99	26.34
2017	2016[c]	172.07	25.33

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

a) Hypothetical charges, which, if assessed on all Table A of Bulletin 132 water delivered to date, all surplus water delivered prior to May 1, 1973, and all Table A water estimated to be delivered during the remainder of the project repayment period (Table B-5B of Bulletin 132), would provide a sum at the end of the period financially equivalent to all Transportation Charge and Delta Water Charge payments required under a water 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

Water Supply Revenue Unit Charges



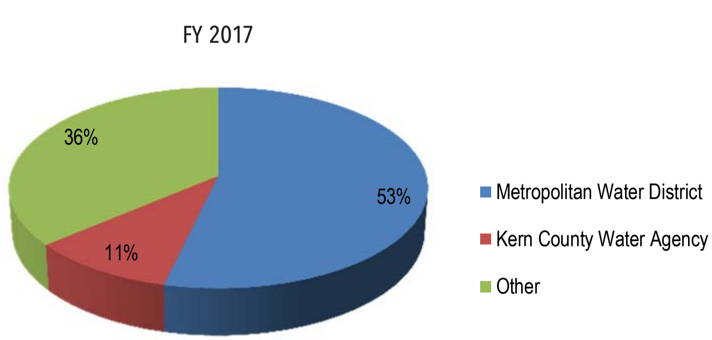
Largest Distribution Water Revenue Accounts (Unaudited)

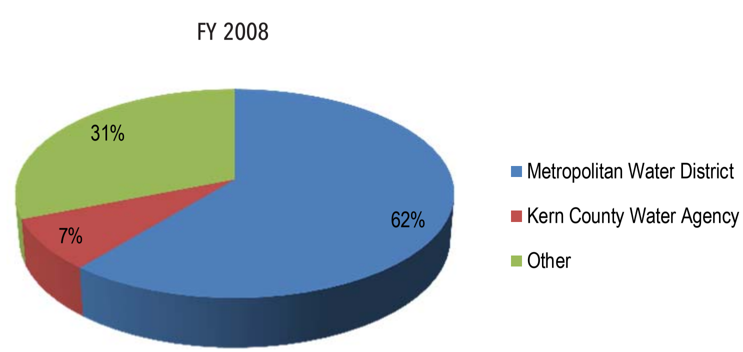
Current Year and Nine Years Prior

	FY 2017				FY 2008		
Customer	**Annual Water Sales**	**Rank**	**Percentage of Total[a]**	**Customer**	**Annual Water Sales**	**Rank**	**Percentage of Total[a]**
THE METROPOLITAN WATER DISTRICT	$ 573,771,224	1	53%	THE METROPOLITAN WATER DISTRICT	$ 466,768,853	1	62%
KERN COUNTY WA - AG	119,084,594	2	11%	KERN COUNTY WA - AG	52,699,709	2	7%
Subtotal	$ 692,855,818		64%	Subtotal	$ 519,468,562		69%
Total Water Consumption	$1,082,587,216				$ 752,852,988		

Source: State Water Resources Development System

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





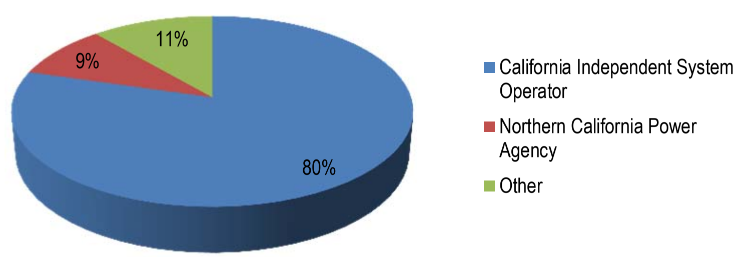
Largest Distribution Power Sales Revenue Accounts (Unaudited)

Current Year and Nine Years Prior

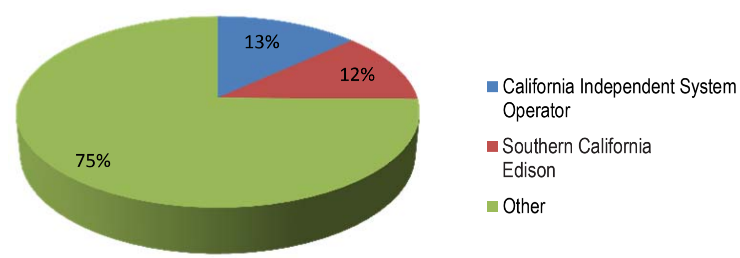
	FY 2017				FY 2008		
Customer	**Annual Revenues**	**Rank**	**Percentage of Total**	**Customer**	**Annual Revenues**	**Rank**	**Percentage of Total**
CALIFORNIA INDEPENDENT SYSTEM OPERATOR	$ 67,669,401	1	80%	CALIFORNIA INDEPENDENT SYSTEM OPERATOR	$ 28,529,627	1	13%
NORTHERN CALIFORNIA POWER AGENCY	7,775,301	2	9%	SOUTHERN CALIFORNIA EDISON	25,753,217	2	12%
Subtotal	$ 75,444,702		89%	Subtotal	$ 54,282,844		25%
Total Power Sales	$ 85,089,182			Total Power Sales	$ 215,429,580		

Source: State Water Resources Development System

FY 2017



FY 2008



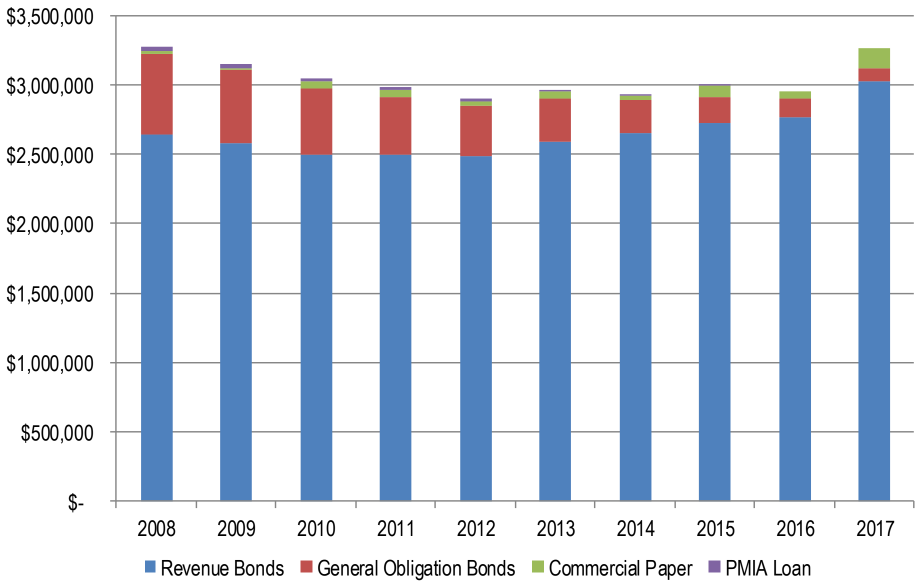
Schedule of Ratios of Outstanding Debt by Type (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Revenue Bonds	General Obligation Bonds	Commercial Paper	PMIA Loan	Total
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
2017	3,026,368	88,300	147,165	-	3,261,833

Source: State Water Resources Development System

Outstanding Debt Portfolio



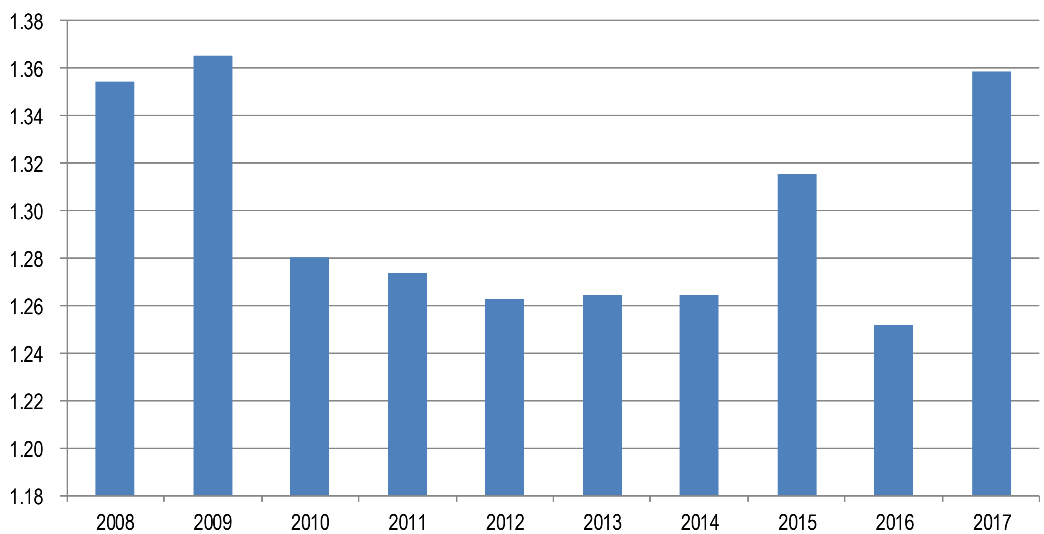
Schedule of Debt Service Coverage (Unaudited)

Last Ten Fiscal Years (in thousands)

Fiscal Year	Water Supply Revenues	Cover Collected for Debt Service	Revenues Not Available for Debt Service	Net Revenue Available for Debt Service	Debt Service Requirements: Principal	Interest	Total	Coverage
2008	$ 283,391	$ 45,264	$ 83,311	$ 245,344	$ 71,895	$ 109,221	$ 181,116	1.35
2009	279,059	48,985	64,522	263,522	74,175	118,798	192,973	1.37
2010	279,660	54,086	62,579	271,167	93,270	118,516	211,786	1.28
2011	320,631	55,542	96,016	280,157	104,535	115,439	219,974	1.27
2012	307,438	56,385	85,448	278,375	111,555	108,900	220,455	1.26
2013	372,748	54,677	156,404	271,021	119,280	95,098	214,378	1.26
2014	281,461	51,786	72,829	260,418	109,610	96,313	205,923	1.26
2015	225,899	54,316	26,405	253,810	110,105	82,819	192,924	1.32
2016	255,106	57,779	28,325	284,560	130,095	97,255	227,350	1.25
2017	241,117	56,321	26,248	271,190	128,035	71,584	199,619	1.36

Source: State Water Resources Development System

Debt Coverage Ratio



Schedule of Demographic and Economic Indicators (Unaudited)

Last Ten Years

Year	Population (in thousands)	Personal Income (in millions)	Per Capita Personal Income	Unemployment Rate
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%
2016	39,250	2,197,492	55,987	5.4%

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

2 - Note: 2017 information is not available and therefore not presented

Schedule of California Number of Employees By Industry (Unaudited)

	2007	2008	2009	2010	2011
Agriculture, Forestry, Fishing, Hunting	444,478	459,723	434,275	440,265	449,614
Mining	25,282	26,698	23,244	25,011	27,016
Utilities	58,276	58,575	60,288	57,175	58,199
Construction	900,386	782,432	601,982	562,922	580,550
Manufacturing	1,464,136	1,425,225	1,261,582	1,250,589	1,257,097
Wholesale Trade	719,608	705,036	636,330	647,193	661,757
Retail Trade	1,673,198	1,615,574	1,495,711	1,496,821	1,522,619
Transportation and Warehousing	434,105	432,622	396,512	397,932	404,582
Information	476,419	472,152	436,865	429,065	425,193
Finance and Insurance	607,118	563,136	528,813	509,852	512,160
Real Estate and Rental and Leasing	282,800	274,778	250,908	248,452	247,476
Services	6,200,250	6,232,695	5,947,240	6,063,638	6,216,242
Nonclassifiable Establishments (3)	56,682	73,151	72,563	44,336	58,663
Federal, State and Local Government	2,404,511	2,405,547	2,352,014	2,302,160	2,276,153
Total for all Industries	**15,747,249**	**15,527,344**	**14,498,327**	**14,475,411**	**14,697,321**

	2012	2013	2014	2015	2016
Agriculture, Forestry, Fishing, Hunting	463,476	463,169	467,923	471,566	474,766
Mining	28,475	27,986	29,142	25,668	21,218
Utilities	59,160	58,240	57,829	57,577	58,008
Construction	609,365	656,000	691,811	748,872	789,841
Manufacturing	1,264,017	1,265,860	1,283,779	1,303,651	1,304,915
Wholesale Trade	679,339	702,319	713,642	719,576	718,853
Retail Trade	1,553,812	1,587,467	1,615,557	1,645,332	1,654,247
Transportation and Warehousing	415,488	433,112	455,070	488,428	517,790
Information	426,056	445,121	459,781	486,838	517,275
Finance and Insurance	522,529	520,579	514,826	523,933	540,844
Real Estate and Rental and Leasing	253,154	260,584	265,335	271,617	278,001
Services	6,519,084	6,809,757	7,056,066	7,247,138	7,442,898
Nonclassifiable Establishments (3)	59,443	36,808	63,478	102,851	119,680
Federal, State and Local Government	2,260,320	2,276,164	2,317,813	2,388,336	2,434,565
Total for all Industries	**15,113,718**	**15,543,166**	**15,992,052**	**16,481,383**	**16,872,901**

(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: 2017 information is not available and therefore not presented
Definitions of Terms and Source Notes: www.labormarketinfo.edd.ca.gov

Schedule of Full-Time Equivalent Employees by Function (Unaudited)

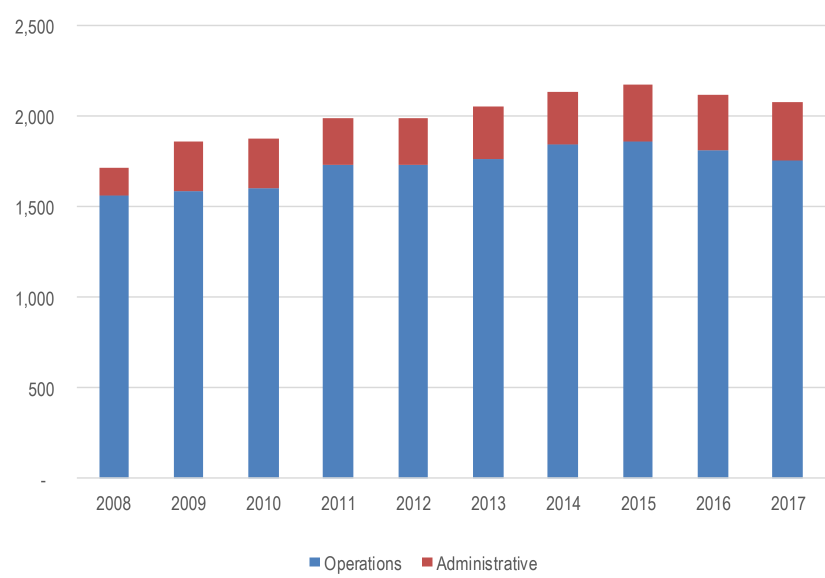
Last Ten Fiscal Years

	Full-Time Equivalents by Function as of June 30,[1]									
Function	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Field Operations	983	965	964	862	872	863	920	934	899	904
Engineering	188	208	206	328	329	337	330	324	280	283
Operations and Maintenance	293	312	321	318	295	338	348	355	388	381
Environmental Services	86	94	102	123	128	129	135	132	129	127
Flood Management	9	10	10	62	68	65	65	67	60	10
Safety of Dams	2	1	2	2	2	2	2	2	2	2
Power Management				38	38	35	47	52	53	53
Operations Total	**1,560**	**1,591**	**1,605**	**1,733**	**1,732**	**1,768**	**1,846**	**1,865**	**1,810**	**1,759**
Executive		112	120	43	51	56	63	71	77	78
Finance and Accounting	67	69	74	69	72	72	69	75	69	70
Technology Services	72	77	81	93	79	99	104	105	107	110
Communications	17	17		27	26	27	24	27	27	29
Legal				28	31	30	30	31	31	33
Administrative Total	**156**	**274**	**275**	**262**	**258**	**284**	**290**	**309**	**312**	**320**
Grand Total	**1,716**	**1,865**	**1,880**	**1,994**	**1,989**	**2,052**	**2,136**	**2,174**	**2,122**	**2,079**

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

Source: California Department of Water Resources

Full-Time Equivalents



Operating and Capital Indicators (Unaudited)

Last Ten Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015[a]	2016[a]
Water										
Water Deliveries (AF)	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	3,338,083
Percentage of Requested Water Delivered	60%	35%	40%	50%	80%	65%	35%	5%	20%	60%
Gross Area Served (Acres)	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	23,514,148
Estimated Population Served[3]	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	26,926,556
Statewide Precipitation (% of Avg)[1]	65%	78%	81%	108%	135%	77%	79%	56	74	104%
Statewide Snowpack (% of Apr 1 Avg)	58%	100+%	88%	n/a	165%	54%	47%	33	5	86%
Statewide River Runoff (% of Avg)[1]	53%	60%	65%	91%	146%	62%	60%	35	45	97%
Total Storage (% of Maximum)[2]	50%	38%	39%	52%	85%	56%	41%	43	30	82%
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	6,761,700
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)	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	3,075,218
Energy Purchased (Mwh)	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	4,108,601
Energy Sold (Mwh)	2,446,000	2,399,000	1,530,000	1,814,000	1,192,000	533,000	936,975	33,000	566,891	579,934
Net Power Consumption (Mwh)	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	6,603,883
Number of Power Plants	10	10	10	10	10	10	10	9	9	9
Number of Power Generating Units	37	37	37	37	37	37	37	36	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, which 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 two 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

Key Performance Indicators (Unaudited)

	2015	2016
WATER DELIVERIES (AF)		
Delivered	2,104,264	3,338,083
% of Requested	20%	60%
PRECIPITATION (% OF AVG)		
Precipitation	74%	104%
Snowpack	5%	86%
ENERGY (MWH)		
Energy Generated	1,274,706	3,075,218
Net Consumption	3,488,458	6,603,883
# of Plants	9	9
NUMBER SERVED		
Population	26,876,859	26,926,556
Area	23,514,148	23,514,148
STORAGE (AF)		
Max Capacity	6,761,600	6,761,700
% of Max	30%	82%
# of Storage Facilities	20	20
FACILITIES		
Aqueducts	705 miles	705 miles
# of Pumping Plants	23	23
# of Pumps	162	162

Note: This schedule is intended to compare only the last two years of the Operating and Capital Indicators from the previous schedule.

Capital Assets, Net (in thousands) (Unaudited)

Last Ten Fiscal Years

	2008	2009	2010	2011	2012
Nondepreciable Utility Plant					
Land	$ 137,353	$ 138,156	$ 136,129	$ 136,129	$ 136,129
Construction work in progress	365,297	461,208	400,229	366,975	408,072
Land use rights	-	10,925	10,925	11,005	11,250
Other intangible assets	-	80,659	81,976	81,976	88,930
Total Nondepreciable Utility Plant	**502,649**	**690,948**	**629,259**	**596,085**	**644,381**
Depreciable Utility Plant					
Aqueducts	1,949,071	1,949,071	2,029,898	2,057,437	2,064,208
Dams & reservoirs	765,246	765,246	765,246	781,110	781,202
Power plants	845,977	845,977	909,904	910,100	906,554
Pumping plants	784,247	784,247	784,247	787,008	829,344
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	65,820
Equipment	58,246	62,487	65,580	67,996	70,593
Computer software	-	23,629	23,629	23,629	24,162
Land use rights	-	-	-	-	272
Other intangible assets	-	-	-	-	-
General	-	-	-	5,964	6,491
Total Depreciable Utility Plant	**4,504,517**	**4,532,388**	**4,680,235**	**4,799,785**	**4,850,377**
Less Accumulated Depreciation/Amortization	**(1,932,412)**	**(2,015,610)**	**(2,094,306)**	**(2,194,406)**	**(2,281,806)**
Total Utility Plant, Net	**$ 3,074,755**	**$ 3,207,726**	**$ 3,215,188**	**$ 3,201,464**	**$ 3,212,952**

Source: State Water Resources Development System

Capital Assets, Net (in thousands) (Unaudited)

Last Ten Fiscal Years

	2013	2014	2015	2016	2017
Nondepreciable Utility Plant					
Land	$ 136,797	$ 137,033	$ 141,874	$ 147,681	$ 156,934
Construction work in progress	528,836	438,244	611,900	769,871	1,095,997
Land use rights	11,549	11,583	11,630	11,760	11,767
Other intangible assets	100,064	103,740	103,445	100,123	99,240
Total Nondepreciable Utility Plant	**777,246**	**690,600**	**868,849**	**1,029,435**	**1,363,938**
Depreciable Utility Plant					
Aqueducts	2,071,255	2,167,237	2,169,352	2,171,981	2,126,713
Dams & reservoirs	781,408	781,408	708,303	708,303	729,521
Power plants	911,703	466,358	441,202	470,818	477,044
Pumping plants	836,655	836,814	826,704	838,880	850,475
Environmental preservation and mitigation	67,797	67,797	67,797	67,797	67,797
Fish protection	33,934	33,934	33,934	35,544	35,544
Facilities	66,230	246,397	254,741	271,965	298,295
Equipment	71,819	75,705	77,384	79,229	82,526
Computer software	24,501	24,529	24,531	24,717	27,108
Land use rights	272	272	272	272	272
Other intangible assets	11,995	11,995	12,005	12,005	12,005
General	39,579	61,310	62,262	73,053	119,562
Total Depreciable Utility Plant	**4,917,148**	**4,773,756**	**4,678,487**	**4,754,564**	**4,826,862**
Less Accumulated Depreciation/Amortization	**(2,366,429)**	**(1,994,695)**	**(2,014,654)**	**(2,084,676)**	**(2,117,138)**
Total Utility Plant, Net	**$ 3,327,965**	**$ 3,469,661**	**$ 3,532,682**	**$ 3,699,323**	**$ 4,073,662**

Source: State Water Resources Development System

DEPARTMENT OF WATER RESOURCES
STATE OF CALIFORNIA