Fitch: F1
Moody's: P-1
S&P: A-1+

San Diego County Water Authority

$110,000,000
Commercial Paper Notes, Series 8

The Series 8 Notes (the "Series 8 Notes") to be offered hereby are part of an issue of Commercial Paper Notes of the San Diego County Water Authority (the "Water Authority") which are issued from time to time pursuant to the Issuing and Paying Agent Agreement. The Series 8 Notes will be issued as interest-bearing obligations, in book-entry form, in denominations of $100,000 and integral multiples of $1,000 in excess thereof. The Water Authority has appointed Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC, as co-dealers for the Series 8 Notes.

On April 2, 2014, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Water Authority, will deliver its opinion that, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 8 Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. Bond Counsel's opinion will also state that interest on the Series 8 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel will observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel will express no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 8 Notes. See "TAX EXEMPTION" herein.

The Series 8 Notes will constitute limited obligations of the Water Authority, payable solely from a pledge of Net Water Revenues (as defined herein), and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series 8 Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations (as defined herein) presently outstanding or hereafter incurred by the Water Authority in accordance with the General Resolution (as defined herein). The Water Authority will enter into a Revolving Credit and Term Loan Agreement (the "Liquidity Agreement") with The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch (the "Bank"), pursuant to which the Bank will agree, subject to certain conditions precedent, to provide funds in an amount not to exceed $110,000,000 for the payment of the principal of the Series 8 Notes. Unless terminated earlier or extended in accordance with its terms, the Liquidity Agreement will terminate on June 27, 2017.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE OR BE SUSPENDED IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES 8 NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES 8 NOTES.

BofA Merrill Lynch **Citigroup** **Goldman, Sachs & Co.**
J.P. Morgan **Morgan Stanley**

Dated: March 25, 2014

$110,000,000
San Diego County Water Authority
Commercial Paper Notes, Series 8

INFORMATION CONCERNING THE OFFERING

Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. LLC (collectively the "Dealers") have been appointed to serve as exclusive dealers for the Commercial Paper Notes, Series 8 (the "Series 8 Notes") of the San Diego County Water Authority (the "Water Authority"). This Offering Memorandum relates to the offering, from time to time, of up to $110,000,000 aggregate principal amount of the Series 8 Notes under the Issuing and Paying Agent Agreement (Series 8), dated as of April 1, 2014 (the "Issuing and Paying Agent Agreement"), between the Water Authority and U.S. Bank National Association (the "Issuing and Paying Agent"). The aggregate principal amount of the Series 8 Notes outstanding may change from time to time as provided in the Issuing and Paying Agent Agreement.

THE COMMERCIAL PAPER NOTES

Purpose of the Series 8 Notes

Proceeds of the Series 8 Notes will be used to provide funds to refinance the cost of design, acquisition and construction of water system improvements in furtherance of the Water Authority's Capital Improvement Program.

Description of the Series 8 Notes

The Series 8 Notes will be dated the date of their respective authentication, will be issued as interest bearing obligations in denominations of $100,000 and integral multiples of $1,000 in excess thereof and, except as described below, will be issued in book-entry form through the book-entry system of The Depository Trust Company ("DTC"). Each note will bear interest from its date of issuance at the rate determined at the date of issuance payable at maturity. The Series 8 Notes will mature no later than 270 days from the date of issuance; provided that, so long as the Liquidity Agreement (hereinafter defined) is in effect, no Series 8 Notes may be issued with a maturity date after the business day prior to the scheduled expiration date of the Liquidity Agreement or, if an Alternate Facility will be available with respect to the Series 8 Notes, after the business day prior to the scheduled expiration date of the Alternate Facility. Interest will be computed on the basis of a 365- or 366-day year, and the actual number of days elapsed. The principal of and interest on the Series 8 Notes in book-entry form will be paid at maturity to DTC and distributed by it to its participants as described below.

The Series 8 Notes will be delivered as fully registered certificates and registered in the name of Cede & Co., as registered owner and nominee for DTC. Beneficial ownership interests in the Series 8 Notes will be available in book-entry form only, and purchasers of the Series 8 Notes will not receive certificates representing their interests in the Series 8 Notes purchased. While held in book-entry only form, the Issuing and Paying Agent will make all payments of principal and interest with respect to the Series 8 Notes by wire transfer to DTC or its nominee as the sole registered owner of the Series 8 Notes. Payments to the beneficial owners are the responsibility of DTC and its participants. See Appendix D–"Information Regarding DTC and the Book-Entry Only System."

Security for the Series 8 Notes

The Water Authority expects to pay the principal of the Series 8 Notes with the proceeds of additional Series 8 Notes until the Water Authority provides permanent financing for those water system improvements refinanced with the Series 8 Notes or until, from time to time, revenues of the Water Authority are available to pay for the Series 8 Notes.

The Series 8 Notes will constitute limited obligations of the Water Authority, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Water Authority, the State of California or any of its political subdivisions is pledged for the payment thereof. Payment of the Series 8 Notes from Net Water Revenues is subordinate to the payment of any Prior Obligations (defined below) presently outstanding or hereafter incurred by the Water Authority in accordance with Resolution 89-21 of the Water Authority, adopted on May 11, 1989, as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997 and by Resolution No. 09-23, adopted by the Board of Directors on December 17, 2009 (as supplemented, the "General Resolution").

Pursuant to a Revolving Credit and Term Loan Agreement to be dated as of April 2, 2014 (the "Liquidity Agreement"), by and between the Water Authority and The Bank of Tokyo-Mitsubishi UFJ, Ltd., acting through its New York Branch (the "Bank"), the Bank will agree, subject to certain conditions precedent, to provide funds in an amount not to exceed $110,000,000 for the payment of Series 8 Notes principal when due. Unless terminated earlier or extended in accordance with its terms, the Liquidity Agreement will terminate on June 27, 2017. See "SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY AGREEMENT" herein.

UNDER CERTAIN CIRCUMSTANCES, THE OBLIGATION OF THE BANK TO MAKE ADVANCES UNDER THE LIQUIDITY AGREEMENT WILL TERMINATE OR BE SUSPENDED IMMEDIATELY, AUTOMATICALLY AND WITHOUT NOTICE TO HOLDERS OF THE SERIES 8 NOTES. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PAY SUCH SERIES 8 NOTES.

The Water Authority may deliver an Alternate Facility in place of the Liquidity Agreement; provided, no such delivery may result in the termination of the Liquidity Agreement then in effect so long as Series 8 Notes for the payment of the principal of which such Liquidity Agreement is providing liquidity remain outstanding.

To provide security for the payment of the principal of and interest on the Series 8 Notes as the same shall become due and payable, the Issuing and Paying Agent Agreement will grant a lien on and pledge of, subject only to the provisions of the Issuing and Paying Agent Agreement permitting the application thereof for purposes of the terms and conditions set forth therein, (i) the proceeds from the sale of Series 8 Notes issued pursuant to the Issuing and Paying Agent Agreement for the purpose of refinancing, renewing or refunding the Series 8 Notes, (ii) the amount held in the Commercial Paper Note Payment Fund (on a pro rata basis with any other commercial paper notes secured by such fund) until the amounts deposited therein are used for authorized purposes, (iii) amounts held by the Issuing and Paying Agent in the Issuing and Paying Agent Fund, (iv) the amounts held in the Commercial Paper Note Construction Fund (on a pro rata basis with any other commercial paper notes secured by such fund), (v) the proceeds of any other indebtedness of the Water Authority issued or incurred solely for the payment of principal of and interest on the Series 8 Notes, (vi) any other moneys of the Water Authority hereafter pledged by the Water Authority for the payment of principal of and interest on the Series 8 Notes and (vii) the proceeds of Advances (as defined in the Liquidity Agreement), and the principal of and interest on the Series 8 Notes are equally and ratably secured by and payable from a lien on and pledge of the sources hereinabove identified in clauses (i) through (vii) above, subject and subordinate only to the exceptions noted therein.

Additionally, to provide for the payment of the principal of and interest on the Series 8 Notes as the same shall become due and payable, the Water Authority shall, from Net Water Revenues on deposit in the Subordinate Obligations Payment Fund established under the General Resolution on a parity with all other Subordinate Obligations (as defined herein), deposit in the Commercial Paper Note Payment Fund from time to time amounts sufficient, together with other moneys available therefor for the timely payment of principal of and interest on the Series 8 Notes. Such payment shall be subject and subordinate to the application of Net Water Revenues to the payment of principal and accreted value of, premium, if any, interest on, and any reserve fund requirements for, or other obligations with respect to, any senior obligations of the Water Authority.

Unless the Series 8 Notes are paid from the source described in the clauses (i) through (vii) above, such payment is to be made from Net Water Revenues deposited in the Commercial Paper Note Payment Fund.

For purposes of the foregoing:

"General Resolution" means Resolution No. 89-21 adopted May 11, 1989, entitled "A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues," as supplemented by Resolution No. 97-52, adopted by the Board of Directors of the Water Authority on December 11, 1997 and Resolution No. 09-23, adopted by the Board of Directors on December 17, 2009, as it may be further modified, amended or supplemented.

"Net Water Revenues" means, for any Fiscal Year or other period, the Water Revenues during such fiscal year or period, less the Maintenance and Operation Costs during such fiscal year or period.

"Water Revenues" means Current Water Revenues plus deposits to the Water Revenue Fund established under the General Resolution from amounts on deposit in the Rate Stabilization Fund, established under the General Resolution, less amounts transferred to the Rate Stabilization Fund.

"Current Water Revenues" means all gross income and revenue received or receivable by the Water Authority from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including capacity charges, standby charges, and infrastructure access charges) received by the Water Authority for the Water Service and other services of the Water System and all other income and revenue howsoever derived by the Water Authority from the ownership or operation of the Water System or arising from the Water System, and also including investment income with respect to certain funds and accounts.

"Maintenance and Operation Costs" means all costs paid or incurred by the Water Authority for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water purchased by the Water Authority for resale, and including all expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including all administrative costs of the Water Authority, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other costs of the Water Authority or charges required to be paid by it to comply with the terms of the General Resolution or of any resolution authorizing the execution of any Contract or of such Contract or of any resolution authorizing the issuance of any Bonds or of such Bonds, such as compensation, reimbursement and indemnification of the trustee, seller, lender or lessor for any such Contracts or Bonds and fees and expenses of Independent Certified Public Accountants; but excluding in all cases (1) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, premiums and discounts, (2) interest expense and (3) amounts paid from other than Water Revenues (including, but not limited to, amounts paid from the proceeds of ad valorem property taxes.)

"Prior Obligations" means the Water Authority's Water Revenue Certificates of Participation, Series 1998A, 2004A and 2008A; the Water Authority's Water Revenue Refunding Certificates of Participation, Series 2005A; the San Diego County Water Authority Financing Agency Water Revenue Bonds, Series 2010A and 2010B; the San Diego County Water Authority Financing Agency Water Revenue Refunding Bonds, Series 2011A, 2011B and 2013A; and any other Bonds, Contracts or evidences of indebtedness or obligations of the Water Authority authorized under the Act payable from Net Water Revenues senior to the Series 8 Notes; and

"Subordinate Obligations" means the Series 8 Notes, the San Diego County Water Authority Commercial Paper Notes, Series 1 (the "Series 1 Notes"), the San Diego County Water Authority Commercial Paper Notes, Series 5 (the "Series 5 Notes"), the San Diego County Water Authority Commercial Paper Notes, Series 6 (the "Series 6 Notes"), the San Diego County Water Authority Commercial Paper Notes, Series 7 (the "Series 7 Notes"), the San Diego County Water Authority Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (the "2011S-1 Bonds"), and any other obligations of the Water Authority authorized and executed by the Water Authority under applicable law, the interest and principal payments under and pursuant to which are payable from Net Water Revenues from the Subordinate Obligation Payment Fund as Subordinate Obligations under the General Resolution. The Water Authority expects to refund the Series 1 Notes from proceeds of the Series 8 Notes following their initial issuance and to refund the Series 6 Notes from proceeds of San Diego County Water Authority Extendable Commercial Paper Notes, Series 1 (the "ECP Notes").

"Bonds" means revenue bonds of the Water Authority principal and interest on which are payable from Net Water Revenues on a parity with the Prior Obligations.

"Contracts" means installment sale agreements, leases or contracts of indebtedness principal and interest with respect to which are payable by the Water Authority from Net Water Revenues on a parity with the Prior Obligations.

"Certificates" means certificates of participation in payments made by the Water Authority pursuant to Contracts.

Rate Covenant

The Water Authority covenants under the General Resolution that it will at all times fix, prescribe and collect or cause to be collected rates, fees and charges for the Water Service which are reasonably fair and non-discriminatory and which will be at least sufficient to yield during the next succeeding fiscal year Net Water Revenues sufficient for the payment of all amounts payable from Net Water Revenues and at least equal to 120% of the Debt Service on all Prior Obligations, for such fiscal year. The Water Authority may make adjustments from time to time in such rates, fees and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Net Water Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this covenant.

The Water Authority will further covenant under the Issuing and Paying Agreement that it will prescribe, revise and collect such rates and charges for the services, facilities, availability and water of the Water System which, after making allowances for contingencies and error in estimates, will provide Water Revenues at least sufficient to pay the following amounts in the order set forth:

1. Maintenance and Operation Costs;

2. Principal and accreted value of, premium, if any, and interest on all Prior Obligations as and when the same shall become due and payable, and any required deposits into any reserve funds or accounts for the Prior Obligations, all in accordance with the Prior Obligation Documents;

3. To the extent the same are reasonably anticipated by the Water Authority to be paid with Net Water Revenues (e.g., not paid from the proceeds of additional Notes or other refunding obligations), the principal of and interest on the Series 8 Notes and any other amounts due the Bank under the Liquidity Facility when the same shall become due; and

4. Any other obligations which are payable from the Water Revenues.

The Series 8 Notes are Subordinate Obligations payable on a parity with the Series 1 Notes, the Series 5 Notes, the Series 6 Notes, the Series 7 Notes, the 2011S-1 Bonds, and any other Subordinate Obligations secured by the Subordinate Obligation Payment Fund established under the General Resolution. The Water Authority expects to refund the Series 1 Notes from proceeds of the Series 8 Notes and to refund the Series 6 Notes from proceeds of the ECP Notes.

THE WATER AUTHORITY

The Water Authority is a public agency created in San Diego County in 1944 under the County Water Authority Act, California Statutes 1943, Chapter 545, as amended (the "Act"). The Water Authority's primary purpose is to supply water to San Diego County for wholesale distribution to the Water Authority's member agencies in order to fulfill their needs for beneficial uses and purposes. The Water Authority currently serves 24 member agencies, comprised of 6 cities, including the City of San Diego ("San Diego"), 17 special districts and the Pendleton Military Reservation. Historically, 75-95% of the water beneficially used in San Diego County is supplied by the Water Authority. The Water Authority is governed by a 35-member Board of Directors, comprised of at least one representative from each of the Water Authority's member agencies. Any member agency may appoint one additional representative for each full five percent (5%) of total assessed value of property taxable for Water Authority purposes which is within the public agency. As of the date of this Offering Memorandum, San Diego is represented by ten directors and Helix Water District and Otay Water District are each represented by two directors. By law, all of San Diego's votes are cast as a block as determined by a majority of the San Diego representatives present at a meeting. A member agency's weighted vote is based on its "total financial contribution" to the Water Authority as determined annually by the Board of Directors. Total financial contribution includes all amounts paid in taxes, assessments, fees and charges to or on behalf of the Water Authority and The Metropolitan Water District of Southern California with respect to property located within each member agency.

Under the Act, the Water Authority is authorized to acquire water and water rights within or outside of the State of California; to develop, store and transport such water, to provide, sell, and deliver water for beneficial uses and purposes and to provide, sell and deliver water of the Water Authority not needed or required for beneficial purposes of its member agencies to areas outside the boundaries of the Water Authority.

The Water Authority is further authorized by the Act to utilize any part of its water, and any parts of its facilities used for the development, storage, and transportation of water, to provide, generate, and deliver hydroelectric power, and may acquire, construct, operate and maintain any and all of its facilities for such utilization, and the Act authorizes the Water Authority to purchase, lease, sell and otherwise dispose of real or personal property. The Water Authority is authorized to contract to provide, sell and deliver hydroelectric power to the United States of America, to the State of California for the State Water Project and to any other person engaged in the sale of electric power at retail or wholesale. The Water Authority is also authorized to acquire, construct, own, operate, control or use works for supplying its member agencies with gas or electricity and to purchase, sell and exchange gas and electricity from, to and with any public agency, private company or person engaged in the sale of gas or electricity at retail.

The most recent descriptions of the member agencies, the Service Area, Water Supply, Water Facilities, and seismic considerations may be found either in the Water Authority's most recent Official Statement or Offering Memorandum or the Water Authority's Continuing Disclosure Annual Report filed annually with the Municipal Securities Rulemaking Board (the "MSRB"). Pursuant to the provisions of the Act, additional entities are authorized to join the Water Authority. The Act also entitles member agencies to withdraw from the Water Authority, subject to certain restrictions.

The Capital Improvement Program

The Water Authority's goal is to provide a safe and reliable supply of water to its member agencies serving the San Diego region by maintaining an operationally flexible water storage, treatment and distribution system. To achieve this goal, the Water Authority has implemented a strategic plan, a component of which is known as the Capital Improvement Program ("CIP").

The Water Authority staff prepares periodic studies to project the future water demands in its service area. These Water Authority studies review the most recent information on member agency projected water demands, demographics and population estimates by the San Diego Association of Governments. These projections are incorporated into the CIP.

A description of the Water Authority's Long-Range Financing Plan, the Capital Improvement Program and other obligations issued to fund the CIP may be found either in the Water Authority's most recent Official Statement or Offering Memorandum or the Water Authority's Continuing Disclosure Annual Report filed annually with the MSRB. See "OTHER MATTERS."

Sources of Revenue

Water rates generate the majority of the Water Authority's revenue stream. The Water Authority's Board of Directors determines water rates which, under the General Resolution, must be reasonably fair and nondiscriminatory. See "Rate Covenant" above. These rates are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. The Water Authority bills member agencies for water deliveries monthly. The Water Authority also imposes standby charges, capacity charges and infrastructure access charges and receives property tax revenues and in-lieu charges. The imposition of taxes, assessments, rates and charges by the Water Authority is subject to various constitutional and statutory limitations, including some requirements of Articles XIIIA, XIIIB, XIIIC and XIIID of the California Constitution, and are subject to reduction or repeal through the initiative process as provided in Article XIIIC of the California Constitution.

Outstanding Debt

As of April 1, 2014, the Water Authority had $1,837,535,000 aggregate principal amount of Prior Obligations outstanding.

The Series 1 Notes are currently outstanding in the aggregate principal amount of $110,000,000, with liquidity provided by a line of credit from Bayerische Landesbank.

The Series 5 Notes are currently outstanding in the aggregate principal amount of $100,000,000, with liquidity provided by a line of credit from Wells Fargo Bank, National Association.

The Series 6 Notes are currently outstanding in the aggregate principal amount of $50,000,000, with liquidity provided by a line of credit from Citibank, N.A.

The Series 7 Notes are currently outstanding in the aggregate principal amount of $100,000,000, with liquidity provided by a line of credit from JPMorgan Chase Bank, N.A.

The 2011S-1 Bonds are currently outstanding in the aggregate principal amount of $86,630,000.

The Water Authority expects to issue the ECP Notes in June 2014 in the aggregate principal amount of $50,000,000.

The Series 1 Notes, Series 5 Notes, Series 6 Notes, Series 7 Notes and 2011S-1 Bonds are Subordinate Obligations under the General Resolution and are payable on parity with payment of the Series 8 Notes.

Desalination Costs

On November 29, 2012, the Water Authority Board approved the implementation and financing of a desalination project to be located in Carlsbad, California, including a desalination plant and 10-mile pipeline to deliver desalinated water from the plant to the Water Authority's water system. The desalination project has been financed in part with proceeds of two series of bonds, $530,345,000 aggregate principal amount of California Pollution Control Financing Authority Water Furnishing Revenue Bonds, Series 2012 (Poseidon Resources (Channelside) LP Desalination Project) (the "Series 2012 Plant Bonds"), and $203,215,000 aggregate principal amount of California Pollution Control Financing Authority Water Furnishing Revenue Bonds, Series 2012 (San Diego County Water Authority Desalination Project Pipeline) (collectively, the "Desalination Bonds"), issued on December 24, 2012 by the California Pollution Control Financing Authority. In connection with the desalination project, the Water Authority entered into a Carlsbad Seawater Desalination Project Water Purchase Agreement, dated December 20, 2012 (the "Desalination Water Purchase Agreement"), by and between the Water Authority and Poseidon Resources (Channelside) LP, and a Pipeline Installment Sale and Assignment Agreement (the "Desalination Installment Sale Agreement"), dated December 24, 2012, by and between the Water Authority and the San Diego County Water Authority Financing Agency. It is expected that payments made by the Water Authority under these agreements will constitute a substantial portion of the amounts ultimately applied to pay debt service payments on the Desalination Bonds, contingent on attainment of certain operating and product water delivery conditions. Purchases of water pursuant to the Desalination Water Purchase Agreement will constitute Operation and Maintenance Costs under the General Resolution, while installment payments to be made pursuant to the Desalination Installment Sale Agreement are obligations payable from amounts constituting Net Water Revenues on deposit in the General Reserve Fund established under the General Resolution, subordinate to the pledge of Net Water Revenues for the payment of Bonds, Contracts, Reimbursement Obligations and Subordinate Obligations.

Investment Policy

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. The investment policy of the Water Authority is reviewed and submitted annually to the Board of Directors of the Water Authority and is subject to change. A copy of the Water Authority's Annual Statement of Investment Policy for Calendar Year 2014 is attached hereto as Appendix C.

Water Authority Financial Statements

The financial statements of the Water Authority for the fiscal year ending June 30, 2013, are attached hereto as Appendix A. Additional financial and operating data relating to the Water Authority's water system may be found in the Water Authority's most recent Continuing Disclosure Annual Report filed annually with the MSRB. See "OTHER MATTERS."

DESCRIPTION OF THE BANK

The following information has been provided by the Bank for inclusion in this Offering Memorandum. None of the Water Authority or the Dealers make any representation as to the accuracy or completeness of this information or as to the absence of material adverse changes with respect to the Bank or its financial condition subsequent to the date hereof.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Bank"), is a Japanese banking corporation with its head office in Tokyo, Japan. It is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group Inc. (the "Parent"). With 59,057 employees and approximately 662 branches worldwide (as of March 31, 2013), the Bank is Japan's largest bank. The Bank also provides a wide range of banking and financial services worldwide, and is one of the largest banks in the world by deposits and loan portfolio. Mitsubishi UFJ Financial Group is one of the top 10 banks in the world as measured by assets and market capitalization.

As of March 31, 2013, the Bank and subsidiaries had total assets of approximately ¥181,626 billion (U.S. $1,931 billion) and deposits of approximately ¥120,154 billion (U.S. $1,278 billion). Net income for the Bank and subsidiaries for the Fiscal Year ended March 31, 2013, was approximately ¥674 billion (U.S. $7 billion). These figures are extracted from The Annual Securities Report (Excerpt) for the Fiscal Year ended March 31, 2013, for the Bank and subsidiaries (the "Annual Securities Report"). The Annual Securities Report can be found at www.bk.mufg.jp.

The financial information presented above was translated into U.S. dollars from the Japanese yen amounts set forth in the audited financial statements in the Annual Securities Report, which were prepared in accordance with the auditing standards generally accepted in Japan ("JGAAP"), and not in accordance with U.S. GAAP. The translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, and were made at the rate of ¥94.05 to U.S. $1, the approximate rate of exchange at March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Bank's obligations under the Liquidity Agreement are solely obligations of the Bank and are not an obligation of, or otherwise guaranteed by, the Parent, and no assets of the Parent or any affiliate of the Bank or the Parent are pledged to the payment thereof.

The information contained in this section, including financial information, relates to and has been obtained from the Bank, and is furnished solely to provide limited introductory information regarding the Bank, and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Annual Securities Report referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since March 31, 2013.

SUMMARY OF CERTAIN PROVISIONS OF THE LIQUIDITY AGREEMENT

General

The following description is a summary of certain provisions of the Liquidity Agreement. Such summary does not purport to be a complete description or restatement of the material provisions of the Liquidity Agreement. Investors should obtain and review a copy of the Liquidity Agreement in order to understand all of the terms of that document.

Subject to the terms and conditions of the Liquidity Agreement, the Bank agrees to make Advances (as defined in the Liquidity Agreement) from time to time on any Business Day (as defined in the Liquidity Agreement) during the Commitment Period (as defined in the Liquidity Agreement) in amounts which, together with the principal amount of any Advances and Term Loans (as defined herein) then outstanding, shall not exceed at any time outstanding the Commitment (as defined in the Liquidity Agreement). Each Advance shall be made solely for the purpose of providing funds to pay the principal of Series 8 Notes on the maturity date thereof to the extent that proceeds of other Series 8 Notes or Net Water Revenues are not available therefor. The aggregate principal amount of all Advances made on the date of any Advance shall not exceed the Available Commitment (as defined in the Liquidity Agreement) (calculated without giving effect to any Advances made on such date) at 9:00 a.m. (New York City time) on such date. The proceeds of Advances shall not be available to pay interest on Series 8 Notes.

Under certain circumstances described below, the obligation of the Bank to purchase the Series 8 Notes may be immediately suspended or terminated without notice to the holders thereof. In such event, sufficient funds may not be available to purchase Series 8 Notes.

Certain Definitions

For purposes of this Section, the Liquidity Agreement defines "Basic Documents", "Collateral", "Debt", "Prior Obligations" and "Revenues Secured Debt" as follows:

"Basic Documents" means the Issuing and Paying Agent Agreement, the Fee Letter, the Revolving Note, the Term Note, the General Resolution and the Dealer Agreement (each as defined in the Liquidity Agreement).

“Collateral” means those funds and other assets pledged to secure the Series 8 Notes, the Revolving Note and the Term Note pursuant to the Issuing and Paying Agent Agreement and the General Resolution.

“Debt” means (a) all Bonds, Contracts and other evidences of indebtedness or obligations of the Water Authority, including, without limitation, Subordinate Obligations (as defined in the Liquidity Agreement), that are payable from or secured by Net Water Revenues and are evidenced by bonds, debentures, notes or other similar instruments, including, without limitation, the Series 8 Notes, the Revolving Note and the Term Note, (b) all other indebtedness of the Water Authority for borrowed money, (c) obligations of the Water Authority as lessee under any lease of property, real or personal, that, in accordance with GAAP, would be required to be capitalized on a balance sheet of the lessee thereof, (d) obligations of the Water Authority on or with respect to letters of credit, banker’s acceptances or other evidences of indebtedness representing extensions of credit, whether or not representing obligations for borrowed money, (e) all obligations for the deferred purchase price of property or services (other than trade accounts payable occurring in the ordinary course of business), (f) any obligation of the Water Authority guaranteeing or in effect guaranteeing any other Debt, whether directly or indirectly and (g) all obligations arising under or pursuant to any Swap Contract (as defined in the Liquidity Agreement).

“Prior Obligations” means (i) Bonds and Contracts (including Certificates evidencing undivided interests therein), (ii) any bonds, notes, certificates, debentures or other evidence of similar indebtedness issued by or on behalf of the Water Authority secured by a lien on the Collateral ranking senior to or on a parity with the Series 8 Notes, the Revolving Note and the Term Note, (iii) the obligations which are scheduled payments of the Water Authority under any Swap Contract (which are secured pursuant to the Issuing and Paying Agent Agreement by a lien on the Collateral ranking senior to or on a parity with the Series 8 Notes, the Revolving Note and the Term Note) providing interest rate support with respect to any indebtedness issued by or on behalf of the Water Authority pursuant to the Issuing and Paying Agent Agreement by a lien on the Collateral ranking senior to or on a parity with the Series 8 Notes, the Revolving Note and the Term Note, (iv) any obligation of the Water Authority as lessee under a capital lease secured by a lien on the Collateral ranking senior to or on a parity with the Series 8 Notes, the Revolving Note and the Term Note (x) which is not subject to appropriation or abatement or (y) which is rated by each Rating Agency then rating the Series 8 Notes at a level equal to or higher than the long-term unenhanced debt rating assigned by each such Rating Agency to the Water Authority’s Bonds and Contracts (including Certificates evidencing undivided interests therein) and (v) any Guarantee by the Water Authority secured by a lien on the Collateral ranking senior to or on a parity with the Series 8 Notes, the Revolving Note and the Term Note (*provided*, *however*, that the failure to pay any such Guarantee as a result of any set-off, recoupment or counterclaim or any other defense to payment under such Guarantee by the Water Authority shall not constitute a failure to pay Prior Obligations for purposes of the Liquidity Agreement).

“Revenues Secured Debt” means (i) Bonds, (ii) Contracts, (iii) Reimbursement Payments (other than any such payments that have been accelerated under the applicable Reimbursement Agreement), (iv) the Series 2011S-1 Bonds and (v) other Debt payable from or secured by Net Water Revenues and described in clauses (a), (c) and (g) of the definition thereof (and in the case of obligations arising under or pursuant to any Swap Contract as described in clause (g) of the definition thereof, only with respect to (A) Swap Contracts that provide interest rate support and (B) obligations that constitute regularly scheduled payments that relate to Bonds, Contracts and other obligations described in clause (a) of the definition thereof) the payment of which is secured by a pledge of or Lien on Net Water Revenues senior to or on a parity with the payment of the Series 8 Notes.

Termination Events

Each of the following events shall constitute a Termination Event (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Termination Events:

(a) the Water Authority shall fail to pay (i) any amount of interest on any Series 8 Notes when the same shall become due and payable in accordance with its terms or (ii) any principal of, or interest on, the Revolving Note, the Term Note, any Advance (as defined in the Liquidity Agreement), or any Term Loan (as defined in the Liquidity Agreement), when the same shall become due and payable in accordance with its terms (other than as a result of the acceleration thereof as a result of certain Events of Default); or

(b) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any Revenues Secured Debt of the Water Authority, or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument pursuant to which such Revenues Secured Debt has been issued, or pursuant to the provisions of any such resolution, indenture, contract or instrument the maturity of any such Revenues Secured Debt, as a result of a payment default, shall have been or may be accelerated or required to be prepaid prior to the stated maturity thereof; *provided that* no Termination Event shall occur under this paragraph (b) as a result of the failure to pay when due and payable any Series 8 Notes if such failure to pay is due solely to the Bank's failure to honor a properly presented request for an Advance in accordance with the terms of the Liquidity Agreement; or

(c) one or more final, unappealable judgments or orders for the payment of money which, individually or in the aggregate, equal or exceed $15,000,000 and are payable from Water Revenues (as defined herein) or attachment against the Water Revenues shall be rendered against the Water Authority and such judgment or order shall continue unsatisfied, unstayed or undismissed for a period of sixty (60) days; or

(d) (i) The Water Authority shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its Debts payable from or secured by Water Revenues, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of the assets of the Water System (as defined in the Liquidity Agreement), or the Water Authority shall make a general assignment for the benefit of its creditors, or a debt moratorium, debt restructuring, or comparable extraordinary restriction on repayment of debt shall have been declared, announced or imposed with respect to the Bonds (as defined in the Liquidity Agreement), or any Revenues Secured Debt; or (ii) there shall be commenced against the Water Authority any case, proceeding or other action of a nature referred to in clause (i) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Water Authority, any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Water Authority shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) the Water Authority shall admit in writing its inability to pay its debts; or

(e) any provision of the Liquidity Agreement, the Act (as defined herein), the Revolving Note, the Term Note, any Series 8 Note, the Issuing and Paying Agent Agreement or the General Resolution relating to (A) the Water Authority's ability or obligation to make payments of principal or interest on the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (B) the validity or enforceability of the pledge of and lien on the Collateral shall at any time and for any reason cease to be valid and binding on the Water Authority or shall be deemed to be null and void, invalid or unenforceable pursuant to a final, nonappealable judgment or order of any court or other Governmental Authority (as defined in the Liquidity Agreement) having jurisdiction over the Water Authority with respect to such matters; or

(f) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any principal of or interest on any Revenues Secured Debt (other than as described in paragraph (a) under this heading "Termination Events"); or

(g) the long-term unenhanced ratings assigned by Moody's, Fitch and S&P to any of the Prior Obligations described in clause (i) of the definition thereof or Subordinate Obligations (if rated) shall be withdrawn or suspended (but excluding withdrawals or suspensions if the Rating Agency (as defined in the Liquidity Agreement) stipulates in writing that the rating action is being taken for non-credit related reasons) or reduced below "Baa3" (or its equivalent), "BBB-" (or its equivalent) and "BBB-" (or its equivalent), respectively.

Suspension Events

Each of the following events shall constitute a Suspension Event (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Suspension Events:

(a) (i) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Notes, the Issuing and Paying Agent Agreement or the General Resolution, shall find or rule, in a judicial or administrative proceeding, that any material provision of any of the foregoing relating to (A) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (B) the Lien (as defined in the Liquidity Agreement) on or pledge of Net Water Revenues securing the Series 8 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt is not valid or not binding on, or enforceable against, the Water Authority; or (ii) the Water Authority (A) makes a claim in a judicial or administrative proceeding that the Water Authority has no further liability or obligation under the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any Revenues Secured Debt, as and to the extent the Water Authority has obligations thereunder, to pay, when due, the principal or interest payable on the Series 8 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt, or (B) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any other Revenues Secured Debt secured by and relating to (1) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (2) the Lien on or pledge of Net Water Revenues (as defined in the Liquidity Agreement) securing the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt; or

(b) there shall be commenced against the Water Authority any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of the assets of the Water System or the Water Revenues, which shall not have been vacated, discharged, or stayed or bonded pending appeal; or

(c) there shall be commenced against the Water Authority in a United States court of competent jurisdiction any case, proceeding or other action (i) under any existing or future law of any United States jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to the Water Authority, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it, or seeking to declare a moratorium with respect to (x) any Series 8 Note, the Revolving Note, the Term Note, any Advance or any Term Loan or (y) all Revenues Secured Debt, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of the assets of the Water System or the Water Revenues, or the Water Authority shall make a general assignment for the benefit of its creditors which remains undismissed, undischarged or unbonded.

Notice Event of Default

Each of the following events shall constitute a Notice Event of Default (as defined in the Liquidity Agreement) under the Liquidity Agreement. Reference is made to the Liquidity Agreement for a complete listing of all Notice Events of Default:

(a) the Water Authority shall fail to pay when due any amount payable under the Liquidity Agreement or under the Fee Letter (other than amounts described in paragraph (a) under the heading "Termination Events" above) within five days after written demand by the Bank in respect thereof; or

(b) any representation, warranty, certification or statement made by the Water Authority in the Liquidity Agreement or in any Basic Document or in any certificate, financial statement or other document delivered pursuant to the Liquidity Agreement or any Basic Document shall (in any such case) have been incorrect or untrue in any materially adverse respect when made or deemed to have been made and such representation, warranty, certification or statement shall remain incorrect or continue for 30 days after written notice thereof shall have been given to the Water Authority by the Bank; or

(c) the Water Authority shall default in the due performance or observance of certain terms, covenants or agreements set forth in the Liquidity Agreement; or

(d) the Water Authority shall default in the due performance or observance of any term, covenant or agreement contained in the Liquidity Agreement (other than those covered by paragraph (a) or (b) under the heading "Termination Events" above and paragraph (a) or (c) under this heading "Notice Event of Default") and such default, if capable of being remedied, shall remain unremedied for thirty (30) days after written notice thereof shall have been given to the Water Authority by the Bank; provided, however, such breach shall not constitute an Event of Default (as defined in the Liquidity Agreement) after such thirty (30) day period for such period of time as the Water Authority is diligently pursuing a cure or correction of such breach, but in no event for a period of time of more than sixty (60) days after such written notice; or

(e) an "Event of Default" as defined in the Issuing and Paying Agent Agreement or any "event of default" under the General Resolution shall occur and be continuing or the Water Authority shall default in the due performance or observance of any material term, covenant or agreement contained in any other Basic Document and the same shall not have been cured within any applicable cure period; or

(f) the Water Authority shall fail to pay when due and payable (whether by scheduled maturity, required prepayment or acceleration) any other Debt of the Water Authority having an aggregate principal amount or notional amount in excess of $15,000,000 and such failure shall continue beyond any applicable period of grace specified in any underlying indenture, contract or instrument providing for the creation thereof; or

(g) (i) any of Moody's, S&P or Fitch shall withdraw or suspend the long-term unenhanced rating on the Prior Obligations described in clause (i) of the definition thereof or (ii) any two of Moody's, S&P or Fitch shall reduce the long-term unenhanced rating on the Prior Obligations described in clause (i) of the definition thereof below "A3" (or its equivalent), "A-" (or its equivalent), or "A-" (or its equivalent), respectively; *provided that* any such withdrawal or suspension referred to in clause (i) of this paragraph (g) shall not constitute an Event of Default under this paragraph (g) if (x) such withdrawal or suspension is the result of a determination by the Water Authority to cease maintaining such rating and (y) following such withdrawal or suspension the Water Authority shall maintain at least one long-term rating on the Revolving Note and the Term Note; or

(h) any Governmental Authority shall declare a financial emergency with respect to the Water Authority and shall appoint or designate with respect to the Water Authority, an entity such as an organization, board, commission, authority, agency or body to manage the affairs and operations of the Water System; or

(i) the occurrence of any "default" resulting from a failure by the Water Authority to perform any of its obligations under any agreement or instrument providing credit enhancement or liquidity support with respect to any Prior Obligations or Subordinate Obligations, or pursuant to which the related holders purchased and continues to hold the same, which default results in an acceleration of such Prior Obligations or Subordinate Obligations, as applicable, or the obligations of the Water Authority under such agreement or instrument; or

(j) any material provision of the Liquidity Agreement, the Revolving Note, the Term Note, any Series 8 Note, the Issuing Agreement or the General Resolution, other than a provision described in paragraph (e) under the heading "Termination Events", shall at any time and for any reason cease to be valid and binding on the Water Authority as a result of a ruling, finding, decree, order, legislative act or similar action by a Governmental Authority having jurisdiction over the Water Authority with respect to such matters or shall be declared in a final nonappealable judgment by any court having jurisdiction over the Water Authority to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be publicly contested by the Water Authority.

Remedies

The following are remedies available to the Bank under the Liquidity Agreement upon the occurrence of certain events of default thereunder:

(a) Immediate Termination. Upon the occurrence of any Termination Event, (i) the Commitment and the obligation of the Bank to make Advances under the Liquidity Agreement shall immediately and automatically terminate, without notice from the Bank, and (ii) all amounts due under the Liquidity Agreement and under the Revolving Note and the Term Note shall immediately become due and payable; provided that the Event of Default described in paragraph (b) under the heading "Termination Events" above as it pertains to the failure to pay principal on any Series 8 Notes will not constitute a "Termination Event" under the Liquidity Agreement if such Event of Default results from a failure to draw on a liquidity facility for commercial paper notes and is cured on or before the next Business Day.

(b) Suspension Events. (i) Upon the occurrence of an Event of Default described under paragraph (a) under the heading "Suspension Events" above, the obligation of the Bank to make Advances under the Liquidity Agreement shall be immediately and automatically suspended from the time of the occurrence of such Event of Default, and in the event any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Note, the Issuing and Paying Agent Agreement or the General Resolution relating to (A) the ability or obligation of the Water Authority to make payments of principal of or interest on the Series 8 Notes, the Term Note, the Revolving Note, any Advance, any Term Loan or any other Revenues Secured Debt or (B) the Lien on or pledge of the Net Water Revenues of the Water Authority securing the Series 8 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt is declared to be null and void or not fully enforceable; or

(ii) the Water Authority (A) makes a claim in a judicial or administrative proceeding that the Water Authority has no further liability or obligation under the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any Revenues Secured Debt, as and to the extent the Water Authority has obligations thereunder, to pay, when due, the principal or interest payable on the Series 8 Notes, the Term Note, any Term Loan or any other Revenues Secured Debt, or (B) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Liquidity Agreement, the Act, the Revolving Note, the Term Note, any Series 8 Notes, the Issuing and Paying Agent Agreement or the General Resolution, or any other Revenues Secured Debt secured by and relating to (1) the ability or the obligation of the Water Authority to pay, when due, the principal or interest payable on the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt or (2) the Lien on or pledge of other Revenues securing the Series 8 Notes, the Term Note, the Revolving Note, any Advance or any Term Loan or any other Revenues Secured Debt, then the obligations of the Bank under the Liquidity Agreement will terminate in accordance with paragraph (a) under this heading "Remedies"; provided, however, that if such provisions are upheld in their entirety, then the Bank's obligations under the Liquidity Agreement shall be automatically reinstated and the terms of the Liquidity Agreement will continue in full force and effect (unless the Liquidity Agreement shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. If the Event of Default which gave rise to the suspension of the obligations of the Bank under the Liquidity Agreement has not been cured or does not cease to exist prior to the Commitment Expiration Date (as defined in the Liquidity Agreement), the obligations of the Bank under the Liquidity Agreement shall be terminated; or

(iii) upon the occurrence of an Event of Default under paragraphs (b) or (c) under the heading "Suspension Events" above, the obligation of the Bank to make Advances under the Liquidity Agreement shall be immediately and automatically suspended, without notice, until the proceeding referred to therein is terminated, discharged or dismissed, as applicable, prior to the court entering an order granting the relief sought in such proceeding. In the event such proceeding is terminated, discharged or dismissed, as applicable, the obligation of the Bank to make Advances under the Liquidity Agreement shall be reinstated and the terms of the Liquidity Agreement will continue in full force and effect (unless the obligation of the Bank to make Advances under the Liquidity Agreement shall have otherwise expired or terminated in accordance with the terms of the Liquidity Agreement or there has occurred a Termination Event) as if there had been no such suspension.

(c) <u>All Events of Default</u>. In the event any Event of Default, including, without limitation, any Termination Event, has occurred and is continuing, the Bank (i) may by written notice to the Water Authority declare all amounts due under the Liquidity Agreement or under any Revolving Note or the Term Note to be immediately due and payable, whereupon the same shall immediately become due and payable, (ii) may by written notice to the Water

Authority and the Issuing and Paying Agent (a "No-Issuance Notice") in substantially the form attached to the Liquidity Agreement declare the Commitment to be reduced to the principal amount of Series 8 Notes then outstanding and to be permanently reduced further on the maturity date of each such Series 8 Note by an amount equal to the principal amount of such Series 8 Note with the Commitment to be terminated upon the last maturity date applicable to all such Series 8 Notes, (iii) may petition a court of competent jurisdiction to issue a mandamus order to the Water Authority to compel specific performance of the covenants of the Water Authority contained in the Issuing and Paying Agent Agreement, in the Liquidity Agreement or in any other Basic Document and (iv) may pursue any other rights or remedies under the Liquidity Agreement, the Issuing and Paying Agent Agreement, any other Basic Document, applicable law or otherwise. Except as expressly provided under this heading "Remedies," procurement, demand, protest and all other notices of every kind are expressly waived. Following receipt of a No-Issuance Notice, the Water Authority shall not issue any additional Series 8 Notes.

(d) Timing of No-Issuance Notice. A No-Issuance Notice that is received by the Issuing and Paying Agent at or before 12:00 p.m. (New York City time) shall be effective when received. A No-Issuance Notice that is received by the Issuing and Paying Agent after 12:00 p.m. (New York City time) shall not be effective until the opening of business on the next succeeding Business Day.

(e) Copies of Notices. Concurrently with the occurrence of a Termination Event pursuant to paragraph (a) under this heading "Remedies" or a No-Issuance Notice pursuant to paragraph (c) under this heading "Remedies," the Water Authority shall give notice to the Issuing and Paying Agent and the Dealer.

In addition, concurrently with giving such notice to the Water Authority and the Issuing and Paying Agent, the Bank shall provide a copy thereof to the Dealer at their respective addresses referred to in the Liquidity Agreement; provided, however, that the Bank shall not incur any liability as a result of its failure to provide a copy of such a notice in accordance with this sentence.

TAX EXEMPTION

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 8 Notes as of the date of this Offering Memorandum. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

On April 2, 2014, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Water Authority, will deliver its opinion that, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 8 Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate of the Water Authority (the "Tax Certificate"), is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. Bond Counsel's opinion will also state that interest on the Series 8 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel will observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. The proposed form of such opinion is attached hereto as Appendix B.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Prospective purchasers of the Series 8 Notes should consult their own tax advisors with respect to the tax consequences of ownership of Series 8 Notes if the owner elects original issue discount treatment.

Series 8 Notes purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an owner's basis in a Premium Note, will be reduced by the amount of amortizable bond premium properly allocable to such owner. Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Internal Revenue Code of 1986, as amended (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series 8 Notes. The Water Authority has made certain representations and has covenanted to comply with certain restrictions designed to assure that the interest on the Series 8 Notes will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 8 Notes being included in federal gross income, possibly from the date of first issuance of the Series 8 Notes. The opinion of Bond Counsel will assume the accuracy of these representations and compliance with these covenants. Bond Counsel will not undertake to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring) or any other matters coming to Bond Counsel's attention after April 2, 2014 (the anticipated date of delivery of its final opinion with respect to the Series 8 Notes) may adversely affect the value of, or the tax status of interest on, such Series 8 Notes. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel will render an opinion on April 2, 2014 that interest on the Series 8 Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, is excluded from gross income for tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series 8 Notes may otherwise affect the owner's federal, state, or local tax liability. The nature and extent of these other tax consequences depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel will express no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 8 Notes to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent owners from realizing the full current benefit of the tax status of such interest. For example, Representative Dave Camp, Chair of the House Ways and Means Committee, released draft legislation that would subject interest on the Series 8 Notes to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on the Series 8 Notes to some extent for high-income individuals. The introduction or enactment of any such future legislative proposals, or clarification of the Code or court decisions, may also affect, perhaps significantly, the market price for, or marketability of, the Series 8 Notes. Prospective purchasers of the Series 8 Notes should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel to be delivered on April 2, 2014 will be based on then current legal authority, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of interest on the Series 8 Notes for federal income tax purposes. It will not be binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the activities of the Water Authority after the date of such opinion, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Water Authority has covenanted, however, to comply with the requirements of the Code.

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. Unless separately engaged, Bond Counsel is not obligated to defend the Water Authority or the owners of the Series 8 Notes regarding the tax-exempt status of interest on the Series 8 Notes in the event of an audit examination by the IRS. Under current procedures, parties other than the Water Authority and its appointed counsel, including the owners of the Series 8 Notes, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Water Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 8 Notes for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 8 Notes, and may cause the Water Authority or the owners of the Series 8 Notes to incur significant expense.

RATINGS

The Series 8 Notes have been rated "F1" by Fitch Ratings, Inc. ("Fitch"), One State Street Plaza, New York, New York, "P-1" by Moody's Investors Service, Inc. ("Moody's"), 99 Church Street, New York, New York, and "A-1+" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, 55 Water Street, New York, New York ("Standard & Poor's"). The ratings assigned by Fitch, Moody's and Standard & Poor's express only the views of the rating agencies. The explanation of the significance of the ratings may be obtained from Fitch, Moody's and Standard & Poor's, respectively. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 8 Notes.

OTHER MATTERS

The Dealers have provided the following sentence for inclusion in this Offering Memorandum. The Dealers have reviewed the information in this Offering Memorandum in accordance with, and as part of, their responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion in this Offering Memorandum are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in such information or expressions of opinion since the date hereof.

The financial statements of the Water Authority for the fiscal year ended June 30, 2013 and the form of the opinion to be delivered by Bond Counsel are attached hereto as Appendices. The Water Authority will make available on request a copy of the Liquidity Agreement and copies of the Water Authority's most recent Continuing Disclosure Annual Report and Official Statement. For additional information please contact the following:

Director of Finance/Treasurer
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123
(858) 522-6671

Additional information may be obtained from the Water Authority's website at http: www.sdcwa.org/financials-investor-relations

ATTACHMENTS

Appendix A – Water Authority Financial Statements

Appendix B – Proposed Form of Opinion of Bond Counsel

Appendix C – San Diego County Water Authority Annual Statement of Investment Policy

Appendix D – Information Regarding DTC and the Book-Entry Only System

Appendix A
Water Authority Financial Statements

MGO Certified Public Accountants.

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Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

Independent Auditor's Report

To the Board of Directors of the
San Diego County Water Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the San Diego County Water Authority, California, (Water Authority), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego County Water Authority, California, as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Water Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Nos. 60 – 66. In connection with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and as further described in Note 12 to the financial statements, the Water Authority restated its beginning net position as of June 30, 2011 and 2012 due to the recognition of debt issuance costs as expenses.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress, 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 opinions on the financial statements that collectively comprise the Water Authority's basic financial statements. The introductory section, other supplementary information, statistical section and continuing disclosures, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory section, statistical section and continuing disclosures 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 October 31, 2013, on our consideration of the Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
October 31, 2013

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Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides an overview and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Letter of Transmittal located in the Introductory Section, and the Water Authority's Financial Statements and accompanying Notes to the Financial Statements, which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Overview of the Financial Statements

The financial statements report information about the Water Authority's financial position and results of operations using the accrual basis of accounting similar to methods used by private sector companies. They are designed to provide readers with a broad overview of the finances and also present changes in cash balances, and information about both short-term and long-term activities. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes to the Financial Statements.

The Statements of Net Position presents information on all of the Water Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Water Authority's net position changed during the fiscal year. All changes in net position are reported on the accrual basis of accounting, recognizing all revenues when earned and all expenses when incurred.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities for the fiscal year.

The Notes to the Financial Statements (Notes) provide additional information essential for a full understanding of the data provided in the Financial Statements. The Notes are located immediately following the Financial Statements.

Other Information

The Financial Statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997, and the San Diego County Water Authority Financing Agency, a Joint Powers Authority (JPA), established in December 2009. The accounts of these entities are blended into the Water Authority's Financial Statements in accordance with Governmental Accounting Standards Board (GASB) Statements No. 14 and 61. See Notes 1a and 2a for further information regarding these entities.

San Diego County Water Authority

Financial Analysis of the Water Authority

San Diego County Water Authority Condensed Statements of Net Position, in Millions ($)

	June 30, 2013	June 30, 2012	June 30, 2011
Assets:			
Capital assets	$ 3,167.4	$ 3,091.7	$ 2,981.9
Other assets	728.3	832.2	918.6
Total assets	**3,895.7**	**3,923.9**	**3,900.5**
Deferred outflows of resources	**60.9**	**23.2** (1)	**7.5** (1)
Liabilities:			
Long-term liabilities	2,104.8	2,154.5	2,081.6
Other liabilities	459.3	460.9	547.1
Total liabilities	**2,564.1**	**2,615.4**	**2,628.7**
Deferred inflows of resources	**1.9**	**2.0** (1)	**1.8** (1)
Net position:			
Net investment in capital assets	980.4	976.9	959.7
Restricted	152.3	133.8	121.7
Unrestricted	257.9	219.0	196.1
Total net position	**$ 1,390.6**	**$ 1,329.7** (2)	**$ 1,277.5** (2)

Notes:
(1) Deferred ouflows and inflows of resources were reclassified from amounts previously reported.
(2) Net position at June 30, 2011 was restated by a decrease of $16,931,743 and net position at June 30, 2012 was restated by an increase of $2,912,736 to properly recognize debt issuance costs because debt issuance costs do not meet the definition of an asset or a deferred outflow of resources pursuant to GASB Statement No. 65 implemented this fiscal year.

Current Fiscal Year 2013 Compared to Fiscal Year 2012

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Water Authority, assets exceeded liabilities by $1,390.6 million and $1,329.7 million as of June 30, 2013 and 2012, respectively. Of these amounts, $257.9 million and $219.0 million in unrestricted net position for Fiscal Years 2013 and 2012, respectively, were available for current approved services and construction projects as well as new programs for the member agencies. For Fiscal Year 2013, total net position increased by $60.9 million or 4.6 percent. As of June 30, 2013 the largest portion of the Water Authority's net position, 70.5 percent, reflected the investment in capital assets less any related outstanding debt net of unspent proceeds used to acquire those assets.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Assets exceeded liabilities by $1,329.7 million and $1,277.5 million as of June 30, 2012 and 2011, respectively. Of these amounts, $219.0 million and $196.1 million in unrestricted net position for Fiscal Years 2012 and 2011, respectively, were available for current approved services and construction projects as well as new programs for the member agencies. For Fiscal Year 2012, total net position increased by $52.2 million or 4.1 percent. As of June 30, 2012 the largest portion of the Water Authority's net position, 73.5 percent, reflected the investment in capital assets less any related outstanding debt net of unspent proceeds used to acquire those assets.

Capital Assets

San Diego County Water Authority Capital Assets - Net of Accumulated Depreciation and Amortization, in Millions ($)

	June 30,		
	2013	2012	2011
Capital Assets - Non-depreciable	$ 527.7	$ 666.7	$ 546.9
Capital Assets - Depreciable	2,639.7	2,425.0	2,435.0
Total	**$ 3,167.4**	**$ 3,091.7**	**$ 2,981.9**

Capital assets are classified into two distinct categories: non-depreciable and depreciable capital assets. Non-depreciable capital assets include land, easements, mitigation banks, storage rights, and construction in progress. Depreciable capital assets include pipelines, facilities, equipment, computer systems software, as well as participation and capacity rights (net of accumulated depreciation and amortization). In accordance with the Water Authority's capitalization policy, assets are capitalized when a project is substantially completed and has been issued a notice of operational acceptance.

Current Fiscal Year 2013 Compared to Fiscal Year 2012

During Fiscal Years 2013 and 2012, capital asset additions were $133.1 million and $161.6 million, respectively. Of those amounts, $126.7 million and $155.7 million were additions to construction in progress for the years ended June 30, 2013 and 2012, respectively. Included in capital asset additions were $16.1 million and $26.2 million of capitalized interest for Fiscal Years 2013 and 2012, respectively. The following projects accounted for the majority of capital expenses incurred during Fiscal Year 2013: San Vicente Dam Raise totaling $72.3 million, Pipeline 4 SR-52 to Lake Murray totaling $25.5 million, and Lake Hodges Pumped Storage Inlet/Outlet totaling $5.6 million. At the end of Fiscal Year 2013, material commitments under construction contracts decreased to $21.8 million from $55.6 million at Fiscal Year 2012 as significant capital improvement projects continued to progress towards completion. The remaining commitment for the San Vicente Dam Raise project was $8.1 million at the end of Fiscal Year 2013 compared to $53.3 million in Fiscal Year 2012. At the end of Fiscal Year 2013, $13.7 million in new construction contract commitments was outstanding for the Twin Oaks Valley Water Treatment Plant Desalination Modification project.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

During Fiscal Years 2012 and 2011, capital asset additions were $161.6 million and $184.1 million, respectively. Of those amounts, $155.7 million and $132.3 million were additions to construction in progress for the years ended June 30, 2012 and 2011, respectively. Included in capital asset additions were $26.2 million and $41.2 million of capitalized interest for Fiscal Years 2012 and 2011, respectively. The following projects accounted for the majority of the capital expenditures incurred during Fiscal Year 2012: San Vicente Dam Raise totaling $89.0 million, Miramar Hill to Scripps Ranch Reline totaling $22.6 million, Olivenhain Municipal Water District Settlement totaling $13.5 million, and Acoustic Fiber Optic Program totaling $10.9 million. At the end of Fiscal Year 2012, material commitments under construction contracts decreased to $55.6 million from $127.8 million at Fiscal Year 2011 as significant capital improvement projects continued to progress towards completion. The remaining commitment for the San Vicente Dam Raise and the Miramar Hill to Scripps Ranch Reline projects totaled $53.6 million at the end of Fiscal Year 2012 compared to $127.8 million at Fiscal Year 2011. At the end of Fiscal Year 2012, $2.0 million in new construction contract commitments was outstanding for the Lake Hodges Emergency Storage project.

More information on capital assets is presented in Note 7 of the Notes.

Debt Administration

San Diego County Water Authority Outstanding Short-Term Debt, in Millions ($)

	June 30,		
	2013	2012	2011
Tax-Exempt Commercial Paper Program	$ 360.0	$ 360.0	$ 460.0

Short-Term Debt

The Water Authority has a short-term Tax-Exempt Commercial Paper (TECP) program to provide financing for the capital improvement programs.

Current Fiscal Year 2013 Compared to Fiscal Year 2012

During Fiscal Year 2013, the Water Authority terminated the $100.0 million Commercial Paper Notes, Series 4 in its entirety, and issued Commercial Paper Notes, Series 7 for $100.0 million. The total short-term debt remained unchanged at $360.0 million at the end of Fiscal Years 2013 and 2012.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

During Fiscal Year 2012, the Water Authority terminated the $100.0 million Commercial Paper Notes, Series 2, reducing the total short-term debt by $100.0 million to $360.0 million at the end of Fiscal Year 2012 from $460.0 million at the end of Fiscal Year 2011. This short-term note was replaced by the Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1. See Note 11i.

More detailed information on short-term debt is presented in Note 10 of the Notes.

Long-Term Debt

Long-term debt consists of revenue bonds and certificates of participation used to fund the capital improvement programs. The Water Authority continues to hold long-term senior lien credit ratings of AA+, AA+, and Aa2 from Standard and Poor's, Fitch, and Moody's, respectively. Long-term subordinate lien credit ratings are customarily rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA, AA, and Aa3, respectively.

San Diego County Water Authority Outstanding Long-Term Debt, in Millions ($)

	June 30,		
	2013	2012	2011
Revenue Bonds	$ 1,238.0	$ 945.7	$ 624.6
Certificates of Participation	686.2	1,069.8	1,345.0
Total	**$ 1,924.2**	**$ 2,015.5**	**$ 1,969.6**

Current Fiscal Year 2013 Compared to Fiscal Year 2012

As of June 30, 2013 the Water Authority has just under $2.0 billion in long-term debt outstanding, a slight decrease compared to Fiscal Year 2012. During Fiscal Year 2013, the Water Authority issued $299.1 million of Water Revenue Refunding Bonds, Series 2013A to advance refund a portion of the Water Revenue Certificates of Participation (COPs), Series 2004A in the amount of $344.8 million. As of June 30, 2013 and 2012, the total Revenue Bonds outstanding was $1,238.0 million, and $945.7 million, respectively. The total COPs outstanding as of June 30, 2013 and 2012 was $686.2 million and $1,069.8 million, respectively.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

As of June 30, 2012 the Water Authority had just over $2.0 billion in long-term debt outstanding, a slight increase compared to Fiscal Year 2011. During Fiscal Year 2012, the Water Authority issued Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 totaling $86.6 million and Water Revenue Refunding Bonds, Series 2011A and Series 2011B totaling $139.9 million and $94.5 million, respectively. As a result, the liability of the 2002A COPs and 2004A COPs decreased by approximately $212.0 million and $36.3 million, respectively. In addition, in accordance with the debt service schedules, the Water Authority paid down principal of the 2005A COPs, 2002A COPs, and the 1997A COPs totaling $11.7 million, $6.9 million, and $6.1 million, respectively.

More detailed information on long-term debt is presented in Note 11 of the Notes.

San Diego County Water Authority

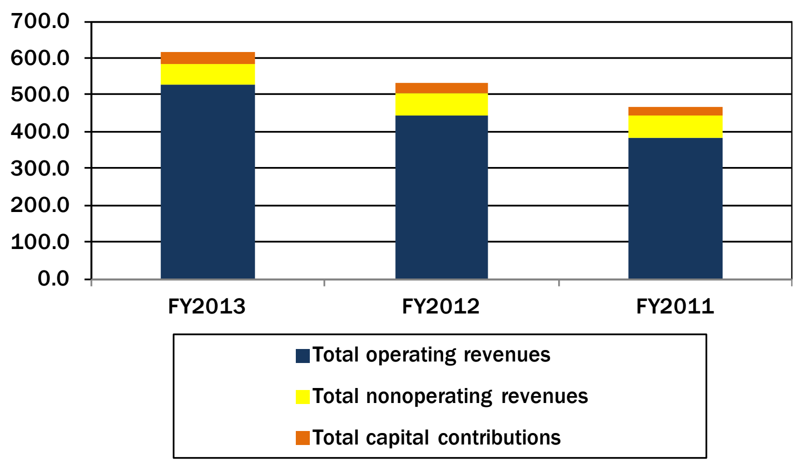
San Diego County Water Authority Statement of Revenues, Expenses and Changes in Net Position, in Millions ($)

	June 30,		
	2013	2012	2011
Operating revenues:			
Water sales	$ 523.5	$ 443.3	$ 382.9
Other revenues	2.6	1.5	0.6
Total operating revenues	526.1	444.8	383.5
Nonoperating revenues:			
Property taxes and in-lieu charges	10.8	9.9	9.7
Infrastructure access charges	28.7	27.7	24.5
Investment income	2.9	5.2	7.0
Other income	1.7	4.3	6.7
Intergovernmental	11.9	11.9	12.1
Gain on sale/retirement of capital assets	-	0.1	0.4
Total nonoperating revenues	56.0	59.1	60.4
Total revenues	582.1	503.9	443.9
Operating expenses:			
Cost of sales	371.3	312.4	275.1
Operations and maintenance	19.3	16.8	16.6
Planning	9.0	7.2	9.7
General and administrative	13.3	13.5	13.2
Depreciation and amortization	52.3	51.7	37.4
Total operating expenses	465.2	401.6	352.0
Nonoperating expenses:			
Interest expense	80.7	69.1	67.2
Debt issuance costs	1.0	2.0	0.3
Other expenses	10.2	5.9	7.7
Loss on sale/retirement of capital assets	0.3	-	-
Total nonoperating expenses	92.2	77.0	75.2
Total expenses	557.4	478.6	427.2
Income before capital contributions	24.7	25.3	16.7
Capital contributions:			
Capacity charges	17.7	11.1	10.3
Water standby availability charges	11.1	11.3	11.3
Contributions in aid of capital assets	7.4	4.5	0.9
Total capital contributions	36.2	26.9	22.5
Changes in net position	60.9	52.2	39.2
Net position at beginning of year, as restated (Note 12)	1,329.7	1,277.5	1,238.3
Net position at end of year	**$ 1,390.6**	**$ 1,329.7** (1)	**$ 1,277.5** (1)

Notes:
(1) Amounts have been restated from those previously reported.

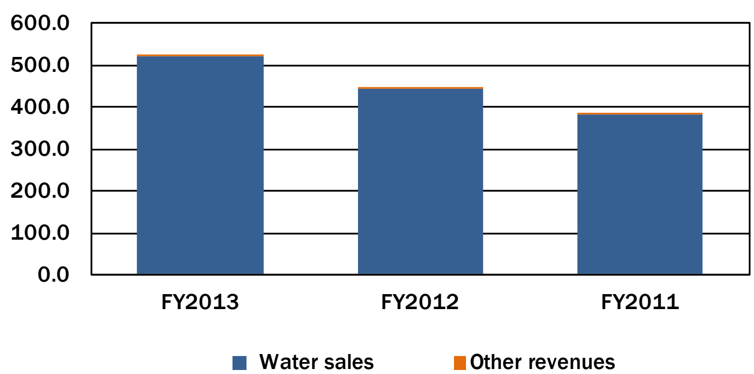
Revenues by Source

Total Revenues and Capital Contributions, in Millions ($)



Total revenues (operating and nonoperating) and capital contributions for Fiscal Years 2013, 2012 and 2011 were $618.3 million, $530.8 million and $466.4 million, respectively. Operating revenues consist primarily of water sales. Nonoperating revenues include property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental revenue, gain on sale/retirement of capital assets, and other income. Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets. For Fiscal Year 2013, water sales, nonoperating revenues and capital contributions accounted for 85 percent, nine percent and six percent of the total revenues and capital contributions.

Operating Revenues, in Millions ($)



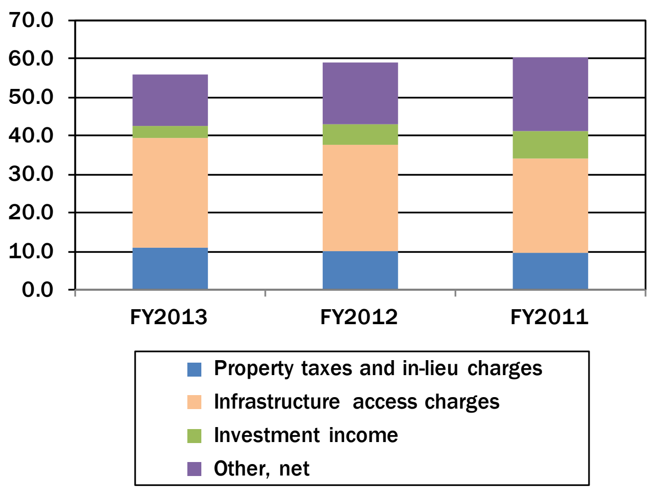
Current Fiscal Year 2013 Compared to Fiscal Year 2012

Water sales revenue is the principal source of revenue and totaled $523.5 million for Fiscal Year 2013, an increase of $80.2 million over Fiscal Year 2012 total of $443.3 million. The increase in water sales revenue was attributed to both the increase in water deliveries and water rates. In Fiscal Year 2013, total water deliveries increased to 482,013 acre-feet (AF) from 442,643 AF in Fiscal Year 2012. The 8.9 percent increase in water deliveries resulted from increased water consumption in the service area from warmer and drier weather conditions and regional economic recovery. Other revenues increased by $1.1 million compared to Fiscal Year 2012, the result of higher hydroelectric revenue from Rancho Penasquitos and Lake Hodges Hydroelectric Facilities.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Water sales totaled $443.3 million for Fiscal Year 2012, an increase of $60.4 million over Fiscal Year 2011 total of $382.9 million. The increase in water sales revenue was attributed to both the increase in water deliveries and water rates. In Fiscal Year 2012, total water deliveries increased to 442,643 AF from 419,511 AF in Fiscal Year 2011. The 5.5 percent increase in water deliveries was anticipated and attributed primarily to a bounce back of per capita water consumption following the termination of mandatory water use restrictions in the service area. Other revenues increased by $0.9 million compared to Fiscal Year 2011, the result of an increase in hydroelectric revenue from Rancho Penasquitos Hydroelectric Facility.

Nonoperating Revenues, in Millions ($)



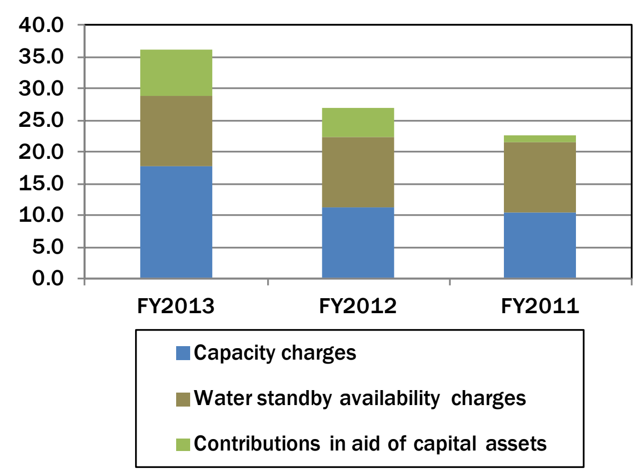
Current Fiscal Year 2013 Compared to Fiscal Year 2012

Nonoperating revenues were $3.1 million lower in Fiscal Year 2013 compared to Fiscal Year 2012. Increases in property taxes, in-lieu charges and IAC were offset by decreases in investment income and Integrated Resources Water Management pass-through grant revenue.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Nonoperating revenues were $1.3 million lower in Fiscal Year 2012 compared to Fiscal Year 2011. Increases in property taxes, in-lieu charges and IAC were offset by decreases in investment income and Integrated Resources Water Management pass-through grant revenue and discontinuation of funding from the San Diego Gas and Electric (SDG&E) High Efficiency Water rebates program.

Capital Contributions, in Millions ($)



Current Fiscal Year 2013 Compared to Fiscal Year 2012

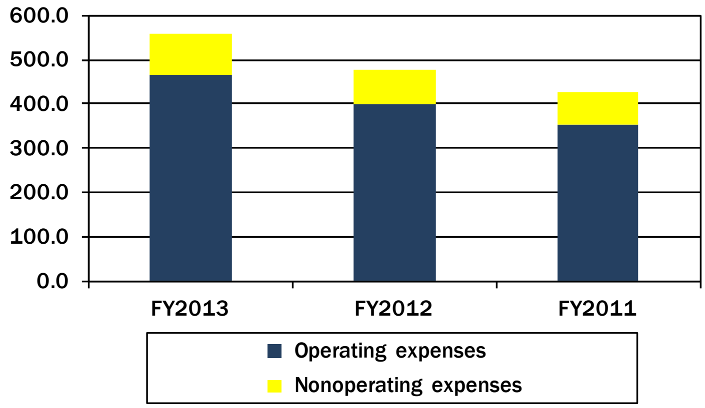
Capital contributions increased by $9.3 million in Fiscal Year 2013 compared to Fiscal Year 2012. A one-time $5.1 million refund was received from SDG&E in September 2012 for the cost of Lake Hodges Hydro-Facility network upgrades. Increased construction permits resulting from regional economic recovery and year-end accrual of quarterly remittances from member agencies contributed to the $6.6 million increase in capacity charge revenue.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Capital contributions increased by $4.4 million in Fiscal Year 2012 compared to Fiscal Year 2011. During Fiscal Year 2012, capital contributions included donated land from the Olivenhain Water District valued at $3.5 million.

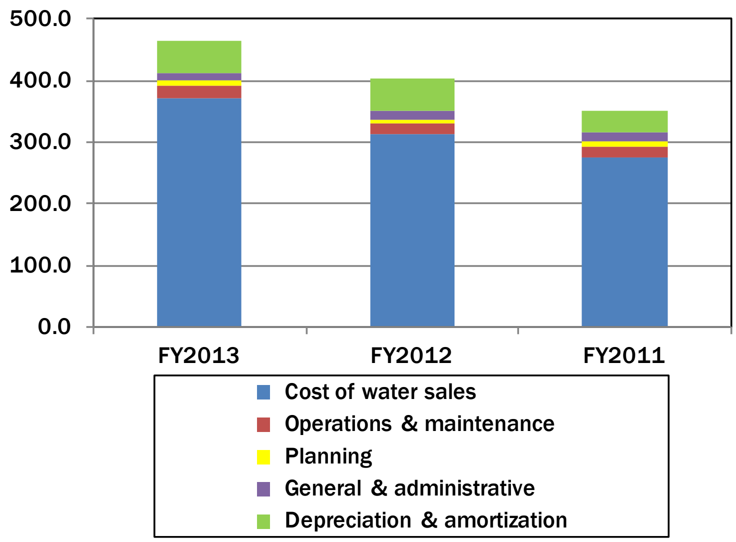
Expenses by Function

Total Expenses, in Millions ($)



Total expenses for Fiscal Years 2013, 2012, and 2011 were $557.4 million, $478.6 million and $427.2 million, respectively. Operating expenses include the cost of water sales, operating department/program expenses, and depreciation and amortization expenses. Operating expenses were $465.2 million, $401.6 million and $352.0 million for Fiscal Years 2013, 2012, and 2011, respectively. Nonoperating expenses, consisting of interest and other expenses, were $92.2 million, $77.0 million and $75.2 million for Fiscal Years 2013, 2012, and 2011, respectively. Interest expense, net of capitalized interest, was $80.7 million, $69.1 million, and $67.2 million for Fiscal Years 2013, 2012, and 2011, respectively.

Operating Expenses, in Millions ($)



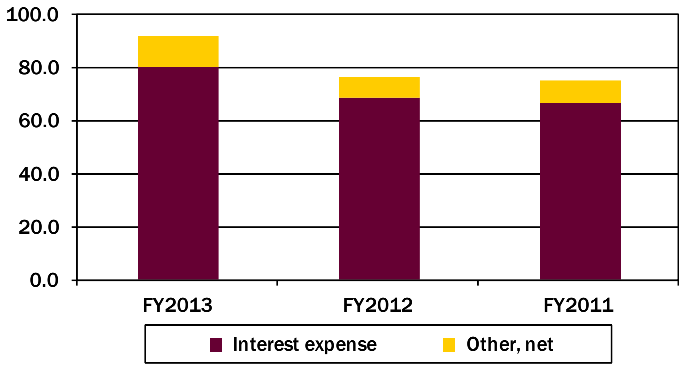
Current Fiscal Year 2013 Compared to Fiscal Year 2012

Total operating expenses increased by $63.6 million in Fiscal Year 2013 compared to Fiscal Year 2012. The 8.9 percent increase in total water deliveries and increased imported water rates in Fiscal Year 2013 resulted in a $58.9 million increase in the cost of water sales. Total operating department expenses increased by $4.1 million in Fiscal Year 2013 compared to Fiscal Year 2012. The increase included the cost in operating and maintaining the Lake Hodges Pumped Storage facility, and reflected higher activity levels in Operations and Maintenance asset management, the Colorado River Program and the Facilities Master Plan.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Total operating expenses increased by $49.6 million in Fiscal Year 2012 compared to Fiscal Year 2011. Substantial capitalized construction costs for CIP projects placed in service during Fiscal Year 2011 resulted in a $14.3 million increase in depreciation and amortization expenses for Fiscal Year 2012. The 5.5 percent increase in water deliveries and increased purchase water rates in Fiscal Year 2012 resulted in a $37.3 million increase in the cost of water sales. Total operating department expenses decreased by $2.0 million in Fiscal Year 2012 compared to Fiscal Year 2011. The decrease in operating department expenses was attributed to continued programmatic budget reductions and staffing reductions.

Nonoperating Expenses, in Millions ($)



Current Fiscal Year 2013 Compared to Fiscal Year 2012

Total nonoperating expenses totaled $92.2 million and $77.0 million in Fiscal Years 2013 and 2012, respectively and consisted primarily of interest expense. In Fiscal Year 2013, total interest expense was $80.7 million, net of $16.1 million in capitalized interest. In Fiscal Year 2012, interest expense was $69.1 million, net of $26.2 million in capitalized interest. The higher interest expense in Fiscal Year 2013 reflected the cost of issuance and interest expense related to the new Series 2013A Bonds. Other expenses increased by $3.6 million in Fiscal Year 2013 compared to Fiscal Year 2012. The increase was attributed to expensing the costs incurred for the Board approved cancellation of five CIP projects, which have been determined to no longer be necessary to serve the member agencies.

Prior Fiscal Year 2012 Compared to Fiscal Year 2011

Total nonoperating expenses totaled $77.0 million and $75.2 million in Fiscal Years 2012 and 2011, respectively and consisted primarily of interest expense. In Fiscal Year 2012, interest expense was $69.1 million, net of $26.2 million in capitalized interest. In Fiscal Year 2011, interest expense was $67.2 million, net of $41.2 million in capitalized interest.

Currently Known Facts, Conditions, or Decisions

Defined Benefit Pension Plans

Effective July 1, 2013, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees increased the amount they pay toward the California Public Employees' Retirement System (CalPERS) by 1.25 percent for a total contribution of seven percent, increasing to eight percent by July 2014. Executive and Senior Management employees increased the amount they pay toward CalPERS by 1.75 percent for a total contribution of eight percent by July 1, 2013.

Quantification Settlement Agreement Litigation

In December 2011, the court of appeal issued its decision partially validating the set of agreements commonly referred to as the 2003 Colorado River Quantification Settlement Agreement or QSA, and remanded the case to the trial court for trial on undecided issues. (Quantification Settlement Agreement Cases (2011) 201 Cal. App. 4th 758.) In July 2013, Sacramento Superior Court Judge Lloyd G. Connelly, after trial on remand from the court of appeal, entered a judgment rejecting all of the remaining legal challenges to the landmark accord. Several of the QSA challengers filed appeals of the trial court judgment. The appeals are now pending in the California Court of Appeal, Third Appellate District, case number C074592. For further information regarding the appeal, contact Daniel Hentschke, General Counsel. The QSA is a key component of water supply for the Water Authority, which will receive 180,000 acre-feet of water this year as result of the QSA and related projects. By 2021, the QSA transfers will supply 280,000 acre-feet annually to the San Diego region.

For more information on the QSA agreement, visit: http://www.sdcwa.org/quantification-settlement-agreement

Metropolitan Water District Litigation

A San Francisco Superior Court judge has set December 17, 2013 as the trial start date for the Water Authority's two lawsuits challenging rates set by the Los Angeles-based Metropolitan Water District of Southern California. The court recognized the Water Authority's desire to try the cases before MWD again sets its rates in April 2014.

The Water Authority sued MWD in 2010 and again in 2012 for imposing illegal rates that are not based on the costs of providing the services for which they are collected. Numerous California statutes, the California Constitution, and common law all require that public water agencies such as MWD set rates based on the actual costs of services rendered.

The Water Authority's two lawsuits against MWD present common factual and legal elements. In both cases, the Water Authority asserts that MWD assigns water supply costs to transportation rates in violation of state law, the state constitution, and common law. The lawsuits also allege that MWD's rates discriminate against the Water Authority by artificially inflating the price MWD charges for transporting the Water Authority's independent Colorado River water supplies through MWD's pipelines.

The Water Authority's first legal challenge was filed in June 2010, after MWD set its 2011 and 2012 rates. The Water Authority filed a second complaint in June 2012, after MWD set rates for 2013 and 2014. The court agreed to coordinate the lawsuits.

For detailed information on the Water Authority's rate litigation, visit: http://www.sdcwa.org/mwdrate-challenge

Contacting the Water Authority's Finance Department

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123 or via the website at http://www.sdcwa.org

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San Diego County Water Authority, Statements of Net Position
June 30, 2013 and 2012

	2013	2012
Assets:		
Current assets:		
Cash and investments (Note 3)	$ 26,551,885	$ 92,738,002
Restricted cash and investments (Note 3)	330,474,753	378,779,007
Water receivables	103,562,891	92,669,911
Interest receivable	1,366,903	2,001,570
Taxes receivable	1,525,622	1,652,574
Other receivables	7,946,663	3,013,877
Inventories (Note 4)	16,082,091	19,104,989
Prepaid expenses (Note 5)	4,637,336	4,637,389
Total current assets	**492,148,144**	**594,597,319**
Noncurrent assets:		
Cash and investments (Note 3)	184,467,758	92,308,322
Restricted cash and investments (Note 3)	31,110,211	123,218,484
Advances to other agencies	343,874	469,372
Retention receivable	252,745	845,665
Long-term loan receivables (Note 6)	20,000,000	20,688,268
Capital assets (Note 7):		
Non-depreciable	527,693,655	666,671,993
Depreciable	2,639,678,922	2,425,075,015
Total noncurrent assets	**3,403,547,165**	**3,329,277,119**
Total assets	**3,895,695,309**	**3,923,874,438**
Deferred outflows of resources:		
Deferred loss on refunding	60,070,329	22,503,736
Deposits receivable	773,445	666,477
Total deferred outflows of resources	**60,843,774**	**23,170,213**
Liabilities:		
Current liabilities:		
Accounts payable and other liabilities	79,603,948	80,322,359
Interest payable	19,649,774	20,511,068
Short-term liabilities (Note 10)	360,000,000	360,000,000
Current portion of long-term liabilities (Note 11)	41,262,443	35,717,263
Total current liabilities	**500,516,165**	**496,550,690**
Noncurrent liabilities:		
Long-term liabilities (Note 11)	2,063,535,821	2,118,814,429
Total liabilities	**2,564,051,986**	**2,615,365,119**
Deferred inflows of resources:		
4S Ranch developer deposit	1,397,064	1,391,242
Tijuana advance water deposit	192,314	265,491
Construction deposits	293,689	314,498
Total deferred inflows of resources	**1,883,067**	**1,971,231**
Net position:		
Net investment in capital assets	980,446,318	976,837,047
Restricted for construction projects	151,728,963	133,157,019
Restricted for debt service	540,932	675,910
Unrestricted	257,887,817	219,038,325
Total net position	**$ 1,390,604,030**	**$ 1,329,708,301**

See accompanying notes to the financial statements.

San Diego County Water Authority

San Diego County Water Authority, Statements of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Water sales	$ 523,455,688	$ 443,347,502
Other revenues	2,578,210	1,519,525
Total operating revenues	**526,033,898**	**444,867,027**
Operating expenses:		
Cost of sales	371,258,531	312,446,563
Operations and maintenance	19,252,138	16,800,991
Planning	9,009,004	7,163,795
General and administrative	13,314,635	13,545,177
Depreciation and amortization	52,259,977	51,705,749
Total operating expenses	**465,094,285**	**401,662,275**
Operating income	**60,939,613**	**43,204,752**
Nonoperating revenues (expenses):		
Property taxes and in-lieu charges	10,796,481	9,882,362
Infrastructure access charges	28,675,422	27,700,326
Investment income	2,936,474	5,211,394
Other income	1,685,361	4,321,805
Intergovernmental	11,861,420	11,848,321
Gain (Loss) on sale/retirement of capital assets	(275,123)	107,815
Interest expense	(80,738,966)	(69,076,153)
Debt issuance costs	(1,034,687)	(1,972,627)
Other expenses	(10,216,954)	(5,873,117)
Total nonoperating revenues (expenses)	**(36,310,572)**	**(17,849,874)**
Income before capital contributions	**24,629,041**	**25,354,878**
Capital contributions:		
Capacity charges	17,709,796	11,098,619
Water standby availability charges	11,147,488	11,240,988
Contributions in aid of capital assets	7,409,404	4,533,844
Total capital contributions	**36,266,688**	**26,873,451**
Changes in net position	**60,895,729**	**52,228,329**
Net position at beginning of year, as restated (Note 12)	**1,329,708,301**	**1,277,479,972**
Net position at end of year	**$ 1,390,604,030**	**$ 1,329,708,301**

See accompanying notes to the financial statements.

San Diego County Water Authority

San Diego County Water Authority, Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from customers	$ 540,273,118	$ 449,864,211
Payments to suppliers for purchases of water	(362,698,968)	(301,535,087)
Payments to suppliers for goods and services	(6,170,226)	(3,310,957)
Payments to employees for services	(39,570,357)	(40,779,984)
Net cash provided by operating activities	**131,833,567**	**104,238,183**
Cash flows from noncapital financing activities:		
Property taxes and in-lieu charges received	10,923,433	9,801,399
Intergovernmental	11,861,420	11,848,321
Net cash provided by noncapital financing activities	**22,784,853**	**21,649,720**
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(120,751,136)	(128,673,227)
Contributions and capital related revenues received from other governments	34,408,541	23,399,911
Proceeds from disposition of capital assets	15,442	107,815
Proceeds from long-term debt issuance	23,515	96,635
Proceeds from long-term debt service reserve fund release	438,000	-
Cost of debt issuance	-	(4,563)
Principal paid on long-term debt	(31,793,281)	(29,776,732)
Interest paid on debt	(102,126,550)	(108,162,014)
Net cash used for capital and related financing activities	**(219,785,469)**	**(243,012,175)**
Cash flows from investing activities:		
Purchase of investments	(211,029,996)	(273,947,017)
Proceeds from sale of investments	272,045,649	373,758,937
Interest received on investments	3,571,141	6,052,940
Net cash provided by investing activities	**64,586,794**	**105,864,860**
Net decrease in cash and cash equivalents	**(580,255)**	**(11,259,412)**
Cash and cash equivalents at beginning of year	**207,858,379**	**219,117,791**
Cash and cash equivalents at end of year	**$ 207,278,124**	**$ 207,858,379**

Reconciliation of cash and cash equivalents at end of year to the Statements of Net Position:

	2013	2012
Current assets:		
Cash and investments	$ 26,551,885	$ 92,738,002
Restricted cash and investments	330,474,753	378,779,007
Noncurrent assets:		
Cash and investments	184,467,758	92,308,322
Restricted cash and investments	31,110,211	123,218,484
Less Investments not meeting the definition of cash equivalents	(365,326,483)	(479,185,436)
Cash and cash equivalents at end of year	**$ 207,278,124**	**$ 207,858,379**

See accompanying notes to the financial statements.

San Diego County Water Authority

San Diego County Water Authority, Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012, (continued)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 60,939,613	$ 43,204,752
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	52,259,977	51,705,749
Infrastructure access charges	28,675,422	27,700,326
Other expenses	(5,074,538)	(5,873,117)
Other income	1,685,361	4,321,805
Increase in water receivables	(10,892,980)	(27,394,042)
(Increase) Decrease in other receivables	(5,121,615)	484,884
Increase in deposits receivable	(106,968)	(115,789)
Decrease in inventories	3,022,898	1,590,973
Decrease in prepaid expenses	53	625
Decrease in long-term loan receivables	688,268	-
Decrease in retention receivable	592,920	113,240
Increase in accounts payable and other liabilities	4,969,672	8,565,460
Increase (Decrease) in developer and water deposits	(67,355)	8,234
Increase (Decrease) in construction deposits	(20,809)	122,132
Decrease in compensated absences	(14,352)	(481,049)
Increase in OPEB liability	298,000	284,000
Total adjustments	**70,893,954**	**61,033,431**
Net cash provided by operating activities	**$ 131,833,567**	**$ 104,238,183**
Noncash operating and capital financing activities:		
Accounts receivable write-off	$ (188,829)	$ -
Cancellation of projects from construction in progress	(4,953,587)	-
Net book value of capital assets disposition	(290,565)	-
Amortization of discounts, premiums, and deferred loss on refundings	(4,881,040)	(27,768,233)
Capitalized interest	(16,083,000)	(26,167,928)
Contribution of capital assets	1,858,147	3,473,540
Capital asset acquisitions included in accounts payable	(8,511,891)	(14,199,974)
Debt issuance costs from issuance of refunding bonds	(1,034,687)	(1,968,064)
Interest paid from release of debt service reserve fund	(34,954,005)	-
Interest paid from issuance of refunding bonds	(5,388,003)	(13,048,542)
Short-term debt retired from issuance of commercial paper (Note 10c)	(100,000,000)	-
Short-term debt retired from issuance of refunding bonds (Note 10b)	-	(100,000,000)
Long-term debt retired from release of debt service reserve fund (Note 11c)	(17,510,000)	-
Long-term debt retired from issuance of refunding bonds (Note 11d)	(344,785,000)	(248,645,000)
Issuance of commercial paper (Note 10f)	100,000,000	-
Release of debt service reserve fund (Note 11c and 11d)	52,902,005	-
Issuance of refunding bonds paid to escrow agent (Note 11l)	351,231,205	365,881,791

See accompanying notes to the financial statements.

1. Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

The San Diego County Water Authority (Water Authority) was organized on June 9, 1944 under the County Water Authority Act (Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors (Board). The Water Authority is a member of the Metropolitan Water District of Southern California (MWD). Historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies. The Water Authority has been in the process of diversifying its supply. Pursuant to the Quantification Settlement Agreement (QSA), signed on October 10, 2003, and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and will also receive water conserved by lining of the All-American and Coachella Canals. The Water Authority also adopted a Regional Water Facilities Master Plan in 2004 that calls for further supply diversification.

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula. Based on the formula, the Water Authority has a statutory preferential right to approximately 17.92 percent of MWD's total supply as of June 30, 2012. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCWAFC) was incorporated on December 29, 1997. The SDCWAFC is a California non-profit public benefit corporation formed to assist the Water Authority as a financing entity and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCWAFA) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority. The SDCWAFA is a Joint Powers Authority (JPA) with statutory authority to issue revenue bonds and was formed by an agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into many such JPA agreements. Under the JPA agreement, the Water Authority has control over all finance matters.

The SDCWAFA's sole purpose is to be a financing entity for the Water Authority and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFA because its activities are blended with those of the Water Authority for financial reporting purposes.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as they are incurred. The Water Authority financial statements apply all effective pronouncements of the Governmental Accounting Standards Board (GASB).

(c) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in money market mutual funds, pooled funds, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents are reported in both restricted and unrestricted cash and investments.

The Water Authority has the following legally restricted funds: Construction, Debt Service Reserve, and Pay-As-You-Go. The Construction Fund includes the proceeds from long-term and short-term debt and are restricted for use on capital project expenses. The Debt Service Reserve Fund holds the required amount for Water Authority debt issues. The Debt Service Reserve Fund is held for the purpose of making an issue's annual debt service payments in the event that the Water Authority should be unable to make such payments. The Pay-As-You-Go Fund consists of Capacity Charges and Water Standby Availability Charges and is restricted per Board adopted ordinances for the Capital Improvement Program (CIP). The funds are dedicated for capital project outlays, as well as debt service.

Investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, except for certain guaranteed investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Note 3 of the Notes to the Financial Statements contains additional information on permissible investments per the Water Authority's Investment Policy.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(d) Reserves

The Water Authority established other designated funds in alignment with best practice guidance: the Rate Stabilization Fund (RSF), Equipment Replacement Fund, and Stored Water Fund. The RSF is established for the purpose of collecting amounts of operating revenues greater than expenses in years of strong net revenues. These funds are to be used to mitigate "rate shock" in years of weak water sales and/or to manage debt service coverage ensuring coverage remains above the legally required minimum. During the fiscal years ended June 30, 2013 and 2012, the Water Authority transferred $12,500,000 and $7,250,000 to the RSF, respectively.

The Equipment Replacement Fund is funded by annual draws from the Operating Fund per depreciation schedules for small capital equipment, such as computers, vehicles, the Supervisory Control and Data Acquisition (SCADA) system, etc., to ensure funding is available to replace equipment that has reached the end of its useful life. The Stored Water Fund was established to support the purchase of water to fill the various Water Authority reservoirs. The majority of funds will be used to fill San Vicente Reservoir once the Emergency and Carryover Storage project is complete.

(e) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair value on the date received. The Water Authority capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least three years as the Water Authority does not have any capital assets with less than a three year useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Non-depreciable assets include Land, Easements, Mitigation Bank, Storage Rights, and Construction in Progress. Depreciable assets include Pipelines and Dams, Facilities, Equipment, Computer Systems Software, and Participation and Capacity Rights.

Depreciation and amortization is computed utilizing the straight-line method over the following estimated useful lives:

Pipelines and Dams	60 to 100 years
Facilities	5 to 50 years
Equipment	3 to 8 years
Computer Systems Software	4 years
Participation and Capacity Rights	10 to 110 years

Intangible Assets – In addition to computer systems software intangible assets, the Water Authority also participates in various storage and water management programs, or builds capital assets that by agreement entitle it to certain participation or capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for capacity rights, software, and permits. Amortization of participation rights is computed over the life of the agreement.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(e) Capital Assets, (continued)

Capitalized Interest – The Water Authority capitalizes interest based on the criteria outlined in GASB Statement No. 62 which applies to taxable borrowings and tax-exempt non-project specific debt. The objective is to obtain a measure of the acquisition cost that more closely reflects the Water Authority's total investment in the asset and to charge a cost that relates to the acquisition of a resource that will benefit future periods against revenues of the periods benefited. The amount to be capitalized is the amount of interest expense that would have been avoided during the asset's acquisition period if the asset had not been acquired, whether or not the asset had been acquired through incurring debt. GASB Statement No. 62 requires a pooled calculation of average interest expense and a weighted average project allocation of interest expense with no offset for interest earnings.

(f) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. The sick leave policy in place during Fiscal Year 2013 restricted unused sick leave conversion to vacation at 50 percent hourly conversion rate for employees with more than 1,000 hours of accrued sick leave; employees that terminated employment prior to retirement or death were paid zero percent of the unused sick leave; employees that attained the age of 50, were vested with five years of service, and terminated employment due to retirement, layoff, or death, were paid 100 percent of unused vacation and 100 percent of unused sick leave (up to 1,000 hours), and 50 percent of any amount over 1,000 hours; and, employees were required to transfer 100 percent of all accrued but unused vacation leave and up to 1,000 hours of sick leave (50 percent of any amount over 1,000 hours) into the Terminal Pay Plan if they retired, or separated employment due to death, after reaching the age of 55.

All accumulated and unused vacation and sick leave pay is recorded as an expense and as compensated absences liability at the time the benefit is earned. At the end of each fiscal year, the Water Authority conducts an analysis of historical annual leave payouts. Based on this analysis, the Water Authority recognizes 66 percent of the accrued but unused leave balances at June 30 as a current liability with the remaining 34 percent of the balance recorded as a long-term liability.

(g) Arbitrage Rebate

Arbitrage is the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds in higher yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage and such amounts are accumulated in order to make arbitrage rebate payments to the federal government under the Internal Revenue Code.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(h) Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding, net of unspent proceeds, related to the acquisition, construction, or improvement of those assets.

Restricted for construction projects – This component of net position consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, less outstanding debt associated with restricted assets.

Restricted for debt service – This component of net position consists of amounts required by bond covenants to be set aside in reserve to be used to pay debt service in the event pledged revenues are insufficient to cover the debt service requirements, less outstanding debt associated with restricted assets.

Unrestricted – This component of net position consists of net position that do not meet the definition of net investment in capital assets, restricted for construction projects, or restricted for debt service.

When both restricted and unrestricted resources are available, it is the Water Authority's policy to use restricted resources first followed by unrestricted resources as they are needed.

(i) Infrastructure Access Charges

In June 1998, the Infrastructure Access Charges (IAC) was adopted by the Board as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenses. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and within the Water Authority's service area. The fixed charge levied against each member agency together with the water standby charge and property tax revenue all combine for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenses of at least 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process and was $2.65 and $2.60 per meter equivalent per month for the Calendar Years 2013 and 2012, respectively.

(j) Property Taxes

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution.

Property taxes are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year. The tax rate is based upon the San Diego County Assessor's valuation of taxable property within the Water Authority's service area. In addition, the Water Authority collects an in-lieu charge from the City of San Diego.

1. Nature of Business and Summary of Significant Accounting Policies, (continued)

(k) In-Lieu Charges

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the City of San Diego pays the in-lieu charge directly to the Water Authority.

(l) Classification of Revenues

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, intergovernmental, and other miscellaneous income.

(m) Capital Contributions

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program (CIP). A water standby availability charge was put into effect in Fiscal Year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In Fiscal Year 1991, a capacity charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in contributions in aid of capital assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenses.

(n) Classification of Expenses

Operating expenses for the Water Authority include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, debt issuance costs, amortization of bond discounts/premiums, amortization of deferred loss on refunding, and other miscellaneous expenses.

(o) Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities, and disclosures. Actual results could differ from estimates. Management believes that all estimates in the financial statements are reasonable.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. See Notes 2 and 12.

2. Implementation of New Governmental Accounting Standards Board Statements

The Water Authority has implemented, effective for Fiscal Year 2013 as required, GASB Statements No. 60 through No. 64. The Water Authority has also elected to early implement, effective for Fiscal Year 2013, GASB Statements No. 65 and No. 66. The financial statements included herein apply the requirements and provisions of these statements, including necessary retroactive adjustments to financial statement classifications and presentations for all years presented. A summary of each newly implemented GASB statement and the impact on the Water Authority financial statements is included below.

(a) Required Implementation

Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* (Issued November, 2010)

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (government) and an operator (governmental or non-governmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (facility) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement does not impact the Water Authority as the Water Authority does not currently have any service concession arrangements in which the operator (non-governmental entity) collects and is compensated by fees from third parties.

Statement No. 61 - *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (Issued November, 2010)

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entit*y, and the related financial reporting requirements of Statement No. 34, *Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement does not change the financial reporting for the Water Authority and its blended component units. These are SDCWAFC and SDCWAFA. All criteria for remaining a blended component unit are met for these two entities.

San Diego County Water Authority

2. Implementation of New Governmental Accounting Standards Board Statements, (continued)

(a) Required Implementation, (continued)

Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Issued December, 2010)

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of Statement No. 20 for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. This Statement clarifies which authoritative accounting literature is applicable to the Water Authority and therefore provides more certainty as research is conducted to handle unique accounting issues as they arise. Statement No. 62 does not impact the financial statements of the Water Authority.

Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Issued June, 2011)

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

Implementation of this Statement impacts the presentation of financial information and changes the titles of the financial statements themselves as well as specific elements in the statements. There are additional note disclosures to describe the reporting changes (See Note 1p Reclassifications and Note 12 Restatements and Reclassifications). It does not, however, impact the bottom line change in net position reported by the Water Authority.

2. Implementation of New Governmental Accounting Standards Board Statements, (continued)

(a) Required Implementation, (continued)

Statement No. 64 *- Derivative Instruments: Application of Hedge Accounting Termination Provisions—An Amendment of GASB Statement No. 53* (Issued June, 2011)

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement does not impact the Water Authority.

2. Implementation of New Governmental Accounting Standards Board Statements, (continued)

(b) Early Implementation

Statement No. 65 - *Items Previously Reported as Assets and Liabilities* (Issued March, 2012)

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by GASB in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

This Statement impacts the Water Authority financial reporting as follows:

<u>Debt issuance costs</u> - Previously these costs were capitalized on the Statements of Net Position and amortized over the remaining life of the associated debt. Statement No. 65 requires that these costs be recognized as an expense in the period incurred. As a result, restatements were made to adjust beginning balances of net position for the effect of prior year costs of issuance, removing the carrying balances from the Statements of Net Position.

Other amounts associated with certain items were reclassified as deferred inflows of resources or deferred outflows of resources as required. Examples include grant amounts received in advance of timing requirements, deposits receivable, deposits payable, and deferred loss on refunding of debt.

2. Implementation of New Governmental Accounting Standards Board Statements, (continued)

(b) Early Implementation, (continued)

Statement No. 66 - *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62* (Issued March, 2012)

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Under this Statement, operating leases are permitted to be reported using the fair value method. This Statement does not impact the Water Authority.

3. Cash and Investments

Cash and investments are classified in the accompanying Statements of Net Position at June 30 as follows:

	2013	2012
Current assets:		
Cash and investments	$ 26,551,885	$ 92,738,002
Restricted cash and investments	330,474,753	378,779,007
Total current assets	**357,026,638**	**471,517,009**
Noncurrent assets:		
Cash and investments	184,467,758	92,308,322
Restricted cash and investments	31,110,211	123,218,484
Total noncurrent assets	**215,577,969**	**215,526,806**
Total cash and investments	**$ 572,604,607**	**$ 687,043,815**

The carrying value of cash and investments held by the Water Authority at June 30 consisted of the following:

	2013	2012
Petty cash	$ 2,500	$ 2,500
Deposits	3,126,362	2,188,652
Investments	569,475,745	684,852,663
Total cash and investments	**$ 572,604,607**	**$ 687,043,815**

3. Cash and Investments, (continued)

(a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy

The table below identifies the investment types that are authorized for the Water Authority by the California Government Code (Gov't. Code) and the Water Authority's Investment Policy (Inv. Policy). The table also identifies certain provisions of the California Government Code (or the Water Authority's Investment Policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code Sections 53600 et seq or the Water Authority's Investment Policy.

	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment in One Issuer		Minimum Rating	
	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy
Local agency bonds	5 years	5 years	None	20%	None	5%	None	A
U.S. Treasury securities	5 years	5 years	None	None	None	None	None	None
Federal agency securities	5 years	5 years	None	85%	None	None	None	None
Bankers' acceptances	180 days	180 days	40%	20%	30%	5%	None	A
Commercial paper	270 days	270 days	25%	25%	10%	5%	A1/P1/F1	A1/P1/F1
Certificates of deposit	5 years	5 years	30%	15%	None	None	None	None
Placement service certificates of deposit	5 years	5 years	30% (4)	15% (5)	None	5% (6)	None	None
Negotiable certificates of deposit	5 years	5 years	30% (4)	15% (5)	None	5% (6)	None	AA (7)
Repurchase agreements	1 year	1 year	None	20%	None	None	None	A
Reverse repurchase agreements	92 days	92 days	20% of portfolio base value	20% of portfolio base value	None	None	None	None
Medium-term notes	5 years	5 years	30%	30%	None	5%	A	AA (7)
Mutual funds	n/a	(3)	20%	(3)	10%	(3)	AAA	(3)
Money market mutual funds	n/a	n/a	20%	15%	None	None	AAA	AAA
Mortgage pass-through securities	5 years	(3)	20%	(3)	None	(3)	AA	(3)
County pooled investment funds (1)	n/a	(3)	None	(3)	None	(3)	None	(3)
JPA pools (other investment pools)	n/a	n/a	None	25%	None	None	None	AAA
Local agency investment fund (LAIF) (2)	n/a	n/a	None	$50M	None	None	None	None

Notes:
(1) Authorized by Gov't. Code Section 53684 (a).
(2) Authorized by Gov't. Code Section 16429.1.
(3) These investments are not authorized by the Inv. Policy.
(4) The combined Gov't. Code maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 30 percent.
(5) The combined Inv. Policy maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 15 percent.
(6) The combined Inv. Policy maximum investment in one issuer for placement service certificates of deposit and negotiable certificates of deposit is five percent.
(7) Must have a minimum rating of "AA" by at least one of the three credit rating agencies and not rated lower than "A" by the other two.

San Diego County Water Authority

3. Cash and Investments, (continued)

(b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority's Investment Policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Water Authority's investments by terms to maturity for Fiscal Years 2013 and 2012, respectively.

		Fiscal Year 2013 Remaining Term to Maturity			
Investment Type	**Fair Value**	**12 months or less**	**13 to 36 months**	**37 to 60 months**	**More than 60 months**
U.S. Treasury securities	$ 58,284,182	$ 15,183,405	$ 28,014,062	$ 15,086,715	$ -
Federal agency securities	260,590,975	106,675,211	143,922,224	9,993,540	-
Commercial paper	29,764,152	29,764,152	-	-	-
LAIF	171,925,162	171,925,162	-	-	-
JPA pools	31,700,691	31,700,691	-	-	-
Money market mutual funds	503,247	503,247	-	-	-
Held by bond trustees:					
Money market mutual funds	20,162	20,162	-	-	-
Federal agency securities	4,446,399	-	4,446,399	-	-
Guaranteed investment contracts	12,240,775	-	-	-	12,240,775
Fiscal Year 2013 Total	**$ 569,475,745**	**$ 355,772,030**	**$ 176,382,685**	**$ 25,080,255**	**$ 12,240,775**

3. Cash and Investments, (continued)

(c) Disclosures Relating to Interest Rate Risk, (continued)

		Fiscal Year 2012 Remaining Term to Maturity			
Investment Type	**Fair Value**	**12 months or less**	**13 to 36 months**	**37 to 60 months**	**More than 60 months**
U.S. Treasury securities	$ 60,102,060	$ 31,192,376	$ 18,753,434	$ 10,156,250	$ -
Federal agency securities	299,433,489	182,946,089	101,862,190	14,625,210	-
Commercial paper	50,427,277	50,427,277	-	-	-
LAIF	171,513,340	171,513,340	-	-	-
JPA pools	33,409,164	33,409,164	-	-	-
Money market mutual funds	503,072	503,072	-	-	-
Held by bond trustees:					
Money market mutual funds	241,651	241,651	-	-	-
U.S. Treasury securities	38,596,085	38,596,085	-	-	-
Guaranteed investment contracts	30,626,525	-	-	-	30,626,525
Fiscal Year 2012 Total	**$ 684,852,663**	**$ 508,829,054**	**$ 120,615,624**	**$ 24,781,460**	**$ 30,626,525**

(d) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the tables on the following page for Fiscal Years 2013 and 2012, respectively, is the minimum rating required (where applicable) by the California Government Code, the Water Authority's Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

On August 5, 2011, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the United States of America to AA+ from AAA. As a result, on August 8, 2011, Standard & Poor's Ratings Services lowered its issuer credit ratings and related issue ratings on various Federal Home Loan Banks, Federal Farm Credit Banks, Fannie Mae and Freddie Mac to AA+ from AAA. In addition, the ratings on 126 Federal Deposit Insurance Corp.–guaranteed debt issues from 30 financial institutions under the Temporary Liquidity Guarantee Program (TLGP), and four National Credit Union Association-guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program (TCCUGP) have also been downgraded to AA+ from AAA. The Water Authority holds investments in these securities as well as the Local Agency Investment Fund (LAIF), which invests in various underlying securities, including the federal agency securities listed above. While LAIF is not rated, the federal agency securities are, and these have been affected by this rating change as well.

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3. Cash and Investments, (continued)

(d) Disclosures Relating to Credit Risk, (continued)

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year Ended June 30, 2013 AAA/AA+	A1	Not Rated
U.S. Treasury securities	$ 58,284,182	n/a	$ 58,284,182	$ -	$ -	$ -
Federal agency securities	260,590,975	n/a	-	260,590,975	-	-
Commercial paper	29,764,152	A1	-	-	29,764,152	-
LAIF	171,925,162	n/a	-	-	-	171,925,162
JPA pools	31,700,691	AAAm	-	31,700,691	-	-
Money market mutual funds	503,247	AAAm	-	503,247	-	-
Held by bond trustees:						
Money market mutual funds	20,162	AAAm	-	20,162	-	-
Federal agency securities	4,446,399	n/a		4,446,399	-	-
Guaranteed investment contracts	12,240,775	n/a	-	-	-	12,240,775
Total	**$ 569,475,745**		**$58,284,182**	**$297,261,474**	**$ 29,764,152**	**$184,165,937**

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year Ended June 30, 2012 AAA/AA+	A1	Not Rated
U.S. Treasury securities	$ 60,102,060	n/a	$ 60,102,060	$ -	$ -	$ -
Federal agency securities	299,433,489	n/a	-	299,433,489	-	-
Commercial paper	50,427,277	A1	-	-	50,427,277	-
LAIF	171,513,340	n/a	-	-	-	171,513,340
JPA pools	33,409,164	AAAm	-	33,409,164	-	-
Money market mutual funds	503,072	AAAm	-	503,072	-	-
Held by bond trustees:						
Money market mutual funds	241,651	AAAm	-	241,651	-	-
U.S. Treasury securities	38,596,085	n/a	38,596,085	-	-	-
Guaranteed investment contracts	30,626,525	n/a	-	-	-	30,626,525
Total	**$ 684,852,663**		**$98,698,145**	**$333,587,376**	**$ 50,427,277**	**$202,139,865**

3. Cash and Investments, (continued)

(e) Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments are as follows for Fiscal Years 2013 and 2012, respectively.

Fiscal Year 2013

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal Home Loan Mortgage Corporation	Federal agency securities	$ 119,178,938	20.9%
Federal National Mortgage Association	Federal agency securities	82,739,627	14.5%
Federal Home Loan Bank	Federal agency securities	34,842,887	6.1%
Federal Farm Credit Bank	Federal agency securities	28,275,922	5.0%

Fiscal Year 2012

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal Home Loan Mortgage Corporation	Federal agency securities	$ 106,567,198	15.6%
Federal Home Loan Bank	Federal agency securities	103,140,544	15.1%
Federal National Mortgage Association	Federal agency securities	71,223,326	10.4%

(f) Custodial Credit Risk

Custodial credit risk for deposits is the risk 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 (for example, broker-dealer) 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 and the Water Authority's Investment Policy do 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 (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Water Authority deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. The Water Authority was not exposed to custodial credit risk as of June 30, 2013 and 2012.

3. Cash and Investments, (continued)

(g) Investment in State Investment Pool

The Water Authority is a voluntary participant in LAIF that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of Water Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon the Water Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of June 30, 2013 and 2012 was $21.2 billion and $21.8 billion, respectively. LAIF is part of the California Pooled Money Investment Account (PMIA), which as of June 30, 2013 and 2012 had a balance of $58.8 billion and $60.5 billion, respectively, and of those amounts, 1.96 percent and 3.47 percent were invested in medium-term and short-term structured notes and asset-backed securities as of June 30, 2013 and 2012, respectively. The average maturity of PMIA investments as of June 30, 2013 and 2012 was 278 days and 268 days, respectively.

(h) JPA Pools

The Water Authority is a voluntary participant in California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. CAMP had a balance of $2.1 billion and $2.0 billion at June 30, 2013 and 2012, respectively, with an average maturity of 37 days and 54 days, respectively. The value of the pool shares in CAMP, which may be withdrawn, is determined on an amortized cost basis, which is the same as the fair value of the Water Authority's portion in the pool.

4. Inventories

Inventories consist of water, valves, and materials in storage and are valued using the average cost method. Components of inventories at June 30, 2013 and 2012 are as follows:

	2013	2012
Water in storage	$ 15,166,096	$ 18,059,285
Valves in storage	768,958	886,954
Materials in storage	147,037	158,750
Total inventories	**$ 16,082,091**	**$ 19,104,989**

5. Prepaid Expenses

In March 2008, the Water Authority purchased 10,006 and 13,071 acre-feet of transfer water from the Butte Water District and Sutter Extension Water District, respectively, for a total of 23,077 acre-feet. As part of the transfer, the Water Authority incurred a Delta carriage loss of 20 percent, a conveyance loss of three percent and evaporative and aquifer losses of ten percent. After the adjustments, the total acre-feet for Butte Water District and Sutter Extension Water District are 6,930 and 9,187, respectively, a total of 16,117 acre-feet. This water is currently stored outside the Water Authority's service area pursuant to a long-term groundwater storage agreement as outlined in Note 9d. As such, it is classified as prepaid expenses on the Statements of Net Position in the amount of $4,620,500 as of June 30, 2013 and 2012.

Also included in prepaid expenses are payments to the Water Authority's benefits administrator for Fiscal Years 2013 and 2012 in the amount of $16,836 and $16,889, respectively. The total prepaid expenses balance as of June 30, 2013 and 2012 was $4,637,336 and $4,637,389, respectively.

6. Long-Term Loan Receivables

(a) Proposition 1A State Borrowing

Under the provisions of Proposition 1A Borrowing by the State of California and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed eight percent of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The amount of this borrowing pertaining to the Water Authority was $688,268 and recorded as a receivable as of June 30, 2012. The tax revenues were recognized in Fiscal Year 2010 for which they were levied. As required, the state repaid the borrowing plus interest as of June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.

(b) Imperial Irrigation District

In October 2003, the Water Authority amended the Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments of $10.0 million in four installments. These funds will be used to pay for the initial administrative costs, and estimated and annual cumulative socioeconomic impact costs.

Beginning in Calendar Year 2019, the Water Authority will begin receiving credits from IID to be applied against any payments due and shall continue until Calendar Year 2048 or until the agreement is terminated, whichever comes first. If the agreement terminates before Calendar Year 2048, IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007, the Water Authority paid IID $10.0 million for future deliveries of water. Interest on the prepayment shall begin to accrue on December 31, 2019 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30. If not repaid sooner, beginning on December 31, 2019 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of $55,556 plus accrued interest. The total IID loan balance as of June 30, 2013 and 2012 was $20,000,000.

As of June 30, 2013 and 2012, the total long-term loan receivables balance was $20,000,000 and $20,688,268, respectively.

7. Capital Assets

Capital Asset activity for the fiscal years ended June 30, 2013 and 2012:

	Balance at June 30, 2011	Additions	Deletions	Transfers
Capital assets not depreciated:				
Land	$ 16,833,637	$ 2,749,439	$ -	$ (291,419)
Easements	7,301,686	-	-	-
Mitigation bank (Note 8)	2,644,029	-	-	-
Storage rights	-	-	-	-
Construction in progress	520,058,635	155,745,316 (1)	-	(38,369,330)
Total capital assets not depreciated	**546,837,987**	**158,494,755**	**-**	**(38,660,749)**
Capital assets being depreciated:				
Pipelines and dams	1,629,816,278	-	-	15,676,843
Facilities	622,504,085	47,690	-	13,064,455
Equipment	31,694,365	459,560	(1,092,654)	1,245,889
Computer systems software	3,253,579	146,507	-	1,595,149
Participation and capacity rights (Note 9)	482,042,703	2,444,063	-	7,078,413
Total capital assets being depreciated	**2,769,311,010**	**3,097,820**	**(1,092,654)**	**38,660,749**
Accumulated depreciation and amortization (Note 1e):				
Pipelines and dams	(210,828,790)	(19,480,612)	-	-
Facilities	(73,807,839)	(17,965,005)	-	-
Equipment	(22,681,691)	(3,350,260)	1,092,654	-
Computer systems software	(3,253,579)	(582,322)	-	-
Participation and capacity rights (Note 9)	(23,716,916)	(10,327,550)	-	-
Total accumulated depreciation and amortization	**(334,288,815)**	**(51,705,749)**	**1,092,654**	**-**
Capital assets, net of depreciation and amortization	**2,435,022,195**	**(48,607,929)**	**-**	**38,660,749**
Total capital assets	**$ 2,981,860,182**	**$ 109,886,826**	**$ -**	**$ -**

Notes:
(1) Additions include capitalized interest of $16.1 million and $26.2 million for Fiscal Years 2013 and 2012, respectively.
(2) Construction in progress deletions are for five cancelled projects.
(3) As a result of the facilities constructed for the City of San Diego as part of the Lake Hodges Pump Storage Inlet/Outlet Project, the Water Authority acquired the right to store 20,000 acre-feet of water in Lake Hodges Reservoir in perpetuity.

Balance at June 30, 2012	Additions	Deletions	Transfers	Balance at June 30, 2013
$ 19,291,657	$ -	$ -	$ 3,042,325	$ 22,333,982
7,301,686	1,100	-	307,338	7,610,124
2,644,029	2,372,994	-	-	5,017,023
-	-	-	41,016,383 [3]	41,016,383
637,434,621	126,725,906 [1]	(4,953,587) [2]	(307,490,797)	451,716,143
666,671,993	**129,100,000**	**(4,953,587)**	**(263,124,751)**	**527,693,655**
1,645,493,121	-	-	140,637,864	1,786,130,985
635,616,230	633,467	(400,780)	108,983,506	744,832,423
32,307,160	688,594	(369,883)	2,125,594	34,751,465
4,995,235	-	-	2,648,874	7,644,109
491,565,179	2,707,637	-	8,728,913	503,001,729
2,809,976,925	**4,029,698**	**(770,663)**	**263,124,751**	**3,076,360,711**
(230,309,402)	(21,650,238)	-	-	(251,959,640)
(91,772,844)	(16,266,036)	110,215	-	(107,928,665)
(24,939,297)	(2,766,611)	369,883	-	(27,336,025)
(3,835,901)	(543,532)	-	-	(4,379,433)
(34,044,466)	(11,033,560)	-	-	(45,078,026)
(384,901,910)	**(52,259,977)**	**480,098**	**-**	**(436,681,789)**
2,425,075,015	**(48,230,279)**	**(290,565)**	**263,124,751**	**2,639,678,922**
$ 3,091,747,008	**$ 80,869,721**	**$ (5,244,152)**	**$ -**	**$ 3,167,372,577**

8. Mitigation Bank

The Mitigation Bank contains purchased rights to designate the future use of land in which title is held by another entity. This acreage includes wetland, stream, or other open space areas that have been restored, established, enhanced, or preserved for the purpose of providing compensation to the public for unavoidable impacts to the environment permitted under Section 404 of the Federal Clean Water Act or other state or local regulation. The Water Authority transfers a proportionate share of the cost of the Mitigation Bank to the capital project at the time acreage is identified to mitigate the impacts from a specific project. These costs are then amortized over the estimated useful life of the related asset. As of June 30, 2013 and 2012, the value of acreage remaining was $5,017,023 and $2,644,029, respectively.

	Acres	
Mitigations Site	**Total**	**Remaining**
Crestridge Habitat Management Area (HMA)	258.45	25.71
San Miguel Conservation	820.85	820.85
Mitigation Bank Total	**1,079.30**	**846.56**

9. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were $457,923,703 and $457,520,713 as of June 30, 2013 and 2012, respectively.

(a) Quantification Settlement Agreement Joint Powers Authority Participation Rights

Pursuant to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) Creation and Funding Agreement (Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority net of amortization was $49,990,931 and $50,376,100 as of June 30, 2013 and 2012, respectively. Amortization is computed using the acre-feet assigned per calendar year over the 75-year life of the Agreement.

In addition, the Agreement required the Water Authority to pay, net of amortization, $9,226,994 and $9,488,752 as of June 30, 2013 and 2012, respectively, as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the 75-year life of the Agreement.

Legal expenses associated with the right to purchase water capitalized due to the MWD litigation for June 30, 2013 and 2012, net of amortization, totaled $6,299,339 and $3,650,935, respectively, and are amortized utilizing the straight-line method over the life of the Agreement of 75 years. The QSA JPA is not a named party to the Water Authority litigation challenging MWD's rate structure.

9. Participation and Capacity Rights, (continued)

(b) Imperial Irrigation District Socioeconomic Participation Rights

IID and the Water Authority resolved a dispute concerning the nature and extent of the obligations and covenants under Section 14.5 of the Revised Fourth Amendment to the Agreement between IID and the Water Authority for the Transfer of Conserved Water by agreeing to additional annual payments to be made to IID, net of amortization, totaling $11,808,000 and $14,760,000 as of June 30, 2013 and 2012, respectively, over a period of ten years.

(c) Canal Lining Participation Rights

On October 10, 2003 the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement, net of amortization, required payment of $3,759,391 and $3,817,010 as of June 30, 2013 and 2012, respectively, to IID for MWD's outstanding obligations.

The agreement specifically assigned the project of lining the Coachella Canal, which is a branch from the Colorado River and is owned by the U.S. Bureau of Reclamation (BOR), to the Water Authority. The lining of the canal was in order to control water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for $79,447,974. Participation rights for this project, net of amortization, totaled $118,230,275 and $115,792,964 as of June 30, 2013 and 2012, respectively, and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

The agreement executed January 13, 2006 between BOR, IID, and the Water Authority for the construction of the All-American Canal Lining Project provides for the construction of the canal by IID with oversight by the Water Authority and the BOR. The All-American Canal provides 56,200 acre-feet per year to the Water Authority annually for 110 years. The Department of Water Resources funded $135.7 million for construction of the All-American Canal Lining Project, and the Water Authority funded the amount over the state subsidy. Participation rights for this project, net of amortization, totaled $149,558,683 and $149,977,445 as of June 30, 2013 and 2012, respectively, and are amortized utilizing the straight-line method over the life of the agreement of 110 years.

(d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet.

Storage and recovery rights for this program totaled, net of amortization, $9,613,555 and $10,040,824 for Vidler and $12,347,561 and $12,896,341 for Semitropic as of June 30, 2013 and 2012, respectively. These rights are amortized using the straight-line method over the life of the agreements, which end in 2035.

9. Participation and Capacity Rights, (continued)

(e) Levy Treatment Plant Capacity Rights

In April 1997, the Water Authority entered into a capacity agreement with Helix Water District (Helix) for installation of an untreated water transmission pipeline, a flow control facility, and expansion of the R.M. Levy Water Treatment Plant (Levy Plant). Helix owns, operates, and maintains the Levy Plant and agreed to its phased expansion to 106 million gallons per day (mgd). In accordance with the April 1997 agreement, the Water Authority has capacity rights of 26 mgd. In April 2006, a third amendment to the agreement with Helix transferred to the Water Authority an additional 10 mgd capacity in the Levy Plant, for total capacity rights of 36 mgd. The Water Authority paid $10.6 million to Helix for 10 mgd of additional capacity in Levy Plant, $300,000 to Helix for 4 mgd of additional capacity in the 54-inch transmission main (for Lakeside Water District), $1.5 million to Helix for 8 mgd of additional capacity in Helix Flume Pipeline (for Otay Water District), and $600,000 to Helix for 12 mgd of additional capacity in Helix Flume Pipeline (for Padre Dam Municipal Water District). Capacity rights for Levy Treatment Plant Capacity Purchases, net of amortization, totaled $12,517,949 and $12,898,240 as of June 30, 2013 and 2012, respectively, and are being amortized using the straight-line method over 35 years.

(f) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the Levy Plant to provide additional capacity to Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to 12 mgd. Capacity rights for Los Coches Pump Station totaled $3,890,731 and $4,453,246 as of June 30, 2013 and 2012, respectively, and for Helix Flume Pipeline, net of amortization, totaled $3,480,797 and $3,984,044 as of June 30, 2013 and 2012, respectively, and are being amortized using the straight-line method over ten years.

(g) Moreno-Lakeside Pipeline Capacity Rights

In June 2001, the Water Authority and Helix executed the first amendment to the 1997 Capacity Agreement. Capacity rights for this project, net of amortization, totaled $3,386,774 and $4,064,505 as of June 30, 2013 and 2012, respectively, and are being amortized using the straight-line method over ten years, which began when the project was capitalized in Fiscal Year 2008. Otay Water District constructed a new pipeline from the Otay 14 Flow Control Facility (FCF) location to the regulatory reservoirs in the Otay System. The Water Authority reimbursed Otay Water District for the new pipeline and Otay Water District agreed to purchase at least 10,000 acre-feet of water per calendar year from the Water Authority. The capacity rights added to the Moreno-Lakeside Pipeline, net of amortization, totaled $3,390,009 and $4,068,388 as of June 30, 2013 and 2012, respectively, and are being amortized using the straight-line method over ten years.

(h) Imperial Irrigation District Water Transfer – Base Contract Price Settlement Participation Rights

IID and the Water Authority executed an agreement that settled all disputes related to the Base Contract Price and the Water Authority/IID Conserved Water Transfer Agreement as stated in the Fifth Amendment to the agreement. Participation rights for this agreement, net of amortization, totaled $50,971,662 and $51,446,553 as of June 30, 2013 and 2012, respectively, and are being amortized utilizing the straight-line method over the 75-year life of the agreement.

9. Participation and Capacity Rights, (continued)

(i) Rancho Canada Permit for Endangered Species

The Water Authority funded property in the amount of, net of amortization, $5,699,653 and $5,805,366 as of June 30, 2013 and 2012, respectively, owned by the Department of Fish and Game (DFG) for permits for endangered species for 55 years. The Water Authority will be allowed to count the property as mitigation to satisfy any permit requirements issued for Emergency Storage Projects (ESP) and Carryover Storage Projects (CSP) pursuant to the Federal and State Endangered Species Acts, Federal Clean Water Act, California Porter-Cologne Act, and California Fish and Game Code Section 1602 to the extent the agency issuing the permit agrees the property provides suitable mitigation for impacts. Any acreage not applied as mitigation for ESP or CSP will be available to the Water Authority to be credited toward Water Authority mitigation and conservation obligations for future Water Authority CIP projects, maintenance and operation activities, urgent repairs, and emergency actions as described in the Water Authority Natural Communities Conservation Plan.

(j) Lake Hodges Pumped Storage Inlet/Outlet Storage Rights

The Lake Hodges Projects are part of the Water Authority's ESP, which consists of a system of reservoirs, interconnected pipelines and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries. The Lake Hodges Projects connect the City of San Diego's Hodges Reservoir, also called Lake Hodges, to the Water Authority's Olivenhain Reservoir. The connection provides the ability to store 20,000 acre-feet of water in Hodges Reservoir for emergency use. Storage Rights for Lake Hodges Pumped Storage net of amortization totaled $3,751,399 and $0 as of June 30, 2013 and 2012.

10. Short-Term Liabilities

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's Capital Improvement Program. The Water Authority has remarketing agreements with five separate broker-dealers: Banc of America Securities LLC/Merrill Lynch, JPMorgan Chase & Co., Citigroup Global Markets Inc., Goldman, Sachs and Co., and Morgan Stanley and Co. LLC. The remarketing fees for the various dealer agreements range from 0.095 percent to 0.60 percent per annum on the par amount of TECP outstanding. No advances have been made under any of the revolving credit and term loan agreements during the fiscal years ended June 30, 2013 and 2012.

The TECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COPs) and Water Revenue Bonds. At June 30, 2013 and 2012, the Water Authority had commercial paper outstanding of $360.0 million.

(a) Commercial Paper Notes, Series 1

The Commercial Paper Notes, Series 1 (the Series 1 Notes) were issued for a total maximum authorized amount of $110.0 million. The Series 1 Notes have liquidity support in the form of a revolving credit and term loan agreement with Bayerische Landesbank and, unless otherwise extended, will terminate on November 30, 2015. During the term of the agreement, the Water Authority pays annual commitment fees of 0.50 percent based on the par amount of the commitment. At June 30, 2013 and 2012, the balance outstanding was $110.0 million.

(b) Commercial Paper Notes, Series 2

On November 15, 2006, the Commercial Paper Notes, Series 2 (the Series 2 Notes) were issued for a total maximum authorized amount of $175.0 million. The Series 2 Notes have liquidity support in the form of a revolving credit and term loan agreement with BNP Paribas and during the term of the agreement, the Water Authority paid annual commitment fees of 0.095 percent based on the par amount of the commitment. The Water Authority terminated this agreement on July 21, 2011. At June 30, 2013 and 2012, the balance outstanding was $0.

Short-term liabilities activity for the fiscal years ended June 30, 2013 and 2012 are as follows:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Short-term debt:				
Commercial Paper Notes, Series 1	$ 110,000,000	$ -	$ -	$ 110,000,000
Commercial Paper Notes, Series 2	100,000,000	-	(100,000,000)	-
Commercial Paper Notes, Series 4	100,000,000	-	-	100,000,000
Commercial Paper Notes, Series 5	100,000,000	-	-	100,000,000
Commercial Paper Notes, Series 6	50,000,000	-	-	50,000,000
Commercial Paper Notes, Series 7	-	-	-	-
Total short-term debt	**$ 460,000,000**	**$ -**	**$ (100,000,000)**	**$ 360,000,000**

10. Short-Term Liabilities, (continued)

(c) Commercial Paper Notes, Series 4

On June 29, 2011, the Commercial Paper Notes, Series 4 (the Series 4 Notes) were issued for a total maximum authorized amount of $100.0 million. The Series 4 Notes have liquidity support in the form of a revolving credit and term loan agreement with Barclays Bank PLC and during the term of the agreement, the Water Authority paid annual commitment fees of 0.60 percent based on the par amount of the commitment. The Water Authority terminated this agreement on June 27, 2013. At June 30, 2013 and 2012, the balance outstanding was $0 and $100.0 million, respectively.

(d) Commercial Paper Notes, Series 5

On June 29, 2011, the Commercial Paper Notes, Series 5 (the Series 5 Notes) were issued for a total maximum authorized amount of $100.0 million. The Series 5 Notes have liquidity support in the form of a revolving credit and term loan agreement with Wells Fargo Bank, N.A. and, unless otherwise extended, will terminate on June 27, 2014. During the term of the agreement, the Water Authority pays annual commitment fees of 0.60 percent based on the par amount of the commitment. At June 30, 2013 and 2012, the balance outstanding was $100.0 million.

(e) Commercial Paper Notes, Series 6

On June 29, 2011, the Commercial Paper Notes, Series 6 (the Series 6 Notes) were issued for a total maximum authorized amount of $50.0 million. The Series 6 Notes have liquidity support in the form of a revolving credit and term loan agreement with Citibank, N.A. and, unless otherwise extended, will terminate on June 27, 2014. During the term of the agreement, the Water Authority pays annual commitment fees of 0.60 percent based on the par amount of the commitment. At June 30, 2013 and 2012, the balance outstanding was $50.0 million.

(f) Commercial Paper Notes, Series 7

On June 26, 2013, the Commercial Paper Notes, Series 7 (the Series 7 Notes) were issued for a total maximum authorized amount of $100.0 million. The Series 7 Notes have liquidity support in the form of a revolving credit and term loan agreement with JPMorgan Chase Bank, N.A. and, unless otherwise extended, will terminate on June 26, 2015. During the term of the agreement, the Water Authority pays annual commitment fees of 0.40 percent based on the par amount of the commitment. At June 30, 2013 and 2012, the balance outstanding was $100.0 million and $0.

Additions	Deletions	Balance at June 30, 2013
$ -	$ -	$ 110,000,000
-	-	-
-	(100,000,000)	-
-	-	100,000,000
-	-	50,000,000
100,000,000	-	100,000,000
$ 100,000,000	**$ (100,000,000)**	**$ 360,000,000**

11. Long-Term Liabilities

Long-term liabilities activities for the fiscal years ended June 30, 2013 and 2012 are as follows:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Long-term debt:				
Water Revenue Refunding COPs, Series 1997A (Note 11a)	$ 6,110,000	$ -	$ (6,110,000)	$ -
Water Revenue COPs, Series 1998A (Note 11b)	11,685,000	-	-	11,685,000
Water Revenue COPs, Series 2002A (Note 11c)	236,750,000	-	(219,240,000)	17,510,000
Water Revenue COPs, Series 2004A (Note 11d)	425,000,000	-	(36,290,000)	388,710,000
Water Revenue Refunding COPs, Series 2005A (Note 11e)	107,455,000	-	(11,725,000)	95,730,000
Water Revenue COPs, Series 2008A (Note 11f)	558,015,000	-	(1,865,000)	556,150,000
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt) (Note 11g)	98,495,000	-	-	98,495,000
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) (Note 11h)	526,135,000	-	-	526,135,000
Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (Note 11i)	-	86,630,000	-	86,630,000
Water Revenue Refunding Bonds, Series 2011A (Note 11j)	-	139,945,000	-	139,945,000
Water Revenue Refunding Bonds, Series 2011B (Note 11k)	-	94,540,000	-	94,540,000
Water Revenue Refunding Bonds, Series 2013A (Note 11l)	-	-	-	-
Total long-term debt	**1,969,645,000**	**321,115,000**	**(275,230,000)**	**2,015,530,000**
Other liabilities:				
Contributions payable (Notes 11m and 11n)	64,857,840	-	(3,191,732)	61,666,108
Compensated absences	6,426,478	3,283,901	(3,764,950)	5,945,429
OPEB liability (Note 14)	889,000	503,000	(219,000)	1,173,000
Arbitrage rebate	407,824	-	-	407,824
Total long-term liabilities	**2,042,226,142**	**324,901,901**	**(282,405,682)**	**2,084,722,361**
Unamortized bond discounts and premiums	39,401,676	42,643,241	(12,235,586)	69,809,331
Total long-term liabilities, net	**$ 2,081,627,818**	**$ 367,545,142**	**$ (294,641,268)**	**$ 2,154,531,692**

11. Long-Term Liabilities, (continued)

			Fiscal Year 2013		Fiscal Year 2012	
Additions	Deletions	Balance at June 30, 2013	Amounts Due Within One Year	Amounts Due After One Year	Amounts Due Within One Year	Amounts Due After One Year
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	11,685,000	-	11,685,000	-	11,685,000
-	(17,510,000)	-	-	-	-	17,510,000
-	(344,785,000)	43,925,000	-	43,925,000	-	388,710,000
-	(12,240,000)	83,490,000	12,605,000	70,885,000	12,240,000	83,490,000
-	(9,120,000)	547,030,000	10,920,000	536,110,000	9,120,000	547,030,000
-	-	98,495,000	1,570,000	96,925,000	-	98,495,000
-	-	526,135,000	-	526,135,000	-	526,135,000
-	-	86,630,000	-	86,630,000	-	86,630,000
-	(6,815,000)	133,130,000	6,845,000	126,285,000	6,815,000	133,130,000
-	-	94,540,000	-	94,540,000	-	94,540,000
299,105,000	-	299,105,000	-	299,105,000	-	-
299,105,000	**(390,470,000)**	**1,924,165,000**	**31,940,000**	**1,892,225,000**	**28,175,000**	**1,987,355,000**
-	(3,618,281)	58,047,827	5,407,932	52,639,895	3,618,281	58,047,827
3,459,276	(3,473,628)	5,931,077	3,914,511	2,016,566	3,923,982	2,021,447
528,000	(230,000)	1,471,000	-	1,471,000	-	1,173,000
58,704	-	466,528	-	466,528	-	407,824
303,150,980	**(397,791,909)**	**1,990,081,432**	**41,262,443**	**1,948,818,989**	**35,717,263**	**2,049,005,098**
52,126,205	(7,218,704)	114,716,832	-	114,716,832	-	69,809,331
$ 355,277,185	**$ (405,010,613)**	**$ 2,104,798,264**	**$ 41,262,443**	**$ 2,063,535,821**	**$ 35,717,263**	**$ 2,118,814,429**

San Diego County Water Authority

11. Long-Term Liabilities, (continued)

Long-term pledged liabilities for the fiscal year ended June 30, 2013 is comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal and Interest Paid	Pledged Revenue Recognized
Pledged Net Water Revenue:				
COPs and Bonds				
Water Revenue COPs, Series 1998A	2028	$ 20,010,563	$ 555,037	$ 555,035
Water Revenue COPs, Series 2002A	2032	-	18,385,500	437,750
Water Revenue COPs, Series 2004A	2034	75,611,713	10,615,812	10,615,812
Water Revenue Refunding COPs, Series 2005A	2022	100,899,513	17,234,313	17,234,313
Water Revenue COPs, Series 2008A	2038	992,816,000	36,836,300	36,836,300
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2027	144,761,750	4,722,425	4,722,424
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)	2049	1,422,900,176	32,294,166	32,294,159
Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1	2017	101,583,400	4,272,400	4,272,400
Water Revenue Refunding Bonds, Series 2011A	2027	186,081,550	13,294,568	13,276,603
Water Revenue Refunding Bonds, Series 2011B	2031	158,395,250	4,707,000	4,687,913
Water Revenue Refunding Bonds, Series 2013A	2034	509,434,044	1,864,203	1,864,203
Total Pledged Net Water Revenue		**$ 3,712,493,959**	**$ 144,781,724**	**$ 126,796,912**

11. Long-Term Liabilities, (continued)

Long-term pledged liabilibies for the fiscal year ended June 30, 2012 is comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal and Interest Paid	Pledged Revenue Recognized
Pledged Net Water Revenue:				
COPs and Bonds				
Water Revenue COPs, Series 1998A	2028	$ 20,565,600	$ 555,038	$ 555,038
Water Revenue COPs, Series 2002A	2032	35,020,000	11,140,569	11,140,569
Water Revenue COPs, Series 2004A	2034	698,488,725	19,843,864	19,843,864
Water Revenue Refunding COPs, Series 2005A	2022	118,133,825	17,305,563	17,305,563
Water Revenue COPs, Series 2008A	2038	1,030,766,300	29,655,900	29,655,900
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2027	149,484,175	4,722,425	2,569,221
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)	2049	1,455,194,342	32,294,166	12,110,312
Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1	2017	105,855,800	1,898,844	1,898,844
Water Revenue Refunding Bonds, Series 2011A	2027	199,376,118	4,679,688	4,679,688
Water Revenue Refunding Bonds, Series 2011B	2031	163,102,250	2,784,975	2,784,975
Total Pledged Net Water Revenue		**$ 3,975,987,135**	**$ 124,881,032**	**$ 102,543,974**

11. Long-Term Liabilities, (continued)

(a) Water Revenue Refunding Certificates of Participation, Series 1997A

On January 14, 1998, the Water Authority issued $162,315,000 of Water Revenue Refunding Certificates of Participation, Series 1997A (the 1997A Certificates) to advance refund $74,035,000 of the Water Revenue Certificates of Participation, Series 1991A with stated interest rates ranging from 6.25 percent to 6.40 percent and $80,000,000 of the Water Revenue Certificates of Participation, Series 1991B with interest payable at rates determined by auction every fifth week, not to exceed a blended rate of 6.30 percent.

On May 21, 2008, the Water Authority issued Water Revenue Certificates of Participation, Series 2008A to refund a portion of the 1997A Certificates in the amount of $63,165,000.

The 1997A Certificates had stated interest rates ranging from 4.75 percent to 5.75 percent payable semi-annually on May 1 and November 1. Their maturities extended to May 1, 2012.

The principal balance of outstanding certificates was fully paid off during the fiscal year ended June 30, 2012.

11. Long-Term Liabilities, (continued)

(b) Water Revenue Certificates of Participation, Series 1998A

On November 17, 1998, the Water Authority issued $180,000,000 of Water Revenue Certificates of Participation, Series 1998A (the 1998A Certificates) for the design, acquisition, and construction of the Water Authority's ESP and other water system improvements in furtherance of the Water Authority's CIP.

On March 9, 2005, the Water Authority issued Water Revenue Refunding Certificates of Participation, Series 2005A (the 2005A Certificates) to advance refund a portion of the 1998A Certificates in the amount of $117,310,000. At June 30, 2013, the amount of defeased debt outstanding of the 1998A Certificates was $0.

On February 4, 2010, the San Diego County Water Authority Financing Agency issued Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt) to refund a portion of the 1998A Certificates in the amount of $51,005,000.

The 1998A Certificates have stated interest rates ranging from 4.50 percent to 5.25 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2028.

The 1998A Certificates required that a reserve be maintained in an amount equal to the lesser of $15,391,555 or maximum annual debt service on the 1998A Certificates. After the refunding from the 2005A Certificates, the reserve requirement was reduced to $12,240,775. At June 30, 2013, the reserve was fully funded. The certificates are insured by Financial Guaranty Insurance Company (FGIC).

The principal balance of outstanding certificates at June 30, 2013 and 2012 was $11,685,000. The total debt service payment requirements with respect to the 1998A Certificates are as follows:

Water Revenue COPs, Series 1998A

Year	Principal	Interest	Total
2014	$ -	$ 555,038	$ 555,038
2015	-	555,038	555,038
2016	-	555,038	555,038
2017	-	555,038	555,038
2018	-	555,038	555,038
2019-2023	-	2,775,188	2,775,188
2024-2028	11,685,000	2,775,185	14,460,185
Total	**$ 11,685,000**	**$ 8,325,563**	**$ 20,010,563**

11. Long-Term Liabilities, (continued)

(c) Water Revenue Certificates of Participation, Series 2002A

On June 5, 2002, the Water Authority issued $300,000,000 of Water Revenue Certificates of Participation, Series 2002A (the 2002A Certificates) for the design, acquisition, and construction of the Water Authority's Emergency Storage Project and other water system improvements in furtherance of the Water Authority's CIP. A portion of the proceeds were used to refund the Water Revenue Certificates of Participation, Series 1991A in the amount of $12,300,000.

On August 11, 2011, the Water Authority issued Water Revenue Refunding Bonds, Series 2011A to advance refund a portion of the 2002A Certificates in the amount of $150,270,000. At June 30, 2012, the amount of defeased debt outstanding of the 2002A Certificates was $0.

On September 28, 2011, the Water Authority issued Water Revenue Refunding Bonds, Series 2011B to advance refund a portion of the 2002A Certificates in the amount of $62,085,000. At June 30, 2013, the amount of defeased debt outstanding of the 2002A Certificates was $0.

The 2002A Certificates have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2032.

The 2002A Certificates require that a reserve be maintained in an amount equal to the lesser of $18,385,750 or maximum annual debt service on the 2002A Certificates. The certificates are insured by Municipal Bond Insurance Association, Inc. (MBIA).

On February 21, 2013, the Water Authority fully liquidated the Debt Service Reserve Fund to legally defease the 2002A Certificates outstanding balance of $17,510,000.

The principal balance of outstanding certificates at June 30, 2013 and 2012 was $0 and $17,510,000, respectively.

11. Long-Term Liabilities, (continued)

(d) Water Revenue Certificates of Participation, Series 2004A

On September 29, 2004, the Water Authority issued $425,000,000 of Water Revenue Certificates of Participation, Series 2004A (the 2004A Certificates) for the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP. A portion of the proceeds were used to refund the Water Revenue Certificates of Participation, Series 1991B in the amount of $56,700,000.

On September 28, 2011, the Water Authority issued Water Revenue Refunding Bonds, Series 2011B to advance refund a portion of the 2004A Certificates in the amount of $36,290,000. At June 30, 2013, the amount of defeased debt outstanding of the 2004A Certificates was $36,290,000.

On March 13, 2013, the Water Authority issued Water Revenue Refunding Bonds, Series 2013A to advance refund a portion of the 2004A Certificates in the amount of $344,785,000. In addition, the Water Authority liquidated a portion of the Debt Service Reserve Fund to legally defease a portion of the 2004A Certificates in the amount of $34,516,255. At June 30, 2013, the amount of defeased debt outstanding of the 2004A Certificates was $344,785,000.

The 2004A Certificates have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2034.

The 2004A Certificates require that a reserve be maintained in an amount equal to the lesser of $38,568,617 or maximum annual debt service on the 2004A Certificates. After the refunding from the 2013A Bonds, the reserve requirement was reduced to $4,052,362. At June 30, 2013, the reserve was fully funded. The certificates are insured by FSA.

The principal balance of outstanding certificates at June 30, 2013 and 2012 was $43,925,000 and $388,710,000, respectively. The total debt service payment requirements with respect to the 2004A Certificates are as follows:

Water Revenue COPs, Series 2004A

Year	Principal	Interest	Total
2014	$ -	$ 2,163,163	$ 2,163,163
2015	-	2,163,163	2,163,163
2016	-	2,163,163	2,163,163
2017	-	2,163,163	2,163,163
2018	-	2,163,163	2,163,163
2019-2023	10,285,000	9,962,400	20,247,400
2024-2028	13,085,000	7,165,250	20,250,250
2029-2033	16,700,000	3,550,500	20,250,500
2034	3,855,000	192,748	4,047,748
Total	**$ 43,925,000**	**$ 31,686,713**	**$ 75,611,713**

11. Long-Term Liabilities, (continued)

(e) Water Revenue Refunding Certificates of Participation, Series 2005A

On March 9, 2005 the Water Authority issued $107,455,000 of Water Revenue Refunding Certificates of Participation, Series 2005A (the 2005A Certificates) to advance refund a portion of the 1998A Certificates in the amount of $117,310,000. At June 30, 2012, the amount of defeased debt outstanding of the Water Revenue Certificates of Participation, Series 1998A was $0.

The 2005A Certificates have stated interest rates ranging from 5.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2022.

The 2005A Certificates require that a reserve be maintained in an amount equal to the lesser of $10,745,500 or maximum annual debt service on the 2005A Certificates. At June 30, 2013, the reserve requirement was fully satisfied by a Reserve Surety Policy issued by FGIC. The 2005A Certificates are also insured by FGIC.

The principal balance of outstanding certificates at June 30, 2013 was $83,490,000, or $90,870,460 net of unamortized premium of $7,380,460. The principal balance of outstanding certificates at June 30, 2012 was $95,730,000, or $103,945,984 net of unamortized premium of $8,215,984. The total debt service payment requirements with respect to the 2005A Certificates are as follows:

Water Revenue Refunding COPs, Series 2005A

Year	Principal	Interest	Total
2014	$ 12,605,000	$ 4,351,713	$ 16,956,713
2015	13,510,000	3,721,463	17,231,463
2016	13,880,000	3,012,188	16,892,188
2017	15,005,000	2,283,488	17,288,488
2018	14,690,000	1,495,725	16,185,725
2019-2022	13,800,000	2,544,936	16,344,936
Total	**$ 83,490,000**	**$ 17,409,513**	**$ 100,899,513**

11. Long-Term Liabilities, (continued)

(f) Water Revenue Certificates of Participation, Series 2008A

On May 21, 2008, the Water Authority issued $558,015,000 of Water Revenue Certificates of Participation, Series 2008A (the 2008A Certificates) for the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP. In addition, proceeds were used to refund a portion of the 1997A Certificates in the amount of $63,165,000.

The 2008A Certificates have stated interest rates ranging from 4.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2038.

The 2008A Certificates require that a reserve be maintained in an amount equal to the lesser of $23,670,625 or one-half of maximum annual debt service on the 2008A Certificates. At June 30, 2013, the reserve requirement was fully satisfied by a Reserve Surety Policy issued by FSA. The 2008A Certificates are also insured by FSA.

The principal balance of outstanding certificates at June 30, 2013 was $547,030,000, or $562,338,858 net of unamortized premium of $15,308,858. The principal balance of outstanding certificates at June 30, 2012 was $556,150,000, or $572,073,258 net of unamortized premium of $15,923,258. The total debt service payment requirements with respect to the 2008A Certificates are as follows:

Water Revenue COPs, Series 2008A

Year	Principal	Interest	Total
2014	$ 10,920,000	$ 27,351,500	$ 38,271,500
2015	11,360,000	26,805,500	38,165,500
2016	13,250,000	26,237,500	39,487,500
2017	14,505,000	25,575,000	40,080,000
2018	17,320,000	24,849,750	42,169,750
2019-2023	66,835,000	112,442,250	179,277,250
2024-2028	69,830,000	97,355,750	167,185,750
2029-2033	138,055,000	73,426,250	211,481,250
2034-2038	204,955,000	31,742,500	236,697,500
Total	**$ 547,030,000**	**$ 445,786,000**	**$ 992,816,000**

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11. Long-Term Liabilities, (continued)

(g) Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)

On February 4, 2010, the SDCWAFA issued $98,495,000 of Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt) (the 2010A Bonds) for the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP. In addition, proceeds were used to refund a portion of the 1998A Certificates in the amount of $51,005,000. The balance of proceeds were be used to finance CIP projects, including interest incurred during construction.

The 2010A Bonds have stated interest rates ranging from 4.00 percent to 5.25 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2027. No debt service reserve fund was created to secure the 2010A Bonds.

The principal balance of outstanding bonds at June 30, 2013 was $98,495,000, or $105,238,036 net of unamortized premium of $6,743,036. The principal balance of outstanding bonds at June 30, 2012 was $98,495,000, or $105,734,452 net of unamortized premium of $7,239,452. The total debt service payment requirements with respect to 2010A Bonds are as follows:

Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)

Year	Principal	Interest	Total
2014	$ 1,570,000	$ 4,722,425	$ 6,292,425
2015	2,560,000	4,659,625	7,219,625
2016	3,975,000	4,557,225	8,532,225
2017	4,130,000	4,398,225	8,528,225
2018	4,295,000	4,233,025	8,528,025
2019-2023	33,140,000	18,104,475	51,244,475
2024-2027	48,825,000	5,591,750	54,416,750
Total	**$ 98,495,000**	**$ 46,266,750**	**$ 144,761,750**

11. Long-Term Liabilities, (continued)

(h) Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)

On February 4, 2010, the SDCWAFA issued $526,135,000 of Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) (the 2010B Bonds) for the design, acquisition, and construction of various capital projects in furtherance of the Water Authority's CIP.

The 2010B Bonds have a stated interest rate of 6.138 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2049. No debt service reserve fund was created to secure the 2010B Bonds.

The 2010B Bonds were designated as Taxable Build America Bonds (BABs) under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority receives semi-annual subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the 2010B Bonds.

Subsidy payments will be reduced by 7.2 percent in Fiscal Year 2014 under Congressionally-mandated sequestration. Sequestration consists of across-the-board federal budget cuts that were implemented in March 2013, triggered by Congress' failure to reach agreement over how to significantly cut the federal deficit. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. Although the sequestration was effective March 2013, the Water Authority received the full amount of the subsidy during Fiscal Year 2013.

The principal balance of outstanding bonds at June 30, 2013 and 2012 was $526,135,000. The total debt service payment requirements with respect to the 2010B Bonds are as follows:

Water Revenue Bonds, Series 2010B (Taxable BABs)

Year	Principal	Interest	Total
2014	$ -	$ 32,294,166	$ 32,294,166
2015	-	32,294,166	32,294,166
2016	-	32,294,166	32,294,166
2017	-	32,294,166	32,294,166
2018	-	32,294,166	32,294,166
2019-2023	-	161,470,832	161,470,832
2024-2028	21,170,000	159,989,732	181,159,732
2029-2033	44,590,000	150,301,206	194,891,206
2034-2038	114,325,000	127,803,288	242,128,288
2039-2043	139,020,000	89,804,157	228,824,157
2044-2048	169,065,000	43,594,838	212,659,838
2049	37,965,000	2,330,293	40,295,293
Total	**$ 526,135,000**	**$ 896,765,176**	**$ 1,422,900,176**

11. Long-Term Liabilities, (continued)

(i) Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1

On July 21, 2011, the Water Authority issued $86,630,000 of Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1 (the 2011S-1 Bonds) to refinance a portion of the design, acquisition, and construction of various capital projects of the Water Authority's CIP by refunding the Water Authority Commercial Paper Notes, Series 2 in the amount of $100,000,000.

The 2011S-1 Bonds have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on January 1 and July 1. Their maturities extend to July 1, 2016. No debt service reserve fund was created to secure the 2011S-1 Bonds.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $350,102. The difference, reported in the financial statements as deferred outflows of resources, is being charged through Fiscal Year 2016.

The principal balance of outstanding bonds at June 30, 2013 was $86,630,000, or $95,014,133 net of unamortized premium of $8,384,133. The principal balance of outstanding bonds at June 30, 2012 was $86,630,000, or $97,808,849 net of unamortized premium of $11,178,849. The total debt service payment requirements with respect to the 2011S-1 Bonds are as follows:

Subordinate Lien Water Revenue Refunding Bonds, Series 2011S-1

Year	Principal	Interest	Total
2014	$ -	$ 4,272,400	$ 4,272,400
2015	-	4,272,400	4,272,400
2016	-	4,272,400	4,272,400
2017	86,630,000	2,136,200	88,766,200
Total	**$ 86,630,000**	**$ 14,953,400**	**$ 101,583,400**

11. Long-Term Liabilities, (continued)

(j) Water Revenue Refunding Bonds, Series 2011A

On August 11, 2011, the Water Authority issued $139,945,000 of Water Revenue Refunding Bonds, Series 2011A (the 2011A Bonds) to refinance a portion of the design, acquisition, and construction of various capital projects of the Water Authority's CIP by advance refunding a portion of the 2002A Certificates in the amount of $150,270,000.

The 2011A Bonds have stated interest rates ranging from 0.45 percent to 5.00 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2027. No debt service reserve fund was created to secure the 2011A Bonds.

The net proceeds from the bond issuance were used to purchase United States Treasury securities that were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the defeased debt until the debt matures. As a result, the refunded debt is considered defeased and the related liabilities have been removed from the financial statements.

The advance refunding resulted in a cash flow savings (difference between the cash flows required to service the old and new debt) of $17,435,777. In addition, the advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $13,487,249. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $12,815,001. The difference, reported in the financial statements as deferred outflows of resources, is being charged through Fiscal Year 2027 using the life of the new debt, which was shorter than the remaining life of the old debt.

The principal balance of outstanding bonds at June 30, 2013 was $133,130,000, or $147,567,189 net of unamortized premium of $14,437,189. The principal balance of outstanding bonds at June 30, 2012 was $139,945,000, or $155,419,589 net of unamortized premium of $15,474,589. The total debt service payment requirements with respect to the 2011A Bonds are as follows:

Water Revenue Refunding Bonds, Series 2011A

Year	Principal	Interest	Total
2014	$ 6,845,000	$ 6,448,900	$ 13,293,900
2015	7,185,000	6,106,650	13,291,650
2016	7,545,000	5,747,400	13,292,400
2017	7,920,000	5,370,150	13,290,150
2018	8,315,000	4,974,150	13,289,150
2019-2023	47,800,000	18,660,750	66,460,750
2024-2027	47,520,000	5,643,550	53,163,550
Total	**$ 133,130,000**	**$ 52,951,550**	**$ 186,081,550**

11. Long-Term Liabilities, (continued)

(k) Water Revenue Refunding Bonds, Series 2011B

On September 28, 2011, the Water Authority issued $94,540,000 of Water Revenue Refunding Bonds, Series 2011B (the 2011B Bonds) to refinance a portion of the design, acquisition, and construction of various capital projects of the Water Authority's CIP by advance refunding a portion of the 2002A and 2004A Certificates in the amount of $62,085,000 and $36,290,000, respectively.

The 2011B Bonds have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2031. No debt service reserve fund was created to secure the 2011B Bonds.

The net proceeds from the bond issuance were used to purchase United States Treasury securities that were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the defeased debt until the debt matures. As a result, the refunded debt is considered defeased and the related liabilities have been removed from the financial statements.

The advance refunding resulted in a cash flow savings (difference between the cash flows required to service the old and new debt) of $7,622,024. In addition, the advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $5,185,104. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,961,455. The difference, reported in the financial statements as deferred outflows of resources, is being charged through Fiscal Year 2031 using the life of the new debt, which was shorter than the remaining life of the old debt.

The principal balance of outstanding bonds at June 30, 2013 was $94,540,000, or $105,694,615 net of unamortized premium of $11,154,615. The principal balance of outstanding bonds at June 30, 2012 was $94,540,000, or $106,317,199 net of unamortized premium of $11,777,199. The total debt service payment requirements with respect to the 2011B Bonds are as follows:

Water Revenue Refunding Bonds, Series 2011B

Year	Principal	Interest	Total
2014	$ -	$ 4,707,000	$ 4,707,000
2015	-	4,707,000	4,707,000
2016	-	4,707,000	4,707,000
2017	-	4,707,000	4,707,000
2018	-	4,707,000	4,707,000
2019-2023	35,405,000	20,921,000	56,326,000
2024-2028	13,720,000	14,783,750	28,503,750
2029-2031	45,415,000	4,615,500	50,030,500
Total	**$ 94,540,000**	**$ 63,855,250**	**$ 158,395,250**

11. Long-Term Liabilities, (continued)

(l) Water Revenue Refunding Bonds, Series 2013A

On March 13, 2013, the Water Authority issued $299,105,000 of Water Revenue Refunding Bonds, Series 2013A (the 2013A Bonds) to refinance a portion of the design, acquisition, and construction of various capital projects of the Water Authority's CIP by advance refunding a portion of the 2004A Certificates in the amount of $344,785,000.

The 2013A Bonds have stated interest rates ranging from 3.00 percent to 5.00 percent payable semi-annually on May 1 and November 1. Their maturities extend to May 1, 2034. No debt service reserve fund was created to secure the 2013A Bonds.

The net proceeds from the bond issuance, in addition to the 2004A Certificates debt service reserve funds released in the amount of $34,516,255, were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded debt. As a result, the refunded debt is considered defeased and the related liabilities have been removed from the financial statements.

The advance refunding resulted in a cash flow savings (difference between the cash flows required to service the old and new debt) of $60,173,484. In addition, the advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $51,379,477. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $39,904,258. The difference is the deferred loss on refunding amortized through Fiscal Year 2034 using the life of the new debt, which is the same as the remaining life of the old debt.

The principal balance of outstanding bonds at June 30, 2013 was $299,105,000, or $350,413,541 net of unamortized premium of $51,308,541. The total debt service payment requirements with respect to the 2013A Bonds are as follows:

Water Revenue Refunding Bonds, Series 2013A

Year	Principal	Interest	Total
2014	$ -	$ 13,981,519	$ 13,981,519
2015	-	13,981,519	13,981,519
2016	-	13,981,519	13,981,519
2017	-	13,981,519	13,981,519
2018	-	13,981,519	13,981,519
2019-2023	45,750,000	65,510,744	111,260,744
2024-2028	99,025,000	50,183,094	149,208,094
2029-2033	125,910,000	23,306,613	149,216,613
2034	28,420,000	1,420,998	29,840,998
Total	**$ 299,105,000**	**$ 210,329,044**	**$ 509,434,044**

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11. Long-Term Liabilities, (continued)

(m) Contributions Payable

Contributions Payable concern the Water Authority's payment obligations for environmental and socioeconomic impacts related to the Quantification Settlement and other connected Agreements. These payments include contributions to the QSA JPA for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement, and payments to the IID on behalf of the Imperial Valley Socioeconomic Improvement Committee, the Local Entity, to mitigate third-party socioeconomic impacts of the Conserved Water Transfer Agreement.

(1) On April 25, 2007, the QSA JPA approved an agreement to modify the schedule of contributions payable pursuant to the QSA JPA Creation and Funding Agreement in order to more appropriately match environmental mitigation funding obligations. The outstanding balance of the payment obligation at June 30, 2013 and 2012 was $46,287,827 and $46,966,108, respectively. The total contributions payable are as follows:

QSA JPA Creation and Funding Agreement

Year	Principal	Interest	Total
2014	$ 2,467,932	$ 2,777,269	$ 5,245,201
2015	2,662,795	2,629,194	5,291,989
2016	3,606,920	2,469,426	6,076,346
2017	6,001,375	2,253,011	8,254,386
2018	6,421,886	1,892,928	8,314,814
2019-2023	10,590,608	6,121,063	16,711,671
2024-2026	14,536,311	1,319,758	15,856,069
Total	**$ 46,287,827**	**$ 19,462,649**	**$ 65,750,476**

11. Long-Term Liabilities, (continued)

(m) Contributions Payable, (continued)

(2) On May 14, 2007, the Water Authority and the IID executed the Settlement Agreement Resolving Present and Future Disputes under Sections 14.5 and 18.1 of the Revised Fourth Amendment to the IID/Water Authority Conserved Water Transfer Agreement pursuant to which the Water Authority will pay $40 million according to a payment schedule in the Agreement for third-party socioeconomic impacts as a result of the Conserved Water Transfer Agreement by and between the two agencies. The outstanding balance of the payment obligation at June 30, 2013 and 2012 was $11,760,000 and $14,700,000, respectively. This obligation is non-interest bearing. The total contributions payable are as follows:

IID Third Party Socioeconomic Impacts Agreement

Year	Principal	Interest	Total
2014	$ 2,940,000	$ -	$ 2,940,000
2015	2,940,000	-	2,940,000
2016	2,940,000	-	2,940,000
2017	2,940,000	-	2,940,000
Total	**$ 11,760,000**	**$ -**	**$ 11,760,000**

(n) Rate Covenants

Under the Water Authority Act, the Board sets water rates and charges that are sufficient to meet its operation expenses and payment obligations. The Board has established that, exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues will equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate obligations for Fiscal Years 2013 and 2012.

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12. Restatements and Reclassifications

Restatements

Net position as of June 30, 2011 and for the fiscal year ended June 30, 2012 have been restated as follows:

Beginning net position, at June 30, 2011, as previously reported	**$**	**1,294,411,715**
Restatements to recognize debt issuance costs as an expense in the reporting period incurred		(16,931,743)
Beginning net position, at June 30, 2011, as restated	**$**	**1,277,479,972**
Changes in net position, at June 30, 2012, as previously reported	**$**	**49,315,593**
Net increase in net position for the previous amortization at debt issuance costs		2,912,736
Changes in net position, at June 30, 2012, as restated	**$**	**52,228,329**
Ending net position, at June 30, 2012, as restated	**$**	**1,329,708,301**

Note: Net position was restated by $16,931,743 to properly recognize debt issuance costs as an expense and reduction of net position pursuant to GASB Statement No. 65 as debt issuance costs do not meet the definition of an asset or a deferred outflow of resources.

Reclassifications

Certain prior year items previously reported as assets and liabilities were identified and have been reclassified as deferred outflows of resources and deferred inflows of resources to conform to the provisions of GASB Statement No. 65.

The implementation of GASB Statement No. 65 impacted the Water Authority's financial statements for the fiscal year ended June 30, 2012 as follows:

- Total assets decreased $666,477 and were reclassified to deferred outflows of resources for deposits receivable.
- Total liabilities increased $20,532,505 for the following items:

  1) Liabilities increased $22,503,736 due to the reclassification to deferred outflows of resources for deferred loss on refunding.
  2) Liabilities decreased $1,971,231 and were reclassified to deferred inflows of resources for developer deposit, water deposit, and construction deposits.

13. Defined Benefit Pension Plans

(a) California Public Employees Retirement System

Plan Description

The Water Authority contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. The Water Authority's Miscellaneous Plan is part of the Public Agency's portion of CalPERS. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees' Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval.

Effective January 1, 2013, Water Authority new hires who meet the definitions of "new employees" and "new members" will accrue and receive defined benefit pension plan benefits in accordance with the California Public Employees' Pension Reform Act (PEPRA) of 2013. Some provisions of PEPRA also apply to current participants.

Requests for detailed plan provisions and copies of CalPERS' annual financial report can be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703 or http://www.calpers.ca.gov

Funding Policy

Current participants are required to contribute eight percent of their annual covered salary to fund the plan. The Water Authority pays seven percent of the employees' required contribution and the employee pays the remaining one percent required contribution. For the fiscal years ended June 30, 2013 and 2012, the amount contributed by the Water Authority on behalf of the employees (the seven percent contribution) was $1,829,885 and $1,840,079, respectively.

Benefit provisions and all other requirements are established by state statute and contracts with employee bargaining groups. The Water Authority is required to contribute the remaining amounts, the required employer contribution rate multiplied by the covered salary, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants, and adopted by the CalPERS Board of Administration.

Effective July 1, 2010, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees increased the rate they contributed toward their CalPERS retirement plan by one percent for a total contribution of two percent. Also effective July 1, 2010, Executive and Senior Management employees increased the rate they contributed by 3.5 percent, for a total contribution of 4.5 percent.

Effective July 1, 2011, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees increased the rate they contributed toward their CalPERS retirement plan by an additional 2.5 percent for a total contribution of 4.5 percent. Executive and Senior Management employees continued to contribute 4.5 percent.

Effective July 1, 2012, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees increased the rate they contributed toward their CalPERS retirement plan by an additional 1.25 percent for a total contribution of 5.75 percent. Executive and Senior Management employees increased the rate they contributed by 1.75 percent for a total contribution of 6.25 percent.

13. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Effective July 1, 2013, Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential employees increased the amount they pay toward the California Public Employees' Retirement System (CalPERS) by 1.25 percent for a total contribution of seven percent increasing to eight percent by July 2014. Executive and Senior Management employees increased the amount they pay toward CalPERS by 1.75 percent for a total contribution of eight percent by July 1, 2013.

PEPRA requires that new members must have an initial contribution rate of the greater of (i) at least 50 percent of the employees' eight percent contribution rate (equaling to four percent) or (ii) the current contribution rate of similarly situated employees. As described in the preceding paragraph, current Water Authority employees are required to contribute a total of either 5.75 or 6.25 percent, new hires receiving benefits under PEPRA provisions must contribute at the same rates.

Annual Pension Cost and Net Pension Obligation

Under GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employers*, an employer reports annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2012 to June 30, 2013 and July 1, 2011 to June 30, 2012 was determined by an actuarial valuation of the plan as of June 30, 2010 and June 30, 2009, respectively. The contribution rates indicated for the periods are 19.726 percent and 19.623 percent of payroll for the fiscal years ended June 30, 2013 and 2012, respectively. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2013, and 2012, the respective contribution rate of 19.726 and 19.623 percent was multiplied by the payroll of covered employees that was actually paid during the period July 1, 2012 to June 30, 2013 and July 1, 2011 to June 30, 2012, respectively.

Three-Year Trend Information

Fiscal Year	% of APC Contribution	APC	NPO
6/30/13	100%	$ 5,184,944	$ -
6/30/12	100%	5,190,542	-
6/30/11	100%	4,681,887	-

13. Defined Benefit Pension Plans, (continued)

(a) California Public Employees Retirement System, (continued)

Annual Pension Cost and Net Pension Obligation, (continued)

For the fiscal years ended June 30, 2013 and 2012 the Water Authority's APC and actual contribution was $5,184,944 and $5,190,542, respectively. A summary of principal assumptions and methods used to determine the ARC is shown below.

Methods/Assumptions for the Valuation Ended

Description	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Average Remaining Period	23 years as of the valuation date	24 years as of the valuation date	25 years as of the valuation date
Asset Valuation Method	15-year smoothed market	15-year smoothed market	15-year smoothed market
Discount Rate	7.50% (net of administrative expenses)	7.75% (net of administrative expenses)	7.75% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment	3.55% to 14.45% depending on age, service, and type of employment	3.55% to 14.45% depending on age, service, and type of employment
Inflation	2.75%	3.00%	3.00%
Payroll Growth	3.00%	3.25%	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

13. Defined Benefit Pension Plans, (continued)

(a) California Public Employees' Retirement System, (continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about six percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

The following table summarizes the Miscellaneous Plan's funding status as reported in the Water Authority's most recent actuarial valuation.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Funded Ratios Market Value	Annual Covered Payroll (c)	UL as a % of Covered Payroll [(a)-(b)]/(c)]
6/30/11	$153,217,349	$112,766,510	$40,450,839	73.6%	66.6%	$28,007,790	144.4%

The schedule of funding progress, presented as Required Supplemental Information (RSI) immediately following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) Terminal Pay Plan

Plan Description

The Water Authority established a Terminal Pay Plan (TPP), effective December 10, 2007, which is administered by the Water Authority's Controller who also serves as the trustee. The TPP is a defined benefit pension plan, established and governed under the Internal Revenue Code Section 401(a), that provides retirement benefits to participants. The defined benefit is the accumulated balance of the retiring employee's (or a separated employee due to death) earned but unpaid vacation and sick leave on the date of retirement. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant retires, or separates employment due to death, from the Water Authority after reaching the age of 55.

Employees may elect benefits be disbursed from the TPP in a lump sum or in monthly installments over a 60-month period (with no interest). As an alternative, an employee has the right to elect that all or a portion of benefits be immediately rolled over or transferred to an individual retirement account (IRA), a tax sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

13. Defined Benefit Pension Plans, (continued)

(b) Terminal Pay Plan, (continued)

Funding Policy

Contributions equal to the accumulated balance in the employee's earned but unpaid vacation and sick leave accounts are made by the Water Authority to the TPP for eligible employees who retire, or separate due to death, from the Water Authority after reaching the age of 55, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who retires, or separates due to death, from Water Authority service are fully vested once they are accrued and the value of TPP benefits is the amount of an employee's earned but unpaid vacation and sick leave on the date of retirement. No additional employee contributions are permitted. Benefits earned are accrued as compensated absences.

Distribution

If the value of benefits is over $5,000, a distribution will only be made if the employee consents before April 1st following the calendar year in which they reach age 70½. If the value of an employee's vested benefit is $5,000 or less on the date of retirement, or separation due to death, benefits will be distributed in a single lump sum.

Changes or Termination of Plan

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

Fiscal Year	ARC's	Contribution Made	Percentage of Required Contributions Made
6/30/13	$ 574,752	$ 574,752	100%
6/30/12	714,601	714,601	100%
6/30/11	227,125	227,125	100%

14. Other Post-Employment Benefits (OPEB)

Plan Description

The Water Authority has established a Retiree Healthcare Plan (Plan), a single-employer defined benefit retiree healthcare plan. The Plan, administered by the Water Authority, provides employees who retire directly from the Water Authority, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums up to a cap of $200 per employee or $320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of $160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit. The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Water Authority and the bargaining units.

Employees who retire directly from the Water Authority at a minimum age of 55 with a minimum of five years of CalPERS service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the Plan.

Funding Policy

The annual contribution is based on projected pay-as-you-go financing requirements. For the fiscal years ended June 30, 2013 and 2012, the Water Authority's cash contributions were $118,620 and $103,260 in current premiums, which covered 53 and 50 retirees and their spouses, respectively. The estimated implied subsidy for the fiscal years ended June 30, 2013 and 2012 was $111,380 and $115,740 resulting in total payments of $230,000 and $219,000, respectively.

Annual OPEB Cost and Net OPEB Obligation

The Water Authority's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation at June 30, 2013 and 2012 are as follows:

	2013	2012
Annual required contribution	$ 546,000	$ 529,000
Interest on net OPEB obligation	38,000	29,000
Adjustment to annual required contribution	(56,000)	(55,000)
Annual OPEB cost	528,000	503,000
Contributions made	(230,000)	(219,000)
Increase in net OPEB obligation	298,000	284,000
Net OPEB obligation, beginning of year	1,173,000	889,000
Net OPEB obligation, end of year	**$ 1,471,000**	**$ 1,173,000**

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14. Other Post-Employment Benefits (OPEB), (continued)

The following table summarizes the Plan's funding status as reported in the Water Authority's most recent actuarial valuation.

Schedule of Funding Progress for OPEB

Actuarial Valuation Date	Actuarial Accrued Liability	Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Status	Annual Covered Payroll	UAAL as a % of Covered Payroll
1/1/11	$ 3,933,126	$ -	$ 3,933,126	0%	$ 25,670,000	15%

The Water Authority's annual OPEB cost, the annual OPEB cost contributed, the percentage of annual OPEB cost contributed and the net OPEB obligation as of and for the fiscal year ended June 30, 2013 and the two preceding fiscal years were as follows:

Three-Year Trend Information

Fiscal Year	Annual OPEB Cost	Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/13	$ 528,000	$ 230,000	43.5%	$ 1,471,000
6/30/12	503,000	219,000	43.5%	1,173,000
6/30/11	442,000	196,000	44.3%	889,000

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as Required Supplementary Information (RSI), immediately following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

14. Other Post-Employment Benefits (OPEB), (continued)

A summary of principal assumptions and methods is shown below.

Description	January 1, 2011	January 1, 2009
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization Method	Level percent of payroll over 30 years on a closed basis effective June 30, 2007	Level percent of payroll over 30 years on a closed basis effective June 30, 2007
Average Remaining Period	26 years as of the valuation date	28 years as of the valuation date
Method and Plan Changes	Amortized as level percentage of pay over fixed 20 years	Amortized as level percentage of pay over fixed 20 years
Assumption Changes and Experience Gains/Losses	Amortized as a level percentage of pay over a fixed 15 years	Amortized as a level percentage of pay over a fixed 15 years
Funding Policy	Pay-as-you-go benefit payments	Pay-as-you-go benefit payments
Discount Rate	5.00% per annum	5.00% per annum
Projected Salary Increases	3.25% per annum, in aggregate	3.25%, Merit increases – CalPERS 1997-2002 Experience Study
Inflation	3.00%	3.00%
Number of Active Plan Participants	252	252
Annual Healthcare Cost Trend Rates:		
HMO	8.0% reduced by increments to an ultimate rate of 4.5% per year at 2019 and later years	7.8% reduced by increments to an ultimate rate of 4.5% per year at 2017 and later years
PPO	8.5% reduced by increments to an ultimate rate of 4.5% per year at 2020 and later years	8.3% reduced by increments to an ultimate rate of 4.5% per year at 2017 and later years

15. Deferred Compensation Plans and Defined Contribution Plans

The Water Authority Board of Directors has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. The Water Authority Board of Directors has discretion to amend the Plans. These plans permit all eligible employees to defer, either pre-tax or post-tax, a portion of their salary until future years. During Fiscal Year 2012, the Water Authority conducted a competitive process to select a new provider for the employees deferred compensation and defined contribution plans. As a result of the process, the Water Authority transitioned from Hartford to TIAA-CREF. The plan providers for the Water Authority at June 30, 2013 are TIAA-CREF and ICMA.

Participation in the 457 plan is not required and employee contributions may be modified from time to time at the employee's direction. Employees eligible for the 401A plan must contribute an irrevocable mandatory minimum of three percent up to a maximum of 20 percent of salary to the plan. The Water Authority makes an annual contribution to the 401A plan on behalf of Senior and Executive Managers as specified in the compensation plans. Contributions to the Plans and interest earnings are immediately 100 percent vested. Benefits depend solely on the amounts contributed to the Plans plus investment earnings.

Plan contributions and earnings are not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the Plans are held in trust for the exclusive benefit of plan participants and their beneficiaries. The deferred compensation plans are not considered part of the Water Authority's financial reporting entity. Employee contributions to the Plans were $448,424 and $447,946 and employer contributions were $74,300 and $77,300 for Fiscal Years 2013 and 2012, respectively.

16. Insurance

The Water Authority is a participant in the Special District Risk Management Authority (SDRMA) pooled insurance program and obtains coverage for general liability, errors and omissions, employment practices liability, auto, property, boiler and machinery, crime, fidelity, and workers' compensation coverage through the program. SDRMA liability coverage is $45.0 million per occurrence with a $50,000 deductible per occurrence. Property coverage is provided with a $1.0 billion per occurrence and aggregate coverage limit and a sub-limit of $100.0 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a $25,000 deductible per occurrence. Workers' compensation coverage is per California statutory limits with $1.0 million per occurrence employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three fiscal years for all coverage types, individually and collectively.

In 1999, the Water Authority entered into an Owner Controlled Insurance Program (OCIP) to provide workers' compensation and general liability insurance to the contractors, and professional liability, pollution liability, and builders risk for the Emergency Storage Project. In Fiscal Year 2009, the Water Authority obtained an extension of the OCIP at a cost of $15.0 million to cover the construction of the San Vicente Marina recreational facility through Fiscal Year 2014. The OCIP also maintains a loss deductible account that is adjusted annually based upon loss experience and is capped at $9.1 million. Payments to the loss account are adjusted annually based on loss experience. The general liability deductible is $250,000 per occurrence. The primary policy coverage limit is $2.0 million per occurrence and $4.0 million in aggregate with excess liability coverage to $100.0 million aggregate and total coverage limit. The workers' compensation program provides full statutory coverage with a $250,000 deductible for each occurrence. The builders risk insurance has a variable deductible depending on the construction type and has a $50.0 million per occurrence maximum coverage limit.

17. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenses for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity.

18. Commitments and Contingencies

(a) Construction Projects

The Water Authority had material commitments under construction contracts as of June 30, 2013 and 2012 as follows:

Project Name	FY 2013	FY 2012
San Vicente Dam Raise	$ 8,096,444	$ 53,270,210
Miramar Hill to Scripps Ranch Reline	-	280,918
Lake Hodges Emergency Storage Project Pumped Storage	-	2,040,118
Twin Oaks Valley Water Treatment Plant Desalination Modifications	13,694,409	-
Total	**$ 21,790,853**	**$ 55,591,246**

(b) Litigation

The Water Authority is subject to lawsuits and claims, which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the change in financial position, or liquidity of the Water Authority.

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds

Description and Nature of Project

On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement with Poseidon Resources (Channelside) LP (Company) to purchase a minimum of 48,000 acre-feet and up to 56,000 acre-feet annually from the Carlsbad Desalination Project (Project) starting as early as 2016.

The Project comprises a 54 million gallon per day (mgd) reverse osmosis desalination plant (Plant) and an approximately 10-mile pipeline (Pipeline) that will connect the Plant to the Water Authority's existing distribution system. The Water Authority will also add an interconnection pipeline and make related improvements to the existing water system necessary to integrate the water delivered from the Project into the distribution system.

The Project has been developed as a "public private partnership" (P3) between the Water Authority and the Company. The Company will own, construct, operate and maintain the Plant. The Company will also construct the Pipeline that will be owned, operated, and maintained by the Water Authority. The Water Authority will be the sole purchaser of the potable water produced by the Plant.

18. Commitments and Contingencies, (continued)

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds, (continued)

Project Agreements

Water Purchase Agreement

Pursuant to the Water Purchase Agreement, the Company will sell the potable water produced by the Plant (Product Water) to the Water Authority. The Water Authority will be the sole purchaser of Product Water. The initial term of the Water Purchase Agreement expires 30 years after the commercial operation date.

The Water Purchase Agreement requires the Company to design and construct the Plant and demonstrate by performance testing that the Plant performs in accordance with the standards specified therein.

The Water Authority will have an annual obligation to purchase or pay (a take-or-pay contract) for 48,000 acre-feet, the minimum annual demand commitment by the Water Authority, of Product Water that meets the requirements of the Water Purchase Agreement and may request up to 56,000 acre-feet each year, the maximum annual supply commitment, of Product Water produced by the Company. Prior to each contract year, the Water Authority and the Company will schedule the monthly delivery of the Product Water such that the annual total will be between 48,000 acre-feet and 56,000 acre-feet, unless otherwise adjusted in accordance with the terms of the Water Purchase Agreement. The monthly payments will be based on actual units of Product Water delivered or deliverable according to the delivery schedule. The Water Authority will pay a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds (described in the Project Financing section), an equity return, and variable and fixed Project operating costs. The Company will be obligated to make shortfall payments to the Water Authority for the failure to deliver Product Water as required under the Water Purchase Agreement (Operating Period Shortfall Payments). To secure its performance obligations under the Water Purchase Agreement, the Company was required to post a $5.125 million letter of credit.

The Water Authority has an option to purchase the Plant at any time following the tenth anniversary of the Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any additional plant senior debt incurred for the construction and modification of the Plant and which constitutes permitted approved debt under the Water Purchase Agreement plus a return to equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant under the circumstances. The Water Authority may also purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any additional plant senior debt under the Plant Loan Agreement (described in the Project Financing section) incurred for the construction and modification of the Plant and which constitutes permitted approved debt under the Water Purchase Agreement upon a termination of the Water Purchase Agreement for the Company's default.

Plant Engineering, Procurement and Construction Contract

The Water Purchase Agreement obligates the Company to design, construct, and test the Plant in accordance with the standards and design requirements therein. The Company entered into a Desalination Facility Engineering, Procurement and Construction Agreement (Plant EPC Contract) dated December 20, 2012 with Kiewit Shea Desalination, a joint venture of Kiewit Infrastructure West Co. and J.F. Shea Construction Company, in a joint and several capacity (EPC Contractor). Pursuant to the Plant EPC Contract, the EPC Contractor will design, construct, and test the Plant.

18. Commitments and Contingencies, (continued)

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds, (continued)

Pipeline Design-Build Agreement and Pipeline Engineering, Procurement and Construction Contract

The Water Purchase Agreement specifies that the Company will own the Plant and undertake efforts to permit, design, construct, finance, operate, maintain, and manage the Plant. In addition, the Company agrees to design and construct the new Pipeline pursuant to a Design-Build Agreement (Pipeline DBA) entered into with the Water Authority. The Company also entered into a Product Water Delivery System Engineering, Procurement and Construction Contract (Pipeline EPC Contract) dated December 20, 2012 with the EPC Contractor for the design, engineering, procurement, construction, start-up, commissioning, and testing of the Pipeline. The ownership of the Pipeline is transferred to the Water Authority as construction progresses.

Project Financing

On December 24, 2012, the California Pollution Control Financing Authority (CPCFA) issued $530,345,000 of five percent fixed rate tax-exempt, subject to Alternative Minimum Tax (AMT), revenue bonds (Series 2012 Plant Bonds) at a premium of $15,393,338, for an All-In True Interest Cost (TIC) of 4.9%, to pay a portion of the costs of developing, designing, acquiring, and constructing the Plant. The cost of the Plant will also be funded by equity contributions made by Poseidon Resources Channelside Holdings LLC, the limited partner in the Company (Limited Partner) of up to $172,623,000 to the Company. To secure such obligation, on December 24, 2012, the Limited Partner delivered a letter of credit issued by Wells Fargo in the maximum available amount of $172,623,000 (Equity Security) to the Collateral Agent.

On December 24, 2012, the CPCFA also issued $203,215,000 of five percent fixed rate tax-exempt revenue bonds (Series 2012 Pipeline Bonds - and together with Series 2012 Plant Bonds, the Project Bonds) at a premium of $6,904,610, for an All-In TIC of 4.9%, to pay the cost of constructing the Pipeline.

The SDCWAFA, a blended component unit, will make such proceeds available to the Water Authority pursuant to an Installment Sale and Assignment Agreement dated as of December 24, 2012 (Installment Sale and Assignment Agreement) to pay the costs of developing, designing, acquiring, and constructing the Pipeline. The Company has agreed to design and build the Pipeline pursuant to the Pipeline DBA. In certain circumstances, as described herein, the Company may be obligated to pay amounts to the Water Authority to satisfy its obligations under the Pipeline Loan Agreement with the SDCWAFA related to the Series 2012 Pipeline Bonds.

In the Installment Sale and Assignment Agreement, the Water Authority will assign its rights to receive contracted shortfall payments to the SDCWAFA which, in turn, will assign them to the CPCFA which will assign them to the Pipeline Trustee.

18. Commitments and Contingencies, (continued)

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds, (continued)

Sources of Payment to and Security for Bondholders of Project Bonds

Prior to the Commercial Operation Date

During the period prior to the date on which the provisional acceptance conditions have been satisfied as described in the Water Purchase Agreement (Commercial Operation Date), the Company is solely responsible for completing the construction of the Project, and for any payment obligations with respect to the Project Bonds arising from construction delay or default by the Company on its construction or payment obligations.

The Series 2012 Pipeline Bond proceeds on deposit with the Pipeline Trustee are sufficient to pay the fixed price of constructing the Pipeline and interest on the Pipeline Bonds for the guaranteed construction period plus an additional six months. In addition the Pipeline Trustee holds funds in the Pipeline Debt Service Reserve Fund under the Pipeline Indenture in an amount equal to the current annual debt service on the Pipeline Bonds.

The Series 2012 Plant Bond proceeds on deposit with Union Bank, N.A. (in such capacity, the Collateral Agent), together with the Equity Security, are sufficient to pay the fixed price of constructing the Plant and interest on the Plant Bonds for the guaranteed construction period plus an additional six months, and certain direct obligations of the Company during the construction period. The amounts on deposit (or available to be drawn on the Equity Security) also include a $20 million owner's construction contingency.

If there is a delay in achieving the Commercial Operation Date, and amounts on deposit in capitalized interest accounts for the Project Bonds are insufficient to pay debt service on the related Project Bonds, the Company is required to pay delay construction period shortfall payments under the Pipeline DBA that will cover debt service payments on the Series 2012 Pipeline Bonds and is obligated under the Plant Loan Agreement to pay debt service on the Plant Bonds.

If the Commercial Operation Date is not achieved by the date that is 1,430 days following the Series 2012 Project Bonds closing date (as such period may be extended pursuant to the terms of the Water Purchase Agreement) or the Company defaults on its obligations to make Contracted Shortfall Payments under the Pipeline DBA, the Water Authority may terminate the Pipeline DBA and the Water Purchase Agreement, and the Company would be obligated to pay the entire debt service on the Project Bonds.

In accordance with the Plant EPC Contract and the Pipeline EPC Contract, the EPC Contractor is obligated to timely achieve the Commercial Operation Date. It will pay delay damages for unexcused delay and is obligated to continue to work to achieve the Commercial Operation Date. The EPC Contractor and the Operating Contractor, IDE Americas Inc. (IDE Americas), have provided certain guarantees and performance and payment bonds, to assure that their obligations are met and the Collateral Agent is the assignee or beneficiary of those third party assurances. However, the liabilities of the EPC Contractor and IDE Americas are subject to overall limitations and they are excused from performance in certain circumstances where the Company is not entitled to relief under the Water Purchase Agreement or the Pipeline DBA.

18. Commitments and Contingencies, (continued)

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds, (continued)

After Achieving the Commercial Operation Date

Once the Commercial Operation Date is achieved, the Water Authority will commence payments under the Installment Sale and Assignment Agreement for the benefit of the holders of the Series 2012 Pipeline Bonds and commence the purchase of Product Water under the Water Purchase Agreement. The Collateral Agent will receive all revenues under the Water Purchase Agreement, and any damages payments from IDE Americas, in its capacity as operator of the Plant, and any amounts drawn on the Equity Security and certain other funds will be applied to fund operating reserves. Amounts held by the Collateral Agent will secure the payment of Plant senior debt and operating period shortfall payments related to the Series 2012 Pipeline Bonds under the Water Purchase Agreement on a parity basis.

Project Risk Bearing

Since the inception of this public-private partnership, the Water Authority and the Company have recognized and acknowledged the significant risks inherent in the Project of such nature and magnitude. The Project can only serve the intended commercial purpose of providing reliable Product Water to the public if and when construction is complete and meets specified standards at appropriate cost. The Water Authority has the fiduciary responsibility to protect the interests of member agencies and the public from Project risks.

The Water Authority and the Company have agreed unequivocally, in principle and in substance that, during the construction period prior to the Commercial Operation Date, the Company bears the entire risk of the Project and is solely responsible for all liabilities. The Water Authority only commences payments if and when the Commercial Operation Date is achieved within the timeframe as defined in the Water Purchase Agreement.

Protection of public interests extends to and through Qualified Institutional Buyers (QIBs), the primary providers of Project financing. Like the Water Authority, QIBs have fiduciary responsibilities toward member constituents, the general public, whose funds are held and invested by QIBs.

This overarching risk objective of protecting public interests from Project risks has provided clear guidance for structuring Project financing and for developing related agreements towards meeting the goal.

Water Authority Accounting for Series 2012 Pipeline Bonds

Prior to Achieving the Commercial Operation Date

GASB Concepts Statement No. 4 defines assets as resources with present service capacity that the government presently controls. Concepts Statement No. 4 also defines liabilities as present obligations to sacrifice resources that the government has little or no discretion to avoid.

Prior to achieving the Commercial Operation Date, while the Water Authority has legal title to Pipeline construction in progress, the Pipeline provides no present service capacity to the Water Authority. Proceeds from Series 2012 Pipeline Bonds are held by the Pipeline Trustee, which disburses funds monthly to pay for the costs of Pipeline construction. The disbursement requests are subject to approvals by the Company and the Independent Engineer. The Water Authority has the right to review and comment on, but not approve, such requests. As such, during the construction period, the Water Authority does not own resources related to the Pipeline that meet the definition of assets as defined in GASB Concepts Statement No. 4.

18. Commitments and Contingencies, (continued)

(c) Carlsbad Desalination Project – Series 2012 Pipeline Bonds, (continued)

The obligation of the Water Authority to make any payments for the Project commences after the Project achieves the Commercial Operation Date under the terms of the Water Purchase Agreement. Therefore, during the construction period, the Water Authority does not have present obligations to sacrifice resources that it has little or no discretion to avoid.

After Achieving the Commercial Operation Date

Once the Commercial Operation Date is achieved pursuant to the terms under the Water Purchase Agreement, the Water Authority will record the Pipeline as a capital asset, following existing measurement, recognition, and disclosure guidance for capital assets. The Water Authority will also record the Series 2012 Pipeline Bonds as a liability, following existing measurement, recognition, and disclosure guidance for liabilities.

19. Subsequent Events

On July 31, 2013, the trial court issued its judgement rejecting the remaining legal challenges. A notice of appeal has been filed. The San Diego County Water Authority, along with the Imperial Irrigation District, Metropolitan Water District of Southern California, Coachella Valley Water District, and State of California (collectively QSA parties), are defending a number of challenges that have been filed in a validation action brought relating to the Quantification Settlement Agreement and its various related agreements (collectively QSA), including agreements relating to the transfers of conserved water from IID to the Water Authority. In December 2011 the court of appeal issued its opinion upholding the QSA finding that it did not violate the California Constitution and other laws, but remanded the matter for trial on remaining undecided issues. For further information, contact Daniel S. Hentschke, General Counsel, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6791, dhentschke@sdcwa.org.

On September 30, 2013, the IRS announced subsidy payments to issuers of Build America Bonds will be reduced by 7.2 percent in Fiscal Year 2014 under Congressionally-mandated sequestration. The reduction rate applies to payments processed from October 1, 2013 through September 30, 2014. Sequestration consists of across-the-board federal budget cuts that were implemented in March 2013, triggered by Congress' failure to reach an agreement on how to significantly cut the federal deficit. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change.

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Appendix B
Proposed Form of Opinion of Bond Counsel

On April 2, 2014 the Water Authority will receive an opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, in the following form:

Board of Directors
San Diego County Water Authority
San Diego, California

San Diego County Water Authority
Commercial Paper Notes, Series 8
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the San Diego County Water Authority (the "Issuer") in connection with authorization of issuance of up to $110,000,000 aggregate principal amount (at any time Outstanding) of commercial paper notes by the Issuer, pursuant to and by authority of the provisions of Section 8.2 of the County Water Authority Act, Resolution No. 89-21 adopted by the Board of Directors of the Issuer on May 11, 1989, entitled "A Resolution of the Board of Directors of the San Diego County Water Authority Providing for the Allocation of Water System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Net Water Revenues", as amended (the "General Resolution"), and an Issuing and Paying Agent Agreement (Series 8), dated as of April 1, 2014 (the "Issuing and Paying Agent Agreement"), between the Issuer and U.S. Bank National Association (the "Issuing and Paying Agent"), and designated San Diego County Water Authority Commercial Paper Notes, Series 8 (the "Notes"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the General Resolution.

In such connection, we have reviewed the General Resolution, the Issuing and Paying Agreement, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), certificates of the Issuer, the Issuing and Paying Agent and others, opinions of counsel to the Issuer and the Issuing and Paying Agent and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof and before or after Notes are issued. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. We disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy (as of the date hereof and as of the date of issuance from time to time of the Notes) of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the General Resolution, the Issuing and Paying Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Notes to be included in gross income for federal income tax purposes, possibly retroactive to the date on which the first Notes were issued. We call attention to the fact that the rights and obligations under the Notes, the General Resolution, the Issuing and Paying Agent Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county water authorities in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Offering Memorandum or other offering material relating to the Notes and express no opinion with respect thereto.

Based on and subject to the foregoing and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The General Resolution has been duly adopted by the Board of Directors of the Issuer and is in full force and effect, and the Issuing and Paying Agent Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the Issuer.

2. The Notes, when duly issued in the form authorized by and otherwise in compliance with the Issuing and Paying Agent Agreement, executed by a duly authorized official of the Issuer and authenticated by the Issuing and Paying Agent against payment therefor, will constitute the valid and binding limited obligations of the Issuer, payable solely from Net Water Revenues, and neither the full faith and credit nor the taxing power of the Issuer, the State of California or any of its political subdivisions is pledged for the payment thereof.

3. Interest on the Notes, when issued in accordance with the Issuing and Paying Agent Agreement and the Tax Certificate, will be excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income will depend upon the taxpayer's elective under Internal Revenue Service Notice 94-84. Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Notes is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

Appendix C
Annual Statement of Investment Policy
Calendar Year 2014

SAN DIEGO COUNTY WATER AUTHORITY

Annual Statement of Investment Policy

Calendar Year 2014

INTRODUCTION

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment related activities. The ultimate goal is to enhance the economic status of the Water Authority while protecting its funds.

The Board of Directors and, upon formal delegation, the Treasurer for the San Diego County Water Authority, duly authorized to invest Water Authority monies by California Government Code, are trustees of Water Authority funds and therefore fiduciaries subject to the prudent investor standard.

SCOPE

It is intended that this policy cover all funds and investment activities under the direct authority of the San Diego County Water Authority, except for the employee's retirement and deferred compensation funds. For investment purposes, the Water Authority manages the Operating Fund, Rate Stabilization Fund, Pay-As-You-Go Fund, Equipment Replacement Fund and Stored Water Fund together as the Pooled Operating Fund. The funds under the direct authority of the San Diego County Water Authority are accounted for in the Comprehensive Annual Financial Report and include:

Operating Fund – Holds the Water Authority's working capital and emergency operating reserve.

Rate Stabilization Fund – Established to mitigate future water rate increases.

Pay-As-You-Go Fund (PAYGO) – Funds are dedicated for construction outlays and debt service.

Equipment Replacement Fund – Used to purchase minor capital equipment such as computer systems, vehicles, etc.

Stored Water Fund – Used to purchase water to fill Water Authority reservoirs.

Construction (CIP) Fund – Holds the proceeds of long-term debt and commercial paper to be expended for construction.

Debt Service Reserve Fund – Holds the required legal reserve for Water Authority debt issues.

OBJECTIVES

The investment policies and practices of the Board of Directors and the Treasurer for the San Diego County Water Authority are based upon limitations placed on it by governing legislative bodies. These policies have three primary goals:

1. To assure compliance with all Federal, State and Local laws governing the investment of monies under the control of the Treasurer.

2. To protect the principal monies entrusted to this organization.

3. To generate the maximum amount of investment income within the parameters of this Annual Statement of Investment Policy.

These goals are enhanced by the following objectives in order of importance.

A. Safety: It is the primary duty and responsibility of the Treasurer to protect, preserve and maintain cash and investments placed in his/her trust. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institution default, broker-dealer default, or erosion of market value of securities. The Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral. Diversification of the portfolio will be used in order to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash if necessary to meet disbursement requirements. Since all cash requirements cannot be anticipated, investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio it must be recognized that occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

PRUDENT INVESTOR STANDARD

The Board of Directors and Treasurer adhere to the guidance provided by the "prudent investor standard", California Government Code (Section 53600.3), which obligates a fiduciary to insure that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law."

DELEGATION OF AUTHORITY

The investment, per this policy, of Water Authority idle monies is annually delegated to the Treasurer by the Board of Directors who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked or expires. The Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. A memorandum will be forwarded to the General Manager indicating the individual who is acting on the behalf of the Treasurer which details the period of time the designee will be responsible for the investment function. All transactions will be reviewed by the Treasurer on a regular basis to assure compliance with this Annual Statement of Investment Policy.

ETHICS AND CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Water Authority's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Water Authority, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence. All officers and employees involved in the investment of public funds are required to comply with the Water Authority's Conflict of Interest Code.

AUTHORIZED INVESTMENT INSTRUMENTS - POOLED OPERATING FUND

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, the following investments are authorized:

<u>Local Agency Investment Fund (LAIF)</u>: The Water Authority may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies (Government Code Section 16429.1(b)). In order to ensure that LAIF is purchasing securities that comply with the Government Code, the monthly LAIF report shall be reviewed by the Treasurer. The fund must have twenty-four hour liquidity. The maximum permitted investment will be governed by State Law (currently $50 million).

<u>Bankers' Acceptances</u>: The Water Authority may invest in prime self-liquidating bankers' acceptances (Government Code Section 53601(g)) limited to banks rated a minimum of "A" by Moody's Investors Service, Standard & Poor's, or Fitch Ratings. The maximum investment maturity will be restricted to 180 days. Maximum portfolio exposure will be limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer.

Treasury Securities: The Water Authority may invest in United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (Government Code Section 53601(b)). The purchase of zero-coupon, or strips, is not permitted. Because these investments are the safest possible, there is no maximum portfolio limit. Maximum investment maturities will be restricted to five years.

Repurchase Agreements: The Water Authority may invest (Government Code Section 53601(j)) in overnight and term repurchase agreements with primary dealers of the Federal Reserve Bank of New York rated "A" or better by Moody's Investors Service, Standard & Poor's, or Fitch Ratings with which the Water Authority has entered into a master repurchase agreement. This agreement will be modeled after the Public Securities Association's master repurchase agreement.

All collateral used to secure this type of transaction is to be delivered to a third party prior to release of funds. The third party will have an account in the name of the San Diego County Water Authority. The market value of securities used as collateral for repurchase agreements shall be monitored on a daily basis by the Treasurer and will not be permitted to fall below 102 percent of the value of the repurchase agreement. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.

In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of and guaranteed by the U.S. Government and Agency securities as permitted under this policy. The Water Authority will maintain a first perfected security interest in the securities subject to the repurchase agreement and shall have a contractual right to liquidation of purchased securities upon the bankruptcy, insolvency or other default of the counterparty. Maximum portfolio exposure will be limited to 20 percent and maturities that do not exceed one year.

Reverse Repurchase Agreements: The Water Authority may enter (Government Code Section 53601(j)) into reverse repurchase agreements only "with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency", and when an unanticipated cash outflow can be met more advantageously by agreeing to a reverse repurchase agreement rather than selling securities outright. In this situation, the reverse shall not exceed 92 days, and shall be matched to a known cash inflow of sufficient size to repay the principal and interest of the reverse repurchase agreement.

The Water Authority may also enter into reverse repurchase agreements when proceeds obtained through the reverse can be reinvested at a higher rate. The spread and reverse must be reviewed by the Treasurer prior to the transaction taking place. Reverse repurchase agreements entered into may not exceed a maximum maturity of 92 days unless the minimum spread between the rate on the investment and cost of funds is guaranteed in writing, in which case the maximum maturity is limited to one year. In all cases, the transaction must be matched as to maturity and dollars invested with its corresponding reinvestment.

In both situations a master repurchase agreement modeled after the Public Securities Association is required prior to the transaction taking place. In all cases, the security being reversed must have been held in the portfolio for a minimum of 30 days. Restrictions placed on repurchase agreements also apply to reverse repurchase agreements. Maximum portfolio exposure will be limited to 20 percent of the total portfolio value excluding the proceeds of reverses. This transaction requires written approval of the Treasurer.

Securities lending is not considered a reverse repurchase transaction and is not authorized under this section.

Certificates of Deposit: The Water Authority may invest in certificates of deposits issued by a state or national bank, savings association or federal association, a state or federal credit union located in California (Government Code Section 53630 et seq). A written depository contract is required with all institutions that hold Water Authority deposits. The Treasurer may waive collateral requirements for the portion of any deposit insured pursuant to federal law. Securities placed in a collateral pool must provide coverage for at least 110 percent of all deposits that are placed in the institution. Acceptable pooled collateral is governed by California Government Code Section 53651. Real estate mortgages are not considered acceptable collateral by the Water Authority, even though they are permitted in Government Code Section 53651(m). As provided under Government Code Section 53660, the bank or agent of depository is required to provide the Water Authority with a regular statement of pooled collateral. This report will state that they are meeting the 110 percent collateral rule (Government Code Section 53652(a)), a listing of all collateral with location and market value, plus an accountability of the total amount of deposits secured by the pool.

No bank shall receive Water Authority funds that has a long-term debt rating by Moody's Investors Service, Standard & Poor's, or Fitch Ratings less than "A"; however, deposits of up to the federal deposit insurance limit are allowable in any institution that insures its deposits pursuant to federal law, regardless of the ratings by Moody's Investors Service, Standard & Poor's, or Fitch Ratings. The maximum deposited in any one institution without collateral shall not exceed the amount covered by federal deposit insurance.

All banks accepting Water Authority deposits are required to provide annual information regarding compliance to the Community Reinvestment Act. Banks are required to maintain a minimum rating of "satisfactory" as defined under the Community Reinvestment Act.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

Maximum portfolio exposure is limited to 15 percent. Maximum investment maturity will be restricted to five years.

Placement Service Deposits: The Water Authority may invest in deposits placed with a private sector entity that assists in the placement of deposits with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each deposit shall at all times be insured by federal deposit insurance. Excluding certificates of deposit invested pursuant to this section, a maximum of 10 percent may be placed with any one private sector entity that assists in placing deposits. The combined maximum portfolio exposure to certificates of deposit placed pursuant to this section and Negotiable Certificates of Deposit is limited to 15 percent. Maximum investment maturity will be restricted to five years.

Negotiable Certificates of Deposit: The Water Authority may invest in negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal association or by a state- or federally-licensed branch of a foreign bank (Government Code Section 53601(i)). Securities must have a minimum rating of "AA" by at least one of the three credit rating agencies (Moody's Investors Service, Standard & Poor's, or Fitch Ratings), and not rated lower than "A" by the other two.

As per Section 53638 of the California Government Code, any deposit shall not exceed the total paid-up capital and surplus of any depository bank, nor shall the deposit exceed the total net worth of any institution.

The combined maximum portfolio exposure to Negotiable Certificates of Deposit and certificates of deposit invested pursuant to a Placement Service Deposit entity is limited to 15 percent and single-issuer holdings to no more than 5 percent per issuer. Maximum investment maturity is restricted to five years.

Commercial Paper: The Water Authority may invest in the highest grade of commercial paper (Government Code Section 53601(h)) as rated by Moody's Investors Service, Standard & Poor's, or Fitch Ratings ("A1/P1/F1"), issued only by general corporations that are organized and operating within the United States and having total assets in excess of $500 million. The general corporation must also have an "A" rating or higher for the issuers debentures, other than commercial paper, if any, as provided by Moody's Investors Service, Standard & Poor's, or Fitch Ratings. Purchases shall not exceed ten percent of the outstanding paper of the issuing general corporation. Maximum investment maturity will be restricted to 270 days. Maximum portfolio exposure is limited to 25 percent and single-issuer holdings to no more than 5 percent per issuer.

Medium-Term Notes: The Water Authority may invest in corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (Government Code Section 53601(k)). Securities must have a minimum rating of "AA" by at least one of the three credit rating agencies (Moody's Investors Service, Standard & Poor's, or Fitch Ratings) and not rated lower than "A" by the other two. Permissible types of notes include fixed rate and variable rate. Maximum investment maturity is restricted to five years. Maximum portfolio exposure is limited to 30 percent and single-issuer holdings to no more than 5 percent per issuer.

Municipal Securities: The Water Authority may invest in: (i) Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any state (Government Code Section 53601(c)(d)); and (ii) Bonds, notes, warrants, or other evidence of debt issued by a local agency or municipality located within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency (Government Code Section 53601(a)(e)). Securities must have a minimum rating of "A" as rated by Moody's Investors Service, Standard and Poor's, or Fitch Ratings. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 20 percent and single-issuer holdings to no more than 5 percent per issuer.

Agencies: The Water Authority may invest in federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises (Government Code Section 53601(f)). Permissible types of securities include discount, coupon and variable rate security issues. Callable securities are limited to a minimum of one-time call only, with a maximum allocation of 20 percent of the portfolio. Maximum maturity is limited to 5 years. Maximum portfolio exposure is limited to 85 percent.

Money Market Funds: The Water Authority may invest in funds authorized under Government Code Section 53601(l)(2) that have a minimum asset size of $500 million. Composition of the fund is limited to investments that are authorized by this Annual Statement of Investment Policy. Funds must have the highest rating by two of the three largest nationally recognized statistical rating organizations, or have an investment adviser registered with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by this investment policy. Any fund shares purchased will not include any type of commission. Maximum portfolio exposure is limited to 15 percent.

Local Government Investment Pools: The Water Authority may invest in local government investment pools created by a joint powers authority authorized under Government Code Section 53601(p). Pools must have the highest rating by at least one of the three largest nationally recognized statistical rating organizations. The pool must have twenty-four hour liquidity. Maximum portfolio exposure is limited to 25 percent.

AUTHORIZED INVESTMENT INSTRUMENTS - BOND PROCEEDS AND DEBT SERVICE RESERVE FUNDS

All investment types listed above are authorized investments for bond proceeds and debt service reserve funds with the addition of the following:

Collateralized Guaranteed Investment Contracts (GICs)/Full Flex Repurchase Agreements: Investment of funds in GICs is permitted, as per Section 5922 of the Government Code, when collateralized by U.S. Government guaranteed and direct obligation securities. Collateral must be held by a third party institution, and must be marked to market on a weekly basis to a minimum of the value of the outstanding balance of the contract. The maximum maturity date on a GIC is limited to the final maturity date of the bonds being issued.

Initially Uncollateralized Guaranteed Investment Contracts (GICs): Investment of funds in GICs which are not initially collateralized is permitted, as per Section 5922 of the Government Code, only if (a) the term of the GIC does not exceed three (3) years, (b) the counterparty to the GIC is rated in the highest long-term rating category by both Moody's Investors Service and Standard & Poor's (or whose payment obligations under such GIC are insured or guaranteed by an entity the unsecured obligations of which are so rated), and (c) the GIC requires that it be collateralized as described above in the event the counterparty's rating is downgraded below the highest long-term rating category by either Moody's Investors Service or Standard & Poor's.

Local Agency Investment Fund (LAIF): The Water Authority may also invest bond proceeds in the Local Agency Investment Fund (Government Code Section 16429.1(d)). There is a $175M limit on the amount of bond proceeds that may be deposited into the fund. Liquidity for bond proceeds, per fund regulations, is thirty calendar day increments from the date of the initial deposit. Bond proceeds deposited in LAIF should be managed to include a 90-day review by the Treasurer to insure safety, as well as probable income.

In the event that a conflict arises between the bond covenants and this Annual Statement of Investment Policy, the following will guide the (re)investment of bond proceeds: when the Annual Statement of Investment Policy is more conservative than the bond covenants, the Annual Statement of Investment Policy will prevail; if the bond covenants are more conservative than the Annual Statement of Investment Policy, the bond covenants will prevail. All future debt transaction reinvestment guidelines will incorporate the current Annual Statement of Investment Policy into the bond covenants.

The Board of Directors has granted the Treasurer the authority to invest debt service reserve funds in U.S. Treasury, federal agency, and municipal securities with maturities exceeding 5 years if it is considered to be in the best interest of the Water Authority and if the maturity of such investments does not exceed the expected use of funds.

PORTFOLIO LIMITATIONS

It is the Water Authority's goal to maintain a minimum of 50 percent of the Water Authority portfolio in Treasury Bills or Notes; however, based on market conditions a combination of 50 percent Agencies and Treasury Bills or Notes will satisfy this requirement. At no time will less than 15 percent of the portfolio be in Treasury Bills or Notes. The balance of the portfolio may be invested in any of the other permissible investments within the guidelines previously established.

The total dollar amount of bond proceeds and debt service reserve funds invested are to be excluded from the total used to calculate percentages for investment types.

The weighted average days to maturity of the total portfolio shall not exceed 730 days (two years) to maturity.

Percentage limitations, where listed, are applicable at the date of purchase. In the event that the percentage limits attributable to a security type is exceeded due to a temporary imbalance in the portfolio, the Treasurer will make a determination as to the appropriate course of action. The appropriate course of action may be to liquidate securities to rebalance the portfolio or to hold the securities to maturity in order to avoid a market loss. Portfolio percentages are in place to ensure diversification of the investment portfolio and, as such, a small temporary imbalance would not violate this basic tenet. When a portfolio percentage is exceeded, the Treasurer will report the occurrence in the Treasurer's Report at the next regularly scheduled Administrative and Finance Committee meeting of the Board, with detail of the strategy determined to address the imbalance, for Board ratification.

Credit requirements listed in this policy indicate the minimum credit rating (or its equivalent) required at the time of purchase without regard to modifiers (e.g., +/- or 1, 2, 3). In the event that an investment originally purchased within policy guidelines is downgraded by any one of the credit rating agencies, the Treasurer shall report it at the next regularly scheduled Administrative and Finance Committee meeting of the Board. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

INELIGIBLE INVESTMENTS

Investments not described herein, including, but not limited to common stocks, futures and the writing of options are prohibited from use in this portfolio. The use of short positions is also prohibited.

DERIVATIVES

A derivative is defined as a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or reference rate. The purchase of yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited (this list is not intended to cover all types of securities and is presented as an example of the types of securities that should be avoided). Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity.

SWAPS

A swap is a shift of assets from one instrument to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, or to increase investment quality. In no instance shall a swap be used for speculative purposes. Any such swap shall be simultaneous (same day execution of sale and purchase), and requires the written approval of the Treasurer.

INTERNAL CONTROLS

A system of internal controls has been established and documented in writing in the Water Authority's Financial Services Policies and Procedures Manual. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation of third parties, unanticipated changes in financial markets or imprudent action by employees and officers of the Water Authority. Controls deemed most important include: control of collusion, separation of duties and administrative controls, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, management review and approval of investment transactions, specific limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimizing the number of authorized Investment Officials, documentation of transactions and strategies, and code of ethic standards. The Treasurer has established an annual process of independent review by an external audit firm. This review provides assurance of strong internal controls by reviewing compliance with previously established policies and procedures.

REPORTING

The Treasurer will submit a monthly investment report to the Board of Directors, the General Manager's office, and the internal auditor. This report will include: a list of portfolio transactions, type of investment, issuer, date of maturity, amount of deposit/par amount, current market value of all securities (with the source of the market valuation), rate of interest, statement that there are or are not sufficient funds to meet the next 6 month's obligations and a statement indicating compliance or noncompliance with this Annual Statement of Investment Policy. Additional items listed will also include average weighted yield, average days to maturity, accrued interest earned during the period and fiscal year to date, percent distribution to each type of investment and any funds under management by contracted parties, including lending programs.

QUALIFIED BANKS AND SECURITIES DEALERS

A competitive bid process, when practical, will be used to place all investment purchases and sales transactions. For any investment transaction not conducted directly with the issuer, the Water Authority shall conduct business only with banks, savings and loans, and registered investment securities dealers. The Water Authority's staff will investigate all institutions that wish to conduct business with the Water Authority. All institutions must sign the appropriate Information Request Form, and agree to abide by the conditions set forth in the Water Authority's Annual Statement of Investment Policy. A list will be maintained by the cash management staff of approved institutions and securities broker/dealers. This will be done annually by having the financial institutions complete and return the Broker Dealer Information Request Form and an audited financial statement within 90 days of the institution's fiscal year-end. Previous Board approved substitute certification language may be offered to primary dealers of the Federal Reserve at the discretion of the Treasurer. In the event the substitute language is not accepted by the primary dealer, the Treasurer may return to the Water Authority's Board for approval of alternative language proposed by the primary dealer.

RISK TOLERANCE

The Water Authority recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The Treasurer is expected to display prudence in the selection of securities, as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

Risk will also be managed by subscribing to a portfolio management philosophy that helps to control market and interest rate risk by investing to a shorter term. This philosophy also prohibits trading losses (for speculative purposes) unless there is a sudden need for liquidity and the need cannot be satisfied on a more cost effective basis.

PERFORMANCE BENCHMARK

Controlling and managing risk is the foremost portfolio management objective. The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. An appropriate benchmark consistent with the Water Authority's investment objectives and liquidity requirements has been established against which the portfolio's performance is compared on a regular basis. The selected benchmark is the 2-Year U.S. Treasury constant maturity. Any significant deviation of the portfolio's performance to the benchmark should be reviewed in order to ensure that such investments meet the criteria previously specified.

SAFEKEEPING AND CUSTODY

To protect against potential losses caused by the collapse of security dealer(s), all book-entry securities owned by the Water Authority, including repurchase agreement collateral, shall be kept in safekeeping with "perfected interest" by a third party bank trust department, acting as agent for the

Water Authority under the terms of a custody agreement executed by the bank and by the Water Authority. All securities will be received and delivered using standard delivery-versus-payment procedures. The only exception to the foregoing shall be certificates of deposit and investments in: (i) LAIF; (ii) local government investment pools; and (iii) money market funds, since the purchased securities are not deliverable. A record of these investments shall be held by the Treasurer.

DIVERSIFICATION

The investment portfolio will be diversified by security type, institution and maturity date to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

STATEMENT OF INVESTMENT POLICY

This Annual Statement of Investment Policy shall be reviewed and submitted annually to the Board of Directors in order to incorporate any changes necessary to ensure consistency and its relevance to current law, and financial and economic trends. This Annual Statement of Investment Policy shall be reviewed at a public meeting and voted on prior to the start of each calendar year.

GLOSSARY OF INVESTMENT TERMS

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Appendix D
Information Regarding DTC and the Book-Entry Only System

Neither the Water Authority nor the Issuing and Paying Agent will have any responsibility or obligation to DTC Participants, Indirect Participants or Beneficial Owners with respect to the payments or the providing of notice to DTC Participants, Indirect Participants or Beneficial Owners. Neither the Water Authority nor the Issuing and Paying Agent can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of and interest on the Commercial Paper Certificates paid to DTC or its nominee, as the registered Holder, or any notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in the manner described in this Offering Memorandum.

The following information regarding DTC and its book-entry only system has been furnished by DTC for inclusion herein. The Water Authority cannot and does not make any representation as to the accuracy or completeness thereof, or the absence of material adverse changes therein subsequent to the date hereof. Beneficial Owners should confirm the following information with DTC or the Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Commercial Paper Certificates. The Commercial Paper Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 8 Note will be issued in the aggregate authorized principal amount of the Series 8 Notes and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing corporations. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange City. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 8 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 8 Notes on DTC's records. The ownership interest of each actual purchaser of each Series 8 Notes ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 8 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 8 Notes, except in the event that use of the book-entry system for the Series 8 Notes is discontinued.

To facilitate subsequent transfers, all Series 8 Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 8 Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 8 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 8 Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 8 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 8 Notes, such as tenders, defaults, and proposed amendments to the authorizing documents. For example, Beneficial Owners of the Series 8 Notes may wish to ascertain that the nominee holding the Series 8 Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 8 Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Water Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 8 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal and interest with respect to the Series 8 Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Water Authority or the Issuing and Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuing and Paying Agent or the Water Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest with respect to the Series 8 Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Water Authority or the Issuing and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 8 Notes at any time by giving reasonable notice to the Water Authority or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 8 Note certificates are required to be printed and delivered, as described in the Trust Agreement.

The Water Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 8 Note certificates will be printed and delivered to DTC as described in the Issuing and Paying Agent Agreement.

The information in this Appendix D concerning DTC and DTC's book-entry system has been obtained from sources that the Water Authority believes to be reliable, but the Water Authority takes no responsibility for the accuracy thereof.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Series 8 Notes, payment of the principal, interest and other payments with respect to the Series 8 Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Series 8 Notes and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Water Authority cannot and does not give any assurances that DTC will distribute to DTC Participants, or that DTC Participants or others will distribute to the Beneficial Owners, payments of principal and interest with respect to the Series 8 Notes paid or any notices or that they will do so on a timely basis or will serve and act in the manner described in this Offering Memorandum. The Water Authority is not responsible or liable for the failure of DTC or any DTC Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Series 8 Notes or any error or delay relating thereto.

So long as Cede & Co. is the registered owner of the Series 8 Notes, as nominee of DTC, references herein to the Holders or registered holders of the Series 8 Notes, shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 8 Notes.