THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Basic Financial Statements

Years ended June 30, 2014 and 2013

(With Independent Auditor's Report Thereon)

MGO Certified Public Accountants.

TABLE OF CONTENTS

June 30, 2014 and 2013

MGO Certified Public Accountants.

Newport Beach
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660
949.221.0025

Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Metropolitan Water District of Southern California:

Report on the Financial Statements

We have audited the accompanying financial statements of the Metropolitan Water District of Southern California (Metropolitan) as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Metropolitan'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 audit. We conducted our audit 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 Metropolitan Water District of Southern California as of June 30, 2014, and the changes in its financial position and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of Metropolitan as of June 30, 2013, were audited by other auditors whose report dated October 15, 2013, expressed an unmodified opinion on those financial statements.

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 of the pension plan and other postemployment benefits plan on pages 3-15 and 75, respectively, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 on our consideration of Metropolitan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metropolitan's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Newport Beach, California
October 17, 2014

The following discussion and analysis of The Metropolitan Water District of Southern California's (Metropolitan) financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2014 and 2013. This discussion and analysis should be read in conjunction with the basic financial statements and accompanying notes, which follow this section.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

Metropolitan operates as a utility enterprise and maintains its accounting records in accordance with generally accepted accounting principles for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows. The statements of net position include all of Metropolitan's assets, deferred outflows and liabilities, with the difference reported as net position, some of which is restricted in accordance with bond covenants or other commitments. The statements of revenues, expenses and changes in net position report all of Metropolitan's revenues and expenses during the periods indicated. The statements of cash flows show the amount of cash received and paid out for operating activities, as well as cash received from taxes and investment income, and cash used for construction projects, State Water Project costs and principal and interest payments on borrowed money.

CONDENSED FINANCIAL INFORMATION

Condensed Schedule of Net Position

	June 30,		
	2014	2013	2012
(Dollars in millions)			As Adjusted [1]
Assets and deferred outflows			
Capital assets, net	**$ 10,104.6**	$ 10,081.4	$ 10,076.4
Other assets and deferred outflows	**2,362.7**	2,229.2	2,060.4
Total assets and deferred outflows	**12,467.3**	12,310.6	12,136.8
Liabilities			
Long-term liabilities, net of current portion	**4,687.6**	4,949.2	5,190.3
Current liabilities	**578.7**	561.2	519.4
Total liabilities	**5,266.3**	5,510.4	5,709.7
Net position			
Net investment in capital assets, including State Water Project costs	**5,593.0**	5,399.5	5,293.3
Restricted	**319.3**	375.3	370.4
Unrestricted	**1,288.7**	1,025.4	763.4
Total net position	**$ 7,201.0**	$ 6,800.2	$ 6,427.1

[1] *Related to the adoption of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65).*

Capital Assets, Net

Net capital assets include plant, participation rights, and construction work in progress, net of accumulated depreciation and amortization.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, net capital assets totaled $10.1 billion, or 81.1 percent, of total assets and deferred outflows, and were $23.2 million higher than the prior year. This net increase represents Metropolitan's continued expenses on the capital investment plan (CIP) and net capital payments for participation rights in the State Water Project, partially offset by depreciation and amortization. CIP expenses during the fiscal year 2014 totaled $196.1 million (including $20.2 million of capitalized interest) and are described in the capital assets section below.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, net capital assets totaled $10.1 billion, or 81.9 percent of total assets and deferred outflows, which was $5.0 million higher than prior year primarily due to continued expenses on the CIP and net capital payments for participation rights in the State Water Project, partially offset by depreciation and amortization. CIP expenses during fiscal year 2013 totaled $151.5 million (including $18.8 million of capitalized interest) and are described in the capital assets section below.

Other Assets and Deferred Outflows

Other assets and deferred outflows include accounts receivable, inventories, deferred charges, deferred outflows related to loss on bond refundings and swap terminations, deferred outflow of effective interest rate swaps, and cash and investments.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, other assets and deferred outflows totaled $2.4 billion and were $133.5 million higher than the prior year. Cash and investments increased $195.8 million primarily due to $182.6 million of additional cash collected from higher water sales over the prior year. The increase in water sales reflected $107.7 million of higher volumes sold and $74.9 million related to higher prices. This increase was partially offset by $32.6 million of lower deferred charges as 201.7 TAF, or $25.0 million, of stored water was drawn down. In addition, deferred outflow of effective swaps was $25.7 million lower due to a $26.3 million decrease related to an early termination of swaps.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, other assets and deferred outflows totaled $2.2 billion and were $168.8 million higher than the prior year. Included in the increase from prior year were $170.0 million of higher cash and investments primarily due to increased water sales, $106.5 million of which was related to higher prices and $78.1 million, or 120.9 TAF, more volumes sold and $31.6 million increased water sales receivable. These increases were partially offset by a $53.6 million lower deferred outflow of effective swaps due to an increase in fair value of interest rate swaps.

Long-term Liabilities, Net of Current Portion

Long-term liabilities, net of current portion include long-term debt, customer deposits and trust funds, postemployment benefits other than pensions (OPEB), accrued compensated absences, obligations for off-aqueduct facilities, workers' compensation and third party claims, fair value of interest rate swaps, and other long-term obligations.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, long-term liabilities, net of current portion, totaled $4.7 billion and were $261.6 million lower than the prior year. The total reduction in long-term debt of $154.9 million was primarily due to principal pay down resulting from regular maturities of $123.3 million and $35.6 million related to bond refundings, as the new debt issued was less than the amount of debt refunded. In addition, OPEB decreased $100.5 million primarily due to $90.0 million of fiscal years 2014 and 2013 board-approved contributions deposited into an irrevocable trust established in September 2013. See the long-term debt section below for additional information.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, long-term liabilities, net of current portion, totaled $4.9 billion and were $241.1 million lower than the prior year. Long-term debt decreased by $154.9 million primarily due to a $149.2 million paydown of bond principal. In addition, the fair value of interest rate swaps liability decreased by $53.0 million due to an increase in the fair value of swaps.

Current Liabilities

Current liabilities represent current liabilities that are due within one year. They include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, current liabilities totaled $578.7 million, and were $17.5 million higher than the prior year. Included in the increase were $51.1 million more of accounts payable and accrued expenses primarily due to a $35.9 million increase in operating and maintenance costs on the State Water Project. In addition, the current portion of OPEB increased $39.5 million as the Board not only approved the full funding of the annual required contribution in fiscal year 2015 but additional pre-funding of the OPEB liability. Partially offsetting these increases was $66.9 million less in current portion of long-term debt. Due to bond refundings, $31.6 million of July 1, 2014 principal payments were paid in May 2014 and $20.2 million of debt was eliminated as the new debt issued was less than the debt refunded.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, current liabilities totaled $561.2 million, which were $41.8 million more than the prior year primarily due to a Board approved $40.0 million contribution into an irrevocable OPEB trust.

Net Investment in Capital Assets, including State Water Project Costs

Net investment in capital assets, including State Water Project costs include amounts expended for capital improvements and State Water Project, offset by debt issued for these purposes.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, net investment in capital assets, including State Water Project costs totaled $5.6 billion and was $193.5 million more than the prior year due to Metropolitan's ongoing efforts to reduce the overall cost of its outstanding debt.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, net investment in capital assets, including State Water Project costs totaled $5.4 billion and increased $106.2 million over the prior year due to the overall reduction in outstanding debt.

Restricted Net Position

Restricted net position includes amounts restricted for debt service payments and operating expenses, both of which are required by bond covenants.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, restricted net position totaled $319.3 million which was $56.0 million lower than fiscal year 2013. Included in the decrease was $30.1 million of lower restricted for debt service primarily due to lower bond interest, principal and reserve requirements as a result of bond refunding transactions during the year. In addition, restricted for other was $22.5 million less than the prior year due to the low water supply allocation that resulted in no required State Water Project variable power costs payments for July and August of 2014.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, restricted net position totaled $375.3 million which was $4.9 million higher than fiscal year 2012.

Unrestricted Net Position

Unrestricted net position consists of net position items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Certain unrestricted net position items have been designated for purposes authorized by the Board.

Fiscal Year 2014 Compared to 2013. Unrestricted net position of $1,288.7 million increased $263.3 million from the prior year primarily due to fiscal year 2014 income before capital contributions of $398.6 million.

Fiscal Year 2013 Compared to 2012. Unrestricted net position of $1,025.4 million increased $262.0 million from the prior year primarily due to fiscal year 2013 income before capital contributions of $371.5 million.

CHANGES IN NET POSITION

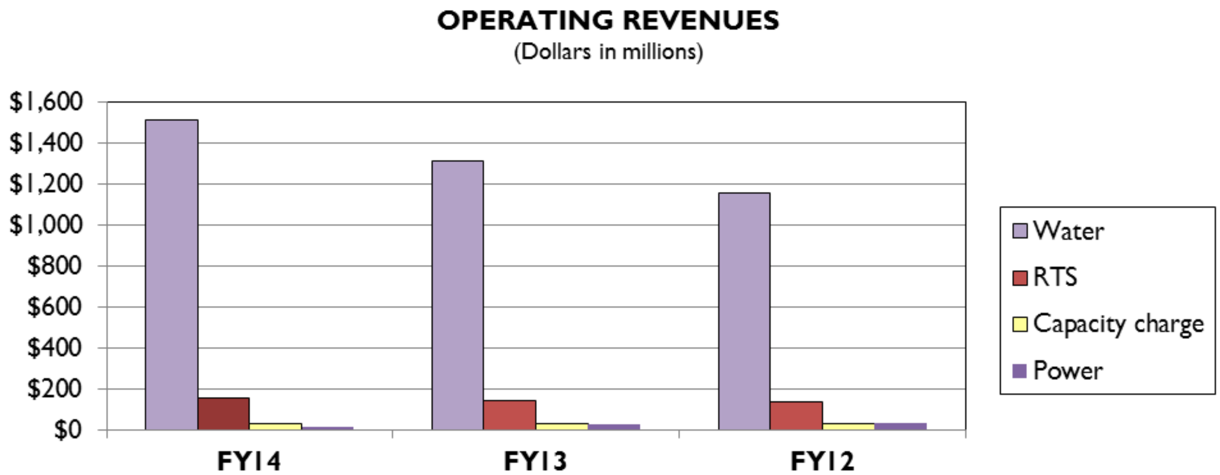
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	Fiscal Year Ended June 30,		
	2014	2013	2012
(Dollars in millions)			As Adjusted [1]
Water sales	**$ 1,484.7**	$ 1,282.5	$ 1,123.3
Readiness-to-serve charges	**154.0**	144.0	135.5
Capacity charge	**28.4**	28.7	33.0
Power sales	**14.6**	24.5	31.5
Operating revenues	**1,681.7**	1,479.7	1,323.3
Taxes, net	**94.5**	94.8	79.2
Investment income (loss)	**5.7**	(0.4)	4.1
Other, net	**—**	6.1	0.6
Nonoperating revenues	**100.2**	100.5	83.9
Total revenues	**1,781.9**	1,580.2	1,407.2
Power and water costs	**(510.1)**	(371.3)	(384.0)
Operations and maintenance	**(439.7)**	(419.8)	(433.5)
Depreciation and amortization	**(261.5)**	(265.4)	(290.1)
Operating expenses	**(1,211.3)**	(1,056.5)	(1,107.6)
Bond interest, net of amount capitalized	**(146.7)**	(150.2)	(135.8)
Interest and adjustments on off-aqueduct power facilities	**(1.6)**	(2.1)	(2.6)
Other, net	**(23.7)**	—	—
Nonoperating expenses	**(172.0)**	(152.3)	(138.4)
Total expenses	**(1,383.3)**	(1,208.8)	(1,246.0)
Contributed capital	**2.2**	1.7	13.6
Cumulative effect of change in accounting principle	**—**	—	(11.4)
Changes in net position	**400.8**	373.1	163.4
Net position, beginning of year	**6,800.2**	6,427.1	6,263.7
Net position, end of year	**$ 7,201.0**	$ 6,800.2	$ 6,427.1

[1] *Related to the adoption of GASB 65.*

Operating Revenues

Metropolitan's principal source of revenue is from water sales, which typically account for approximately 85 percent of operating revenues. Metropolitan's primary sources of water supply are the Colorado River and the State Water Project.



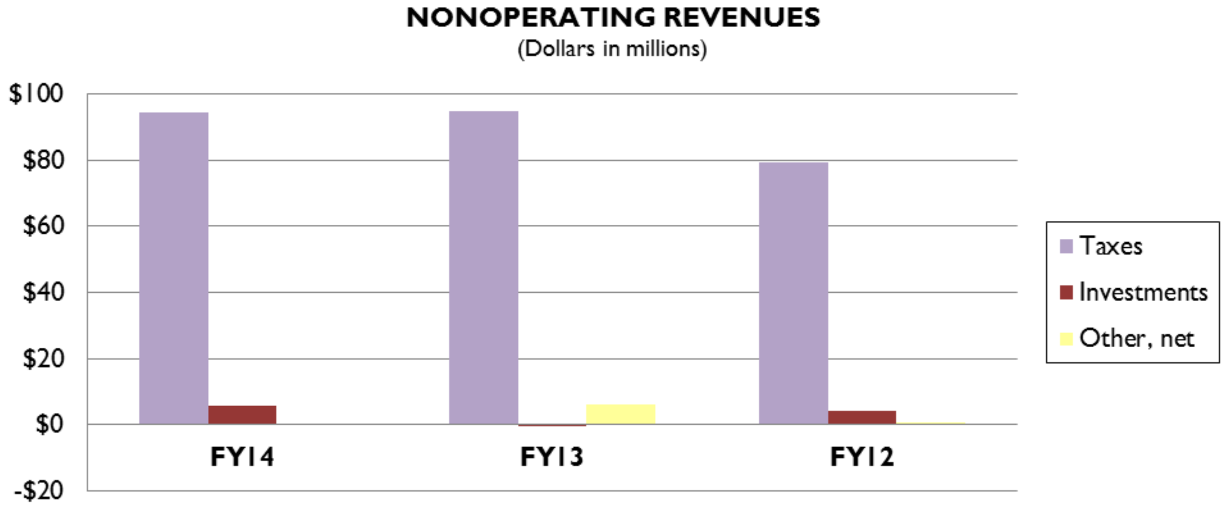
Analytical Review of Operating Revenues

Fiscal Year 2014 Compared to 2013. Fiscal year 2014 operating revenues were $1.7 billion or $202.0 million more than the prior year primarily due to $202.2 million of higher water sales, of which $138.9 million related to 182.1 TAF of additional volumes sold and $63.3 million from higher rates.

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 operating revenues were $1.5 billion or $156.4 million higher than the prior year primarily due to $159.2 million of higher water sales as a result of $100.3 million, or 137.8 TAF, increase in volumes sold and $58.9 million related to higher prices.

Nonoperating Revenues

The primary source of nonoperating revenues is property taxes.



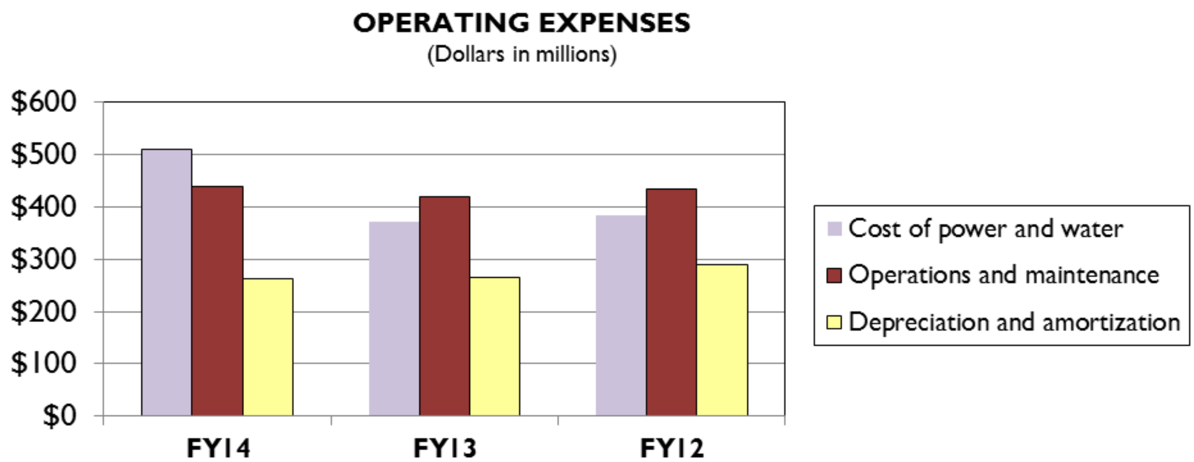
Analytical Review of Nonoperating Revenues

Fiscal Year 2014 Compared to 2013. Nonoperating revenues for fiscal year 2014 totaled $100.2 million and were $300,000 lower than the prior year.

Fiscal Year 2013 Compared to 2012. Nonoperating revenues for fiscal year 2013 totaled $100.5 million and were $16.6 million higher than the prior year primarily due to $15.6 million of additional property tax revenue resulting from the collection of delinquent taxes.

Operating Expenses

Operating expenses fall into three primary cost areas: power and water, operations and maintenance, and depreciation and amortization.



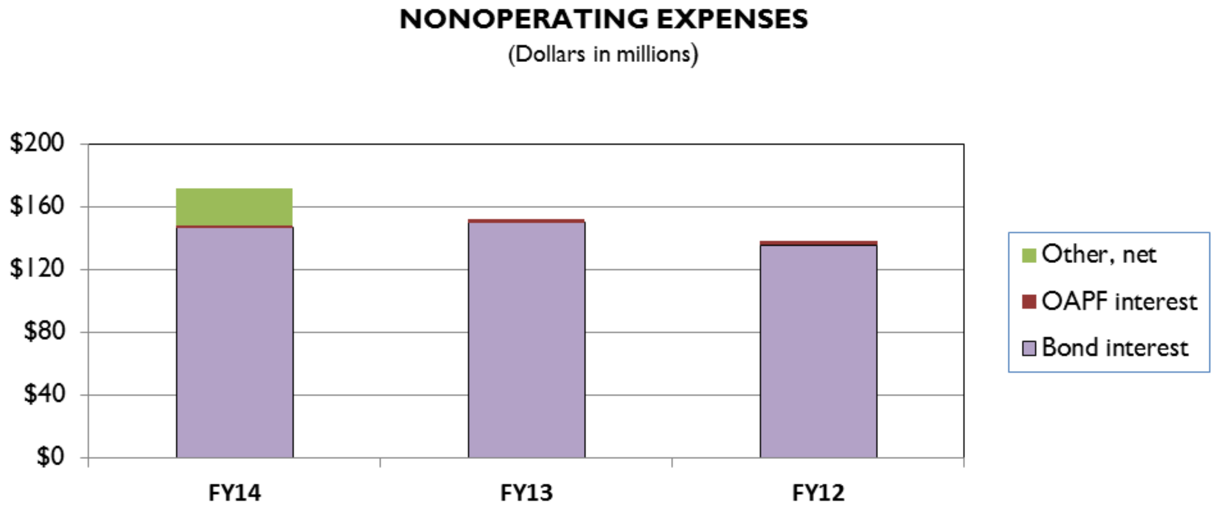
Analytical Review of Operating Expenses

Fiscal Year 2014 Compared to 2013. Fiscal year 2014, operating expenses of $1.2 billion were $154.8 million higher than prior year operating expenses primarily due to $138.8 million of higher power and water costs resulting from increased water sales of 182.1 TAF from fiscal year 2013.

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 operating expenses of $1.1 billion were $51.1 million lower than prior year operating expenses and included $24.7 million of lower amortization expenses related to the Reid Gardner generating plant because it was taken out of service in fiscal year 2013, $13.7 million less in operations and maintenance expense primarily due to the one-time $9.6 million negotiated lump-sum payout in fiscal year 2012, and $12.7 million of lower power and water costs due to higher credits received from the Department of Water Resources.

Nonoperating Expenses

Nonoperating expenses include interest expense on both bonds and debt related to the off-aqueduct power facilities (OAPF) and other, net.



Analytical Review of Nonoperating Expenses

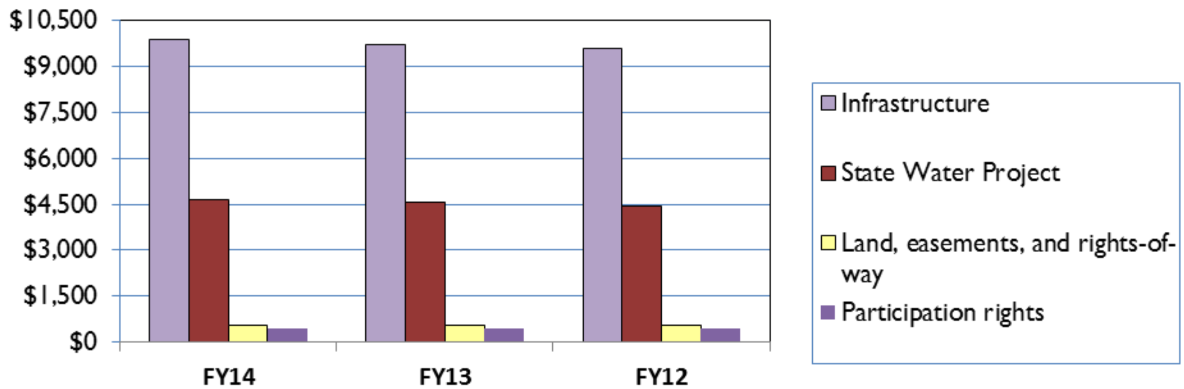
Fiscal Year 2014 Compared to 2013. Fiscal year 2014 nonoperating expenses of $172.0 million were $19.7 million higher than the prior year. The increase was primarily due to $23.7 million of other, net of which $22.9 million related to the write-off of construction in progress programs upon determination by the Engineering Services Group that no operational asset would result from the costs incurred.

Fiscal Year 2013 Compared to 2012. Fiscal year 2013 nonoperating expenses of $152.3 million were $13.9 million higher than the prior year primarily due to a decrease in capitalized interest on assets constructed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets include Metropolitan's water infrastructure, land and buildings, as well as participation rights in State Water Project and various other water programs.

GROSS CAPITAL ASSETS
(Dollars in millions)



Schedule of Capital Assets

(Dollars in millions)	June 30, 2014	2013	2012
Land, easements and rights-of-way	**$ 554.6**	$ 555.7	$ 554.4
Construction in progress	**1,631.9**	1,531.3	1,585.7
Parker power plant and dam	**13.0**	13.0	13.0
Power recovery plants	**178.7**	177.1	176.8
Other dams and reservoirs	**1,435.8**	1,435.8	1,435.1
Water transportation facilities	**3,364.1**	3,329.0	3,177.2
Pumping plants and facilities	**240.5**	229.8	228.5
Treatment plants and facilities	**2,059.3**	2,038.0	1,994.1
Other plant assets	**931.4**	923.3	915.6
Pre-operating expenses original aqueduct	**44.6**	44.6	44.6
Participation rights in State Water Project	**4,670.6**	4,565.0	4,449.1
Participation rights in other facilities	**456.1**	456.1	456.1
Gross capital assets	**15,580.6**	15,298.7	15,030.2
Less accumulated depreciation and amortization	**(5,476.0)**	(5,217.3)	(4,953.8)
Capital assets, net	**$ 10,104.6**	$ 10,081.4	$ 10,076.4
Net increase from prior year	**$ 23.2**	$ 5.0	$ 72.7
Percent change	**0.2%**	0.0%	0.7%

Fiscal Year 2014 Compared to 2013. Net capital assets totaled approximately $10.1 billion and increased $23.2 million over the prior year primarily due to $196.1 million of new construction activity and a net increase of $105.6 million in participation rights in State Water Project, partially offset by increased accumulated depreciation and amortization of $258.7 million.

The major capital asset additions for the current year, excluding capitalized interest, included:

- $54.0 million for the oxidation retrofit program at the filtration plants; this program is designed to reduce the level of disinfection byproducts in the treated water supplied by these plants in order to meet state and federal standards.
- $39.0 million for the improvements in infrastructure reliability at the treatment plants.
- $18.7 million for the distribution system's rehabilitation program.
- $12.4 million to modernize the machine, coatings, and fabrication shops at the La Verne facility.
- $11.8 million for the Colorado River Aqueduct (CRA) reliability and containment programs; these programs were established to provide infrastructure reliability and regulatory compliance throughout the CRA conveyance system.

Metropolitan's fiscal year 2015 capital budget includes plans to spend $245.4 million principally for the water treatment plants improvements program, the water quality/oxidation retrofit program, the distribution system and rehabilitation projects, the supply reliability and system expansion program, and the Colorado River Aqueduct reliability and containment programs.

Fiscal Year 2013 Compared to 2012. Net capital assets totaled approximately $10.1 billion and increased $5.0 million over the prior year primarily due to $151.5 million in new construction activity and a net increase of $115.9 million in participation rights in State Water Project, partially offset by increased accumulated depreciation and amortization of $263.5 million.

The major capital asset additions for fiscal year 2013, excluding capitalized interest, included:

- $36.2 million for the oxidation retrofit program at the filtration plants.
- $26.7 million for the improvements in infrastructure reliability at the treatment plants.
- $17.9 million for the CRA reliability and containment programs.
- $13.4 million for the distribution system's rehabilitation program.

LONG-TERM DEBT

Schedule of Long-term Debt, Including Current Portion

	June 30,		
	2014	2013	2012
(Dollars in millions)			As Adjusted [1]
General obligation bonds *(a)*	**$ 132.3**	$ 165.1	$ 196.5
Revenue bonds *(a)*	**4,271.5**	4,450.6	4,607.1
State revolving loan	**11.7**	12.2	13.1
Other, net *(b)*	**200.9**	210.3	194.3
	$ 4,616.4	$ 4,838.2	$ 5,011.0
Decrease from prior year	**$ (221.8)**	$ (172.8)	$ (50.9)
Percent change	**(4.6%)**	(3.4%)	(1.0%)

[1] Related to the adoption of GASB 65.
(a) Includes refunding bonds.
(b) Consists of unamortized bond discount and premiums.

Fiscal Year 2014 Compared to 2013. At June 30, 2014, there was $4.6 billion of outstanding bonds and other long-term obligations, a net decrease of $221.8 million or 4.6 percent from the prior year. The decrease was primarily due to the pay down of bond principal and refunding transactions.

Fiscal Year 2013 Compared to 2012. At June 30, 2013, there was $4.8 billion in bonds outstanding and other long-term obligations, a net decrease of $172.8 million or 3.4 percent over the prior year. The decrease was primarily due to the paydown of bond principal and refunding transactions.

CREDIT RATINGS

Metropolitan's credit ratings at June 30, 2014, are shown below.

	Moody's Investors Service	Standard & Poor's	Fitch Ratings
General obligation bonds	Aaa	AAA	AAA
Water revenue bonds-fixed rate	Aa1	AAA	AA+
Water revenue bonds-variable rate	VMIG 1	A-1+	F1+

CURRENTLY KNOWN FACTS

California is currently facing one of the most severe droughts on record. Although it is not possible to forecast the impact of the current drought on Metropolitan water supplies or financial position, Metropolitan's current water storage levels and financial reserves make it well positioned to meet demands in 2014.

In addition, since its two principal sources of supply draw from two different watersheds, Metropolitan is able to utilize supplies from the Colorado River to offset reductions from the State Water Project, thereby buffering impacts of the drought. In 2015, Metropolitan plans to use Colorado River Aqueduct deliveries, storage reserves and supplemental water transfers and purchases to meet regional demands. Metropolitan is also working to carryover unused 2014 State Water Project supplies into 2015. Extraordinary operations to move Colorado River supplies throughout the distribution system will continue, and the Colorado River Aqueduct is anticipated to remain full in 2015. Moreover, Metropolitan will continue to aggressively pursue conservation into 2015. These measures will offset potentially low initial SWP supply allocations in 2015. Metropolitan also relies upon its Water Surplus and Drought Management Plan to identify resource actions in times of shortage and its Water Supply Allocation Plan for equitable distribution of available water supplies in case of extreme shortages. Should drought conditions continue through 2015, Metropolitan is prepared to implement the Water Supply Allocation Plan.

Finally, in March 2014, Metropolitan's board approved $20.0 million for conservation outreach and advertising in addition to the fiscal year 2015 budgeted $20.0 million for conservation outreach funding.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2014	2013
ASSETS AND DEFERRED OUTFLOWS		
Current Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $631,593 and $80,436 for 2014 and 2013, respectively)	**$ 632,137**	$ 80,145
Restricted (cost: $333,592 and $463,610 for 2014 and 2013, respectively)	**333,879**	461,933
Total cash and investments	**966,016**	542,078
Receivables:		
Water sales	**288,556**	256,803
Interest on investments	**3,999**	5,944
Other, net (Note 1e)	**15,389**	19,862
Total receivables	**307,944**	282,609
Inventories (Note 1f)	**97,140**	116,138
Deposits, deferred charges, and other (Note 11)	**2,565**	2,554
Total current assets	**1,373,665**	943,379
Noncurrent Assets:		
Cash and investments, at fair value (Notes 1b and 3):		
Unrestricted (cost: $380,316 and $607,723 for 2014 and 2013, respectively)	**380,643**	605,525
Restricted (cost: $160,882 and $165,831 for 2014 and 2013, respectively)	**170,061**	173,343
Total cash and investments	**550,704**	778,868
Capital assets (Note 2):		
Plant and equipment - non depreciable (Notes 1g and 9g)	**2,186,485**	2,086,955
Plant and equipment - depreciable (Notes 1g and 9g)	**8,267,398**	8,190,674
Participation rights in State Water Project (Notes 1h and 10)	**4,670,585**	4,564,940
Participation rights in other facilities (Notes 1h and 4)	**456,109**	456,109
Total capital assets	**15,580,577**	15,298,678
Less accumulated depreciation and amortization	**(5,475,974)**	(5,217,266)
Total capital assets, net	**10,104,603**	10,081,412
Other assets, net of current portion:		
Deposits, deferred charges, and other (Note 11)	**264,557**	297,173
Total other assets	**264,557**	297,173
Total noncurrent assets	**10,919,864**	11,157,453
Deferred Outflows:		
Loss on bond refundings	**99,787**	114,485
Loss on swap terminations	**43,316**	38,946
Effective swaps (Note 1o)	**30,679**	56,348
Total deferred outflows	**173,782**	209,779
Total Assets and Deferred Outflows	**$ 12,467,311**	$ 12,310,611

See accompanying notes to basic financial statements.

STATEMENTS OF NET POSITION

(Dollars in thousands)	June 30, 2014	2013
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable and accrued expenses (Note 1i)	**$ 155,430**	$ 104,354
Current portion of long-term debt (Notes 5 and 6)	**206,173**	273,101
Current portion of obligations for off-aqueduct power facilities (Notes 6 and 9f)	**4,062**	8,100
Current portion of accrued compensated absences (Notes 1j and 6)	**21,600**	18,600
Current portion of customer deposits and trust funds (Note 6)	**14,743**	15,833
Current portion of postemployment benefits other than pensions (Notes 6 and 8)	**79,457**	40,000
Current portion of workers' compensation and third party claims (Notes 6 and 14)	**15,500**	16,200
Current portion of other long-term obligations (Note 6)	**643**	57
Accrued bond interest	**79,272**	83,152
Matured bonds and coupons not presented for payment	**1,859**	1,878
Total current liabilities	**578,739**	561,275
Noncurrent Liabilities (Note 6):		
Long-term debt, net of current portion (Note 5)	**4,410,213**	4,565,078
Obligations for off-aqueduct power facilities, net of current portion (Note 9f)	**18,170**	22,083
Accrued compensated absences, net of current portion (Note 1j)	**24,802**	25,356
Customer deposits and trust funds, net of current portion	**66,550**	53,288
Postemployment benefits other than pensions, net of current portion (Note 8)	**55,866**	156,349
Workers' compensation and third party claims, net of current portion (Note 14)	**11,852**	11,039
Fair value of interest rate swaps (Note 5f)	**95,505**	112,759
Other long-term obligations, net of current portion	**4,650**	3,204
Total noncurrent liabilities	**4,687,608**	4,949,156
Total liabilities	**5,266,347**	5,510,431
Commitments and Contingencies (Note 9)	**—**	—
Net Position (Note 13):		
Net investment in capital assets, including State Water Project costs	**5,592,973**	5,399,453
Restricted for:		
Debt service	**171,595**	205,185
Other	**147,683**	170,138
Unrestricted	**1,288,713**	1,025,404
Total net position	**7,200,964**	6,800,180
Total Liabilities and Net Position	**$ 12,467,311**	$ 12,310,611

This page intentionally left blank.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended June 30,	
(Dollars in thousands)	**2014**	2013
Operating Revenues (Note 1c):		
Water sales	**$ 1,484,617**	$ 1,282,528
Readiness-to-serve charges	**154,000**	144,000
Capacity charge	**28,443**	28,704
Power sales	**14,625**	24,507
Total operating revenues	**1,681,685**	1,479,739
Operating Expenses:		
Power and water costs	**510,090**	371,270
Operations and maintenance	**439,667**	419,761
Total operating expenses	**949,757**	791,031
Operating income before depreciation and amortization	**731,928**	688,708
Less depreciation and amortization (Note 2)	**(261,516)**	(265,392)
Operating Income	**470,412**	423,316
Nonoperating Revenues (Expenses) (Note 1l)**:**		
Taxes, net (Note 1d)	**94,562**	94,803
Bond interest, net of $20,200 and $18,815 of interest capitalized in fiscal years 2014 and 2013, respectively (Note 1g)	**(146,689)**	(150,224)
Investment income (loss), net	**5,668**	(392)
Interest and adjustments on off-aqueduct power facilities obligations (Note 9f)	**(1,614)**	(2,143)
Other, net	**(23,731)**	6,095
Total nonoperating expenses, net	**(71,804)**	(51,861)
Income before Contributions	**398,608**	371,455
Capital contributions, net (Note 1k)	**2,176**	1,687
Change in net position	**400,784**	373,142
Net position, beginning of year	**6,800,180**	6,427,038
Net position, End of Year	**$ 7,200,964**	$ 6,800,180

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended June 30,	
(Dollars in thousands)	**2014**	2013
Cash Flows from Operating Activities:		
Cash received from water sales	**$ 1,367,602**	$ 1,184,987
Cash received from readiness-to-serve charges	**151,909**	144,985
Cash received from capacity charge	**27,909**	29,189
Cash received from power sales	**15,212**	26,251
Cash received from exchange transactions	**87,669**	65,935
Cash paid for operating and maintenance expenses	**(239,217)**	(192,462)
Cash paid to employees and for employee benefits	**(241,100)**	(192,589)
Cash paid for power and water costs	**(399,707)**	(404,622)
Other cash flows for operating activities	**(13,282)**	(18,678)
Net cash provided by operating activities	**756,995**	642,996
Cash Flows from Noncapital Financing Activities:		
Proceeds from other collections	**5,609**	7,960
SWAP termination payment	**(15,488)**	—
Net cash (used) provided by noncapital financing activities	**(9,879)**	7,960
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	**(188,024)**	(119,691)
Payments for State Water Project costs	**(106,568)**	(117,271)
Proceeds from long-term debt	**15,488**	—
Payments for bond issuance costs	**(3,160)**	(6,768)
Proceeds from capital grants	**64**	1,063
Principal paid on long-term debt	**(187,715)**	(149,250)
Interest paid on long-term debt	**(182,879)**	(176,308)
Payments for other long-term obligations	**(10,955)**	(13,996)
Proceeds from tax levy	**98,419**	96,491
Transfer (to) from escrow trust accounts	**(8,720)**	7,669
Payment of rebatable arbitrage	**(22)**	(6)
Collection of notes receivable - land sales	**139**	139
Net cash used by capital and related financing activities	**(573,933)**	(477,928)
Cash Flows from Investing Activities:		
Purchase of investment securities	**(7,340,245)**	(11,078,801)
Proceeds from sales and maturities of investment securities	**7,151,681**	10,895,943
Investment income	**15,688**	9,381
Net cash used by investing activities	**(172,876)**	(173,477)
Net change in cash and cash equivalents	**307**	(449)
Cash and cash equivalents, beginning of year	**150**	599
Cash and Cash Equivalents, End of Year (Note 1b)	**$ 457**	$ 150

See accompanying notes to basic financial statements.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Fiscal Year Ended June 30, 2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	**$ 470,412**	$ 423,316
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization expense	**261,516**	265,392
Increase in accounts receivable	**(25,335)**	(26,598)
Decrease (increase) in inventories	**18,998**	(4,238)
Decrease (increase) in deposits, deferred charges, and other	**32,605**	(29,925)
Increase (decrease) in accounts payable and accrued expenses	**51,076**	(11,886)
(Decrease) increase in other items	**(52,277)**	26,935
Total Adjustments	**286,583**	219,680
Net cash provided by operating activities	**$ 756,995**	$ 642,996
Significant Noncash Investing, Capital and Financing Activities		
Refunding bonds proceeds received in escrow trust fund	**$ 397,654**	$ 305,838
Debt defeased through escrow trust fund with refunding debt	**$ (377,210)**	$ (298,055)
Deferred gain (loss) on refunding debt	**$ 3,124**	$ (6,066)

RECONCILIATION OF CASH AND INVESTMENTS TO CASH AND CASH EQUIVALENTS

Unrestricted cash and investments (at June 30, 2014 and 2013 include $457 and $150 of cash, respectively)	**$ 1,012,780**	$ 685,670
Restricted cash and investments	**503,940**	635,276
Total cash and investments, at fair value	**1,516,720**	1,320,946
Less: carrying value of investments	**(1,516,263)**	(1,320,796)
Total Cash and Cash Equivalents (Note 1b)	**$ 457**	$ 150

This page intentionally left blank.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The Metropolitan Water District of Southern California (Metropolitan), a special district of the State of California, was organized in 1928 by vote of the electorates of several Southern California cities following adoption of the Metropolitan Water District Act (Act) by the California Legislature. Metropolitan's primary purposes under the Act are to develop, store and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. Surplus water is sold for other beneficial uses, including agricultural use. Metropolitan's service area comprises approximately 5,200 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura. There are 26 independent member agencies of Metropolitan, consisting of 14 cities, 11 municipal water districts, and one county water authority. Metropolitan has no financial accountability for its member agencies. Metropolitan is governed by a 37-member Board of Directors (Board) comprised of representatives of the member agencies. Representation and voting rights are based on assessed valuations of property. Each member agency is entitled to have at least one representative on the Board plus an additional representative for each full five percent of the assessed valuation of real property within the jurisdictional boundary of each member agency. Changes in relative assessed valuation do not terminate any director's term. Accordingly, the Board may, from time to time, have more than 37 directors. No single member agency has a voting majority.

The Metropolitan Water District Asset Financing Corporation (MWDAFC) was incorporated on June 19, 1996. The MWDAFC is a California nonprofit public benefit corporation formed to assist Metropolitan by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by Metropolitan and leasing or selling such property to Metropolitan. The MWDAFC is governed by a board of five directors, each of whom must be a member of Metropolitan's Board. MWDAFC had no financial operations during fiscal years 2014 or 2013. MWDAFC is a component unit of Metropolitan and its activities will be blended with those of Metropolitan for financial reporting purposes should it commence operations.

(b) Principles of Presentation

Metropolitan operates as a utility enterprise and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

Metropolitan is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting.

For purposes of the statements of cash flows, Metropolitan defines cash and cash equivalents as demand account balances, cash on hand, and non-negotiable time deposits.

All investments are stated at fair value, which is based on quoted market price or amortized cost, which approximates fair value.

Certain amounts reported in fiscal year 2013 have been reclassified to conform to the fiscal year 2014 presentation. Such reclassification had no effect on the previously reported change in net position.

(c) Revenue Policies

Metropolitan's principal source of revenue is from water sales, which include revenues received from charges for the sale and availability of water, including water rates and exchange transactions. Other sources of operating revenue include readiness-to-serve charges, capacity charge, and hydroelectric power sales. Other revenues include ad valorem property taxes and investment income.

Water rates are established by the Board on a biennial basis. Water rates are supported by cost of service studies. Water rates are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Water is delivered to the member agencies on demand and revenue is recognized at the time of sale.

Metropolitan's rate structure includes separate rates for supply, treatment, conveyance and distribution, power, and demand management. It is designed to improve regional water resources management and accommodate a water transfer market. The rate structure also includes tiered pricing for supply, a capacity charge, and a readiness-to-serve charge.

(d) Taxing Authority

Metropolitan is expressly empowered under the Act to levy and collect taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. Property taxes are levied annually by the Board as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments that are due on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Property taxes levied by Metropolitan are billed and collected by the counties in its service area and are remitted to Metropolitan periodically throughout the year.

Property tax revenue is used to pay Metropolitan's general obligation bond debt service and a portion of its obligations under its contract with the state for a water supply (the State Water Contract). In setting the annual levy, Metropolitan takes into account potential delinquencies, tax allocations to the successor agencies of former redevelopment agencies, and supplemental tax collections. Metropolitan recognizes property taxes receivable on July 1 of each fiscal year and recognizes revenue over the following 12-month period beginning July 1 through June 30 (the period for which the tax is levied).

As a result of legislation enacted in 1984, tax levies in fiscal year 1991 and subsequent years, other than annexation taxes, have been limited to the amount needed to pay debt service on Metropolitan's general obligation bonds and Metropolitan's proportionate share of general obligation bond debt service of the state under the State Water Contract. However, under the terms of the 1984 legislation, the Board may suspend this particular restriction upon a finding that doing so is essential to Metropolitan's fiscal integrity. During fiscal years 2014 and 2013, the Board suspended the tax rate limitations and maintained the tax rate for fiscal years 2014 and 2015 to pay a portion of State Water Contract costs other than debt service.

(e) Other Receivables

Other receivables include amounts for taxes, hydroelectric power sales, readiness-to-serve charges, and other billings.

(f) Inventories

Metropolitan's inventories are valued based on a moving-average cost. Expenditures are recorded when inventories are used. Components of inventories at June 30, 2014 and 2013 were as follows:

	June 30,			
(Dollars in thousands)		**2014**		2013
Water in storage	**$**	**86,592**	$	104,617
Operating supplies		**10,548**		11,521
Total inventories	**$**	**97,140**	$	116,138

(g) Plant and Equipment

Metropolitan's capital assets include plant and equipment, which are recorded at cost. Construction costs are capitalized if they exceed $50,000 and the asset has a useful life of at least five years. The cost of constructed assets may include labor, materials, certain general and administrative expenses, and interest incurred during construction periods. Depreciation is calculated using the straight-line method based on the estimated average useful lives of the assets, which are 25 to 80 years for storage and distribution facilities, 25 to 50 years for treatment plants and hydroelectric power recovery facilities, and 10 to 50 years for miscellaneous assets. Improvements or refurbishments with aggregated costs that meet capitalization thresholds and that extend the useful life of an existing asset by at least five years are capitalized.

Major computer systems software, whether purchased or internally developed, is capitalized if the cost exceeds $250,000 and the useful life is at least three years. Vehicles and operating equipment are capitalized if the cost equals or exceeds $5,000 and the useful life is at least four years. Depreciation is calculated using the straight-line method based on the estimated useful lives and ranges from 3 to 10 years for major computer systems software and 4 to 10 years for vehicles and operating equipment.

(h) Participation Rights

Metropolitan participates in various storage and water management programs entitling it to certain water rights. Projects include the State Water Project (SWP) and various storage and water management programs. Metropolitan's participation in these projects is through cash payments. The value of participation rights is equal to the amounts spent for the construction of capital assets, such as pipelines, pumping facilities, and storage facilities, and amortized over the life of the agreements. These assets are not owned by Metropolitan. Certain projects also require payments for ongoing maintenance; those payments are charged to expense as incurred. (See Notes 2, 4, and 10.)

(i) Disaggregation of Payable Balances

Accounts payable and accrued expenses at June 30, 2014 and 2013 were as follows:

	June 30,	
(Dollars in thousands)	**2014**	2013
Department of Water Resources (State Water Project):		
Capital, operating, maintenance, power, replacement, and variable power	**$ 90,221**	$ 53,448
Vendors	**41,262**	31,784
Accrued power costs	**3,948**	2,029
Accrued salaries	**4,624**	3,667
Readiness-to-serve overcollection	**1,403**	2,717
Conservation credits	**13,972**	10,709
Total accounts payable and accrued expenses	**$ 155,430**	$ 104,354

(j) Compensated Absences

Metropolitan's employees earn vacation, sick, and compensatory leave in varying amounts depending primarily on length of service. Upon termination from Metropolitan service, employees are entitled to full payment for accrued vacation and compensatory leave at their final pay rates, and are entitled to payment for approximately one-half of their accrued sick leave at such rates. Metropolitan records its obligations for vacation, sick, and compensatory leave earned by eligible employees based on current pay rates. The allocations to the current and long-term portions of these vested obligations were based on experience and projections of turnover.

(k) Capital Contributions

Capital contributions are comprised of federal, state, and private grants. These grants are typically of a reimbursable nature: Metropolitan first pays for the project and then the granting agency reimburses Metropolitan for its eligible expenses. The portion of the grants restricted for capital purposes are reflected as capital contributions in the statements of revenues, expenses and changes in net position when they are earned, irrespective of the timing of the receipts. Examples of capital projects where grants are received include water treatment plant improvements, such as fluoridation, and water storage programs.

(l) Operating and Nonoperating Revenues and Expenses

Metropolitan's primary purpose is to provide a supplemental supply of water for domestic and municipal uses. Accordingly, Metropolitan defines operating revenues as water sales, readiness-to-serve charges, capacity charge, and hydroelectric power sales. Operating expenses include the cost of sales and services, administrative expenses, and depreciation and amortization of capital assets.

Revenues from property taxes and investment income, as well as interest expense on outstanding debt, are related to capital and financing activities and are defined as nonoperating revenues and expenses.

(m) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is Metropolitan's practice to use restricted resources first, then unrestricted resources as they are needed.

(n) Use of Estimates

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Deferred Outflows and Implementation of Accounting Principle

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63) requires that the difference between assets and liabilities be reported as net position. In addition, the impact of a deferred outflow of resources on net position must be explained as is done in the following paragraph.

The unrestricted net position amount of $1,288.7 million and $1,025.4 million at June 30, 2014 and 2013, respectively, includes the effect of deferring the recognition of losses from the decline in fair value of Metropolitan's interest rate swaps. The deferred outflows of $30.7 million and $56.3 million at June 30, 2014 and 2013, respectively, would be recognized as an investment loss upon the early termination of the swaps. Metropolitan will only terminate its interest rate swap agreements in advance of the contractual termination dates if market conditions permit. The deferred outflow also would be recognized as an investment loss if the swaps were determined no longer to be effective hedges. Finally, if the bond associated with a swap is refunded, the deferred outflow would be reduced and the deferred loss on refunding increased by the same amount. The deferred loss on refunding would be amortized as a component of interest expense over the life of the old debt or the new debt, whichever is shorter.

(p) Bond Issuance and Marketing Costs and Implementation of Accounting Principle

GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities* (GASB 65) 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. GASB 65 requires debt issuance costs (except prepaid insurance costs) to be recognized as an expense in the period incurred and reclassifies deferred gains and losses on refundings as deferred outflows or deferred inflows of resources. Previously, these costs were amortized over the life of the related debt issuance. Metropolitan implemented GASB 65 in fiscal year 2013.

(q) New Accounting Pronouncements

Management has evaluated new accounting pronouncements and determined that GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68) will have an impact on Metropolitan's basic financial statements. The provisions of this statement are required to be implemented in fiscal year 2015. This statement provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability. Governments will now be required to report that amount as a liability in their basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. The statement requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. The provisions of this statement are effective for basic financial statements for periods beginning after June 15, 2014, which requires Metropolitan to implement this statement in fiscal year 2015.

2. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2014 and 2013 was as follows:

(Dollars in thousands)	June 30, 2012	Additions
Capital assets not being depreciated:		
Land, easements and rights of way	$ 554,402	$ 1,982
Construction in progress	1,585,725	151,474
Total capital assets not being depreciated	2,140,127	153,456
Other capital assets:		
Parker power plant and dam	13,009	—
Power recovery plants	176,752	302
Other dams and reservoirs	1,435,140	694
Water transportation facilities	3,177,220	151,816
Pumping plants and facilities	228,508	1,293
Treatment plants and facilities	1,994,081	43,938
Power lines and communication facilities	33,517	—
Computer systems software	97,875	2,205
Miscellaneous	700,985	345
Major equipment	83,193	7,152
Pre-operating interest and other expenses of original aqueduct	44,595	—
Participation rights in State Water Project (Note 10)	4,449,084	164,348
Participation rights in other facilities (Note 4)	456,109	—
Total other capital assets at historical cost	12,890,068	372,093
Accumulated depreciation and amortization:		
Parker power plant and dam	(10,542)	(163)
Power recovery plants	(78,261)	(3,554)
Other dams and reservoirs	(248,974)	(17,904)
Water transportation facilities	(647,186)	(46,173)
Pumping plants and facilities	(69,039)	(2,946)
Treatment plants and facilities	(460,789)	(38,778)
Power lines and communication facilities	(8,817)	(412)
Computer systems software	(81,797)	(6,479)
Miscellaneous	(123,927)	(17,400)
Major equipment	(70,633)	(5,019)
Pre-operating interest and other expenses of original aqueduct	(35,276)	(1,036)
Participation rights in State Water Project (Note 10)	(2,997,022)	(111,952)
Participation rights in other facilities (Note 4)	(121,482)	(13,651)
Total accumulated depreciation and amortization	(4,953,745)	(265,467)
Other capital assets, net	7,936,323	106,626
Total capital assets, net	$ 10,076,450	$ 260,082

Depreciation and amortization was charged as follows:
Depreciation of water related assets
Amortization of participation rights in State Water Project (Note 10)
Amortization of participation rights in other facilities (Note 4)
Depreciation and amortization expense related to capital assets
Plus: Net retirements adjusted to expense
Total depreciation and amortization expense

Reductions	June 30, 2013	**Additions**	**Reductions**	**June 30, 2014**
$ (683)	$ 555,701	**$ —**	**$ (1,158)**	**$ 554,543**
(205,945)	1,531,254	**196,114**	**(95,426)**	**1,631,942**
(206,628)	2,086,955	**196,114**	**(96,584)**	**2,186,485**
—	13,009	**—**	**—**	**13,009**
—	177,054	**1,582**	**—**	**178,636**
—	1,435,834	**—**	**—**	**1,435,834**
—	3,329,036	**35,057**	**—**	**3,364,093**
—	229,801	**10,706**	**—**	**240,507**
—	2,038,019	**21,309**	**—**	**2,059,328**
—	33,517	**—**	**—**	**33,517**
—	100,080	**1,977**	**—**	**102,057**
—	701,330	**3,170**	**—**	**704,500**
(1,946)	88,399	**5,731**	**(2,808)**	**91,322**
—	44,595	**—**	**—**	**44,595**
(48,492)	4,564,940	**164,979**	**(59,334)**	**4,670,585**
—	456,109	**—**	**—**	**456,109**
(50,438)	13,211,723	**244,511**	**(62,142)**	**13,394,092**
—	(10,705)	**(163)**	**—**	**(10,868)**
—	(81,815)	**(3,594)**	**—**	**(85,409)**
—	(266,878)	**(17,867)**	**—**	**(284,745)**
—	(693,359)	**(42,200)**	**—**	**(735,559)**
—	(71,985)	**(3,178)**	**—**	**(75,163)**
—	(499,567)	**(41,696)**	**—**	**(541,263)**
—	(9,229)	**(412)**	**—**	**(9,641)**
—	(88,276)	**(6,178)**	**—**	**(94,454)**
—	(141,327)	**(17,432)**	**—**	**(158,759)**
1,946	(73,706)	**(4,711)**	**2,808**	**(75,609)**
—	(36,312)	**(1,035)**	**—**	**(37,347)**
—	(3,108,974)	**(109,399)**	**—**	**(3,218,373)**
—	(135,133)	**(13,651)**	**—**	**(148,784)**
1,946	(5,217,266)	**(261,516)**	**2,808**	**(5,475,974)**
(48,492)	7,994,457	**(17,005)**	**(59,334)**	**7,918,118**
$ (255,120)	$ 10,081,412	**$ 179,109**	**$ (155,918)**	**$ 10,104,603**
	$ 139,864			**$ 138,466**
	111,952			**109,399**
	13,651			**13,651**
	265,467			**261,516**
	(75)			**—**
	$ 265,392			**$ 261,516**

3. CASH AND INVESTMENTS

As a public agency, Metropolitan's investment practices are prescribed by various provisions of the California Government Code and the Act, as well as by administrative policies. Metropolitan's statement of investment policy is approved annually by the Board and describes the Treasurer's investment authority, practices, and limitations. The basic investment policy objectives, in order of importance, are safety of principal, liquidity, and return on investment.

Cash and investments may or may not be restricted as to use, depending on the specific purposes for which such assets are held (see Notes 3d and 13).

A summary of Metropolitan's deposit and investment policies, information on interest and credit risks, and restricted cash and investments is provided below.

(a) Deposits

The California Government Code requires California banks and savings and loan associations to secure a local government agency's deposits by pledging government securities as collateral.

As of June 30, 2014 and 2013, Metropolitan's deposits with financial institutions were $452,000 and $145,000 respectively, and cash on hand was $5,000 at each year-end.

(b) Investments

Metropolitan is permitted by State law and Board policy to invest in a variety of instruments including U.S. Treasury securities, federal agencies, repurchase agreements, negotiable certificates of deposit, bankers' acceptances, prime commercial paper, asset and mortgage-backed securities, California local agency securities, including securities issued by Metropolitan, corporate notes, time deposits, investment contracts, shares of beneficial interest, and Local Agency Investment Fund (LAIF). As of June 30, 2014 and 2013, Metropolitan had the following investments at fair value:

	June 30,	
(Dollars in thousands)	**2014**	2013
U.S. Treasury securities	**$ 233,927**	$ 215,837
U.S. Guarantees – GNMA's	**9**	11
Federal agency securities	**266,892**	448,694
Bankers' acceptances	**277**	116
Prime commercial paper	**318,146**	174,179
Corporate notes	**174,740**	98,303
Negotiable certificates of deposit	**332,938**	168,917
Shares of beneficial interest	**1,082**	409
Asset and mortgage-backed securities	**66,734**	66,194
Municipal bonds	**71,518**	101,721
Local Agency Investment Fund	**50,000**	46,415
Total investments	**$ 1,516,263**	$ 1,320,796

Interest rate risk. In accordance with Metropolitan's investment policy, interest rate risk was managed by limiting the duration of the various portfolio segments. Each segment has limitations on the amount of duration exposure (see the following for specific durations).

Internally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch 3-Month Treasury Bill Index, approved by the Finance and Insurance Committee. For fiscal years 2014 and 2013, the benchmark duration was 0.24 and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 0.20. As of June 30, 2014 and 2013, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2014		2013	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 14,927**	**5.17**	$ 10,037	7.92
Federal agency securities	**246,324**	**0.31**	416,002	0.24
Bankers' acceptances	**277**	**0.07**	116	0.01
Prime commercial paper	**318,146**	**0.04**	174,179	0.01
Corporate notes	**113,484**	**0.15**	36,382	0.06
Negotiable certificates of deposits	**332,938**	**0.08**	168,917	0.01
Municipal bonds	**995**	**0.11**	17,474	0.07
Local Agency Investment Fund	**50,000**	**—**	46,415	—
Weighted average duration		**0.19**		0.21

Externally Managed Segment

This segment of the portfolio was managed against the Bank of America Merrill Lynch, U.S. Corporate and Government, one to five years, A-Rated and above index approved by the Finance and Insurance Committee. For fiscal years 2014 and 2013, the benchmark durations were 2.72 and 2.74, respectively, and the portfolio weighted average duration was permitted to vary from the duration by plus or minus 1.50. As of June 30, 2014 and 2013, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2014		2013	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 190,919**	**2.59**	$ 168,729	2.35
U.S. Guarantees – GNMA's	**9**	**6.29**	11	4.65
Federal agency securities	**12,417**	**4.69**	28,190	4.34
Corporate notes	**59,751**	**3.25**	61,521	2.86
Shares of beneficial interest	**1,082**	**—**	409	—
Asset and mortgage-backed securities	**66,734**	**3.25**	66,194	2.72
Weighted average duration		**2.91**		2.69

Bond Reserves and Lake Mathews Segment

Investments in the bond reserves were managed based on the requirements, of each of the bond issues. The Lake Mathews trust funds were managed in a manner that preserved the principal and provided the necessary liquidity to pay its operating expenses. Per Board authorization, the Treasurer was authorized to invest these monies in excess of five years. As of June 30, 2014 and 2013, Metropolitan's investments and portfolio durations for this segment were as follows:

	June 30,			
	2014		2013	
(Dollars in thousands)	**Fair value**	**Duration**	Fair value	Duration
U.S. Treasury securities	**$ 28,081**	**7.30**	$ 37,071	6.41
Federal agency securities	**8,151**	**2.08**	4,502	0.30
Corporate notes	**1,505**	**0.20**	400	0.04
Municipal bonds	**70,523**	**8.20**	84,247	7.66
Weighted average duration		**7.39**		7.01

Credit risk. Credit risk was managed by purchasing investments with the nationally recognized credit ratings specified in Metropolitan's investment policy. Additionally, the policy required monitoring the credit ratings of securities held in the portfolio, and if the securities' credit ratings were downgraded, evaluating for potential sale. For certain securities, additional requirements included consideration of net worth, length of time in business, and specified market values.

Presented in the following table is the minimum rating required, if applicable, by investment type pursuant to Metropolitan's investment policy

Investment Type	Minimum Rating
U.S. Government and agencies	Not applicable.
Bankers' acceptances Prime commercial paper Negotiable certificates of deposit Time deposits	Prime quality of the highest ranking or highest letter and numerical rating ('A1', 'P1', 'F1' or higher) as provided by Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings. Credit requirement may be waived for the maximum deposit that is insured by the Federal Deposit Insurance Corporation.
Repurchase agreements	Only with primary dealers in government securities or financial institutions with a Moody's Investors Service, Inc. or equivalent rating of 'A' or better.
Investment contracts	Not applicable. Limited to guaranteed investment contracts, or agreements collateralized with U.S. Treasury or agency securities.
Corporate notes	Rating category of at least 'A' or better, or the equivalent, by a nationally recognized rating agency.
Asset and mortgage-backed securities	Issuer's debt must be rated 'A' or higher as provided by a nationally recognized rating agency and the security must be rated in a category of 'AAA' by a nationally recognized rating agency.
Local Agency Investment Fund	Not applicable.
Shares of beneficial interest	Highest ranking of the highest letter and numerical rating provided by not less than two nationally recognized rating agencies.
California local agency securities Municipal bonds	Securities with a maturity in excess of five years must have a credit rating of at least 'AA' (may be insured) and an underlying credit rating of 'A' or better by a nationally recognized rating agency.

Metropolitan's minimum rating for assets and mortgage-backed securities of 'AAA' is more restrictive than the California Government Code requirement of 'AA'.

At June 30, 2014 and 2013, Metropolitan's portfolio was invested in the following securities by rating:

(Dollars in thousands)	Rating	June 30, 2014 Fair value	June 30, 2013 Fair value
U.S. Treasury securities	AAA[1]	**$ 233,927**	$ 215,837
U.S. Guarantees – GNMA's	AAA	**9**	11
Federal agency securities	AAA[1] [2]	**266,892**	448,694
Shares of beneficial interest	AAA	**1,082**	409
Asset and mortgage-backed securities	AAA	**66,734**	66,194
Corporate notes	A[3] [4]	**174,740**	98,303
Prime commercial paper	A1/P1[3]	**318,146**	174,179
Negotiable certificates of deposits	F1[3]	**332,938**	168,917
Bankers' acceptances	F1[3]	**277**	116
Municipal bonds	A[3]	**71,518**	101,721
Local Agency Investment Fund	[5]	**50,000**	46,415
Total portfolio		**$ 1,516,263**	$ 1,320,796

(1) United States Treasuries and Federal Agencies are rated "AAA" by two nationally recognized rating agencies and "AA" by one nationally recognized rating agency.

(2) Included $0.0 and $7.2 million posted as collateral with Morgan Stanley, pursuant to various agreements, at June 30, 2014 and 2013, respectively.

(3) A or better e.g. F1+, A1+, AA, or AAA.

(4) Included security, Hartford Life, "A3" and "BBB+", with fair value $2.2 million and book value $2.2 million, rated by Moody's and Standard & Poor's, respectively, in fiscal year 2013.

(5) Local Agency Investment Fund is not rated.

Concentration of credit risk. In accordance with Metropolitan's investment policy, the minimum requirements for limiting concentration of credit risk defined the maximum percent allowable for investment in each security type as well as the percent allowable for investment by issuer per type. Generally, the maximum allowable for investment by security type varied from 20 percent, for asset and mortgage-backed securities, to 100 percent for U.S. Treasury and agency securities. The percentages of investments that can be purchased by a single issuer, within each security type, ranged from 5 percent, for asset-backed securities, to 10 percent for bankers' acceptances.

The following table identifies Metropolitan's limits and the percent invested by security type based on fair value, as of June 30, 2014 and 2013.

	Investment Policy Limits	Percent of Portfolio 2014	Percent of Portfolio 2013
U.S. Treasury securities	100%	**15.43 %**	16.34 %
U.S. Guarantees – GNMA's	100%	—	—
Federal agency securities	100%	**17.60**	33.97
Shares of beneficial interest	20%	**0.07**	0.03
Asset and mortgage-backed securities	20%	**4.40**	5.01
Corporate notes	30%	**11.52**	7.44
Prime commercial paper	25%	**20.98**	13.19
Negotiable certificates of deposits	30%	**21.96**	12.79
Bankers' acceptances	40%	**0.02**	0.01
Municipal bonds	30%	**4.72**	7.70
Local Agency Investment Fund	N/A	**3.30**	3.52
Total portfolio		**100.00 %**	100.00 %

At June 30, 2014 and 2013, Metropolitan had the following investments (obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government not listed) representing five percent or more of its net investments:

	June 30,							
(Dollars in thousands)		**2014**				2013		
Federal National Mortgage Association	**$**	**184,475**	**12.25**	**%**	$	208,355	15.82	%
Federal Home Loan Mortgage Corporation	**$**	**—**	**—**	**%**	$	197,645	15.00	%

Custodial credit risk. At June 30, 2014 and 2013, Metropolitan's investments were insured, registered or held, in Metropolitan's name, in safekeeping at Metropolitan's bank, which was not a counterparty to the investment transactions. The exceptions were $50.0 million and $46.4 million in deposits in the California State managed LAIF as of June 30, 2014 and 2013, respectively; and $0.0 and $7.2 million posted as collateral with Morgan Stanley, pursuant to various swap agreements, at June 30, 2014 and 2013, respectively.

The LAIF, created by California statute, is part of a pooled money investment account. The LAIF has oversight by the Local Investment Advisory Board, which consists of five members designated by statute. The Chairman is the State Treasurer, or his designated representative. Securities held with Morgan Stanley are required pursuant to various swap agreements.

(c) Reverse Repurchase Agreements

Metropolitan was permitted, subject to conditions imposed by State law, to sell securities owned under written agreements and to buy back the securities on or before a specified date for a specified amount. No such reverse repurchase agreements were entered into during the fiscal years ended June 30, 2014 and 2013.

(d) Restricted Cash and Investments

Metropolitan has established a number of separate accounts, also referred to as funds, to provide for specific activities in accordance with special regulations, bond covenants, and trust arrangements. The accounts were classified as "restricted." Most restricted accounts had the minimum cash and investment balance requirements and all were nondiscretionary in terms of the use of assets. Among other things, the restricted amounts provided for payments of debt service on Metropolitan's bonds; reserves for principal and interest on outstanding bonds; payments for arbitrage tax rebate; construction of capital assets; payment of Metropolitan's operations and maintenance expenses; and payment of the costs related to the closure and postclosure maintenance of Metropolitan's solid waste landfill facility.

4. PARTICIPATION RIGHTS

Participation rights activity for the fiscal years ended June 30, 2014 and 2013 was as follows:

(Dollars in thousands)	June 30, 2012	Additions
Participation rights:		
Imperial Irrigation District	$ 112,313	$ —
Palo Verde Irrigation District	82,804	—
Kern Water District	39,007	—
South County Pipeline	72,371	—
Semitropic Water Storage District	31,319	—
Arvin-Edison Water Storage District	47,187	—
Chino Basin	27,500	—
Orange County	23,000	—
Conjunctive use programs	20,608	—
Total	456,109	—
Accumulated amortization:		
Imperial Irrigation District	(45,341)	(2,270)
Palo Verde Irrigation District	(17,019)	(2,342)
Kern Water District	(4,256)	(2,172)
South County Pipeline	(17,634)	(912)
Semitropic Water Storage District	(12,342)	(814)
Arvin-Edison Water Storage District	(12,951)	(1,467)
Chino Basin	(4,725)	(1,454)
Orange County	(3,883)	(1,195)
Conjunctive use programs	(3,331)	(1,025)
Total	(121,482)	(13,651)
Participations rights, net	$ 334,627	$ (13,651)

Reductions	June 30, 2013	**Additions**	**Reductions**	**June 30, 2014**
$ —	$ 112,313	**$ —**	**$ —**	**$ 112,313**
—	82,804	**—**	**—**	**82,804**
—	39,007	**—**	**—**	**39,007**
—	72,371	**—**	**—**	**72,371**
—	31,319	**—**	**—**	**31,319**
—	47,187	**—**	**—**	**47,187**
—	27,500	**—**	**—**	**27,500**
—	23,000	**—**	**—**	**23,000**
—	20,608	**—**	**—**	**20,608**
—	456,109	**—**	**—**	**456,109**
—	(47,611)	**(2,271)**	**—**	**(49,882)**
—	(19,361)	**(2,342)**	**—**	**(21,703)**
—	(6,428)	**(2,171)**	**—**	**(8,599)**
—	(18,546)	**(913)**	**—**	**(19,459)**
—	(13,156)	**(813)**	**—**	**(13,969)**
—	(14,418)	**(1,468)**	**—**	**(15,886)**
—	(6,179)	**(1,453)**	**—**	**(7,632)**
—	(5,078)	**(1,195)**	**—**	**(6,273)**
—	(4,356)	**(1,025)**	**—**	**(5,381)**
—	(135,133)	**(13,651)**	**—**	**(148,784)**
$ —	$ 320,976	**$ (13,651)**	**$ —**	**$ 307,325**

(a) Imperial Irrigation District

In December 1988, Metropolitan and the Imperial Irrigation District (IID) entered into a water conservation agreement that became effective in December 1989. Under the terms of the conservation agreement, Metropolitan paid for capital costs and continues to pay annual costs for specific conservation projects within IID. From 1998 to 2003, Metropolitan diverted from the Colorado River a quantity of water equal to the amount of water conserved by the conservation projects, which totaled between 104,940 and 109,460 acre-feet annually. Under the October 2003 amendment to an agreement and at the request of the Coachella Valley Water District (CVWD), 20,000 acre-feet of the total conserved volume was made available to CVWD. Under the May 2007 amendment to the agreement, at least 85,000 and 98,307 acre-feet will be/was available in calendar years 2014 and 2013, respectively (see Note 9c). The water must be used in the calendar year the water is conserved, unless stored in a Colorado River reservoir pursuant to a separate agreement.

As capital projects were completed, the costs contributed by Metropolitan were capitalized as participation rights in Metropolitan's accounting records. The construction phase of this program was completed as of September 30, 1998, and the operation and maintenance phase commenced on October 1, 1998. The October 2003 amendment to the agreement extended the term through December 31, 2041 or 270 days beyond the termination of the Quantification Settlement Agreement plus any extension applicable over the agreement (see Note 9e).

Participation rights for this project totaled $112,313,000 as of June 30, 2014 and 2013, and are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2,271,000 and $2,270,000 in fiscal years 2014 and 2013, respectively.

(b) Palo Verde Irrigation District

In August 2004, Metropolitan entered into an agreement with Palo Verde Irrigation District (PVID) to implement a 35-year land management and crop rotation program. This fallowing program commenced in January 2005 and will extend through July 2040 and will make available up to 130,000 acre-feet of water in certain years for transfer to Metropolitan from PVID.

Under the terms of the agreement, Metropolitan paid for all program start-up costs that have been capitalized as participation rights. These costs included sign-up payments to individual landowners, funding for a community improvement program and program setup costs.

Participation rights for this program totaled $82,804,000 as of June 30, 2014 and 2013, and are being amortized using the straight-line method over 35 years. Amortization expense totaled $2,342,000 in fiscal years 2014 and 2013.

(c) Kern Delta Water District

Metropolitan entered into an agreement with the Kern Delta Water District for the development of a water management program. The agreement includes a Regulation Program and a Transportation Program. Under the terms of the Regulation Program, Kern Delta will regulate the storage and delivery for Metropolitan of up to 250,000 acre-feet of water and currently has 162,963 acre-feet in the program. The program is intended to provide a minimum recharge and return capability of 50,000 acre-feet annually. Construction of infrastructure is required in order to meet the program's dry year minimum return. The transportation program provides Metropolitan with priority rights to convey water acquired by Metropolitan from third parties through the Kern-Delta facilities to the California Aqueduct for ultimate delivery to Metropolitan. This program terminates on December 31, 2029. The facilities became operational in June 2010.

Participation rights for the Kern Delta totaled $39,007,000 as of June 30, 2014 and 2013, and are being amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $2,171,000 and $2,172,000 in fiscal years 2014 and 2013, respectively.

(d) South County Pipeline

In 1989, Metropolitan entered into an agreement with two member agencies and one of their subagencies to participate in the construction of an upsized version of a 26-mile long pipeline serving the south Orange County portion of its service area. Participation in this project provides Metropolitan capacity to transport its water in the central part of its service area.

Participation rights for this project totaled $72,371,000 as of June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over 80 years, which is the life of the agreement. Amortization expense totaled $913,000 and $912,000 in fiscal years 2014 and 2013, respectively.

(e) Semitropic Water Storage District

In December 1994, Metropolitan entered into a water banking and exchange program with Semitropic Water Storage District and its improvement districts that entitles it to storage, withdrawal, and exchange rights for its State Water Project supplies. The agreement terminates in November 2035.

In 1999, Metropolitan became fully vested for 35 percent of the one million acre-foot banking project. Metropolitan has a storage allocation of 350,000 acre-feet and currently has 224,483 acre-feet in the program. Metropolitan is entitled to a minimum of 31,500 acre-feet per year of pump back capacity. In addition, assuming a 100 percent State Water Project allocation, Metropolitan is entitled to a minimum of 46,550 acre-feet per year of entitlement exchange rights. Finally, Metropolitan has the ability to use other banking partners' rights when they are not being used. As a result, the potential maximum return capability for Metropolitan is estimated at 223,000 acre-feet per year assuming a 100 percent State Water Project allocation and usage of the other banking partners' rights.

Participation rights for this program totaled $31,319,000 as of June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $813,000 and $814,000 in fiscal years 2014 and 2013, respectively.

(f) Arvin-Edison Water Storage District

In December 1997, Metropolitan entered into an agreement for a water management program with Arvin-Edison Water Storage District (Arvin-Edison). The agreement includes a regulation program, a transportation program, and a water quality exchange program. Under the terms of the regulation program, Arvin-Edison will regulate the storage and delivery for Metropolitan of up to 350,000 acre-feet of water and currently has 183,705 acre-feet in the program. The minimum estimated return capability for the Arvin-Edison program varies from 40,000 acre-feet per year to 75,000 acre-feet per year depending on hydrologic/groundwater conditions. Return water will be delivered to Metropolitan upon request through a new intertie pipeline to the California Aqueduct and by exchange of existing Arvin-Edison supplies in the California Aqueduct. In 2008, Metropolitan amended the agreement to construct the south canal improvement project that will improve the operational flexibility of the program as well as increase the ability to return high quality water to the California Aqueduct. The project was completed in early 2009. The agreement terminates on November 4, 2035 with provisions for automatic extension if all stored water has not been returned.

The agreement also provides a transportation program whereby Metropolitan is provided priority rights to convey water acquired by Metropolitan from third parties through the Arvin-Edison facilities to the California Aqueduct for ultimate delivery to Metropolitan.

Participation rights for the Arvin-Edison program totaled $47,187,000 as of June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over the longer life of the transportation program. Amortization expense totaled $1,468,000 and $1,467,000 in fiscal years 2014 and 2013, respectively.

(g) Chino Basin

In June 2003, Metropolitan entered into a groundwater storage agreement with Inland Empire Utilities Agency, Three Valleys Municipal Water District, and the Chino Basin Watermaster. Under the terms of the agreement, Metropolitan may store up to 25,000 acre-feet per year to a maximum of 100,000 acre-feet and may withdraw up to 33,000 acre-feet per year for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2014, Metropolitan had no water in storage. The agreement terminates on March 1, 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Chino basin groundwater storage program totaled $27,500,000 as of June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1,453,000 and $1,454,000 in fiscal years 2014 and 2013, respectively.

(h) Orange County

In 2003, Metropolitan entered into a groundwater storage agreement with the Orange County Water District and the Municipal Water District of Orange County to allow Metropolitan to store 66,000 acre-feet in the Orange County Basin. Metropolitan may store up to 16,500 acre-feet per year and withdraw up to 22,000 acre-feet for overlying demand during dry, drought, or emergency conditions. The facilities became operational during fiscal year 2009. As of June 2014, Metropolitan had 42,639 acre-feet in storage. The program included the construction of wells and barrier improvements for protection of groundwater supplies from seawater intrusion. The agreement terminates in June 2028, unless the parties agree to extend for an additional maximum period of 25 years.

Participation rights in the Orange County groundwater storage program totaled $23,000,000 as of June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over the remaining life of the agreement. Amortization expense totaled $1,195,000 in fiscal years 2014 and 2013.

(i) Conjunctive Use Programs

Conjunctive use is the operation of a groundwater basin in coordination with a surface water system to increase total water supply availability, thus improving the overall reliability of supplies. Metropolitan has entered into seven agreements with its member agencies for conjunctive use programs whereby Metropolitan provides funding for construction of water storage and related facilities in exchange for water storage and withdrawal rights. The conjunctive use programs were funded with State Proposition 13 grant dollars. The seven projects are with Long Beach, Long Beach-Lakewood, Compton, Three Valleys, Three Valleys MWD-La Verne, Foothill MWD, and Western MWD-Elsinore Valley MWD. Collectively, these seven projects allow Metropolitan to store up to 45,889 acre-feet with storage of 11,472 acre-feet per year and withdrawal of 15,296 acre-feet per year for overlying demand during dry, drought, or emergency conditions. As of June 2014, Metropolitan had a total of 16,418 acre-feet in storage in these seven accounts. The term of each agreement is 25 years, unless the parties agree to extend for an additional maximum period of 25 years. Termination dates range from July 2027 to December 2031. The programs became operational during fiscal year 2009.

Participation rights in these projects totaled $20,608,000 at June 30, 2014 and 2013. These participation rights are amortized using the straight-line method over the remaining lives of the agreements. Amortization expense totaled $1,025,000 in fiscal years 2014 and 2013.

5. SHORT-TERM AND LONG-TERM DEBT

Metropolitan's enabling Act specifies that its indebtedness shall be limited to 15 percent of the assessed value of all taxable property within Metropolitan's service area. Existing outstanding debt of $4.616 billion and $4.838 billion at June 30, 2014 and 2013, respectively, represents less than one percent of the June 30, 2014 and 2013 total taxable assessed valuation of $2,315 billion and $2,183 billion, respectively.

Metropolitan's long-term debt consists of general obligation and revenue bond issues as well as other obligations. The general obligation bonds are secured by Metropolitan's authority to levy ad valorem property taxes. The revenue bond obligations are special limited obligations of Metropolitan and are secured by a pledge of Metropolitan's net operating revenues. Such obligations contain certain restrictive covenants, with which Metropolitan has complied. Substantially all of the bond issues contain call provisions. Substantially all of the debt proceeds have been, and are expected to continue to be, utilized to fund new facilities, improvements and betterments, and to refund outstanding bonds.

(a) Short-term Debt

Metropolitan may issue up to $400.0 million in commercial paper to fund a portion of its capital plan. During the years ended June 30, 2014, and 2013, there were no commercial paper notes issued or outstanding. Metropolitan may also issue other forms of short-term debt such as variable rate water revenue bonds (see Note 5c).

(b) General Obligation Bonds

In 1966, voters authorized Metropolitan to incur up to $850.0 million of general obligation bond indebtedness to finance a portion of Metropolitan's capital plan. The original amounts, issued as Series A through H under the 1966 authorization, totaled $850.0 million at June 30, 2014 and 2013. Metropolitan has refunded a portion of these general obligation bond issues through the issuance of refunding bonds. A total of $132.3 million and $165.1 million in general obligation bonds and general obligation refunding bonds were outstanding at June 30, 2014 and 2013, respectively.

The general obligation and general obligation refunding bond issues include both serial and term bonds that mature in varying amounts through March 2037 at interest rates ranging from 0.50 percent to 5.0 percent. The term bonds are subject to mandatory redemption prior to maturity. All general obligation bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption premiums.

No general obligation bonds were issued during the fiscal years ended June 30, 2014 and 2013.

(c) Revenue Bonds

Pursuant to a 1974 voter authorization, additional funds, primarily for funding the capital investment plan, are obtained through the sale of water revenue bonds. Revenue bonds may be issued subject to certain conditions, including a requirement that the total of revenue bonds outstanding does not exceed the equity (net position) of Metropolitan as of the fiscal year end prior to such issuance. Metropolitan has refunded some of these revenue bonds through the issuance of refunding bonds. A total of $4.272 billion and $4.451 billion of revenue bonds and revenue refunding bonds were outstanding at June 30, 2014 and 2013, respectively.

Each fixed rate revenue and revenue refunding bond issue consists of either serial or term bonds or both that mature in varying amounts through July 2040 at interest rates ranging from 0.45 percent to 6.95 percent. The term bonds are subject to mandatory redemption prior to maturity. Substantially all revenue bonds maturing on or after the earliest applicable call date are subject to optional redemption prior to maturity, callable on interest payment dates, and subject to early redemption premiums.

No revenue bonds were issued during the fiscal years ended June 30, 2014 and 2013.

(d) Bond Refundings and Defeasances

Metropolitan has issued Waterworks General Obligation Refunding Bonds, Water Revenue Refunding Bonds, and Special Variable Rate Water Revenue Refunding Bonds to refund various issues of Waterworks General Obligation Bonds, Waterworks General Obligation Refunding Bonds, Water Revenue Bonds, and Water Revenue Refunding Bonds previously issued. The net proceeds from these sales were used to redeem the refunded bonds and fund certain swap termination payments or to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Metropolitan's basic financial statements.

Refunding and defeasance transactions during fiscal year 2014 were as follows:

- On July 2, 2013, Metropolitan issued $104,820,000 of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series E (Flexible Index Mode), at variable rates, to refund $104,185,000 Water Revenue Refunding Bonds, 2009 Series A-1. Their maturities extend to July 1, 2030. The 2013 Series E bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning September 5, 2013, and are subject to mandatory and optional redemption provisions.

- On March 14, 2014, Metropolitan issued $95,935,000 of Water Revenue Refunding Bonds, 2014 Series A, $10,575,000 of Water Revenue Refunding Bonds, 2014 Series B (Federally Taxable), and $30,335,000 of Water Revenue Refunding Bonds, 2014 Series C-1, C-2, and C-3 (Term Mode), at a combined true interest cost of 3.65 percent, to refund $15,345,000 of Water Revenue Refunding Bonds, 2004 Series A-1 and A-2, $36,995,000 of Water Revenue Refunding Bonds, 2008 Series A-1, $4,400,000 of Water Revenue Refunding Bonds, 2008 Series A-2, $90,095,000 of Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A, and to fund $15,487,884 of swap termination payments. The maturities of the 2014 Series A, 2014 Series B and 2014 Series C-1, C-2, and C-3 bonds extend to July 1, 2021, July 1, 2018, July 1, 2027, July 1, 2025, and July 1, 2023, respectively.

  The 2014 Series A bonds are not subject to optional or mandatory redemption provisions. The 2014 Series B bonds are subject to optional redemption provisions. The 2014 Series C-1, C-2, and C-3 bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning July 1, 2019, July 1, 2020, and July 1, 2021, respectively, and are subject to mandatory and optional redemption provisions.

- On May 29, 2014, Metropolitan issued $79,770,000 of Special Variable Rate Water Revenue Refunding Bonds, 2014 Series D, at variable rates, to refund $87,945,000 of Water Revenue Refunding Bonds, 2004 Series B, $9,825,000 of Special Variable Rate Water Revenue Refunding Bonds, 2010 Series A, and $28,420,000 of Water Revenue Refunding Bonds, 2012 Series E-1 (Term Mode). Their maturities extend to July 1, 2032 and are subject to optional and mandatory redemption provisions.

Refunding and defeasance transactions during fiscal year 2013 were as follows:

- On October 4, 2012, Metropolitan issued $60,035,000 of Water Revenue Refunding Bonds, 2012 Series F at a true interest cost of 2.56 percent, to refund $30,225,000 of Water Revenue Bonds, 2003 Authorization Series B-3 and $41,325,000 of Water Revenue Refunding Bonds, 2006 Series A-1 and 2006 Series A-2. Their maturities extend to July 1, 2028 and are subject to optional redemption provisions.
- On December 27, 2012, Metropolitan issued $111,890,000 of Water Revenue Refunding Bonds, 2012 Series G at a true interest cost of 2.78 percent, to refund $50,000,000 of Water Revenue Bonds, 1997 Authorization, Series B, $50,000,000 of Water Revenue Bonds, 1997 Authorization, Series C, and $37,705,000 of Water Revenue Bonds, 2003 Authorization Series B-4. Their maturities extend to July 1, 2031 and are subject to optional redemption provisions.
- On June 3, 2013, Metropolitan issued $87,445,000 of Special Variable Rate Water Revenue Refunding Bonds, 2013 Series D, at variable rates, to refund $88,800,000 of Water Revenue Bonds, 2000 Authorization Series B-2. Their maturities extend to July 1, 2035 and are subject to optional and mandatory redemption provisions.

These refundings and defeasances were accomplished to take advantage of lower interest rates. In addition to realizing economic savings, Metropolitan also issued certain refunding bonds to eliminate or mitigate certain risks associated with managing its variable rate debt and interest rate swap portfolios. The transactions resulted in cash flow savings of $27.5 million and $29.0 million and economic gains (difference between the present values of the debt service payments on the old debt and new debt) of $25.8 million and $11.0 million for fiscal years 2014 and 2013, respectively. The difference between the book value of the old debt and the amount required to retire the debt is deferred and amortized over the original remaining life of the old debt or the life of the new debt, whichever is less. Deferred outflows of loss on bond refundings at June 30, 2014 and 2013 were $99.8 million and $114.5 million, respectively, and the deferred outflows on swap terminations were $43.3 million and $38.9 million, respectively.

(e) Other Long-term Debt

In November 2003, Metropolitan received $20.0 million through the state Department of Water Resources for oxidation retrofit facilities at the Mills Water Treatment Plant in Riverside County. This 20-year State Revolving Fund loan carries interest at 2.39 percent with the final payment due July 1, 2024. At June 30, 2014 and 2013, the outstanding balance was $11.7 million and $12.2 million, respectively.

(f) Interest Rate Swaps

Metropolitan has entered into 22 separate interest rate swap agreements of which 11 were outstanding as of June 30, 2014. Nine of the agreements require that Metropolitan pay fixed interest rates and receive interest at variable interest rates which are Metropolitan's hedging derivative instruments, and two require that Metropolitan pay a variable rate based on a tax-exempt index and receive a variable rate payment based on a taxable index, which are Metropolitan's investment derivative instruments.

Metropolitan's interest rate swap portfolio as of June 30, 2014, 2013, and 2012 are summarized on the following table.

(Dollars in thousands)

Associated Bond Issue [1]		Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Counterparty Credit Rating[2]
2002 A Payor	$	88,302	09/12/02	3.300%	57.74% of 1MoLIBOR[4]	Baa2/A-/A
2002 B Payor		33,033	09/12/02	3.300%	57.74% of 1MoLIBOR	Aa3/A+/A+
2003 Payor C-1 C-3		163,295	12/18/03	3.257%	61.20% of 1MoLIBOR	A2/A/A+
2003 Payor C-1 C-3		163,295	12/18/03	3.257%	61.20% of 1MoLIBOR	Aa3/A+/A+
2004 Payor A-1 A-2		79,185	02/19/04	2.917%	61.20% of 1MoLIBOR	Baa2/A-/A
2004 C Payor		7,760	11/16/04	2.980%	61.55% of 1MoLIBOR	Baa2/A-/A
2004 C Payor		6,349	11/16/04	2.980%	61.55% of 1MoLIBOR	Baa2/A-/A
2005 Payor		58,548	07/06/05	3.360%	70.00% of 3MoLIBOR	Aa3/A+/A+
2005 Payor		58,548	07/06/05	3.360%	70.00% of 3MoLIBOR	Baa2/A-/A
2006 Payor		—	04/04/06	3.210%	63.00% of 1MoLIBOR	N/A
2006 Payor		—	04/04/06	3.210%	63.00% of 1MoLIBOR	N/A
Sub-total pay-fixed receive-variable		658,315				
2004 Basis		125,000	05/19/04	SIFMA[5]	70% of 1MoLIBOR +31.5 basis points	Aa3/A+/A+
2004 Re-Amended basis		125,000	05/19/04	SIFMA[5]	70% of 1MoLIBOR +31.5 basis points	Aa3/A+/A+
Sub-total pay-variable, receive-variable		250,000				
Total swaps	$	908,315				

[1] *These swaps lock in a fixed rate for an equivalent amount of variable rate debt.*

[2] *Credit Ratings - Moody's Investors Service, Standard & Poor's, Fitch Ratings, respectively.*

[3] *Excludes accrued interest.*

[4] *London Interbank Offered Rate.*

[5] *The Securities Industry and Financial Markets Municipal Swap Index, previously known as Bond Marketing Index. Variable rate paid is based on the SIFMA index.*

Certain bonds associated with swaps have been refunded. These swaps are now associated with the refunding bonds and are effective hedges.

Swap	Fair Value as of 6/30[3]			Change in Fair Value in FY	
Termination	**2014**	2013	2012	**2014**	2013
07/01/25	**$ (12,526)**	$ (13,410)	$ (18,595)	**$ 884**	$ 5,185
07/01/25	**(4,677)**	(4,963)	(6,860)	**286**	1,897
07/01/30	**(26,218)**	(25,981)	(38,605)	**(237)**	12,624
07/01/30	**(26,218)**	(25,981)	(38,605)	**(237)**	12,624
07/01/23	**(9,239)**	(11,167)	(16,445)	**1,928**	5,278
10/01/29	**(1,068)**	(6,599)	(9,367)	**5,531**	2,768
10/01/29	**(867)**	(5,372)	(7,703)	**4,505**	2,331
07/01/30	**(7,369)**	(7,460)	(11,792)	**91**	4,332
07/01/30	**(7,323)**	(7,530)	(12,011)	**207**	4,481
07/01/21	**—**	(2,540)	(3,555)	**2,540**	1,015
07/01/21	**—**	(2,540)	(3,555)	**2,540**	1,015
	(95,505)	(113,543)	(167,093)	**18,038**	53,550
07/01/14	**—**	392	641	**(392)**	(249)
07/01/14	**—**	392	642	**(392)**	(250)
	—	784	1,283	**(784)**	(499)
	$ (95,505)	$ (112,759)	$ (165,810)	**$ 17,254**	$ 53,051

Pay-Fixed, Receive-Variable

Objective of the Swaps: In order to take advantage of low interest rates in the marketplace, Metropolitan entered into nine separate pay-fixed, receive-variable interest rate swaps at costs that were less than what Metropolitan otherwise would have paid to issue fixed rate debt in the tax-exempt municipal bond market.

Terms: The notional amounts of the swaps match the principal amounts of the associated debt in total. Metropolitan's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated long-term debt.

Fair Values: At June 30, 2014, all pay-fixed, receive-variable swaps had a negative fair value. Because the coupons on Metropolitan's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value changes. The fair values of the swaps were estimated using the zero-coupon method and exclude accrued interest. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risks: As of June 30, 2014, Metropolitan was not exposed to credit risk on the outstanding pay-fixed, receive-variable swaps that had negative fair values. However, should interest rates change and the fair values of the swaps become positive, Metropolitan would be exposed to credit risk to each swap counterparty in the amount of the derivatives' fair value. Should the counterparties to the transactions fail to perform according to the terms of the swap contract, Metropolitan would face a maximum possible loss equal to the fair value of these swaps.

All swap agreements contain specific collateral requirements that are in effect for Metropolitan and the counterparties. The swaps require different collateral levels based on credit ratings and the fair value of the swap. Generally, the fair value threshold levels are also reduced as the credit ratings are reduced. Collateral on all swaps is to be in the form of U.S. government securities that may be held by the party posting the collateral. Metropolitan had no posted collateral as of June 30, 2014.

Each swap contains cross-default provisions that allow the nondefaulting party to accelerate and terminate all outstanding transactions and to net the transactions' fair values into a single sum to be owed by, or owed to, the nondefaulting party.

As of June 30, 2014, Metropolitan has pay-fixed, receive-variable swap transactions with one counterparty in the amount of $254.9 million or 38.7 percent of the notional amount of Metropolitan's outstanding pay-fixed, receive-variable swap transactions. This counterparty is rated Aa3/A+/A+ by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

Basis Risk: The interest rates on Metropolitan's variable rate bonds are expected to be equivalent, but not necessarily equal to the variable rate payments received from counterparties on pay-fixed, receive-variable interest rate swaps. To the extent these variable payments differ, Metropolitan is exposed to basis risk. When the rates received from the counterparties are less than the rates on variable rate bonds associated with the respective swap transactions there is a basis loss. When the rates received from the counterparties are greater than the rates on variable rate bonds associated with the respective swap transactions there is a basis gain. As of June 30, 2014, the interest rates of the variable rate debt associated with these swap transactions range from 0.04 percent to 0.10 percent. Metropolitan's variable rate payments received from the counterparties of these swaps ranged from 0.09 percent to 0.16 percent.

Termination Risk: Metropolitan may terminate any of the swaps if the other party fails to perform under the terms of the swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination the swap has a negative fair value, Metropolitan would be liable to the counterparty for a payment equal to the swap's fair value. On February 12, 2014 Metropolitan exercised its optional termination provisions and terminated one swap in its entirety and partially terminated two other swaps. The termination payment of $15.5 million was funded from a portion of the proceeds of the 2014 Series A, B, and C Water Revenue Refunding Bonds, and resulted in a loss on early termination of $3.3 million which is included in interest expense.

Tax Risk: As with other forms of variable rate exposure and the relationship between the taxable and tax-exempt markets, Metropolitan is exposed to tax risk should tax-exempt interest rates on variable rate debt issued in conjunction with the swaps rise faster than taxable interest rates received by the swap counterparties, due particularly to reduced federal or state income tax rates, over the term of the swap agreement.

Pay-Variable, Receive-Variable

Objective of the Swaps: The low interest rate environment during fiscal years 2004 through 2006 enabled Metropolitan to reduce the cost of Metropolitan's debt obligations by taking advantage of the relationship between taxable and tax-exempt market indices. To take advantage of the market opportunity, Metropolitan currently has two SIFMA-to-LIBOR basis swap transactions to generate additional cash flow savings while preserving the call option value of its existing bonds. Metropolitan pays a variable rate based on the SIFMA or tax-exempt index and receives a variable rate based on a percentage of the LIBOR or taxable index.

Terms: On May 17, 2004, Metropolitan entered into two basis swap transactions (2004 Basis Swaps) with two counterparties. The terms of both swaps are 10 years and terminate in July 2014. The notional amount of each swap is $125.0 million. Under the terms of the swaps, Metropolitan pays a variable rate equal to the SIFMA Index and receives a variable rate based on 70.0 percent of the one-month LIBOR plus 31.5 basis points.

As the two basis swaps terminate on July 1, 2014, the fair value of the swaps is zero. Additionally, there is no credit risk, basis risk, or tax risk to these swaps.

(g) Swap Payments and Associated Debt

Using rates as of June 30, 2014, debt service requirements on Metropolitan's swap-related variable rate debt and net swap payments are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds		Interest Rate	
(Dollars in thousands)	Principal	Interest	Swaps, Net	Total
Year ending June 30:				
2015	$ 1,980	$ 604	$ 20,559	$ 23,143
2016	7,565	597	20,333	28,495
2017	10,965	588	20,033	31,586
2018	11,445	576	19,671	31,692
2019	11,865	565	19,295	31,725
2020-2024	269,290	2,271	76,400	347,961
2025-2029	290,785	764	24,344	315,893
2030-2031	54,420	37	1,170	55,627
Total	$ 658,315	$ 6,002	$ 201,805	$ 866,122

(h) Variable Rate Bonds

The variable rate bonds bear interest at daily and weekly rates ranging from 0.01 percent to 0.41 percent as of June 30, 2014 and 0.03 percent to 0.41 percent as of June 30, 2013. Metropolitan can elect to change the interest rate period of the bonds with certain limitations. With the exception of the Water Revenue Refunding Bond, 2009 SIFMA Index Bonds Series A-2, 2011 SIFMA Index Bonds Series A-1, A-2, A-3, and A-4, 2012 SIFMA Index Bonds Series B-1 and B-2, and the 2013 Flexible Index Bonds, Series E, the bondholders have the right to tender bonds to the paying agent on any business day with either same day or seven days' prior notice. The current terms of the 2009 SIFMA Index Bond and the 2011 SIFMA Index Bonds Series A-1 and A-3 provide bondholders a right to tender bonds to the paying agent annually, for the 2011 SIFMA Index Bonds Series A-2 and A-4, every two years, for the 2012 SIFMA Index Bonds, every three years, and for the 2013 Flexible Index Bond, every 270 days. Metropolitan has entered into standby bond purchase agreements (SBPA's) with several commercial banks to provide liquidity for five and six separate variable rate bond issues in the amount of $402.8 million and $459.5 million as of June 30, 2014 and 2013, respectively. In addition, Metropolitan has ten series of variable rate bonds in the amount of $703.6 million and $723.2 million as of June 30, 2014 and 2013, respectively that are not supported by an SBPA.

The Bank Bonds that would be issued under the SBPA's would bear interest that is payable at a rate, depending on the agreement, that is the higher of the "base rate" which is based on the prime rate or Federal Funds rate or LIBOR, plus a spread, as designated in each SBPA. The base rate is then adjusted upwards by between 2.0 percent and 8.0 percent. The principal of the Bank Bonds would be payable, depending on the agreement, from between six to ten equal semi-annual installments commencing between 180 days and one year after purchase by the bank. For eight series of variable rate bonds not supported by SBPA's in the amount of $536.5 million, if the purchase price is not paid from the proceeds of remarketing or other funds, such bonds then will bear interest at a rate equal to the lower of (i) 12.0 percent and (ii) the higher of 8.0 percent or Prime Rate plus 3.0 percent until purchased by Metropolitan or redeemed pursuant to a special mandatory redemption. The principal amount of these new bonds would be payable in three equal installments at 18 month increments from the conversion of the bonds to a fixed rate.

The two series of self-liquidity variable rate bonds that were not supported by a SBPA at June 30, 2014 were the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds, and the $79.8 million, 2014 Series D, Special Variable Rate Water Revenue Refunding Bonds. At June 30, 2013, the outstanding self-liquidity variable rate bonds that were not supported by a SBPA were the $99.9 million, 2010 Series A, Special Variable Rate Water Revenue Refunding Bonds and the $87.4 million, 2013 Series D, Special Variable Rate Water Revenue Refunding Bonds. These variable rate bonds outstanding at June 30, 2014 and 2013, had no long-term take out provisions therefore, the entire principal amount of $167.2 million and $187.3 million, respectively, may be tendered for purchase upon one week's notice from bondholders. However, on March 21, 2013, Metropolitan entered into a Revolving Credit Agreement (RCA), by which Metropolitan may borrow up to $96.5 million to pay the purchase price (principal and accrued interest) of any self-liquidity bonds tendered for purchase. The RCA permits repayment of any borrowed funds over a term-out period beginning 90 days after the RCA's stated expiration date of March 31, 2016. As a result of the RCA, only $70.7 million and $90.8 million of these self-liquidity bonds have been classified as current liabilities as of June 30, 2014 and 2013, respectively.

The 2013 Series D and 2014 Series D bonds that may be purchased from borrowings under the RCA have been classified as long-term obligations on the statement of net position, the same as all other variable rate bonds. Metropolitan intends to either renew the SBPA's and RCA, or maintain the existing provisions of non-SBPA/ RCA supported bonds, or exercise its right to require bond holders to tender the variable rate debt and issue refunding bonds. The SBPA's expire September 2016 and February 2017.

(i) Long-term Debt Obligation Summary

Interest rates at June 30, 2014 on all outstanding fixed-rate obligations range from 0.45 percent to 6.95 percent. Interest on the variable rate debt is reset either daily or weekly based upon market conditions. Future principal and interest payments as of June 30, 2014 are as follows:

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2015	$ 113,686	$ 164,457	$ 278,143
2016	145,519	160,189	305,708
2017	148,594	154,000	302,594
2018	166,054	146,712	312,766
2019	161,439	139,053	300,492
2020-2024	812,188	588,937	1,401,125
2025-2029	779,219	457,324	1,236,543
2030-2034	955,570	314,596	1,270,166
2035-2039	926,870	144,512	1,071,382
2040-2041	206,351	14,447	220,798
	$ 4,415,490	$ 2,284,227	$ 6,699,717
Unamortized bond discount, premium, and deferred amount on refundings, net	200,896		
Total debt	4,616,386		
Less current portion	(206,173)		
Long-term portion of debt	$ 4,410,213		

6. LONG-TERM LIABILITIES

Long-term liability activity for the fiscal years ended June 30, 2014 and 2013 is shown on the following table. Payments on the bonds are made from the restricted debt service funds; other long-term debt, the off-aqueduct power facilities obligation, and the compensated absences liability will be liquidated primarily with water revenues.

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)
June 30, 2014 and 2013

(Dollars in thousands)	Maturity Dates	Range of Interest Rates	June 30, 2012	Additions
Waterworks general obligation refunding bonds (Note 5b):				
2004 Series A	3/1/13-3/1/15	4.00%-5.00%	$ 49,910	$ —
2005 Series A	3/1/14-3/1/21	4.125%-5.000%	63,640	—
2009 Series A	03/1/12-3/1/28	3.50%-5.00%	43,510	—
2010 Series A	03/1/13-3/1/37	0.50%-5.00%	39,485	—
Total general obligation and general obligation refunding bonds			196,545	—
Water revenue bonds (Note 5c):				
1997 Series B-C	7/1/28	Variable	100,000	—
2000 Series B-1-B-4	7/1/29-7/1/35	Variable	266,400	—
2003 Series B-3-B-4	10/1/12-10/1/31	3.50%-5.00%	92,430	—
2005 Series A	7/1/28-7/1/35	4.50%-5.00%	85,890	—
2005 Series C	7/1/12-7/1/35	4.00%-5.00%	175,000	—
2006 Series A	7/1/12-7/1/37	4.00%-5.00%	395,970	—
2008 Series A	1/1/12-1/1/39	2.00%-5.00%	196,025	—
2008 Series B	7/1/12-7/1/20	2.00%-4.00%	21,615	—
2008 Series C	7/1/26-7/1/39	5.752%-6.250%	78,385	—
2008 Series D	7/1/21-7/1/39	5.906%-6.538%	250,000	—
2010 Series A	7/1/40	6.947%	250,000	—
Water revenue refunding bonds (Note 5d):				
1993 Series A-B	7/1/14-7/1/21	5.75%	105,185	—
2003 Series A	7/1/12-7/1/14	4.00%-5.00%	27,110	—
2004 Series A-1-A-2	7/1/12-7/1/23	Variable	95,590	—
2004 Series B	7/1/12-7/1/16	3.00%-5.00%	157,315	—
2006 Series A-1-A-2	7/1/12-7/1/21	Variable	53,455	—
2006 Series B	7/1/12-7/1/37	3.75%-5.00%	24,055	—
2008 Series A-1-A-2	7/1/17-7/1/37	Variable	187,380	—
2008 Series B	7/1/12-7/1/22	4.00%-5.00%	127,885	—
2008 Series C	7/1/12-7/1/23	2.875%-5.00%	61,395	—
2009 Series A-1-A-2	7/1/20-7/1/30	Variable	208,365	—
2009 Series B	7/1/20-7/1/30	4.00%-5.25%	106,690	—
2009 Series C	7/1/29-7/1/35	5.00%	91,165	—
2009 Series D	7/1/12-7/1/21	2.00%-5.00%	81,065	—
2009 Series E	7/1/12-7/1/20	3.75%-5.00%	26,050	—
2010 Series A	10/1/12-10/1/29	Variable	100,685	—
2010 Series B	7/1/14-7/1/28	2.25%-5.00%	88,845	—
2011 Series A-1-A-4	7/1/16-7/1/36	Variable	228,875	—
2011 Series B	7/1/12-7/1/20	0.45%-5.00%	167,855	—
2011 Series C	10/1/13-10/1/36	2.00%-4.00%	157,100	—
2012 Series A	10/1/23-10/1/36	3.25%-5.00%	181,180	—
2012 Series B	7/1/23-7/1/27	Variable	98,585	—
2012 Series C	7/1/16-7/1/21	3.00%-5.00%	190,600	—
2012 Series D	1/1/13-1/1/16	0.616%-2.00%	39,520	—
2012 Series E	7/1/27-7/1/37	2.50%-3.50%	89,460	—
2012 Series F	7/1/15-7/1/28	3.00%-5.00%	—	60,035
2012 Series G	7/1/20-7/1/31	3.00%-5.00%	—	111,890
2013 Series D	7/1/29-7/1/35	Variable	—	87,445
2013 Series E	7/1/20-7/1/30	Variable	—	—
2014 Series A	7/1/18-7/1/21	4.00%-5.00%	—	—
2014 Series B	7/1/2018	1.49%	—	—
2014 Series C-1-C-3	7/1/22-7/1/27	3.00%	—	—
2014 Series D	7/1/15-7/1/32	Variable	—	—
Total water revenue and water revenue refunding bonds			4,607,125	259,370
Other long-term debt (Note 5e):				
State revolving fund loans	7/1/12-7/1/24	2.39%	13,117	—
Unamortized bond discount and premiums, net			194,282	40,048
Total long-term debt			5,011,069	299,418
Other long-term liabilities (see table next page)			500,604	90,846
Total long-term liabilities			$ 5,511,673	$ 390,264

NOTES TO BASIC FINANCIAL STATEMENTS

(CONTINUED)

June 30, 2014 and 2013

Reductions	June 30, 2013	**Additions**	**Reductions**	**June 30, 2014**	**Amounts Due Within One Year**
$ (22,575)	$ 27,335	**$ —**	**$ (20,245)**	**$ 7,090**	**$ 7,090**
—	63,640	**—**	**(3,535)**	**60,105**	**5,670**
(4,835)	38,675	**—**	**(5,025)**	**33,650**	**165**
(4,050)	35,435	**—**	**(4,005)**	**31,430**	**4,140**
(31,460)	165,085	**—**	**(32,810)**	**132,275**	**17,065**
(100,000)	—	**—**	**—**	**—**	**—**
(88,800)	177,600	**—**	**—**	**177,600**	**—**
(75,730)	16,700	**—**	**(8,160)**	**8,540**	**8,540**
(5,035)	80,855	**—**	**(5,235)**	**75,620**	**—**
—	175,000	**—**	**—**	**175,000**	**—**
(1,140)	394,830	**—**	**(1,670)**	**393,160**	**1,805**
(4,055)	191,970	**—**	**(4,140)**	**187,830**	**—**
(2,150)	19,465	**—**	**(2,190)**	**17,275**	**2,240**
—	78,385	**—**	**—**	**78,385**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	250,000	**—**	**—**	**250,000**	**—**
—	105,185	**—**	**—**	**105,185**	**3,345**
(1,200)	25,910	**—**	**(14,130)**	**11,780**	**11,780**
(1,060)	94,530	**—**	**(15,345)**	**79,185**	**—**
(36,495)	120,820	**—**	**(120,820)**	**—**	**—**
(53,455)	—	**—**	**—**	**—**	**—**
—	24,055	**—**	**—**	**24,055**	**—**
—	187,380	**—**	**(41,395)**	**145,985**	**—**
(190)	127,695	**—**	**(285)**	**127,410**	**210**
(6,285)	55,110	**—**	**(6,530)**	**48,580**	**6,780**
—	208,365	**—**	**(104,185)**	**104,180**	**—**
—	106,690	**—**	**—**	**106,690**	**—**
—	91,165	**—**	**—**	**91,165**	**—**
(5,240)	75,825	**—**	**(5,435)**	**70,390**	**5,650**
(2,465)	23,585	**—**	**(2,565)**	**21,020**	**2,665**
(765)	99,920	**—**	**(99,920)**	**—**	**—**
—	88,845	**—**	**—**	**88,845**	**4,670**
—	228,875	**—**	**—**	**228,875**	**—**
(30,840)	137,015	**—**	**(31,370)**	**105,645**	**32,415**
—	157,100	**—**	**(500)**	**156,600**	**500**
—	181,180	**—**	**—**	**181,180**	**—**
—	98,585	**—**	**—**	**98,585**	**—**
—	190,600	**—**	**—**	**190,600**	**—**
(940)	38,580	**—**	**(8,250)**	**30,330**	**10,725**
—	89,460	**—**	**(28,420)**	**61,040**	**—**
—	60,035	**—**	**—**	**60,035**	**—**
—	111,890	**—**	**—**	**111,890**	**—**
—	87,445	**—**	**—**	**87,445**	**—**
—	—	**104,820**	**—**	**104,820**	**—**
—	—	**95,935**	**—**	**95,935**	**—**
—	—	**10,575**	**—**	**10,575**	**—**
—	—	**30,335**	**—**	**30,335**	**—**
—	—	**79,770**	**—**	**79,770**	**70,669**
(415,845)	4,450,650	**321,435**	**(500,545)**	**4,271,540**	**161,994**
(956)	12,161	**—**	**(486)**	**11,675**	**991**
(24,047)	210,283	**19,743**	**(29,130)**	**200,896**	**26,123**
(472,308)	4,838,179	**341,178**	**(562,971)**	**4,616,386**	**206,173**
(108,582)	482,868	**105,393**	**(174,861)**	**413,400**	**136,005**
$ (580,890)	$ 5,321,047	**$ 446,571**	**$ (737,832)**	**$ 5,029,786**	**$ 342,178**

(Dollars in thousands)	June 30, 2012	Additions	Reductions	June 30, 2013	**Additions**	**Reductions**	**June 30, 2014**	**Amounts Due Within One Year**
Off-aqueduct power facilities (Note 9f)	$ 40,646	$ —	$ (10,463)	$ 30,183	**$ —**	**$ (7,951)**	**$ 22,232**	**$ 4,062**
Compensated absences	44,803	17,854	(18,701)	43,956	**26,568**	**(24,122)**	**46,402**	**21,600**
Customer deposits and trust funds	59,149	17,053	(7,081)	69,121	**23,798**	**(11,626)**	**81,293**	**14,743**
Other postemployment benefits (Note 8)	161,222	48,308	(13,181)	196,349	**42,825**	**(103,851)**	**135,323**	**79,457**
Workers' Compensation and third-party claims (Note 14)	26,655	6,611	(6,027)	27,239	**9,184**	**(9,071)**	**27,352**	**15,500**
Fair value of interest rate swaps	165,810	—	(53,051)	112,759	**—**	**(17,254)**	**95,505**	**—**
Other long-term liabilities	2,319	1,020	(78)	3,261	**3,018**	**(986)**	**5,293**	**643**
Total other long-term liabilities	$ 500,604	$ 90,846	$ (108,582)	$ 482,868	**$ 105,393**	**$ (174,861)**	**$ 413,400**	**$ 136,005**

7. PENSION PLAN

(a) Plan Description

Metropolitan contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. All full-time Metropolitan employees are required to participate in CalPERS. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, 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 Employee's Retirement Law. Metropolitan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy

Active plan members are required to contribute 7.0 percent of their annual covered salary. Metropolitan contributes the full 7.0 percent for active plan members hired before January 1, 2012. Employees hired after January 1, 2012 contribute the full 7.0 percent. In addition, Metropolitan is required to contribute the actuarially determined remaining amount necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal years 2014 and 2013 are 16.306 percent and 14.998 percent, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. In the first quarter of fiscal year 2014, Metropolitan made a single payment of $32.8 million for the entire fiscal year 2014 employer contribution.

(c) Annual Pension Cost and Net Pension Obligation

Metropolitan's annual pension cost and net pension obligation to CalPERS for fiscal year 2014 and the two preceding fiscal years were as follows:

	June 30,		
(Dollars in thousands)	**2014**	2013	2012
Annual required contribution	**$ 47,355**	$ 40,736	$ 40,292
Interest on net pension obligation	**—**	—	—
Adjustment to annual required contribution	**—**	—	—
Annual pension cost	**47,355**	40,736	40,292
Less contributions made	**(47,355)**	(40,736)	(40,292)
Increase in net pension obligation	**—**	—	—
Net pension obligation, beginning of year	**—**	—	—
Net pension obligation, end of year	**$ —**	$ —	$ —

For fiscal years 2014 and 2013, Metropolitan's annual pension cost and contributions made were $47,355,000, (including earnings credit in 2014 for the single payment at the beginning of the year), and $40,736,000, respectively. The annual pension cost included $13,503,000, and $12,775,000 for Metropolitan's pickup of the employee's 7.0 percent share at June 30, 2014 and 2013, respectively. The required contribution for fiscal year 2014 was based on CalPERS June 30, 2011 actuarial valuation using the entry-age-normal actuarial cost method with the contributions determined as a percent of pay. This is the latest information available from CalPERS relating to the current fiscal year. The actuarial assumptions included (a) a 7.50 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, duration of service and, type of employment and (c) an inflation component of 2.75 percent. The required contribution for fiscal year 2013 was based on CalPERS June 30, 2010 actuarial valuation using the entry-age-normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75 percent investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age and duration of service, and (c) an inflation component of 3.0 percent. Metropolitan's net pension obligation (asset) was being amortized as a level percentage of payroll on a closed 20-year period. Gains and losses that occurred in the operation of the plan were amortized over a 30-year rolling period. The actuarial value of CalPERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a 15-year period (smoothed market value).

Three-Year Trend Information for CalPERS

(Dollars in millions)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Year ended June 30:			
2012	$ 40,292	100%	$ —
2013	$ 40,736	100%	$ —
2014	$ 47,355	100%	$ —

(d) Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 85.0 percent funded. The actuarial accrued liability for benefits was $1,730.9 million, and the actuarial value of assets was $1,471.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $259.5 million. The covered payroll (annual payroll of active employees covered by the plan) was $184.7 million, and the ratio of the UAAL to the covered payroll was 140.5 percent. This valuation reflects changes to the method for calculating the actuarial value of assets. These changes phase in over a three-year period the impact of the 24.0 percent investment loss experienced by CalPERS in fiscal year 2009.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

(a) Plan Description

Through CalPERS, Metropolitan offers medical insurance to active and retired employees, as well as their qualified dependents. The CalPERS plan is an agent multiple-employer plan governed by the Public Employees' Medical and Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement. Current plans offered are PERS Care PPO, PERS Choice PPO, PERS Select PPO, Blue Shield HMO, and Kaiser HMO. Benefit provisions are established through negotiations between Metropolitan and its various bargaining units, which also apply to retirees. This benefit was provided to 1,490 and 1,473 retired Metropolitan employees at June 30, 2014 and 2013, respectively. CalPERS issues a separate comprehensive annual report that includes financial statements for its Health Care Fund. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

(b) Funding Policy

Contribution requirements are negotiated between Metropolitan and its various bargaining units. During fiscal year 2014, Metropolitan contributed up to 100 percent of Blue Shield Access + HMO Bay area regional basic plan rate for represented retirees and up to 90 percent of the PERS Care PPO Los Angeles regional basic plan rate for unrepresented retirees. During fiscal years 2014 and 2013, Metropolitan contributed, net of participant contributions as determined by CalPERS, $103,851,000 and $13,181,000, respectively. Funding was on a pay-as-you-go basis for fiscal year 2013.

The fiscal year 2014 contribution included the Board approved budgeted contributions of $5.0 million and $10.0 million for fiscal years 2013 and 2014, respectively, plus an additional $25.0 million Board approved funding in fiscal year 2013. These amounts made up the $40.0 million initial deposit to the irrevocable OPEB trust established with CalPERS in September 2013. In April 2014 the Board approved an additional $100.0 million contribution to the trust fund. The first $50.0 million was included in the fiscal year 2014 contribution amount. The remaining $50.0 million will be contributed in fiscal year 2015. In Metropolitan's fiscal years 2015 and 2016 biennial budget the Board approved full funding of the annual required contribution (ARC), and subject to Board approval, it is Metropolitan's intent to fund the full ARC for all future years.

(c) Annual OPEB Cost and Net OPEB Obligation

Metropolitan's annual other postemployment benefit (OPEB) cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 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 defined period. In fiscal year 2008, a 30-year fresh start amortization replaced the previous fiscal year's 20-year amortization period. Gains and losses were amortized over an open 15-year period.

The annual OPEB cost and net OPEB obligation at June 30, 2014, and the two preceding fiscal years, were as follows:

	June 30,		
(Dollars in thousands)	**2014**	2013	2012
Annual required contribution	**$ 39,910**	$ 53,457	$ 49,200
Interest on net OPEB obligation	**14,235**	7,255	5,800
Adjustment to annual required contribution	**(11,320)**	(12,404)	(9,917)
Annual OPEB cost	**42,825**	48,308	45,083
Contributions made	**(103,851)**	(13,181)	(12,764)
(Decrease) increase in net OPEB obligation	**(61,026)**	35,127	32,319
Net OPEB obligation, beginning of year	**196,349**	161,222	128,903
Net OPEB obligation, end of year	**$ 135,323**	$ 196,349	$ 161,222

For fiscal years 2014 and 2013, Metropolitan's annual OPEB cost was $42,825,000 and $48,308,000, respectively. In fiscal year 2014, Metropolitan contributed $90,795,000 to the OPEB trust in addition to the pay-as-you-go amount of $13,056,000. In fiscal years 2013 and 2012, contributions made were equal to the pay-as-you-go amount. These contributions represented 242.5, 27.3, and 28.3 percent of the annual OPEB cost in fiscal years 2014, 2013, and 2012, respectively. Adjustments to the ARC include amortization of the unfunded UAAL and actuarial gains and losses. The amortization period for the unfunded UAAL is 23 years closed and the amortization period of actuarial gains and losses is 15 years closed. The required contribution for fiscal year 2014 was based on the June 30, 2011 actuarial valuation using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 7.25 percent investment rate of return, (b) a 3.0 percent inflation component, and (c) healthcare cost trend rates as follows: (i) Medicare – starting at 9.4 percent, grading down to 5.0 percent over nine years, (ii) Non-Medicare – starting at 9.0 percent, grading down to 5.0 percent over nine years. The required contribution for fiscal year 2013 was based on the January 1, 2011 actuarial valuation using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay. The actuarial assumptions included (a) a 4.5 percent investment rate of return, (b) a 3.0 percent inflation component, and (c) healthcare cost trend rates as follows: (i) Medicare – starting at 9.4 percent, grading down to 5.0 percent over nine years, (ii) Non-Medicare – starting at 9.0 percent, grading down to 5.0 percent over nine years. The assumptions used in the actuarial valuations are subject to future revisions as actual results are compared to past expectations and new assumptions are made about the future.

(d) Funded Status and Funding Progress

The funded status of the plan at June 30, 2013, was as follows:

(Dollars in thousands)		
Actuarial accrued liability (AAL)	$	315,326
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	315,326
Funded ratio (actuarial value of plan assets/AAL)		0.0%
Covered payroll (active plan members)	$	182,937
UAAL as a percentage of covered payroll		172.4%

Actuarial valuations of the ongoing plan involve estimates of the value 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 trend. 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.

The schedule of funding progress, presented as RSI following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

9. COMMITMENTS AND CONTINGENCIES

(a) State Water Contract (see Note 10)

Estimates of Metropolitan's share of the projected fixed costs of the State Water Project (SWP) are provided annually by the State. The estimates are subject to future increases or decreases resulting from changes in planned facilities, refinements in cost estimates, and inflation. During the next five years, payments under the State Water Contract, exclusive of variable power costs, are currently estimated by the State to be as follows:

(Dollars in thousands)		State Water Contract Payments
Year ending June 30:		
2015	$	432,079
2016		451,200
2017		417,924
2018		409,322
2019		401,904

According to the State's latest estimates, Metropolitan's long-term commitments under the contract, for capital and minimum operations and maintenance costs, including interest to the year 2035, are as follows:

(Dollars in thousands)	State Water Long-Term Commitments
Transportation facilities	$ 4,280,550
Conservation facilities	2,157,590
Off-aqueduct power facilities (see Note 9f)	51,668
East Branch enlargement	497,374
Revenue bond surcharge	729,570
Total long-term SWP contract commitments	$ 7,716,752

Metropolitan intends to exercise its option to extend its agreement with the State through 2052, which will result in annual minimum operations and maintenance costs through 2052. In addition, the amounts shown above do not contain any escalation for inflation, are subject to significant variation over time because the amounts are based on a number of assumptions, and are contingent on future events. None of the estimated long-term commitments, other than the $22.2 million obligation related to loss accruals on certain-off aqueduct power facilities (see Note 9f), are recorded as liabilities in the accompanying basic financial statements.

(b) Bay/Delta Regulatory and Planning Activities.

The State Water Resources Control Board (State Board) is the agency responsible for setting water quality standards and administering water rights throughout California. Decisions of the State Board can affect the availability of water to Metropolitan and other water users throughout California. The State Board exercises its regulatory authority over Bay/Delta watershed supplies by means of public proceedings leading to regulations and decisions.

In September 2006, then Governor Schwarzenegger established a Delta Vision Process to identify a strategy for managing the Delta as a sustainable resource. The process was tied to legislation that created a Blue Ribbon Task Force (BRTF) and cabinet-level committee (Delta Vision Committee) tasked with developing a durable vision for sustainable management of the Delta over the long term. The Delta Vision is anticipated to broaden the focus of past efforts and recommend actions that will address the full array of natural resource, infrastructure, land use, and governance issues necessary to achieve a sustainable Delta. The BRTF released its final Delta Vision Strategic Plan in October 2008. The Delta Vision Committee considered the BRTF's final strategic plan and submitted its final implementation report to the Governor in January 2009. Subsequently, the Delta Reform Act of 2009 was enacted which created the Delta Stewardship Council, a seven member appointed body charged with developing a Delta Plan to support carrying out the Delta Vision. The Delta Stewardship Council completed the Delta Plan on September 1, 2013 and formed the Interagency Implementation Committee soon thereafter that had a first meeting on April 9, 2014.

The Bay Delta Conservation Plan (BDCP), which began in 2007, is a voluntary collaboration of state, federal, and local water agencies, state and federal fish agencies, environmental organizations, and other interested parties to provide a comprehensive habitat conservation and restoration program for the Delta. In addition, the BDCP will provide the basis for permits under federal and state endangered species laws for activities covered by the plan based on the best available science, identify sources of funding, and provide for an adaptive management and monitoring program. The Draft Environmental Impact Report/Environmental Impact Statement (EIR/S) on the BDCP was released for formal public review on December 9, 2013. However, due in part to the extensive comments received, on August 27, 2014, the lead agencies announced that a recirculated draft BDCP, EIR/EIS will be prepared and released in early 2015. The final planning documents are expected to be complete in the fall of 2015.

(c) Imperial Irrigation District

As of June 30, 2014, Metropolitan had advanced to the Imperial Irrigation District (IID) a total of $287.7 million for construction costs, operations and maintenance costs, and indirect costs of the conservation projects. Metropolitan remains obligated to pay IID for actual operation and maintenance costs for the remainder of this agreement through at least 2041. In return, Metropolitan will receive between 85,000-105,000 acre-feet of water annually depending upon the amount used by the Coachella Valley Water District. A total of at least 85,000 and 98,307 acre-feet will be/was available in calendar years 2014 and 2013, respectively, for diversion by Metropolitan (see Note 4a).

(d) Sale of Water by the Imperial Irrigation District to San Diego County Water Authority

In April 1998, the San Diego County Water Authority (SDCWA) and IID executed an agreement (Transfer Agreement) for SDCWA's purchase from IID of Colorado River water that is conserved within IID. SDCWA is a Metropolitan member agency and one of the largest water purchasers from Metropolitan. In October 2003 the Transfer Agreement was revised as part of the Quantification Settlement Agreement (QSA) (see Note 9e). The amended Transfer Agreement sets the maximum transfer amount at 205,000 acre-feet in 2021, with the transfer gradually ramping up to that amount over an approximately twenty-year period, stabilizing at 200,000 acre-feet per year beginning in 2023.

No facilities exist to provide for delivery of water directly from IID to SDCWA. The Transfer Agreement provides that IID water be delivered to SDCWA through existing facilities owned by Metropolitan. On November 10, 1998, the boards of directors of Metropolitan and SDCWA authorized execution of an exchange contract, pursuant to which SDCWA makes available to Metropolitan at its intake at Lake Havasu on the Colorado River the conserved Colorado River water acquired by SDCWA from IID and water allocated to SDCWA that has been conserved as a result of the lining of the All-American and Coachella Canals. Metropolitan delivers an equal volume of water from its own sources of supply through portions of its delivery system to SDCWA. The deliveries to both Metropolitan and SDCWA are deemed to be made in equal monthly increments. In consideration for the conserved water made available to Metropolitan by SDCWA, a lower rate is paid by SDCWA for the exchange water delivered by Metropolitan. The price payable by SDCWA is calculated using the charges set by Metropolitan's Board from time to time to be paid by its member agencies for the conveyance of water through Metropolitan's facilities (see Note 1c). SDCWA has challenged the validity of Metropolitan's charges for conveyance of water that became effective January 1, 2011 and January 1, 2012, in San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 and effective on January 1, 2013 and January 1, 2014 (see Note 9h). The Exchange Agreement requires Metropolitan to pay the disputed portion of the amount paid by SDCWA under the Exchange Agreement and interest thereon to SDCWA, if SDCWA prevails in a dispute over the price payable by SDCWA under the Exchange Agreement.

The QSA agreements provided for delivery of 80,000 acre-feet of water conserved by IID in 2011. The delivery of conserved water fell short by 16,722 acre-feet. In accordance with the terms of the exchange contract, Metropolitan served SDCWA with a Notice of Default. The exchange contract provides that SDCWA will pay the lower water rate based on deliveries of exchange water that match the value of conserved water made available by IID in each calendar year. Metropolitan invoiced SDCWA for its higher water rate on the 16,722 acre-feet of additional non-exchange water delivered in 2011. SDCWA paid this invoice under protest. Metropolitan agreed to exchange with SDCWA up to an additional 16,722 acre-feet in 2012 if IID delivers that volume of conserved water after IID has met its 2012 obligation of 90,000 acre-feet. IID was able to obtain and deliver the additional 16,722 acre-feet by reducing its use of Colorado River water and Metropolitan has credited back the SDCWA the amount paid under protest.

(e) Quantification Settlement Agreement

The Quantification Settlement Agreement (QSA) is part of the California Plan, which is a plan to reduce California's use of Colorado River water to its basic apportionment of 4.4 million acre-feet per year when necessary through water conservation, transfers from higher priority agricultural users to Metropolitan's service area, and storage programs. The QSA was executed in October 2003 and establishes Colorado River water use limits for IID, the Coachella Valley Water District (CVWD), and Metropolitan. It also provides for specific acquisitions of conserved water and water supply arrangements for up to 75 years and restores the opportunity for Metropolitan to receive any special surplus water.

On February 11, 2010, the Sacramento Superior Court issued its judgment in consolidated cases filed to determine or challenge the validity of the QSA and associated agreements. The court ruled that the QSA Joint Powers Agreement (pursuant to which IID, CVWD and SDCWA agreed to commit $163.0 million toward certain mitigation and restoration costs associated with implementation of the QSA and related agreements, and the State agreed to be responsible for any costs exceeding this amount) was invalid because the State's commitment was unconditional in nature and, as such, violated the State's debt limitation under the California Constitution. The court also invalidated eleven other agreements, including the QSA, because they were inextricably interrelated with the QSA Joint Powers Agreement.

In March 2010, Metropolitan, IID, CVWD, SDCWA, the State and others filed notices of appeal challenging various aspects of the trial court's ruling. On December 7, 2011, the court of appeal issued its ruling reversing, in part, the trial court's ruling. In particular, the court of appeal held the QSA Joint Powers Agreement to be constitutional. The court of appeal also rejected other challenges to this agreement and remanded the matter back to the trial court for further proceedings on the claims that had been dismissed as moot. A two-day bench trial was held on November 13, 2012. On June 4, 2013 the trial court issued its ruling, holding that IID had acted within its authority in executing these agreements and had complied with all substantive and procedural requirements imposed under State law. In addition, the court held that the environmental reviews conducted in support of the QSA and related agreements complied with the California Environmental Quality Act and its implementing regulations in all respects. In short, the trial court rejected all of the claims asserted by opponents of the QSA. The court issued a final statement of decision and entered a final judgment on July 31, 2013. A number of parties, including the County of Imperial and the Imperial County Air Pollution Control District, have filed appeals challenging this decision on various grounds. Briefing is expected to be completed by fall of 2014; however the court has not set a hearing date. The impact, if any that this litigation might have on Metropolitan's water supplies cannot be adequately determined at this time.

(f) Abandoned Off-Aqueduct Power Facilities

The state Department of Water Resources (DWR) has financed the construction of certain off- aqueduct power facilities in order to provide power for water transportation purposes for the State Water Project system. Two geothermal facilities have been abandoned by DWR due to insufficient steam supply to operate the plants at their planned capacities. As a result of these actions by DWR, Metropolitan recorded losses of $204.1 million in prior fiscal years. Metropolitan's estimated remaining long-term contractual obligations for these facilities as of June 30, 2014, which are based on the State's latest estimates, including average interest of 5.2 percent through the year 2027, are shown in the following table (see Note 6):

(Dollars in thousands)	Principal	Interest	Total
Year ending June 30:			
2015	$ 4,062	$ 1,173	$ 5,235
2016	3,309	955	4,264
2017	3,213	776	3,989
2018	1,239	604	1,843
2019	1,292	542	1,834
2020-2024	8,750	1,445	10,195
2025-2027	367	43	410
Total obligations	22,232	$ 5,538	$ 27,770
Less current portion	(4,062)		
Long-term portion of obligations	$ 18,170		

(g) Construction Programs and Contracts

The estimated cost, excluding contingencies, of Metropolitan's capital program for fiscal years 2015 through 2019 totals approximately $1.3 billion.

Over the next three years, approximately $781.0 million is budgeted in the capital program, with over $296.0 million planned for the Weymouth Oxidation Retrofit Program (ORP), Chlorine Containment at the Chemical Unloading Facility, Diemer Basin Rehabilitation, Lakeview Pipeline Refurbishment, Palos Verdes Reservoir Floating Cover Replacement, Second Lower Feeder PCCP Refurbishment, Jensen Electrical System Reliability, and Weymouth Filter Rehabilitation.

The capital program also includes $128.1 million of estimated costs for facilities that may be required to meet current water quality standards (see Note 9i).

Metropolitan had commitments under construction contracts in force as follows:

	June 30,			
(Dollars in thousands)		**2014**		2013
Oxidation retrofit program	**$**	**41,196**	$	82,422
Weymouth plant power system upgrade		**—**		59
La Verne maintenance shops upgrade		**2,716**		12,284
Copper basin reservoir outlet structure rehabilitation		**—**		1,876
Eagle Rock tower and puddingstone spillway gates rehabilitation		**—**		17
Weymouth plant emergency broadcast system rehabilitation		**—**		450
Yorba Linda power plant turbine-generator		**3,305**		2,936
Jensen module no. 1 filter surface wash system upgrade		**2,909**		10,403
Diemer finished water reservoir & east washwater tank seismic upgrade		**—**		5,409
Diemer butterfly valve replacement		**—**		3,033
Jensen butterfly valve replacement		**—**		1,913
Weymouth filter outlet chemical trench		**—**		1,140
Diemer electrical improvements		**9,523**		—
Weymouth filter buildings seismic upgrades		**944**		—
Weymouth backup domestic water pipeline replacement		**139**		—
Second lower feeder pccp repair		**5,967**		—
Etiwanda pipeline north liner repair		**2,556**		—
Jensen washwater tanks seismic upgrades		**2,967**		—
Second lower feeder stray current mitigation		**73**		—
Sepulveda feeder south reach stray current mitigation		**528**		—
Chemical unloading facility chlorine containment and handling facilities		**21,754**		—
Inland feeder and lakeview pipeline intertie		**19,700**		—
Other		**3,725**		3,173
Total	**$**	**118,002**	$	125,115

These commitments are being financed with operating revenues.

(h) Claims and Litigation

SDCWA filed San Diego County Water Authority v. Metropolitan Water District of Southern California; et al. on June 11, 2010. The complaint alleges that the rates adopted by the Board on April 13, 2010, which became effective January 1, 2011 and January 1, 2012, misallocate State Water Contract costs to the System Access Rate and the System Power Rate, and thus to charges for transportation of water, and that this results in an overcharge to SDCWA by at least $24.5 million per year. The complaint alleges that all State Water Project costs should be allocated instead to Metropolitan's Supply Rate, even though under the State Water Contract Metropolitan is billed separately for transportation, power and supply costs. It states additionally that Metropolitan will overcharge SDCWA by another $5.4 million per year by including the Water Stewardship Rate in transportation charges.

The complaint requests a court order invalidating the rates and charges adopted April 13, 2010, and that Metropolitan be mandated to allocate costs associated with State Water Project supplies and the Water Stewardship Rate to water supply charges. Rates in effect in prior years are not challenged in this lawsuit. Metropolitan contends that its rates are reasonable, equitably apportioned among its member agencies and lawful. Nevertheless, to the extent that a court invalidates Metropolitan's adopted rates and charges, Metropolitan will be obligated to reconsider and modify rates and charges to comply with any court rulings related to Metropolitan's rates. While components of the rate structure and costs may change as a result of any such rulings, Metropolitan expects that such rates and charges would still recover Metropolitan's cost of service. As such, revenues would not be affected. If Metropolitan's rates are revised in the manner proposed by SDCWA in the complaint, other member agencies may pay higher rates unless other actions are taken by the Board.

SDCWA filed its First Amended Petition for Writ of Mandate and Complaint on October 27, 2011, adding five new claims to this litigation, two of which were eliminated from the case on January 4, 2012. The three remaining new claims are for breach of the water exchange agreement between Metropolitan and SDCWA (see Note 9d) based on allegedly illegal calculation of rates; improper exclusion of SDCWA's payments under this exchange agreement from calculation of SDCWA's preferential rights to purchase Metropolitan supplies and illegality of "rate structure integrity" provisions in conservation and local resources incentive agreements between Metropolitan and SDCWA. SDCWA filed a Second Amended Petition for Writ of Mandate and Complaint on April 17, 2012, which contains additional allegations but no new causes of action. While believing that the three surviving claims added to the rate challenge lack merit, Metropolitan is unable to assess at this time the likelihood of success of these or any future claims or the potential impact on Metropolitan's revenues or operations.

On June 8, 2012, SDCWA filed a new lawsuit challenging the rates adopted by Metropolitan on April 10, 2012 to become effective January 1, 2013 and January 1, 2014. The complaint contains allegations similar to those in the Second Amended Petition for Writ of Mandate and Complaint and new allegations asserting Metropolitan's rates violate Proposition 26. Metropolitan contends that its rates adopted on April 10, 2012 are reasonable, equitably apportioned among its member agencies and lawful and were adopted under a valid rate structure and cost of service approach. Metropolitan is unable to assess at this time the likelihood of success of this litigation or any future claims or the potential impact on Metropolitan's revenues or operations.

SDCWA filed a Third Amended Petition for Writ of Mandate and Complaint on January 23, 2013, to add new allegations that Metropolitan's rates adopted in April 2010 did not meet the requirements of Proposition 26. The court granted Metropolitan's motion to strike allegations relating to Proposition 26 on March 29, 2013. This ruling does not affect SDCWA's separate challenge to Metropolitan's rates adopted in April 2012, which also includes Proposition 26 allegations. Trial of both lawsuits concluded January 23, 2014. On April 24, 2014, the court issued its "Statement of Decision on Rate Setting Challenges," determining that SDCWA prevailed on two of its claims and that Metropolitan prevailed on the third claim. Specifically, the court found that there was not sufficient evidence to support Metropolitan's inclusion in its transportation rates, and hence in its wheeling rate, of either (1) payments it makes to the California Department of Water Resources for the State Water Project, or (2) all of the costs incurred by Metropolitan for conservation and local water supply development programs recovered through the Water Stewardship Rate. The court found that SDCWA failed to prove its "dry-year peaking" claim that Metropolitan's rates do not adequately account for variations in member agency purchases.

SDCWA's claims asserting breach of the Exchange Agreement and miscalculation of preferential rights will be tried in a second phase of the case. The court has scheduled a hearing on a pre-trial motion for November 3, 2014. No trial date has been set. The final judgment in the cases will be subject to appeal. Metropolitan is unable to assess at this time the likelihood of success of this litigation, any possible appeal or any future claims.

In May 2014, SDCWA filed a new lawsuit asserting essentially the same rate claims and breach of contract claim in connection with the Board's April 2014 rate adoption. Metropolitan filed its answer on June 30, 2014. Metropolitan is unable to assess at this time the likelihood of success of this case, any possible appeal or any future claims.

A number of other suits and claims arising in the normal course of business are pending against Metropolitan. In the opinion of Metropolitan's General Counsel, the adverse results, if any, of such legal actions on these suits and claims will not have a material effect on Metropolitan's financial position, changes in net position, or liquidity.

(i) Drinking Water Quality Standards

Under the Safe Drinking Water Act Amendments of 1996, Congress required the United States Environmental Protection Agency to set new drinking water quality standards. New standards to control microbial pathogens and disinfection byproducts (DBPs) became effective in 2002. These rules are known as the Interim Enhanced Surface Water Treatment Rule and the Stage 1 Disinfectants/Disinfection By-Product Rule. These standards became more stringent in a second set of regulations effective 2006. The second set of regulations (the Stage 2 Disinfectants/Disinfection Byproducts Rule and the Long-Term 2 Enhanced Surface Water Treatment Rule) did not require additional capital investment by Metropolitan.

Metropolitan identified ozone disinfection as the most cost-effective option to minimize the production of DBPs and achieve other water quality objectives. Ozone is now used as the primary disinfectant at the Mills, Jensen, and Skinner plants. Construction of ozonation facilities at the Diemer plant was completed in June 2013 and start-up is underway, while ozonation facilities at the Weymouth plant are under construction and should be completed in 2016. The estimated cost of implementing ozone treatment at all five plants is approximately $1.1 billion.

(j) Reid Gardner Generating Station

Reid Gardner Generating Station (Plant) is a 557 megawatt coal-fired plant located near Moapa, Nevada. The Plant is owned and operated by Nevada Energy (NE). In 1983, the California Department of Water Resources (DWR) entered in to a Participation Agreement to import power from the Plant to serve the State Water Project energy needs. DWR's interest in the Plant terminated on July 25, 2013. DWR and NE negotiated the terms of the divestiture including DWR's obligations to mitigate any environmental impacts associated with the electricity generated for DWR over the past thirty years. Metropolitan pays approximately 75.0 percent of DWR's costs associated with the generation of electricity at the Plant and will pay this proportion of DWR's assigned mitigation costs.

(k) Landfill Obligation

Federal and State laws and regulations require that Metropolitan perform certain maintenance and monitoring functions at its sole landfill site for 30 years after closure. They further require that a separate funding mechanism be established to ensure that sufficient funds are available for closure and postclosure costs. In October 1995, the landfill was closed and management's estimate of closure and postclosure costs for this site totaled approximately $2.0 million. The required thirty-year postclosure maintenance and monitoring of the landfill officially started in January 1998; after the installation of the landfill's final cover was completed. During fiscal year 2014, $25,000 was expended for postclosure maintenance and monitoring activities.

The actual cost of postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws or regulations. Funding of these costs has been derived from a separate trust account that has been established for closure and postclosure costs. The balance of the trust account is sufficient to cover the landfill liability. At June 30, 2014 and 2013, approximately $813,000 and $838,000 net of interest receipts and disbursements were available, respectively, in this account.

10. PARTICIPATION RIGHTS IN STATE WATER PROJECT

Metropolitan is one of 29 water suppliers contracting with the State of California for a system to provide water throughout much of California. Under the terms of the State Water Contract, as amended, Metropolitan is obligated to pay allocable portions of the cost of construction of the system and ongoing operations and maintenance costs through at least the year 2035, regardless of the quantities of water available from the project (see Note 9a). Metropolitan and the other contractors may also be responsible to the State for certain obligations of any contractor who defaults on its payments to the State.

Approximately 26 percent and 35 percent of Metropolitan's total expenditures during fiscal years ended June 30, 2014 and 2013, respectively, pertained to its net payment obligations for the State Water Project. These payments were primarily based on the contractual water delivery request, the annually requested and actual deliveries received, and the cost of power required for such deliveries, offset by credits received from the project.

Management's present intention is to exercise Metropolitan's option to extend the contractual period to at least 2052, under substantially comparable terms. This corresponds to an estimated 80-year service life for the original facilities. The State is obligated to provide specified quantities of water throughout the life of the contract, subject to certain conditions.

The State has power generation facilities associated with its reservoirs and aqueducts. The power generated is utilized by the system for water transportation purposes. Power generated in excess of system needs is marketed to various utilities and California's power market. The revenues resulting from sales of excess power reduce the costs of pumping. Metropolitan and the other water contractors are responsible for repaying the capital and operating costs of the power facilities regardless of the amount of power generated (see Note 9f).

Metropolitan capitalizes its share of system construction costs as participation rights when such costs are billed by the State (see Notes 1h, 2, and 9a). Metropolitan's share of system operations and maintenance costs is charged to expense.

Metropolitan amortizes a portion of capitalized participation rights each month using a formula that considers the total estimated cost of the project, the estimated useful life, and estimated production capacity of the assets based upon information provided by the State of California. In fiscal year 2006, the formula was modified to use maximum annual contracted deliveries as the production capacity estimate. Amortization expense totaled $109.4 million and $112.0 million in fiscal years 2014 and 2013, respectively.

11. DEPOSITS, DEFERRED CHARGES, AND OTHER

Balances at June 30, 2014 and 2013 were as follows:

	June 30,	
(Dollars in thousands)	**2014**	2013
Deferred water costs	**$ 180,306**	$ 220,687
Deferred charges-Delta Habitat conservation and conveyance	**58,654**	51,306
Deferred charges-Bay/Delta	**2,357**	2,575
Prepaid expenses	**6,355**	3,594
Feasibility studies/reimbursable projects	**11,002**	12,921
Other	**8,448**	8,644
Total deposits, deferred charges, and other	**267,122**	299,727
Less current portion	**(2,565)**	(2,554)
Noncurrent portion	**$ 264,557**	$ 297,173

(a) Deferred Water Costs

Metropolitan has entered into several water exchange and storage agreements with other agencies. These agreements provide Metropolitan with additional reliable water supplies to supplement deliveries of Colorado River and State Water Project water. Metropolitan is also actively pursuing other agreements, both within and outside its service area, to provide additional water supplies. The exchange and storage agreements generally provide for advance delivery of water during periods when water is available. At a later time when water is needed, these programs can then return water to improve Metropolitan's reliability. Expenditures associated with these agreements have been recorded as deferred charges and are charged to cost of water as the water is withdrawn. At June 30, 2014 and 2013, deferred water costs totaled approximately $180.3 million and $220.7 million, respectively, based on volumes of 945,000 acre-feet and 1,147,000 acre-feet, as of such dates.

(b) Deferred Charges—Delta Habitat Conservation and Conveyance

In March 2009, Metropolitan, other State Water Project contractors, federal Central Valley Project contractors, and the U.S. Department of Interior's Bureau of Reclamation entered into funding agreements with the California Department of Water Resources. The agreements are known collectively as the Delta Habitat Conservation and Conveyance Program (DHCCP) Funding Agreement and the Bay Delta Conservation Plan and Delta Habitat Conservation and Conveyance Plan (BDCP - DHCCP) Supplemental Funding Agreement. Metropolitan's three-year DHCCP agreement provides funding of approximately $35.0 million for Metropolitan's share (24 percent). Metropolitan's two-year BDCP-DHCCP agreement provides funding of approximately $25.0 million (25 percent). The funding provided by both agreements supports development of the BDCP through environmental analysis, planning and design of Delta conservation measures including Delta water conveyance options. If the BDCP is approved, including construction of new Delta water conveyance facilities, DWR intends to issue revenue bonds in an amount sufficient to reimburse Metropolitan for funds advanced through these agreements for planning and environmental studies. If the BDCP is not approved to proceed with construction, no reimbursement will occur.

(c) Deferred Charges—Bay/Delta

In December 1994, representatives from state and federal resource agencies, and urban, agricultural, and environmental agencies agreed to a set of principles to implement a protection plan for the San Francisco Bay/Delta Estuary. Among the principles was a commitment by agricultural and urban water agencies to fund $60.0 million to help initiate a comprehensive program to address nonoutflow-related impacts to the Bay/Delta environment. The Secretary of the Interior requested Metropolitan to guarantee $10.0 million annually for three years, for a total of $30.0 million, to be made available for the restoration fund created by the principles. Metropolitan's final payment of its $30.0 million commitment was made in June 1998. Metropolitan's contributions are accounted for as deferred charges that are charged to expense based on expenses by the restoration fund. The amount charged to expense totaled $218,000 and $160,000 for fiscal years ended June 30, 2014 and 2013, respectively. During fiscal year 2001, Metropolitan became trustee for the unspent funds, which totaled $2.4 million and $2.6 million at June 30, 2014 and 2013, respectively.

(d) Feasibility Studies/Reimbursable Projects

Metropolitan conducts studies to determine if construction projects are feasible. The costs of these studies are recorded as deferred charges until the study has been completed. If the study shows that the project is feasible, the study costs are capitalized as project costs. Otherwise, the study costs are charged to operating expense.

Reimbursable projects include work Metropolitan is contracted to perform for outside, non-related parties, and is subsequently billed for reimbursement.

12. DEFERRED COMPENSATION AND SAVINGS PLANS

For the benefit of its employees, Metropolitan has adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Investment of the funds is managed by a third-party administrator, accordingly, at June 30, 2014 and 2013, neither the plan assets nor the related liability were included in the accompanying basic financial statements.

The third-party administrator coordinates the investment of the deferred amounts in available investment vehicles per the instructions of each participant. Metropolitan's Treasurer serves as Trustee for the deferred compensation plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established another compensation deferral arrangement in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Consolidated Savings Plan is available to substantially all employees. At June 30, 2014 and 2013, 1,555 and 1,473 employees participated in the consolidated 401(k) plan. Amounts deferred by participants, Metropolitan matching contributions, and accumulated earnings thereon are fully vested. Deferred amounts and matching contributions are transferred by Metropolitan each pay period to a third-party administrator who coordinates the investment of such proceeds in a variety of investment vehicles in accordance with the instructions of each participant. The Treasurer serves as Trustee for the savings plan. Metropolitan is not liable to its employees for any losses that may be incurred in connection with their participation in this plan.

Metropolitan has established a matching contribution program on behalf of each participating employee in the savings plan. Metropolitan's contribution is subject to a maximum of 4.5 percent of the employee's total cash compensation.

Contributions to the savings plan were as follows:

(Dollars in thousands)	June 30, 2014	June 30, 2013
Employees	**$ 19,415**	$ 18,562
Metropolitan	**7,839**	7,433
	$ 27,254	$ 25,995
Eligible payroll	**$ 199,815**	$ 190,555
Employee contributions as percent of eligible payroll	**9.7%**	9.7%

13. NET POSITION

Net position is classified as either restricted, unrestricted, or net investment in capital assets, including State Water Project Costs.

Net investment in capital assets, including State Water Project costs consist of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, notes, or other borrowings attributable to the acquisition or construction of those assets. Metropolitan's capital assets, including State Water Project costs include plant and equipment (Notes 1g and 2), participation rights in State Water Project (Notes 1h, 2, and 10), and participation rights in other facilities (Notes 2 and 4). Net investment in capital assets, including State Water Project costs were approximately $5.6 billion and $5.4 billion at June 30, 2014 and 2013, respectively.

The restricted component of net position are those items that have external constraints placed on them by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions of enabling legislation. Restricted net position totaled $319.3 million and $375.3 million at June 30, 2014 and 2013, respectively, of which $171.6 million and $205.2 million, respectively, is related to bond covenants. The remaining $147.7 million and $170.1 million, respectively, relates to estimated operating and maintenance expense for July and August of the subsequent fiscal year.

The unrestricted component of net position are those items that do not meet the definition of "restricted" or "net investment in capital assets, including State Water Project costs." Unlike the restricted net position, the Board has discretion in determining the use and establishing minimum/maximum balance requirements for the unrestricted cash and investment portion of net position. The Board may at any time change or eliminate amounts established for these purposes. Unrestricted net position totaled $1,288.7 million and $1,025.4 million at June 30, 2014 and 2013, respectively.

14. RISK MANAGEMENT

Metropolitan is exposed to various risks of loss related to design, construction, treatment, and delivery of water resources. Metropolitan self-insures most Metropolitan property losses, the first $25.0 million for general liability and $5.0 million for workers' compensation. Metropolitan supplements its self-insurance program with $75.0 million excess general liability coverage and $50.0 million excess workers' compensation insurance. Additional excess liability policies also purchased include $60.0 million for fiduciary liability and $65.0 million for directors' and officers' liability. Special insurance policies purchased include aircraft hull and liability, a limited property damage policy, crime insurance, specialty crime coverage, and travel accident coverage. Coverage types and limits for fiscal year 2014 were unchanged from fiscal year 2013. Settlement amounts did not exceed the self-insurance or insurance coverage limits in any of the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. The present value of liabilities for unpaid claims is based on a 1.5% annual interest rate over the life of the claims. Changes in the balances of claims liabilities during the past two fiscal years were as follows:

	June 30,		
(Dollars in thousands)	**2014**	2013	2012
Unpaid claims, beginning of fiscal year	**$ 27,239**	$ 26,655	$ 16,790
Incurred claims (including IBNR)	**9,184**	6,611	17,983
Claim payments and adjustments	**(9,071)**	(6,027)	(8,118)
Unpaid claims, end of fiscal year	**27,352**	27,239	26,655
Less current portion	**(15,500)**	(16,200)	(8,314)
Noncurrent portion	**$ 11,852**	$ 11,039	$ 18,341

15. SUBSEQUENT EVENT

On August 29, 2014, Metropolitan issued $86,060,000 of Water Revenue Refunding Bonds, 2014 Series E, $7,860,000 of Water Revenue Refunding Bonds, 2014 Series F (Federally Taxable) and $57,840,000 of Water Revenue Refunding Bonds, 2014 Series G-1, G-2, G-3, G-4, and G-5 (Term Mode), at a combined true interest cost of 3.16 percent, to refund $79,185,000 of Water Revenue Refunding Bonds, 2004 Series A-1 and A-2, $83,520,000 of Water Revenue Refunding Bonds, 2008 Series A-2, and to fund $16,953,626 of swap termination payments. The maturities of the 2014 Series E, 2014 Series F, and 2014 Series G-1, G-2, G-3, G-4, and G-5 bonds extend to July 1, 2024, January 1, 2015, and July 1, 2037, respectively.

The 2014 Series E and 2014 Series F bonds are not subject to optional or mandatory redemption provisions. The 2014 Series G-1, G-2, G-3, G-4, and G-5 bonds are subject to an unscheduled mandatory tender, at Metropolitan's discretion, beginning July 1, 2016, July 1, 2017, July 1, 2018, July 1, 2019 and July 1, 2020, respectively, and are subject to mandatory and optional redemption provisions.

Funding Progress of Pension Plan

The table below provides a three-year history of the funded status of Metropolitan's pension plan. The information reflects the most recent actuarial valuation and the two preceding valuations from CalPERS.

(Dollars in thousands)

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30:						
2010	$ 1,563,506	$ 1,351,073	$ 212,433	86.4%	$ 192,519	110.3%
2011	$ 1,674,274	$ 1,415,596	$ 258,678	84.5%	$ 190,711	135.6%
2012	$ 1,730,939	$ 1,471,410	$ 259,529	85.0%	$ 184,657	140.5%

Funding Progress of Other Postemployment Benefits

The table below provides a history of the funded status of Metropolitan's OPEB obligation. The information reflects the most recent biennial actuarial valuation and the preceding biennial valuations.

(Dollars in thousands)

Actuarial Valuation Date	Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
1/1/11	$ 545,476	$ —	$ 545,476	0.00%	$ 187,368	291.1%
6/30/11	$ 367,719	$ —	$ 367,719	0.00%	$ 179,242	205.2%
6/30/13*	$ 315,326	$ —	$ 315,326	0.00%	$ 182,937	172.4%

* Most recent actuarial valuation date.