Department of Water Resources
Charge Fund
Financial Statements
For the year ended June 30, 2022

Department of Water Resources Charge Fund
Table of Contents

Page

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the State of California Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States *(Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Fund has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Accordingly, a restatement has been made as of July 1, 2021, to restate beginning net position. Our opinion is not modified with respect to this matter.

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Individual Fund Financial Statements

As discussed in Note 2 to the financial statements, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2022, and the changes in its financial positions and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the 2021 financial statements of the Fund, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects with the exception of the change in accounting principle identified in the preceding paragraph, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and OPEB schedules be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 September 12, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Sacramento, California
September 12, 2023

This Management Discussion and Analysis (MD&A) is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Charge Fund (the Fund), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in the MD&A in conjunction with the financial statements that follow and are not related to DWR's other governmental and proprietary funds.

The financial statements include three required Statements, which provide different views of the Fund. The three required Statements are:

- The Statement of Net Position: includes all assets, liabilities and deferred outflows and inflows of resources as of the period ending date.
- The Statement of Revenues, Expenses and Changes in Net Position: presents all current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: reports cash receipts, disbursements, and the net change in cash resulting from four principal types of activities: operating, capital financing, non-capital financing and investing.

These statements provide current and long-term information about the Fund and its activities. These financial statements report information using accounting methods similar, although not identical, to those used by private sector companies. In order for the financial statements to be complete, they must be accompanied by a complete set of Notes. The Notes to Financial Statements provide disclosures which are required to conform to generally accepted accounting principles. The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- Fiscal Year 2021-2022 is the third year of operations for the Fund. On July 12, 2019, Governor Newsom signed Assembly Bill 1054 (AB 1054) and companion Assembly Bill 111 (AB 111) into law. In addition, AB 1054 and the California Public Utilities Commission (CPUC), decision D. 19-010-056, established the Wildfire Non-Bypassable Charge (NBC) and imposed it on the ratepayers of California's three largest Investor Owned Utilities (IOUs), beginning October 1, 2020 and lasting through January 1, 2036.

- The Fund received $1,057,432 in NBCs during fiscal year 2022. The Fund transferred $964,430 of the total NBCs collected to the California Earthquake Authority (CEA) during fiscal year ended June 30, 2022.

- The liabilities of the Fund decreased $50,590, during fiscal year 2022, as a result of only accruing June 2022 NBC transfer made to the CEA.

- The Fund's total net position, as of June 30, 2022, was $202,290.

Purpose of Fund

AB 1054 was signed into law on July 12, 2019 as a result of the dramatic increase in the number and severity of wildfires in California. Approximately 25 percent of California's population live in over 25 million acres of high risk areas leaving them exposed to wildfires during intense dry seasons. The Fund, established in August 2019, is intended to provide the IOUs a source of funding to pay eligible wildfire claims.

(amounts in thousands unless otherwise stated)

The Fund will assist in reducing the IOU's wildfire financial risks, by providing funding for a system to spread the exposure that the three IOUs: Pacific Gas & Electric Company, Southern California Edison, and San

Diego Gas & Electric Company, have from wildfire liabilities and payment of wildfire-related claims against the IOUs. The Fund also has the authority to issue revenue bonds up to $10.5 billion backed by NBCs imposed on the IOU's ratepayers.

AB 1054 directs the CPUC to order the IOUs to impose and collect the NBC on ratepayers for deposit into the Fund in the same manner as the Electric Power Fund's Bond Charge. The new NBC is to be equal to the average annual amount of Bond Charges for the Power Supply Revenue Bonds collected from January 1, 2013 through December 31, 2018, which is $902.4 million. This annual amount will be collected through January 1, 2036.

AB 1054 also directed the CPUC to enter into a Rate Agreement with the DWR to establish the NBC. In a decision dated October 24, 2019, the CPUC adopted the Rate Agreement (the "Rate Agreement"). The Rate Agreement consists of a covenant that the CPUC shall calculate, revise and impose, from time to time, NBCs sufficient to fund at all times the $902.4 million annual Revenue Requirement, which the covenant shall have the force and effect of a "irrevocable financing order" under Section 842(d) of the California Public Utilities Code.

CONDENSED STATEMENT OF NET POSITION

The Fund's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, are summarized as follows:

	Fiscal Year 2022	Fiscal Year 2021
Assets and deferred outflows of resources		
Current assets	$ 283,602	$ 253,956
Non-current assets	505	-
Deferred outflows of resources	9,625	-
Total Assets and deferred outflows of resources	293,732	253,956
Liabilities and deferred inflows of resources		
Current liabilities	80,231	139,894
Non-current liabilities	9,073	-
Deferred inflows of resources	2,138	-
Total Liabilities and deferred inflows of resources	91,442	139,894
Net Position		
Unrestricted	$ 202,290	$ 114,062

Current Assets

Restricted Cash

General Cash increased to $3,999, in fiscal year 2022, due to the collection of NBCs at the end of June 30, 2022.

The Administrative and Operating Cost Account was $1,776 at the end of fiscal year 2022.

The Collection Account was $79,283, at the end of fiscal year June 30, 2022, from collection of NBC's from the IOUs.

Accounts Receivable

The accounts receivable reflects NBCs collected by the IOUs from non-exempt ratepayers in the IOU's service area. The accounts receivable balance was $198,334 at June 30, 2022, as compared to $107,742 at the end of the previous fiscal year. This increase reflects the higher NBC rate imposed on ratepayers from January to June 2022 (as compared to the rate from fiscal year 2021) to make up for prior years shortfalls.

Non Current Assets

The Fund implemented GASB Statement No. 87, *Leases,* for the fiscal year ended June 30, 2022, and recognized the right-to-use assets related to leases. The beginning balance of the right-to-use asset for the fiscal year 2022 was $641. The right-to-use asset decreased by $136 due to amortization.

Deferred Outflows of Resources

Deferred outflows of resources, related to pensions, increased by $3,343 in fiscal year 2022 due to the first year of the allocation of the pension amounts to the Fund.

Deferred outflows of resources related to Other Postemployment Benefit (OPEB) increased by $6,282 in fiscal year 2022 as this is the first year of the OPEB allocation to the Fund.

Current Liabilities

The accounts payable balance was $79,618 at June 30, 2022. This balance mainly included NBCs required to be transferred to the CEA for the month of June 2022 only. This is after the DWR's administrative and operating expenses, and any reserves, are withheld.

Net Pension Liability

The net pension liability increased by $2,712 in fiscal year 2022 due to the first year of the allocation of pension amounts to the Fund.

(amounts in thousands unless otherwise stated)

Net OPEB Liability

The net OPEB liability increased by $5,984 in fiscal year 2022 due to the first year of the OPEB allocation to the Fund.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions increased by $1,150 in fiscal year 2022 due to the first year of the allocation of pension amounts to the Fund.

Deferred inflows of resources related to OPEB increased by $988 in fiscal year 2022 due to the first year of OPEB allocations to the Fund.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the year ended June 30 are summarized as follows:

	Fiscal Year 2022	Fiscal Year 2021
Operating Expenses		
Total operating expenses	$ 5,239	$ 5,411
Non Operating Revenues and Expenses		
Total non operating revenues and expenses	93,467	121,588
Change in net position	88,228	116,177
Net position, beginning of year as restated	114,062	(2,115)
Net position, end of year	$ 202,290	$ 114,062

Operating Expenses

The operating expenses decreased by $172 during the fiscal year ending June 30, 2022 due to less administrative activities compared to the previous year.

Non Operating Revenues and Expenses

The Fund started collecting NBCs in October 2020 in accordance with AB 1054. The Fund collected a total of $1,057,432 during fiscal year 2022. The Fund collected a total of $648,826 in NBCs during fiscal year 2021. The increase was due to the fiscal year 2022 being the first full year of IOUs collected by the Fund.

The Fund transferred $964,430 of NBCs to CEA during fiscal year 2022, an increase of $436,906 from 2021, due to fiscal year being the first full year of NBC collections.

Capital Assets

In fiscal year 2022, the Fund implemented GASB 87 and recognized the right to use asset of $641.

Requests for Information

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, Enterprise Accounting Branch, 715 P Street, 6th Floor, Sacramento, CA 95814.

Department of Water Resources Charge Fund
Statement of Net Position
June 30, 2022
(amounts in thousands unless otherwise stated)

		2022
Assets		
Current assets:		
Restricted cash:		
General cash	$	3,999
Administrative and operating cost account		1,776
Collection account		79,283
Wildfire transfer account		1
Accounts receivable		198,334
Interest receivable		209
Total current assets		283,602
Non-current Assets:		
Right-of-use asset, net of accumulated amortization		505
Total non-current assets		505
Total assets		284,107
Deferred outflows of Resources		
Deferred outflows of resources related to pensions		3,343
Deferred outflows of resources related to OPEB		6,282
Total deferred outflows of resources		9,625
Total assets and deferred outflows of resources	$	293,732
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$	79,618
Accrued leave time		485
Lease liability, current portion		128
Total current liabilities		80,231
Non-current Liabilities:		
Lease liability, net of current portion		377
Net pension liability		2,712
Net OPEB liability		5,984
Total non-current liabilities		9,073
Total liabilities		89,304
Deferred inflows of resources		
Deferred inflows of resources related to pensions		1,150
Deferred inflows of resources related to OPEB		988
Total deferred inflows of resources		2,138
Net position:		
Unrestricted		202,290
Tota Total Net position		202,290
Total liabilities, deferred inflows of resources and net position	$	293,732

See accompanying Notes to Financial Statements

Department of Water Resources Charge Fund
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2022
(amounts in thousands unless otherwise stated)

Operating Expenses:	
Adminstrative and operating expenses	$ 5,103
Amortization expense	136
Total operating expenses	5,239
Operating Loss	(5,239)
Non Operating Revenues (Expenses):	
Non-bypassable charges and operating transfers	$ 1,057,432
Interest income	465
Non-bypassable charges and operating transfers - paid to CEA	(964,430)
Total non operating revenues/(expenses)	93,467
Change In Net Position	88,228
Net position, beginning of year	114,062
Net position, end of year	$ 202,290

See accompanying Notes to Financial Statements

Department of Water Resources Charge Fund
Statement of Cash Flows
For the year ended June 30, 2022
(amounts in thousands unless otherwise stated)

Cash Flows From Operating Activities:	
Payment to employees for services	$ (3,199)
Payment for other expenses	(639)
Net cash flows used for operating activities	(3,838)
Cash Flows From Non-Capital Financing Activities:	
Collection of non-bypassable charges from IOUs	966,840
Payment of non-bypassable charges to CEA	(1,024,276)
Net cash flows used for non-capital financing activities	(57,436)
Cash Flows From Capital Financing Activities:	
Principal repayment on lease	(137)
Interest payment on lease	(4)
Net cash flows used for investing activities	(141)
Cash Flows From Investing Activities:	
Interest received on investments	355
Net cash flows used for investing activities	355
Changes in restricted cash and equivalents	(61,060)
Restricted cash and equivalents, beginning of period	146,119
Restricted cash and equivalents, end of period	$ 85,059
Restricted cash and equivalents included in:	
Administrative and operating cost account	$ 1,776
General cash	3,999
Wildfire transfer account	1
Collection account	79,283
Restricted cash and equivalents, end of year	$ 85,059
Reconciliation of income (loss) from operation to net cash used in operating activities:	
Income/loss from operations	$ (5,239)
Amortization of right-to-use lease buildings	136
Changes in assets and liabilities to reconcile loss from operations to net cash used in operations:	
Net OPEB liability and related deferred inflows/outflows	690
Net pension liability and related deferred inflows/outflows	519
Increase/decrease in accounts payable for services	5
Increase in accrued leave time	51
	$ (3,838)

See accompanying Notes to Financial Statements

1. Reporting Entity

In response to the dramatic increase in the number and severity of California wildfires, coupled with the intense dry seasons that left approximately twenty-five percent of California's population living in over 25 million acres of high-risk areas, Governor Newson convened a Strike Force in early calendar year 2019 to address potential solutions to this catastrophic and potentially growing risk.

As a result of the recommendations made by the Strike Force, the California Legislature began drafting legislation with the aim to reduce wildfire risks while also establishing a system to spread the exposure that Investor Owned Utilities (IOUs) have for liabilities from wildfires. These legislative efforts resulted in AB 1054 and a companion bill, AB 111, with AB 111 primarily covering the oversight and implementation of AB 1054.

These bills were signed into law on July 12, 2019. At that time, the California Earthquake Authority (CEA) was designated the Fund's interim administrator until the nine-member California Catastrophe Response Council (CCRC) could be formed and appoint an administrator.

AB 1054, among other things, created a new fund to facilitate payment of wildfire-related IOUs liabilities (the "Wildfire Fund"), and authorizes the Department of Water Resources (DWR) to issue revenue bonds to help capitalize the Wildfire Fund. The Wildfire Revenue Bonds could not be issued until the Power Supply Revenue Bonds (PSRBs), issued pursuant to Section 80134 of the California Water Code, were either been legally defeased or paid in full at maturity. (The PSRBs were legally defeased on September 24, 2020.)

On April 23, 2020, the CCRC formally named the CEA as the Wildfire Fund Administrator. The CEA is a not-for-profit, privately-funded, publicly-managed organization. Assets in the CEA funds for residential earthquake insurance policyholders are segregated and separately managed and maintained from assets in the Wildfire Fund.

AB 1054 directed the California Public Utilities Commission (CPUC) to order the IOUs to impose and collect a Wildfire Non-Bypassable Charge (NBC) for deposit into the Fund in the same manner as the Bond Charge under the Electric Power Fund's PSRB Program. The new Wildfire NBCs are to be equal to the average annual amount of PSRB Bond Charges collected from January 1, 2013 through December 31, 2018, which is approximately $902.4 million per year.

In addition, AB 1054 directed the CPUC to make a just and reasonable determination regarding the Wildfire NBCs at the onset of the program and through its duration. The CPUC, in Decision 19-10-056, effective on October 24, 2019, found the imposition of a Wildfire NBC to be just and reasonable and therefore approved the imposition and collection of the NBCs. This Decision also set $902.4 million as the annual Revenue Requirement (as defined in the Rate Agreement) to be just and reasonable.

In addition, Decision 19-10-056 allowed the CPUC to adopt a Rate Agreement with DWR, in accordance with AB 1054 to establish the NBCs. The Rate Agreement contains a covenant that the CPUC shall calculate, revise and impose, from time to time, NBCs sufficient to fund at all times the $902.4 million annual Revenue Requirement. This covenant shall have the full force and effect of a "irrevocable financing order" under Section 842(d) of the California Public Utilities Code. Any action required by an "irrevocable financing order" is binding upon the CPUC, and the CPUC shall have no authority to rescind, after or amend any revenue requirement thereunder.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Department of Water Resources Charge Fund (Fund) is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Fund uses the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

The financial statements of the Fund are intended to present the financial position, and the changes in financial position and cash flow, of only that portion of the business-type activities and major funds of the State of California that is attributable to the transactions of the Fund. They do not purport to, and do not present, the financial position of the State of California and the changes in its financial position and its cash flows in conformity with accounting principles generally accepted in the United States of America.

Lease Liabilities

Lease liabilities represent the Fund's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on an incremental borrowing rate determined by the State of California.

Leased Assets

Right to use leased assets are recognized at the lease commencement date and represent the Fund's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful live of the underlying asset using the straight-line method.

Current Year GASB Implementations:

GASB Statement No. 87 – *Leases.* The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 11 and the additional disclosures required by this standard is included in Note 4.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period.* This statement establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Fund has determined that there is no material impact on the financial statements.

GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Fund has determined that there is no material impact on the financial statements.

DWR Charge Fund Sub-Accounts:

In the implementation of AB 1054, the State of California, DWR and the Treasurer of the State of California, as Trustee, established separate restricted cash accounts. The accounts and their purpose follow:

<u>Collection Account:</u> All NBC revenues collected from the ratepayers of participating IOUs will be initially deposited into this account.

<u>Payment Account:</u> DWR will allocate from the Collection Account the amounts necessary to pay the principal of, and premium if any, and interest on, all Wildfire Revenue Bonds as any bonds become due as well as for the repayment of loans made from Surplus Money Investment Fund (SMIF) to the Wildfire Fund.

<u>Reserve Account:</u> DWR will allocate, from the Collection Account, monies necessary to maintain adequate reserves in such amount as may be determined by DWR from, time to time, to be necessary or desirable.

<u>Administrative and Operating Cost Account:</u> Any required payments will be made from this account for related, reasonable administrative, general and overhead expenses; payments for employee salaries and benefits; costs of complying with arbitrage; and any restrictions and rebate requirements relating to the Wildfire Revenue Bonds under section 148 of the Internal Revenue Code of 1986, as amended.

Also, any required payments will be made for contracts, agreements, and obligations entered into by the Fund. Wildfire NBCs servicing costs: costs of preparing and providing information and reports required under any financing document, the Rate Agreement and the Act (the Wildfire Prevention and Recovery Act of 2019, Division 26, commencing with Section 80500 of the California Water Code, along with the Rate Agreement between the DWR and the CPUC and Assembly Bill 1054 are collectively referred to as Act). Related audit, legal and consulting fees will also be made from this account.

Wildfire Transfer Account: After all other accounts have been funded, DWR will allocate from the Collection Account all remaining NBCs to this account. DWR will use this account to repay loans made from SMIF to the Wildfire Fund; repay loans made from the General Fund to the Wildfire Fund and transfer monies to the Wildfire Fund Administrator for credit to the Wildfire Fund.

Restricted Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, restricted cash and cash equivalents includes cash on hand and deposits in the SMIF. The fund considered cash held in bank and investment with the original maturity of 90 days or less to be cash and cash equivalents.

SMIF has an equity interest in the State of California PMIA. Generally, investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 7.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Fund's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

OPEB

The State of California provides medical and prescription drug benefits to retired state employee and dependents through CalPERS under the Public Employee's Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups) have agreed to refund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the System's portion of the CalPERS OPEB plan and additions to or deductions from the plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(amounts in thousands unless otherwise stated)

3. Liabilities

Accounts Payable

Accounts payable is comprised of accruals for training, salaries and benefits of employees, legal and consulting fees, and June 2022 NBCs balance for transfer to the CEA. The accounts payable balance, as of June 30, 2022, was $79,618.

4. Leases

DWR entered into twelve lease agreements for lease of office space. One lease is allocated by DWR to the Fund based on percentage of space dedicated to the Fund. The remaining eleven leases are allocated to the Fund by DWR based on the percentage of overhead allocation. The last lease agreement terminates in June 2035. Under the terms of the leases, the Fund pays a monthly base fee ranging from $72 dollars to $7,404 dollars, increasing up to 3.0% annually according to the terms of the agreements.

At June 30, 2022, the Fund has recognized a right to use asset of $505 and a lease liability of $505 related to these agreements. During the 2022 fiscal year, the Fund recorded $136 in amortization expenses and $4 in interest expense for the right to use the office spaces. The Fund used discount rates between 0.2% and 1.5%.

The obligations associated with these leases are as follows:

Fiscal Year Ended June 30	Principal	Interest
2023	$ 128	$ 3
2024	123	3
2025	102	2
2026	50	2
2027	35	1
2028-2032	42	3
2033-2035	25	1
Total	$ 505	$ 15

5. Right-to-use Asset

The Fund's amortized the right to use assets during the fiscal year as follows:

Right to Use Asset	July 1, 2021 As Restated	Additions	Subtractions	June 30, 2022
Office Space	$ 641	$ -	$ -	$ 641
Total Right to Use Asset	641	-	-	641
Amortization	-	136	-	136
Total Right to Use Asset, Net of Accumulated Amortization	$ 641	$ 136	$ -	$ 505

(amounts in thousands unless otherwise stated)

6. Pass-through Interest Payments

On August 15, 2019, the State of California issued a loan in the amount of $2 billion from the SMIF to the Wildfire Fund. The loan was disbursed directly to the Wildfire Fund and did not pass-through the Fund. Interest on the loan is repaid by the CEA on a quarterly basis. Section 8055 (b)(3) of the Water Code requires interest payments to the SMIF be made from the Wildfire Fund through the Fund. These interest payments do not represent revenues or expenses of the Fund and, accordingly, are not reflected on the Statement of Net Position or Statement of Revenues, Expenses and Changes in Net Position for the Fund.

The total amount of principal and interest payments received and disbursed to the SMIF, by the Fund, totaled $840,000 and $31,226 respectively, as scheduled for fiscal year 2022.

7. Restricted Cash and Investments

As of June 30, 2022, the Fund had the following Cash and Investments:

Cash and Investments	Balance
State of California Pooled Money Investment Account - Surplus Money Investment Fund	$ 81,060
Cash	3,999
Total cash and cash equivalents	$ 85,059
Reconciliation to Statement of Net Position:	
Cash	$ 3,999
Administrative and operating cost account	1,776
Collection account	79,283
Wildfire transfer account	1
	$ 85,059

As of June 30, 2022, the Fund had $3,999 deposited with the State Treasury in a non-interest bearing pooled account.

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral held in the State's name.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective maturity, tend to be more sensitive to changes in interest rates and therefore, more volatile than those with shorter maturities. The State Treasurer's Office (STO) Investment Policy, PMIA, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The STO Investment Policy limits investments to the following maximum maturities: U.S. Treasury securities, 5 years; federal agency securities, 5 years; banker's acceptances – domestic and foreign, 180 days; certificates of deposits, 5 years; commercial paper, 180 days; corporate bonds and notes, 5 years; repurchase agreements and reverse repurchase agreements, 1 year.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PMIA funds are on deposit with the State's Centralized Treasury System and are managed in compliance with the California Government Code, according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. These investments consist of U.S. government securities, securities of federally sponsored agencies, U.S. corporate bonds, interest bearing time deposits in California banks, prime-rated commercial paper, banker's acceptances, negotiable certificates of deposit, repurchase and reverse repurchase agreements. The PMIA policy limits the use of reverse repurchase agreements to no more than 10% of the PMIA and Commercial Paper to limits not to exceed 30% of the PMIA. The PMIA does not invest in leveraged products or inverse floating rate securities. The PMIA is not rated.

Concentration of Credit Risk: The SMIF concentration of credit risk is limited by spreading the investment mix over different investment types and issuers to minimize the impact any one industry, investment class, or institution can have on the SMIF portfolio.

For the fiscal year ended June 30, 2022, interest earned on the deposit in the SMIF was $465 at the rate of return of the underlying portfolio at 0.86%.

Fair Market Value Measurement: The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs. Deposits and withdrawals in government investment pools, such as SMIF, are made on the basis of $1 and not fair value. Accordingly, the Fund's proportionate share of these investments is uncategorized input not defined as Level 1, Level 2 or Level 3 input.

8. Commitments and Contingencies

The Fund is self-insured for most risks, including general liability and workers' compensation. Management believes the Fund's exposure to loss is immaterial and that any costs associated with such potential losses are recoverable from customers as part of the Fund's revenue requirement. No settlements have exceeded insurance coverage in the past three years.

(amounts in thousands unless otherwise stated)

9. Pension Plan

Department of Water Resources adopted GASB No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 requires that the report is connected with the liability and asset information within certain defined timeframes. For this FY21-22 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2020
Measurement Date (MD)	June 30, 2021
Measurement Period (MP)	July 1, 2020 to June 30, 2021

Plan Description

As of the measurement date, all employees of the Fund participate in the CalPERS Miscellaneous Defined Benefit Pension Plan (Plan), which is included in the State of California's State Annual Comprehensive Financial Report (ACFR) as a fiduciary component unit. CalPERS administers the Plan within the Public Employees' Retirement Fund (PERF). PERF is an Agent Multiple-Employer Defined Benefit Pension Plan. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirements are the same as those used to compute the State pension benefit obligation as defined by CalPERS. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The California Legislature passed, and the Governor signed the "Public Employees' Pension Reform Act of 2013" (PEPRA) on September 12, 2012. PEPRA contained several provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 2012. Benefit provisions and other requirements are established by State statute.

Benefits Provided

The benefits for the Plan are based on members' years of service, age, final compensation, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five or ten years of credited service.

(amounts in thousands unless otherwise stated)

The Plan's provisions and benefits in effect at June 30, 2022 are summarized as follows:

First Tier:

Hire date	Prior to January 15, 2011	January 15, 2011 to December 31, 2012	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 to 67	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	1.1 to 2.5%	1.092 to 2.418%	1.0 to 2.5%

Second Tier:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	1.25% @ 65	1.25% @ 67
Benefit vesting schedule	10 years service	10 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 to 67	52 to 67
Monthly benefits, as a % of eligible compensation	0.5 to 1.25%	0.65 to 1.25%

Contributions

Section 20814(c) of the California Public Employees Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2021 (the measurement date) the employer's contribution rates are approximately 29.4% respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer-Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan for the fiscal year ended June 30, 2022 was $0.5 million.

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

As of June 30, 2022, the Fund reported a net pension liability for the proportionate share of the net pension liability of $2,712. The Fund's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2021, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to June 30, 2021 using standard update procedures. The Funds' proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the fund. The SCO identified a total of 29 entities that are reported in the State's ACFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll).

(amounts in thousands unless otherwise stated)

The SCO calculated and provided these funds and organizations with their allocated pensionable compensation percentages by plan. The Fund's proportionate share of the net pension liability for the Plan measured as of June 30, 2021 was 0.01217%.

For the year ended June 30, 2022, the Fund recognized pension expense of $1,063. At June 30, 2022, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 544	$ -
Changes in proportion	2,625	-
Changes in assumption	-	4
Differences between expected and actual experience	174	-
Net differences between projected and actual earnings on pension plan investments	-	1,146
Total	$ 3,343	$ 1,150

The $544 reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2021 will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Pension Expense
2023	$ 686
2024	657
2025	621
2026	(315)
Total	$ 1,649

(amounts in thousands unless otherwise stated)

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date:	June 30, 2020
Actuarial Cost Method:	Entry age Normal
Discount Rate:	7.15%
Inflation:	2.50%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table:	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries.
Retirement Age:	The probabilities of Retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015.
Payroll Growth:	2.75%

Discount Rate

To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB 67 & 68 Crossover Testing Report” that can be obtained at CalPERS’ website.

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

In determining the long-term expected rate of return, CalPERS considered both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

(amounts in thousands unless otherwise stated)

The following table reflects long-term expected real rate of return by asset class:

Assets class [1]	Assumed asset allocation	Real return Years 1-10 [2]	Real return Year 11+[3]
	%	%	%
Public equity	50.00	4.80	5.98
Fixed income	28.00	1.00	2.62
Inflation assets	0.00	0.77	1.81
Private equity	8.00	6.30	7.23
Real assets	13.00	3.75	4.93
Liquidity	1.00	0.00	-0.92
Total	100%		

(1) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investment; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(2) An expected inflation of 2.00% used for this period.

(3) An expected inflation of 2.92% used for this period.

Sensitivity of the Fund's Proportionate Share Net Pension Liability to Changes in the Discount Rate

The following table presents the Fund's proportionate share of Plan's net pension liability as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Discount Rate -1% 6.15%	Current Discount Rate 7.15%	Discount Rate +1% 8.15%
The Fund's Proportionate Share of Plan's Net Pension Liability	$ 4,570	$ 2,712	$ 1,154

10. Other Post-Employment Health Care Benefits (OPEB)

Plan Description – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California under the Public Employees' Medical and Hospital Care Act. Dental benefits are provided under the State Employees' Dental Care Act. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined.

Benefits Provided - A member is eligible to enroll in a CalPERS health plan if he or she retires within 120 days of separation from employment, was eligible for health benefits upon separation and receives a monthly retirement allowance. CalPERS provides healthcare benefits for retirees and their dependents through payment of insurance premiums up to the maximum State Contribution amount.

The State of California provides medical, prescription drug, and dental benefits (healthcare benefits) to retired statewide employees through a single-employer defined benefit plan. The State participates in the CERBT, an agent multiple-employer plan consisting of an aggregation of single-employer plans.

The State also offers life insurance, long-term care and vision benefits to retirees; however, because these benefits are completely paid for by retirees, there is no GASB Statements No. 74 or 75 liability to the State on behalf of such benefits.

Contribution – The State and certain bargaining units and judicial employees (valuation groups) have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation retirees and dependents associated with that valuation group. Contributions are based on a percentage compensation with the ultimate goal of contributions 100 percent of the actuarially determined normal cost shared equality between the State and employees. Pre-funding contributions and investment income are not available to pay plan benefits until the earlier of 2046 or the year that actuarial liabilities are fully funded. The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not prefunded.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2022, the Fund reported a liability of $5,984 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of the same date. The Fund's proportion of the net OPEB liability was based on the SCO projection for the Fund. The proportion is based on the Fund's pensionable compensation relative to the pensionable compensation of all valuation groups which include the Fund's employee. The pensionable compensation amounts are used to calculate each state entity's proportionate share of OPEB amounts for each valuation group. At June 30, 2022, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.06%. At June 30, 2021, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.04%.

For the year ended June 30, 2022, the Fund recognized OPEB expenses of $929. On June 30 2022, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

(amounts in thousands unless otherwise stated)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 239	$ -
Change of assumptions	366	220
Difference between expected and actual experience	3	741
Changes in proportion	5,672	-
Difference between projected and actual earnings on investments	2	27
Total	$ 6,282	$ 988

A total of $239 was reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date. This amount will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2023	$ 757
2024	815
2025	901
2026	951
2027	961
Thereafter	670
	$ 5,055

Actuarial Assumptions and Methods

An actuarial valuation measures the program's funded status and annual funding or accounting costs based on the actuarial assumptions and methods selected. The funded status compares assets to actuarial accrued liabilities, and the annual cost represents the normal cost plus an amortization of the unfunded actuarial accrued liability. In the actuarial valuation process, certain economic and demographic assumptions are made relating to the projection of benefits and the timing and duration of benefits. The stream of expected projected benefits is discounted to a present value as of the actuarial valuation date. The present value is then spread over past service (actuarial accrued liability), and service for the current year (normal cost) based on the chosen actuarial cost method. The Actuarial Valuation of the State's OPEB is similar to the Actuarial Valuations performed for the State's pension plans. The demographic assumptions (rates of retirement, termination, disability and mortality, etc.) used in this OPEB Actuarial Valuation were identical to those used in the most recent CalPERS Actuarial Valuations.

In addition, the actuarial cost method (entry-age normal) is identical to the one used in the most recent CalPERS Actuarial Valuation for the State Plan of the California Public Employees' Retirement System.

The discount rate selected was 6.0 percent for the actuarial valuation of the fully funded policy. A discount rate of 6.0 percent can be supported for the actuarial valuation as of June 30, 2021, provided the sponsor makes pre-funding contributions as defined by statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1. The 6.0 percent investment return assumption reflects the CERBT Strategy 1 target asset allocation and 20-year projected returns presented and approved at the CalPERS Investment Committee Meeting on March 14, 2022.

Discount Rate

The discount rate assumption depends on the purposes of the measurement.

The sponsor's pre-funding policy provides for a 50 percent cost sharing of the normal cost, between active members and the plan sponsor, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into the CERBT and are expected to earn 6.00 percent per year. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046 or the year that the total actuarial liability is fully funded. The sponsor finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For purposes of developing the full-funding normal cost, actuarial liability and actuarially determined contribution, a discount rate of 6.00 percent was used. The discount rate used to develop the GASB Nos. 74 and 75 Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 1.92 percent if pre- funding assets are not available to pay benefits and 6.00 percent if pre-funding assets are available to pay benefits.

Blended Discount Rate

For purposes of GASB Nos. 74 and 75 financial reporting, liabilities are discounted using a blended discount rate. The blended discount rate is based on a (1) 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis and (2) the expected return on trust assets if pre-funding assets are available to pay benefits. The following table shows the blended discount rates at June 30, 2020, and June 30, 2021, for each respective actuarial valuation group.

(amounts in thousands unless otherwise stated)

BLENDED DISCOUNT RATES		
Actuarial Valuation Group	**June 30, 2020**	**June 30, 2021**
Attorneys and Hearing Officers (BU2)	3.213%	2.863%
Highway Patrol (BU5)	3.380%	2.952%
Corrections (BU6)	3.217%	2.848%
Protective Services and Public Safety (BU7)	3.134%	2.762%
Firefighters (BU8)	3.236%	2.907%
Professional Engineers (BU9)	3.084%	2.731%
Professional Scientific (BU10)	3.229%	2.886%
Craft and Maintenance (BU12)	3.130%	2.766%
Stationary Engineers (BU13)	2.971%	2.595%
Physicians, Dentists, and Podiatrists (BU16)	3.286%	2.951%
Psychiatric Technicians (BU18)	3.136%	2.748%
Health and Social Services/Professional (BU19)	3.261%	2.885%
California State University	2.450%	1.920%
Judicial Branch	3.252%	2.906%
Exempt/Excluded/Executive	3.050%	2.687%
Other	2.450%	1.920%
Service Employees International Union (SEIU)	3.077%	2.710%

Other assumptions and methods unique to OPEB valuations are consistent with CalPERS OPEB assumption parameters, with the exception of the dental trend rates, as follows:

- Healthcare trend – Select and ultimate healthcare trend rates were developed separately for the PPO, HMO, and dental plans. Trend rates are based on a review of supporting documentation provided by CalPERS and a review of various publicly available trend studies.

  For the Pre-Medicare medical and drug plans, select and ultimate trend rates were set at actual increases for 2022, 7.50 percent in 2023 grading down to 4.50 percent in 2029, 4.50 percent from 2030 to 2037, and 4.25 percent on after 2038. The same trend rates were applied to per capita costs and premium rates.

  Separate trend rates were assumed for Medicare per capita costs and Medicare premiums. Trend rates for per capita costs reflect an additional ultimate margin of about five percent to reflect that Medicare costs net of Employer Group Waiver Plan (EGWP) subsidies include a higher proportion of prescription benefits. The margin also considers potential volatility with EGWP subsidies.

  Medicare premium trend rates were set at actual increases for 2022, 7.50 percent in 2023 grading down to 4.50 percent in 2029, 4.50 percent from 2030 to 2037, and 4.25 percent on after 2038.

  Medicare per capita costs trend rates for PERS Care were set at 4.96 percent for 2022, 8.30 percent in 2023 grading down to 4.66 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent on after 2038. Medicare per capita costs trend rates for PERS Choice and PERS Select were set at 5.10 percent for 2022, 8.42 percent in 2023 grading down to 4.68 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent on after 2038.

For the dental plans, select and ultimate trend rates were set at 0.00 percent for 2022, 2.00 percent for 2023, 3.00 percent for 2024, 4.00 percent for 2025, and 4.25 percent for 2026 and beyond.

- Per capita claim costs – Costs were developed for pre-Medicare and post-Medicare coverage at each respective age and gender, using overall average costs adjusted for morbidity.

- Other healthcare assumptions – The proportion of members selecting a particular plan and coverage at retirement was based on the most current census and enrollment data.

Percent of Disabilities Treated as Post-Medicare: Four percent of Public Safety disabilities and 33 percent of all other disabilities are assumed to be eligible for Medicare.

Coverage and Continuance Assumptions: It is assumed that 40 percent of participating members will elect one-party coverage, while 60 percent will elect two-party coverage. Of the members electing two- party coverage, we assumed that 100 percent of surviving spouses would continue coverage after the death of the retiree.

Price Inflation*:* Price inflation is assumed to be 2.3 percent.

Wage inflation*:* Wage inflation is assumed to be 2.8 percent.

Aging Factors*:* In any given year, the cost of medical and prescription drug benefits vary by age. As the ages of employees and retirees in the covered population increase, so does the cost of benefits. Morbidity tables are employed to develop Per Capita Costs at every relevant age. The following table represents the percent by which the cost of benefits for non-disabled lives at one age is higher than the cost for the previous age. For example, according to the following table, the cost of benefits for a male in the PPO plan age 55 is 2.58 percent higher than for one age 54. These percentages below are separate from the annual Medical Trend, which operates to increase costs independent of and in addition to the Aging Factors shown below. These factors, with the exception of the Pre-Medicare HMO rates, were developed using actual experience. Aging factors for the PPO and prescription drug plans were based on gross claim and enrollment experience data broken out by five-year age bands, for calendar years 2014 through 2018. Average gross costs were developed by gender at each age interval for each respective calendar year. These costs were weighted, smoothed, and the average increase at each age was estimated using interpolation formulas. Aging factors for the HMO were calculated by adjusting the PPO medical factors to account for relative differences between HMO and PPO plans.

Postretirement Mortality: Rates vary by age and gender for healthy benefit recipients, for non-industrially disabled (disability not job-related) retirees, and for retirees who are industrially disabled (disability is job-related).

(amounts in thousands unless otherwise stated)

Age	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
	Male	Female	Male	Female	Male	Female
50	0.00267	0.00199	0.01701	0.01439	0.00430	0.00311
55	0.00390	0.00325	0.02210	0.01734	0.00621	0.00550
60	0.00578	0.00455	0.02708	0.01962	0.00944	0.00868
65	0.00857	0.00612	0.03334	0.02276	0.01394	0.01190
70	0.01333	0.00996	0.04001	0.02910	0.02163	0.01858
75	0.02391	0.01783	0.05376	0.04160	0.03446	0.03134
80	0.04371	0.03403	0.07936	0.06112	0.05853	0.05183
85	0.08274	0.06166	0.11561	0.09385	0.10137	0.08045
90	0.14539	0.11086	0.16608	0.14396	0.16584	0.12434
95	0.24665	0.20364	0.24665	0.20364	0.24665	0.20364
100	0.36198	0.31582	0.36198	0.31582	0.36198	0.31582
105	0.52229	0.44679	0.52229	0.44679	0.52229	0.44679
110	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

The pre-retirement and postretirement mortality assumptions include generational mortality improvement and the rates above are projected using 80 percent of scale MP-2020 published by the Society of Actuaries.

Long-Term Expected Rate of Return: The pre-retirement and postretirement mortality assumptions include generational mortality improvement and the rates above are projected using 80 percent of scale MP-2020 published by the Society of Actuaries.

Long-Term Expected Rate of Return: The long-term rate of return is the expected return to be earned over the entire trust portfolio based on the asset allocation of the portfolio.

Sensitivity of the Fund’s Proportionate Share of the Net OPEB liability to Changes in the Discount Rate

The following table presents the Fund’s proportionate share of the Net OPEB liability as of the measurement date, calculated using the blended discount rate, as well as what the Fund’s proportionate share of the Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current discount rate:

	1% Decrease	Blended Discount Rate	1% Increase
Net OPEB Liability	$ 7,137	$ 5,984	$ 5,069

(amounts in thousands unless otherwise stated)

Sensitivity of the Fund's Proportionate Share of the Net OPEB liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Fund's proportionate share of the Net OPEB liability as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Actuarial Methods and Assumptions Section, as well as what the Fund's proportionate share of the Net OPEB liability would be if it were calculated using healthcare cost trend rate that are 1 percentage-point lower or 1 percentage-point higher than the current healthcare cost trend rates presented in Actuarial Methods and Assumptions Section:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 4,989	$ 5,984	$ 7,277

11. Restatement of Net Position

As of July 1, 2021, the Fund adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

Net Position, July 1, 2021, as previously reported	$ 114,062
Recognition of right-to-use assets	641
Recognition of lease liability	(641)
Net Position, July 1, 2021, as adjusted	$ 114,062

REQUIRED SUPPLEMENTARY INFORMATION

DEPARTMENT OF WATER RESOURCES CHARGE FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Last 10 Years*
(amounts in thousands)

		Fiscal Year 2022
Measurement Period		June 30, 2021
The Fund's proportion of the net pension liability		0.01217%
The Fund's proportionate share of the net pension liability	$	2,712
The Fund's covered payroll	$	1,571
The Fund's proportionate share of the net pension liability as a percentage of their covered payroll		172.63%
Plan fiduciary net position as a percentage of the total pension liability		82.39%

Notes to Schedule:

*Fiscal year 2022 is the first year of implementation; therefore, only one fiscal year is reflected.

DEPARTMENT OF WATER RESOURCES CHARGE FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTIONS FOR PENSIONS
Last 10 Years*
(amounts in thousands)

	Fiscal Year 2022
Contractually required contribution	$ 544
Contribution in relation to the contractually required contribution	(544)
Contribution deficiency (excess)	$ -
Fund's covered payroll	$ 1,618
Contributions as a percentage of covered payroll	33.62%

*Fiscal year 2022 is the first year of implementation; therefore, only one fiscal year is reflected.

DEPARTMENT OF WATER RESOURCES CHARGE FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last 10 Years*
(amounts in thousands)

		Fiscal Year 2022
The fund's proportion of the net OPEB liability		0.06%
The fund's proportionate share of the net OPEB liability	$	5,984
The fund's covered employee payroll	$	1,022
The fund's proportionate share of the net OPEB liability as a percentage of its covered employee payroll		585.519%
Plan fiduciary net position as a percentage of the total OPEB liability		4.206%
Measurement date		June 30, 2021

*Fiscal year 2022 is the first year of implementation; therefore, only one fiscal year is reflected.

DEPARTMENT OF WATER RESOURCES CHARGE FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S CONTRIBUTION FOR OPEB
Last 10 Years*
(amounts in thousands)

	Fiscal Year 2022
Contractually required contribution	$ 239
Contribution in relation to the contractually required contribution	(239)
Contribution deficiency (excess)	$ -
Fund's covered payroll	$ 1,091
Contributions as a percentage of covered employee payroll	21.9%

*Fiscal year 2022 is the first year of implementation; therefore, only one fiscal year is reflected.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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, the financial statements of the State of California Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated September 12, 2023. Our report includes an emphasis of matter paragraph regarding that the financial statements present only the Fund and do not purport to and do not present fairly the financial position of the State of California as of June 30, 2022. Our report also includes an emphasis of matter paragraph regarding the Fund's adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective July 1, 2021.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sacramento, California
September 12, 2023