Department of Water Resources
Electric Power Fund
Financial Statements

For the year ended June 30, 2020
(with comparative amounts for 2019)

Department of Water Resources Electric Power Fund
Table of Contents

Independent Auditor's Report

To the Director of the State of California Department of Water Resources
Department of Water Resources Electric Power Fund
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Department of Water Resources Electric Power Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund'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 respective financial position of the Fund, as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Individual Fund Financial Statements
As disclosed in Note 1, 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, 2020, and the changes in its financial position or where applicable, its cash flows for the year 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.

Other Matters

Report on Summarized Comparative Information
We have previously audited the Fund's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 26, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2021, 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 the Fund's internal control over financial reporting and compliance.

Eide Bailly LLP

Sacramento, California
April 29, 2021

USING THIS REPORT

This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any significant changes in financial position of the Department of Water Resources Electric Power Fund (the Fund), which is administered by the California Department of Water Resources (DWR). Readers are encouraged to consider the information presented in the *Management's Discussion and Analysis* in conjunction with the financial statements that follow. This discussion and analysis and the financial statements do not relate 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: include 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: present all of the current year's revenues, expenses, and changes in net position.
- The Statement of Cash Flows: report 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.

PURPOSE OF FUND

The Fund was established in January 2001 through legislation to assist in mitigation of the effects of a statewide energy supply emergency.

The Fund has the authority to secure and retain title to power for resale to end use customers in the State's investor owned utilities (IOU s) service areas under power supply contracts entered into prior to January 1, 2003. The scheduling, dispatch, and certain other administrative functions for the long-term contracts were performed by the IOU s as agents for the Fund. However, the Fund retained the legal and financial responsibility for each contract for the life of the contract or until such time as there was a complete assignment of the contract to an IOU and release of the Fund. The last remaining contract terminated during the 2015 fiscal year, releasing the Fund from substantially all future power supply obligations. The Fund does not have any significant legal or financial responsibility for any power supply contracts entered into pursuant to the legislation establishing its authority.

The Fund is entitled to recover revenue requirements for authorized activities, including, but not limited to, debt service, the costs of power purchases, administrative expenses and reserves. Revenue requirements are determined at least annually and transmitted to the California Public Utilities Commission (CPUC) for implementation. Under the terms of the rate agreement between the CPUC and the Fund, the CPUC is required to allocate the Department's costs to customers in the IOU service areas and "departing load" (such as direct access, Community Choice Aggregation (CCAs), and Electric Service Providers (ESPs)) such that the Fund will always have monies to meet its revenue requirement.

CONDENSED STATEMENT OF NET POSITION

The Fund's assets, liabilities and net position as of June 30 are summarized as follows (amounts in millions):

	2020	2019	2018
Assets:			
Long-term restricted cash, equivalents and investments	$ 782	$ 884	$ 884
Recoverable costs	16	837	1,631
Restricted cash and equivalents:			
Administrative cost account	8	12	12
Operating account	21	32	38
Bond charge collection and bond charge payment accounts	573	644	608
Recoverable costs receivable	102	88	109
Interest receivable	7	10	8
Total assets	1,509	2,507	3,290
Deferred Outflows of Resources:			
Deferred outflows of resources related to pensions	1	1	2
Deferred outlfows of resources related to OPEB	7	8	9
Deferral of loss on defeasance	35	61	88
Total deferred outflows of resources	43	70	99
Total assets and deferred outflows of resources	$ 1,552	$ 2,577	$ 3,389
Liabilities:			
Long-term debt, including current portion	$ 1,528	$ 2,543	$ 3,348
Net pension liability	3	4	5
Net OPEB liaiblity	5	5	8
Interfund loans payable	-	1	1
Other liabilities	12	19	25
Total liabilities	1,548	2,572	3,387
Deferred Inflows of Resources:			
Deferred inflows of resources related to pensions	1	2	1
Deferred inflows of resources related to OPEB	3	3	1
Total deferred inflows of resources	4	5	2
Total liabilities and deferred inflow of resources	$ 1,552	$ 2,577	$ 3,389

Long-Term Restricted Cash, Equivalents and Investments

The Debt Service Reserve Account was $782 million as of June 30, 2020. The decrease from June 30, 2019 was due to early redemption of Bond Series L on May 2020. The amount was determined in accordance with the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) and is based on the maximum annual debt service over the remaining life of the Fund's bonds.

The Debt Service Reserve Account remained unchanged at $884 million as of June 30, 2019.

Recoverable Costs

Recoverable costs consist of costs that are recoverable through future billings. The $820 million decrease during fiscal year 2020 is due to: recovery of operating costs of $16 million; bond charges plus interest income exceeding interest and investment expense by $836 million. The early redemption of Bond Series L on May 2020 resulted in a $5 million gain. The surplus of Bond Charge Collections over interest costs is primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

The $794 million decrease during fiscal year 2019 is due to: recovery of operating costs of $16 million; bond charges plus interest income exceeding interest and investment expense by $810 million. The surplus of Bond Charge Collections over interest costs is primarily a result of the Fund's rate design which includes funding for annual debt service, including principal payments.

Restricted Cash and Equivalents

The Administrative Cost Account decreased $4 million in 2020 due to lower expenses as the Electric Power Fund operation continues to decline.

The Operating Account decreased by $11 million in 2020 due to the return of excess amounts to IOU customers.

The Bond Charge Collection and Bond Charge Payment Accounts decreased by $70 million in 2020 and increased by $36 million in 2019 in accordance with required amounts specified in the Trust Indenture.

Recoverable Costs Receivable

Recoverable costs receivable reflects power and bond charges to customer in the IOU service areas that have not yet been collected and amounts receivable. The $102 million of recoverable costs receivable at June 30, 2020 is $14 million higher than at June 30, 2019. The increase was primarily due to a higher bond charge rate during fiscal year 2020.

The $88 million of recoverable costs receivable at June 30, 2019 is $21 million lower than at June 30, 2018. The decrease was primarily due to lower bond charge remittances from the decline in delivered volumes.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions was $1 million in 2020.

Deferred outflows of resources related to pensions was $1 million in 2019.

Deferred outflows of resources related to OPEB decreased by $1 million in 2020.

Deferred outflows of resources related to OPEB was $8 million in 2019.

Deferral of loss on defeasance decreased by $26 million, during the fiscal year ending June 30, 2020, due to the amortization of deferred loss on defeasance during the fiscal year.

Long-Term Debt

Long-term debt, including the current portion, decreased to $1,528 million, as of June 30, 2020, from $2,543 million, as of June 30, 2019. Revenue bond principal was $1,489 million in fiscal year 2020. Unamortized of bond premium was $39 million in fiscal year 2020. Bond principal payment was $970 million in fiscal year 2020.

Long-term debt decreased to $2,543 million, as of June 30, 2019, from $3,348 million, as of June 30, 2018. Revenue bond principal payments were $790 million in fiscal year 2019. Net amortization of bond premium was $42 million in fiscal year 2019.

Net Pension Liability

The net pension liability decreased to $3 million during fiscal year ended June 30, 2020.

The net pension liability was $4 million during fiscal year ended June 30, 2019.

Net OPEB Liability

The net OPEB liability was $5 million during fiscal year ended June 30, 2020.

The net OPEB liability was $5 million during fiscal year ended June 30, 2019.

Interfund Loans Payable

Interfund loans payable decreased $1 million during fiscal year ended June 30, 2020 compared with 2019.

Other Liabilities

Other liabilities consist of accounts payable and accrued interest payable. Accounts payable reflects one month's accrual for employees and consultants, as payments are normally made in the latter half of the month following purchase.

Accounts payable at June 30, 2020 and 2019 remained unchanged at $2 million from June 30, 2018.

Accrued interest payable at June 30, 2020 was $7 million lower than at June 30, 2019 due to fewer bonds outstanding resulting from the maturity of $970 million in bonds in fiscal year 2020.

Accrued interest payable at June 30, 2019 was $6 million lower than at June 30, 2018 due to fewer bonds outstanding resulting from the maturity of $754 million in bonds in fiscal year 2019.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions was $1 million for fiscal year ended June 30, 2020 as a result of recording the current year activity.

Deferred inflows of resources related to pensions was $2 million for fiscal year ended June 30, 2019.

Deferred inflows of resources related to OPEB was $3 million for fiscal year ended June 30, 2020 as a result of recording the current year activity.

Deferred inflows of resources related to OPEB was $3 million for fiscal year ended June 30, 2019.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the year ended June 30 are summarized as follows (amounts in millions):

	2020	2019	2018
Revenues:			
Power charges, net of refunds	$ (11)	$ (5)	$ -
Bond charges	872	872	918
Interest income	42	46	34
Total revenues	903	913	952
Expenses:			
Energy and financial settlements	-	-	(26)
Interest expense	83	108	138
Administrative expenses	5	11	8
Recovery of recoverable costs	820	794	832
Gain or loss for early redemption	(5)		
Total expenses	903	913	952
Changes in net position	-	-	-
Net position, beginning of year	-	-	-
Net position, end of year	$ -	$ -	$ -

Power Charges

The cost of providing energy was recoverable primarily through Power Charges to IOU customers, certain customers of ESPs, and CCAs. Charges are determined by applying a CPUC adopted rate for each IOU service area to the megawatt hours of power delivered by the Fund to customers in each IOU service area.

Power Charges were decreased by $6 million compared to $5 million for fiscal year ended June 30, 2019. The decrease was primarily due to returning excess amounts of previously received remittances to ratepayers in fiscal year 2020. The return is implemented through separate monthly payments to the ratepayers through the IOU s.

Power Charges were decreased by $5 million compared to zero for fiscal year ended June 30, 2018. The decrease was primarily due to returning excess amounts of previously received remittances to ratepayers in fiscal year 2019. The return is implemented through separate monthly payments to the ratepayers through the IOU s.

Bond Charges

Bond Charges provide revenue for the payment of debt service on the revenue bonds and are determined by applying a CPUC adopted rate to the total megawatt hours of power delivered to all bundled customers, certain ESP customers , and CCA customers in the IOU service areas. Bond Charges for the years ended June 30, 2020, 2019 and 2018 were $872 million, $872 million and $918 million, respectively, and were adequate to meet all debt service requirements and maintain Trust Indenture required account balances in the Bond Charge Collection, Bond Charge Payment, and Debt Service Reserve Accounts.

The $46 million decrease in 2019 was due to lower sales to IOU customers and a lower bond charge rate in the second half of the fiscal year.

Interest Income

Interest income for 2020 was $4 million lower than in 2019 due to lower interest rates earned on investments in the State of California Surplus Money Investment Fund (SMIF) and Forward Purchase Agreement (FPA) and the unrealized gain from the FPA. The average yield earned on SMIF, for the year ended June 30, 2020, was 1.24% compared to 2.15% for the year ended June 30, 2019.

Interest income for 2019 was $12 million higher than in 2018 due to higher interest rates earned on investments in the State of California Surplus Money Investment Fund (SMIF) and Forward Purchase Agreement (FPA) and the unrealized gain from the FPA. The average yield earned on SMIF, for the year ended June 30, 2019, was 2.15% compared to 1.38% for the year ended June 30, 2018.

Energy and Financial Settlements

Energy settlements, including those related to complex regulatory proceedings before the Federal Energy Regulatory Commission (FERC), arising from events in California energy markets in 2001, are recorded as a decrease in operating expenses.

Additionally, the Fund has begun to be involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates and their impact on the Fund's bond offerings and interest rate swap agreements previously held by the fund.

During fiscal year 2018, The Fund received energy settlements of $15.8 million from Shell Energy North America (US), L.P. (successor-in-interest to Coral Power, LLC). On June 1, 2018 the Fund submitted a claim for $9.8 million to the Deutsch Bank LIBOR AG Settlement. While expected to be received after June 30, 2018, this amount was considered an accrual for fiscal year 2018. Total energy and bond settlements were $25.6 million for fiscal year 2018.

The Fund received $6,000 for additional financial market manipulation settlements during the fiscal year ended June 30, 2020.

Interest Expense

Interest expense was $25 million lower in 2020 when compared to 2019. The decrease was due to lower total interest paid on outstanding debt along with higher amortization of loss on defeasance offset by higher amortization of bond premium.

Interest expense was $30 million lower in 2019 when compared to 2018. The decrease was due to lower total interest paid on outstanding debt along with higher amortization of loss on defeasance offset by higher amortization of bond premium.

Administrative Expenses

Administrative expenses decreased $7 million in 2020 from 2019. The decrease was related to pro-rata expense, pension expense and OPEB expense.

Administrative expenses increased $3 million in 2019 from 2018. The increase was related to pension expense and OPEB expense.

Gain or loss for early redemption

Five million was reported in 2019 about the gain for early redemption. Bond Series L was redeemed early on May 2020.

Recovery of Recoverable Costs

The individual components of the recovery of recoverable costs are as follows (amounts in millions):

	2020	2019	2018
Operations	$ (16)	$ (16)	$ 18
Debt service and related costs	836	810	814
	$ 820	$ 794	$ 832

<u>Operations</u>

The negative $15 million operations recovery, in the year ended June 30, 2020, is primarily due to returning excess amounts of previously received remittances to ratepayers in fiscal year 2020 and lower administrative expenses.

The negative $16 million operations recovery, in the year ended June 30, 2019, is primarily due to returning excess amounts of previously received remittances to ratepayers in fiscal year 2019 and higher administrative expenses.

<u>Debt Service and Related Costs</u>

The recovery of debt service and related costs in all three years are a result of bond charges and interest income providing funds to pay interest expense and retire debt. The recoveries in 2020 is higher than 2019 which were higher due to lower interest expense, and variances in the timing of collection of bond charges from IOU customers.

LIQUIDITY

Various provisions of the Trust Indenture provide resources for the Fund to meet its cash requirements. In addition to its determination of revenue requirements, prepared annually or more frequently if necessary, to meet both operating and bond related expenditures, the Fund has a Debt Service Reserve Fund in order to meet expenditures if bond charge revenue is impaired. The minimum balance in the Debt Service Reserve Fund is based on the Maximum Annual Debt Service.

With the termination of the last remaining power contract, reserves for operating the Fund's power purchase program are no longer necessary. As of January 2016, the remaining Operating Reserve Account funds were transferred to the Operating Account for return to customers in the IOU service areas.

Under the Section 80130 of the California Water Code, the Fund has a total debt issuance limit of $13.4 billion, which does not include refunding debt issued: (i) to obtain a lower interest rate, (ii) to convert variable rate debt to fixed rate debt or (iii) to replace debt for which the credit rating of the insurer or credit facility provider has been or will be downgraded or withdrawn.

On August 30, 2016, Moody's Investor Service raised the underlying rating on Power Supply Revenue Bonds from “Aa2” to “Aa1” with a stable rating outlook. On February 26, 2020, Standard & Poor's Ratings Services raised the underlying rating on the Power Supply Revenue Bonds from “AA to “AA+” with a stable rating outlook. Also, on March 24, 2015, Fitch Ratings raised the underlying rating on the Power Supply Revenue Bonds from "AA" to "AA+" with a stable rating outlook. More information can be obtained from each credit rating agency's website: www.moodys.com, www.fitchratings.com, and www.standardandpoors.com.

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

Department of Water Resources Electric Power Fund
Statement of Net Position
June 30, 2020 (with comparative amounts for 2019)
(amounts in millions)

	2020	2019
Assets		
Long-term assets:		
Restricted cash, equivalents and investments:		
Debt service reserve account	$ 782	$ 884
Recoverable costs	16	837
Total long-term assets	798	1,721
Current assets:		
Restricted cash and equivalents:		
Administrative cost account	8	12
Operating account	21	32
Bond charge collection and		
Bond charge payment accounts	573	644
Recoverable costs receivable	102	88
Interest receivable	7	10
Total current assets	711	786
Total assets	1,509	2,507
Deferred outflows of Resources		
Deferred outflows of resources related to pensions	1	1
Deferred outflows of resources related to OPEB	7	8
Deferral of loss on defeasance	35	61
Total assets and deferred outflows of resources	$ 1,552	$ 2,577
Liabilities		
Non-Current liabilities:		
Long-term debt, net of current portion	$ 765	$ 1,711
Net pension liability	3	4
Net OPEB liability	5	5
Interfund loans payable	-	1
Total non-current liabilities	773	1,721
Current liabilities:		
Current portion of long-term debt	763	832
Accounts payable	2	2
Accrued interest payable	10	17
Total current liabilities	775	851
Total liabilities	1,548	2,572
Deferred inflows of resources		
Deferred inflows of resources related to pensions	1	2
Deferred inflows of resources related to OPEB	3	3
Total liabilities and deferred inflows of resources	$ 1,552	$ 2,577

See accompanying notes to the financial statements

Department of Water Resources Electric Power Fund
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020 (with comparative amounts for 2019)
(amounts in millions)

	2020	2019
Operating revenues:		
Power charges, net of refunds	$ (11)	$ (5)
Operating expenses:		
Administrative expenses	5	11
Recovery of recoverable operating costs	(16)	(16)
Total operating expenses	11	5
Income from operations	-	-
Nonoperating revenues and expenses:		
Bond charges	872	872
Interest income	42	46
Interest expense	(83)	(108)
Recovery of recoverable debt service and related costs	(836)	(810)
Gain for early redemption	5	-
Total nonoperating revenues and expenses	-	-
Changes in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	$ -	$ -

See accompanying notes to the financial statements

Department of Water Resources Electric Power Fund
Statement of Cash Flows
For the year ended June 30, 2020 (with comparative amounts for 2019)
(amounts in millions)

	2020	2019
Cash flows from operating activities:		
Receipts:		
Power charges, net of refunds	$ (13)	$ (5)
Energy and financial settlements	-	10
Payments to employees for services	(2)	(1)
Payments for power purchases and other expenses	3	(9)
Net cash flows provided by (used for) in operating activities	(12)	(5)
Cash flows from non-capital financing activities:		
Receipt of bond charges	858	883
Bond payments	(970)	(753)
Interest payments	(109)	(139)
Net cash flows provided by (used for) used in non-capital financing activities	(221)	(9)
Cash flows from investing activities:		
Interest received on investments	45	44
Net cash flows provided by (used for) used in investing activities	45	44
Changes in restricted cash and equivalents,	(188)	30
Restricted cash and equivalents, beginning of period	1,270	1,240
Restricted cash and equivalents, end of period	$ 1,082	$ 1,270
Restricted cash and equivalents included in:		
Debt service reserve account (a component of the total of $782 at June 30, 2020 and $884 at June 30, 2019)	$ 480	$ 582
Administrative cost account	8	12
Operating account	21	32
Bond charge collection and Bond charge payment accounts	573	644
Restricted cash and equivalents, end of year	$ 1,082	$ 1,270

See accompanying notes to the financial statements

Department of Water Resources Electric Power Fund
Statement of Cash Flows (Continued)
For the year ended June 30, 2020 (with comparative amounts for 2019)
(amounts in millions)

	2020	2019
Reconciliation of income from operations to net cash used in operating activities:		
Income from operations	$ -	$ -
Adjustments to reconcile income from operations to net cash used in operating activities:		
Recovery of recoverable operating costs	(11)	(16)
	(11)	(16)
Changes in net assets and liabilities to reconcile income from operations to net cash used in operations:		
Recoverable costs receivables	-	10
Net OPEB liability and related deferred inflows/outflows	1	-
Net pension liability and related deferred inflows/outflows	(1)	1
Interfund loans payable	(1)	-
Net change in assets & liabilities:	(1)	11
Net cash provided by (used for) used in operating activities	$ (12)	$ (5)
Noncash financing and investing activities:		
Amortization of revenue bond premiums	$ 40	$ 53
Gain for early redemption	5	-
Amortization of deferral of loss on defeasance	25	27

See accompanying notes to the financial statements

1. Reporting Entity

In January 2001, the Governor of California issued an emergency proclamation directing the Department of Water Resources (DWR) to enter into contracts and arrangements for the purchase and sale of electric power to assist in mitigating the effect of a statewide energy supply emergency.

The Department of Water Resources Electric Power Fund (the Fund), administered by DWR, was established in January 2001 through legislation adding Division 27 to the California Water Code (the Code).

The Fund purchases power from wholesale suppliers under contracts entered into prior to January 1, 2003 for resale to customers in the service areas of the State's investor owned utilities (IOU s): Pacific Gas & Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric Company (SDG&E). The Code prohibits the Fund from entering into new power purchase agreements after December 31, 2002 but allowed the Fund to enter into gas purchase contracts to provide fuel for power generation.

The Fund's power is delivered to customers through the transmission and distribution systems of the IOU s and payments from customers are collected for the Fund by the IOU s pursuant to servicing arrangements approved and/or ordered by the California Public Utilities Commission (CPUC).

Under the Code, the Fund has the authority to establish a revenue requirement to recover all Fund costs, including debt service. At least annually, Fund management establishes a determination of the revenue requirement, which then is submitted to the CPUC. Under the terms of a rate agreement between the Fund and the CPUC, the CPUC implements the Fund's determination of its revenue requirements by establishing end use customer rates that meet the Fund's revenue needs to assure the payment of debt service, power purchases, administrative expenses and maintenance of operating and debt service reserves.

2. Summary of Significant Accounting Policies

Basis of Presentation

The 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 Governmental Accounting Standards Board (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.

Comparative data for prior years have been presented for certain section of the accompanying financial statements in order to provide an understanding of changes in the Fund's financial position and operations.

Current Year GASB Implementation

GASB Statement No. 90

For the year ended June 30, 2020, GASB Statement 90, *Majority Equity Interests*, the new standard is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Fund does not have any conditions that would require disclosure. The Fund has determined that the requirements of this Statement had no material impact to the financial statements.

GASB Statement No. 95

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The Fund does not have any conditions that would require disclosure. The Fund has determined that the requirements of this Statement had no material impact to the financial statements.

Restricted Cash, Equivalents and Investments

Under the terms of the Trust Indenture among the State of California, Department of Water Resources, Treasurer of the State of California, as Trustee and U.S. Bank, N.A, as Co-Trustee (Trust Indenture) separate restricted cash and investment accounts were established. The accounts and their purpose follow:

Administrative Account:

- Administrative Cost Account: Salaries, consultant fees and other administrative expenses were previously funded by Power Charges transferred from Operating Account. Since there are no longer power charge remittances, funds are now transferred from the Bond Charge Payment Account as of January 1, 2016.

Power Charge Account:

- Operating Account: Power Charges (see Revenues and Recoverable Costs) and miscellaneous revenue are deposited into the operating account. Monies are available for payment of residual contract obligations and return of excess amounts to ratepayers.

Bond Charge Accounts:

- Bond Charge Collection Account: Bond Charges (see Revenues and Recoverable Costs) are deposited into the Bond Charge Collection Account. Monthly, funds needed for debt service payments and administrative costs are transferred to the Bond Charge Payment Account.
- Bond Charge Payment Account: Monies in the Bond Charge Payment Account are used to pay debt service and related fees for the revenue bonds and administrative costs. After receipt of the monthly transfer from the Bond Charge Collection Account, the balance in the Bond Charge Payment Account must at least equal debt service and fees estimated to accrue or be payable for the next succeeding three months.
- Debt Service Reserve Account: The Debt Service Reserve Account was initially funded with proceeds of the Series 2002 Bonds. The Debt Service Reserve Account is to be funded at all times with the amount of maximum aggregate annual debt service on all outstanding debt. If the Debt Service Reserve Account needed to be replenished, the funds would be transferred from the Bond Charge Collection Account.

Restricted cash and equivalents, for purposes of the Statement of Cash Flows, include cash on hand and deposits in the Surplus Money Investment Fund (SMIF). The Debt Service Reserve Account (net of investments) is classified as long-term restricted cash due to requirements under the Trust Indenture to hold amounts in excess of anticipated current payments for bond related expenses. Amounts required to be held in reserve are determined annually by the Fund's revenue requirement.

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, the 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 3.

Long-term investments are held solely in the Debt Service Reserve Account by the bond co-trustee and consist of guaranteed investment contracts (GIC s) and a U.S. government backed agency security in accordance with a forward purchase agreement (FPA). The GIC s are carried at cost and the U.S. government backed agency security FPA are carried at fair value.

Net Position

The Fund does not record the difference between assets and liabilities as net position. The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Statement of Net Position is presented as recoverable costs such that there is no net position. The Fund anticipates that amounts in the recoverable costs will be recovered in subsequent years prior to program expiration.

Revenues and Recoverable Costs

The Fund is required, at least annually, to establish a determination of the revenue requirement to be transmitted to the CPUC, which then sets end use customer remittance rates. The Fund's financial statements are prepared in accordance with GASB Statement No. 62, which requires that the effects of the revenue requirement process be recorded in the financial statements. Accordingly, all expenses and credits, normally reflected in the change in net position as incurred, are recognized as recoverable costs in the Statement of Net Position and are recovered from IOU customers. Costs that are recoverable through future billings are recorded as long-term assets.

Customer charges are separated into two primary components, power charges and bond charges. Power charge revenues recover the cost of power purchases, other expenses and operating reserves and are recognized when energy provided by the Fund is delivered to IOU customers. Bond charge revenues recover debt service, debt service reserves and other bond related costs and are recognized when energy provided by the IOU, or an ESP, is delivered to customers in the IOU service areas. Costs are recovered over the life of the bonds as determined by the Fund's revenue requirement process.

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.

3. Restricted Cash and Investments

As of June 30, 2020, and 2019, the Fund had the following cash, equivalents and investments (amounts in millions):

Investment	Maturity June 30, 2020	Maturity June 30, 2019	2020	2019
State of California Pooled Money Investment Account - Surplus Money Investment Fund	6.3 months avg.	5.7 months avg.	$ 1,080	$ 1,267
Cash			2	3
Total cash and equivalents			1,082	1,270
Guaranteed investment contracts	May 1, 2022	May 1, 2022	200	200
Forward purchase agreement	November 1, 2020	November 1, 2019	102	102
			$ 1,384	$ 1,572
Reconciliation to Statement of Net Position:				
Debt service reserve account			$ 782	$ 884
Administrative cost account			8	12
Operating account			21	32
Bond charge collection and Bond charge payment accounts			573	644
			$ 1,384	$ 1,572

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover 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. At June 30, 2020 and 2019, one of the guaranteed investment contracts in the amount of $100 million was uninsured and uncollateralized.

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 Treasurers Investment Policy, Pooled Money Investment Account, provides for spreading investments over various maturities to minimize the risk of portfolio depreciation due to a rise in interest rates. The State Treasurers 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 limits of 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. At June 30, 2020 and 2019, the Fund's investments in the FPA and two GIC s individually exceed 5.0% of total investments. The ratings of the investments and their relative percentages of total investments is shown in the following table (amounts in millions):

	Amount	S&P Credit Rating	Percent of Total Investments 2020	Percent of Total Investments 2019
FPA Provider				
Bank of America Merrill Lynch Discounted Notes	$ 102	A+	7.38%	6.89%
GIC Providers				
MassMutual	$ 100	AA+	7.22%	6.78%
Royal Bank of Canada	100	AAA	7.22%	6.78%
	$ 200			

Interest on deposits in the SMIF varies with the rate of return of the underlying portfolio and approximated 1.24% and 2.15% at June 30, 2020 and 2019, respectively. For the years ended June 30, 2020 and 2019, interest earned on the deposit in the SMIF was $24 million and $31 million, respectively.

Interest on the GIC s is paid semi-annually at interest rates ranging from 5.3% to 5.5%. Interest earned on the GIC s was $11 million for the years ended June 30, 2020 and 2019.

The FPA allows the Fund to continuously reinvest funds in U.S. government or U.S. government agency securities through May 2022 to earn a minimum rate of return of 4.7%, as specified in the Reserve

Fund FPA, dated May 1, 2004. The reinvested securities are to mature every six months. Interest earned on the FPA was $5 million for the years ended June 30, 2020 and 2019.

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. Guaranteed Investment Contracts are reported as cost.

The Fund has the following recurring fair value measurements at June 30, 2020:

- The FPA of $102 million is valued using market approach (Level 2)

4. Long-Term Debt

The following activity occurred in the long-term debt accounts during the years ended June 30, 2020 and 2019 (amounts in millions):

	Revenue Bonds	Unamortized Premium	Total
Balance, June 30, 2018	$ 3,212	$ 136	$ 3,348
Payments	(753)	-	(753)
Amortization	-	(52)	(52)
Balance, June 30, 2019	2,459	84	2,543
Payments	(970)		(970)
Amortization	-	(45)	(45)
Balance, June 30, 2020	1,489	39	1,528
Less current portion	724	39	763
	$ 765	$ -	$ 765

Long-term debt consists of the following at June 30, 2020 and 2019, respectively (amounts in millions):

Series	Rates	Fiscal Year of Final Maturity	Fiscal Year of First Call Date	Amount Outstanding 2020	Amount Outstanding 2019	2020 Current Portion
L*	Fixed (3.00-5.00%)	2022	2020	$ -	$ 501	$ -
M	Fixed (3.00-5.00%)	2020	Non-callable	-	4	-
N	Fixed (3.00-5.00%)	2021	Non-callable	221	635	221
O	Fixed (2.00-5.00%)	2022	Non-callable	766	766	316
P	Fixed (1.71-2.00%)	2022	Non-callable	502	553	187
				1,489	2,459	724
Plus unamortized bond premium				39	84	39
				$ 1,528	$ 2,543	$ 763

* Series L was redempted early in May 2020.

Bond Debt Refunding Transaction

On September 28, 2016, the Fund issued $567 million of Series P refunding revenue bonds. Proceeds of $566 million from the refunding bonds, less $2 million for issuance expenses and $38 million released from the Debt Service Reserve and Bond Charge Payment accounts totaling $603 million, were used to purchase securities that were deposited in an irrevocable trust with an escrow agent that will provide resources sufficient to pay the future debt service on the advance refunded $555 million of outstanding Series F and Series H revenue bonds. As a result, the refunded bonds are considered defeased and have been removed from the Statement of Net Position. This loss on the bond refunding is reported as deferred outflows of resources on the Statement of Net Position and will be amortized over the life of the refunding bonds. As of June 30, 2020, the outstanding balance of refunded bonds is $0.00 because Power Supply Revenue Bonds, Series 2010L had a early redemption of May 1, 2020.

Key Terms

Principal and interest payments are payable from bond charges. The Fund is subject to certain bond covenants, including establishing funding and expenditure requirements for several restricted cash and investment accounts. The bonds are limited special obligations of the Fund. Neither the principal nor any interest thereon constitutes a debt of the State of California.

The Series N, O and P are non-callable.

Maturities

Future payment requirements on the revenue bonds are as follows at June 30, 2020 (amounts in millions):

Fiscal Year	Principal	Interest	Total
2021	724	58	782
2022	765	28	793
	$ 1,489	$ 86	$ 1,575

5. Commitments and Contingencies

Litigation and Regulatory Proceedings

Certain pending legal and administrative proceedings involving the Fund or affecting the Fund's power supply program are summarized below.

California Refund Proceedings: During 2001 and 2002, the Fund purchased power in bilateral transactions (both short-term and long-term), sold power to the California Independent System Operator (CAISO), paid for power purchased by the CAISO and purchased power from the CAISO for sale to customers of the IOUs. In July 2001, the Federal Energy Regulatory Commission (FERC) initiated an administrative proceeding to calculate refunds for inflated prices in the CAISO and California Power Exchange (PX) markets during 2000 and 2001. FERC ruled that the Fund would not be entitled in that proceeding to approximately $3,500 million in refunds associated with the Fund's approximately $5,000 million of short-term purchases because the Fund made those purchases bilaterally, not in the PX or CAISO markets. The Ninth Circuit Court of Appeals affirmed FERC but left open the possibility of refunds on the Fund's bilateral purchases in other FERC proceedings. In contrast, FERC ruled that the Fund is entitled to refunds on purchases made by the CAISO where the Fund actually paid the bill.

Of the Fund's $5,000 million in short-term bilateral purchases, $2,900 million was imbalance energy which the Fund sold to the CAISO at the Fund's cost in order to meet the CAISO's emergency needs during 2001. The Fund is treated in the FERC refund proceeding as a seller of that energy to CAISO, and in May 2004, FERC issued an order requiring the Fund to pay refunds on the sales to the CAISO. In September 2005, the Ninth Circuit Court of Appeals held that FERC does not have authority to order refunds from governmental entities such as the Fund. In November 2008, FERC found that although FERC cannot order a governmental entity, such as the Fund, to pay refunds, it can enforce the terms of the CAISO's tariff, which requires that all purchases and sales in a given hourly settlement period are netted. But for the more than 60 refund settlements the Fund has entered into to date, this order would have resulted in a substantial reduction to the refunds payable to the Fund. Through the Fund's settlements, however, the Fund has been able to resolve all but one of its short-term refund claims, and has been able to reduce to a de minimus amount, the amount by which its refunds have been reduced on account of the Fund's sales to the CAISO. Proceedings before FERC to wind-up the short-term refund case for purchases made in the electricity markets operated by the CAISO and PX are underway. The Fund currently estimates that it will receive in excess of $85.5 million, plus interest from January 1, 2019, through the date on which the wind-up payments are made, when the wind-up is completed. Additional amounts, including interest, will also be released to the Fund when the wind-up is completed. These amounts are currently held in escrow accounts established pursuant to the terms of certain settlements entered into by the Fund. The Fund's lone remaining short-term refund claim, a bilateral claim, remains subject to litigation.

Direct Access Proceeding: On February 28, 2008, the CPUC approved a decision concluding that the suspension of direct access cannot be lifted at the present time because the Fund is still supplying power under the Act. However, the decision continued the proceeding to consider possible approaches to expediting the Fund's exit from its role of supplying power under the Act. On November 21, 2008, the CPUC adopted a plan with the goal of the early exit of the Fund from its role as supplier of power to retail electric customers. Under this plan, the Fund's power purchase contracts would be replaced by agreement between the IOU s and the Fund's power supplier counterparties that are not detrimental to ratepayers, through novation and/or negotiation.

Senate Bill 695: On October 11, 2009, Senate Bill (SB) 695 was signed into law as an urgency statute. SB 695 allows individual retail nonresidential end-use customers to acquire electric service from other providers in each IOU service area, up to a maximum allowable limit. Except for this express authorization for increased direct access transactions under SB 695, the previously enacted suspension of direct access remains in effect. On March 15, 2010, the CPUC issued Decision 10-03-022 which authorizes increases in the maximum direct access load for each IOU service area, as specified in SB 695. The maximum load of allowable direct access volume is established for each IOU as the maximum total kilowatt hour (kWh) supplied by all other providers to distribution customers of the IOU during any sequential 12-month period between April 1, 1998 and the effective date of the section of the Public Utilities code modified by SB 695, October 11, 2009.

Decision 10-03-033 phases in the additional load allowance over a four-year period beginning on April 11, 2010. The annual phase in of the limits combined with the concurrent expiration of several long-term contracts has not resulted in impacts to the Power Charges. Regardless of the level of direct access participation within the IOU service area, direct access customers will still be assessed Bond Charges and the Fund's revenue requirement will be recovered in the same manner as has been successfully implemented over the duration of the Power Supply Program.

Financial Class Action Lawsuits: The Department entered into several long-term swap transactions for Power Supply Revenue Bond debt management purposes during the period of March 2003 through July 2006. The swaps were terminated before the original termination date. All the Department's swap agreements were terminated by October 2010. Several class action lawsuits have been brought by public sector entities on behalf of themselves and any other entities who transacted in certain derivative instruments based on (1) fixed interest rate swaps commonly referred to as ISDAfix Instruments and

(2) London Interbank Offered Rate instruments. The Department has submitted claims within the framework described in the class actions and It is expected to be deemed valid by the courts. The Department has received $9.8 million from the Deutsch Bank LIBOR AG class action and continues to have outstanding claims for other class actions related to its swap portfolio.

PG&E Bankruptcy: On January 29, 2019 Pacific Gas & Electric (PG&E) filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On June 20, 2020, the U.S. Bankruptcy Court for the Northern District of California approved PG&E's Chapter 11 Plan and on July 1, 2020 PG&E emerged from bankruptcy. PG&E provides (and provided during the course of its Chapter 11 case), under servicing arrangements, billing and collection services on behalf of DWR bond charges. The Fund's rights with respects to DWR bond charges, and the performance by PG&E of its billing and collection services, were unaffected by PG&E's Chapter 11 case.

Other 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.

6. Energy and Financial Settlements

The Fund and other parties have entered into settlement agreements with various energy suppliers which resolve potential and alleged causes of action against suppliers for their part in alleged manipulation of natural gas and electricity commodity, transportation markets during the 2000 - 2001 California energy crisis, and also received settlements from other FERC actions.

Additionally, the Fund has begun to be involved in litigation with various financial institutions to resolve alleged manipulation of financial market benchmark interest rates, their impact on the Fund's bond offerings and interest rate swap agreements.

On September 13, 2018, the Electric Power Fund received a financial settlement from Deutsch Bank LIBOR AG in the amount of $9.8 million. This settlement was already recognized as revenue at June 30, 2018.

The Fund received $6,000 for financial market manipulation settlements during the fiscal year ended June 30, 2020.

7. 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 FY19-20 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

Plan Description

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 Comprehensive Annual Financial Report (CAFR) 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 a 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.

The Plan's provisions and benefits in effect at June 30, 2020 and 2019, 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 periods ended June 30, 2019 and 2018 (the measurement dates) the employer's contribution rates are approximately 31.5% and 29.3%, 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 years ended June 30, 2020 and 2019, were $0.4 million and $0.4 million for each year.

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

As of June 30, 2020, and 2019, the Fund reported a net pension liability for the proportionate share of the net pension liability of $3.4 million and $3.7 million, respectively.

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, 2019, 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, 2018 rolled forward to June 30, 2019 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 CAFR 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). The SCO calculated and provided these funds/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, 2019 was 0.0100%, and measured as of June 30, 2018 was 0.0117%.

For the years ended June 30, 2020 and 2019, the Fund recognized pension expense of $0.7 million and 0.3 million, respectively. At June 30, 2020 and 2019, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources (amounts in millions):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2020	2019	2020	2019
Contributions subsequent to the measurement date	$ 0.40	$ 0.40	$ -	$ -
Changes in proportion	-	-	1.20	1.40
Changes in assumption	0.14	0.30	0.07	.12
Differences between expected and actual experience	0.18	0.04	0.01	.03
Net differences between projected and actual earnings on pension plan investments	0.00	0.04	0.03	-
Total	$ 0.72	$ 0.78	$ 1.31	$ 1.55

The $0.4 million reported as deferred outflows of resources related to contributions subsequent to the measurement date at June 30, 2019 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in millions):

Year Ended June 30	Pension Expense
2020	(0.40)
2021	(0.50)
2022	(0.07)
2023	0.01
Total	$ (0.96)

Actuarial Methods and Assumptions

The June 30, 2018 valuation was rolled forward to determine the June 30, 2019 (measurement date). Total pension liabilities, based on the following actuarial method and assumptions:

Valuation Date:	June 30, 2018
Actuarial Cost Method:	Entry age Normal
Actuarial Assumptions	
Discount Rate:	7.15%
Inflation:	2.625%
Salary Increases:	Varies by Entry Aage and Service
Investment Rate of Return:	7.25% Net of Pension Plan Investment 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	2.875%

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.

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

Assets class [1]	Assumed asset allocation	Real return Years 1-0 [2]	Real return Year 11+[3]
	%	%	%
Global 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 (amounts in millions):

	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	$ 5	$ 3	$ 2

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

Department of Water Resources adopted GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. GASB 75 requires that the report is connected with the liability and asset information within certain defined timeframes. For this FY19-20 report, the following timeframes are applied:

Valuation Date/Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

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 for the fiscal year June 30, 2020, the Fund's total contributions was $0.2 million.

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

At June 30, 2020 and 2019, the Fund reported a liability of $4.9 million and $5.4 million for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2019, 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, 2020, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.01%. At June 30, 2019, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.013%.

For the year ended June 30, 2020, the Fund recognized OPEB expense of $1.2 million. At June 30, 2020, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (amounts in millions):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2020	2019	2020	2019
Contributions subsequent to the measurement date	$ 0.4	$ 0.2	$ -	$ -
Difference between actual and expected contributions	6.2	7.6	-	-
Change in assumptions	0.1	-	0.4	0.6
Proportion share and allocation basis change	-	-	2.4	1.9
Total	$ 6.7	$ 7.8	$ 2.8	$ 2.5

$0.4 million reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts in millions):

Year Ended June 30	Amount
2021	$ 0.9
2022	0.9
2023	0.9
2024	0.6
2025	0.1
Thereafter	0.1
	$ 3.5

Actuarial Methods and Assumptions

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. The demographic assumptions – Age of Spouse: It is assumed that female are three years younger than male spouses.

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 6.75 percent for the actuarial valuation of the fully funded policy. A discount rate of 6.75 percent can be supported for the actuarial valuation as of June 30, 2020, provided the sponsor makes pre-funding contributions as defined by statute and pre-funding contributions are invested in CalPERS CERBT Strategy 1.

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 6.75 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 6.75 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 3.13 percent if pre-funding assets are not available to pay benefits and 6.75 percent if pre-funding assets are available to pay benefits.

Blended Discount Rate

For purposes of GASB No. 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, 2018, and June 30, 2019, for each respective actuarial valuation group.

BLENDED DISCOUNT RATES		
Actuarial Valuation Group	June 30, 2018	June 30, 2019
Attorneys and Hearing Officers (BU2)	4.072%	3.711%
Highway Patrol (BU5)	4.282%	3.851%
Corrections (BU6)	4.133%	3.726%
Protective Services and Public Safety (BU7)	4.066%	3.654%
Firefighters (BU8)	4.152%	3.776%
Professional Engineers (BU9)	3.953%	3.586%
Professional Scientific (BU10)	4.084%	3.690%
Craft and Maintenance (BU12)	4.010%	3.604%
Stationary Engineers (BU13)	3.906%	3.516%
Physicians, Dentists, and Podiatrists (BU16)	4.112%	3.772%
Psychiatric Technicians (BU18)	4.080%	3.705%
Health and Social Services/Professional (BU19)	4.159%	3.757%
California State University	3.620%	3.130%
Judicial Branch	4.118%	3.724%
Exempt/Excluded/Executive	3.620%	3.568%
Other	3.620%	3.310%
Service Employees International Union (SEIU)	3.987%	3.604%

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, prescription drug, HMO, and dental plans. For the Pre-Medicare and Post-Medicare medical and drug plans, the select and ultimate trend rates were set at actual increases for 2020 and 7.50 percent in 2021 graded down over a six-year period until to a trend rate of 4.50 percent in 2027, remains at 4.50 percent for ten years until the ultimate rate of 4.25 percent is reached in 2037. Based on a review of supporting documentation provided by CalPERS and a review of various publically available trend studies, the 2020 trend rate for the PPO per capita claims costs is assumed to be 4.00 percent for Pre-Medicare medical and Pre-Medicare prescription drug, and 4.00 percent for Post-Medicare medical and Post-Medicare prescription drug. Beginning in the year 2023 for Future Retirees, the ultimate trend rate on the Employer's explicit contribution includes an additional 0.18 percent to account for the Excise Tax under Federal Healthcare Reform. For the dental plans, select and ultimate trend rates were set at 0.01 percent for 2020 and 4.50 percent for 2021 and beyond. The trend rates are net of any increases due to the potential wear-away of the EGWP-Wrap design savings in 2026. Effective trend for the Post-Medicare plans affected by the EGWP-Wrap design would be higher until the year 2026. These higher effective trend rates gradually eliminate the approximately 20 percent savings for PERSCare, 24 percent savings for PERS Choice and 15 percent savings for the HMO plans remaining as of June 30, 2019, due to the EGWP-Wrap plan design. After seven years, the ultimate savings are assumed to equal 14 percent for PERSCare, 17 percent for PERS Choice, and 10 percent for HMO plans.

- Per capita claim costs – Claims costs were developed separately for the PPO, prescription drug, HMO, and dental plans. 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 2.25 percent.

Wage inflation*:* Wage inflation is assumed to be 2.50 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 Assumption: 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).

	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Diisabled (Job-Related)	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50	0.00372	0.00346	0.01183	0.01083	0.00372	0.00346
55	0.00437	0.00410	0.01613	0.01178	0.00437	0.00410
60	0.00671	0.00476	0.02166	0.01404	0.00671	0.00476
65	0.00928	0.00637	0.02733	0.01757	0.01113	0.00765
70	0.01339	0.00926	0.03358	0.02183	0.01607	0.01111
75	0.02316	0.01635	0.04277	0.02969	0.02779	0.01962
80	0.03977	0.03007	0.06272	0.04641	0.04773	0.03609
85	0.07122	0.05418	0.09793	0.07847	0.08547	0.06501
90	0.13044	0.10089	0.14616	0.13220	0.14348	0.11098
95	0.21658	0.17698	0.21658	0.21015	0.21658	0.17698
100	0.32222	0.28151	0.32222	0.32226	0.32222	0.28151
105	0.46691	0.43491	0.46691	0.43491	0.46691	0.43491
110	1.000000	1.00000	1.00000	1.00000	1.00000	1.00000

The postretirement mortality rates above include 15 years of projected ongoing mortality improvement using 90 percent scale MP-2016 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 (amounts in millions):

	1% Decrease	Blended Discount Rate	1% Increase
Net OPEB Liability	$ 6	$ 5	$ 5

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 (amounts in millions):

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 5	$ 5	$ 6

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller Betty T. Yee, P.O. Box 942850, Sacramento, CA 94250, or by visiting the State Controller's web site at www.SCO.ca.gov.

9. Subsequent Event

The Department of Water Resources (Department) projected to defease all outstanding Power Supply Revenue Bonds in September 2020 and confirm that the covenants, agreements, and other obligations of the Department to the registered owners of the Power Supply Revenue Bonds were discharged and satisfied pursuant to the Trust Indenture for the Power Supply Revenue Bonds.

The Department deposited the aggregate sum of $1,580,235,170.11 to the Escrow Fund established by the Trustee for purposes of defeasing the outstanding Power Supply Revenue Bonds. This aggregate amount was comprised of amounts from certain investment agreement termination payments ($200 million from GIC and $100 million from FPA), accrued interest, outstanding amounts, liquidated securities, and cash equivalents previously held by the Co-Trustee in connection with the Debt Service Reserve Account for the Power Supply Revenue Bonds, along with amounts released from the Department's Bond Charge Payment Account and Bond Charge Collection Account, which were established with respect to the previously issued Power Supply Revenue Bonds.

The State Treasurer's Office applied $1,573,600,917.03 of the amount in the Escrow Fund to purchase the Defeasance Securities and retained $930.81 of uninvested cash, as directed in the Escrow Agreement dated as of September 1, 2020 between the Department and the STO. Based upon the report of an independent firm of certified public accountants serving as Verification Agent, the moneys was deposited in the Escrow Fund, along with the principal and interest on the purchased Defeasance Securities sufficient to pay the principal and interest on all defeased Power Supply Revenue Bonds (the "Defeased Bonds") when they become due. A report prepared by Robert Thomas CPA will review the mathematical accuracy of the computations relating to the adequacy of the maturing principal amount of, and interest to be earned on, the Defeasance Securities and other amounts in the Escrow Fund, to pay the principal and interest due on the maturity dates of the Defeased Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2020	2019	2018	2017	2016	2015
Measurement Period	2019	2018	2017	2016	2015	2014
The Fund's proportion of the net pension liability	0.01001%	0.0117%	0.01475%	0.01741%	0.01921%	0.01777%
The Fund's proportionate share of the net pension liability	$ 3	$ 4	$ 5	$ 6	$ 5	$ 5
The Fund's covered-employer payroll	$ 1.5	$ 1.8	$ 1.9	$ 1.9	$ 2.0	$ 2.0
The Fund's proportionate share of the net pension liability as a percentage of their covered-employee payroll	200%	222.22%	263.16%	315.79%	250.00%	250.00%
Plan fiduciary net position as a percentage of the total pension liability	71.34%	71.83%	66.42%	66.81%	70.68%	73.05%

Notes to Schedule:

Change of benefit terms: For all years presented, there were no changes to the benefit terms.

Change in assumptions: GASB 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses, but without reduction for pension plan administrative expenses. The discount rate changed from 7.65% (net of adminitrative expenses in 2016) to 7.15% as of the June 30, 2017 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expenses.

*Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 0.4	$ 0.5	$ 1.0	$ 0.5	$ 0.5	$ 0.5
Contribution in relation to the contractually required contribution	(0.4)	(0.5)	(1.0)	(0.5)	(0.5)	(0.5)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Fund's covered payroll	$ 1.3	$ 1.5	$ 1.8	$ 1.9	$ 1.9	$ 2.0
Contributions as a percentage of covered payroll	31%	33.33%	55.56%	26.32%	26.32%	25.00%

*Fiscal year 2015 was the 1st year of implementation, therefore only six years are shown.

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

	2020	2019	2018
The fund's proportion of the net OPEB liability	0.01%	0.013%	0.011%
The fund's proportionate share of the net OPEB liability	$ 5.0	$ 5.4	$ 8.0
The fund's covered payroll	$ 1.0	$ 1.0	$ 2.0
The fund's proportionate share of the net OPEB liability as a percentage of its covered payroll	644.082%	622.554%	456.062%
Plan fiduciary net position as a percentage of the total OPEB liability	1.722%	0.597%	0.003%

*Fiscal year 2018 is the 1st year of implementation, therefore only three years are shown.

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

	2020	2019	2018
Contractually required contribution	$ 0.2	$ 0.2	$ 5.0
Contribution in relation to the contractually required contribution	(0.2)	(0.2)	(5.0)
Contribution deficiency (excess)	$ -	$ -	$ -
Fund's covered payroll	753,475	866,431	1,710,263
Contributions as a percentage of covered payroll	21.8%	19.3%	292.4%

*Fiscal year 2018 is the 1st year of implementation, therefore only three years are shown.

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
Department of Water Resources Electric Power Fund
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Department of Water Resources Electric Power Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated April 29, 2021. Our report contained 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, 2020.

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.

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 may exist that have not been identified.

What inspires you, inspires us. | eidebailly.com

2151 River Plaza Dr., Ste. 308 | Sacramento, CA 95833-4133 | T 916.570.1880 | F 916.570.1875 | EOE

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Sacramento, California
April 29, 2021