Department of Water Resources
Charge Fund
Financial Statements
For the year ended June 30, 2023

Department of Water Resources Charge Fund
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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2023 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

Individual Fund Financial Statements

As disclosed in Note 2, the financial statements present only the Department of Water Resources Fund and do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2023, and the changes in its financial positions and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Fund has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the net position as of July 1, 2022, to restate beginning net position. Our opinion is not modified with respect to this matter.

Correction of Error

As discussed in Note 12 to the financial statements, an error resulting in an overstatement of amounts previously reported for receivables and revenues as of June 30, 2022, were discovered by management of the Fund during the current year. Accordingly, a restatement has been made to the net position of the Fund as of June 30, 2022, to correct the error. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control. Accordingly, no such opinion is expressed.

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and OPEB schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 July 29, 2024, on our consideration of the of the Department of Water Resources Charge Fund of the State of California'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 Department of Water Resources Charge Fund of the State of California'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 Department of Water Resources Charge Fund of the State of California's internal control over financial reporting and compliance.

Eide Bailly LLP

Sacramento, California
July 29, 2024

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

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

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

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

Financial Highlights

- Fiscal Year 2022-2023 is the fourth year of operations for the Fund. On July 12, 2019, Governor Newsom signed Assembly Bill 1054 (AB 1054) and companion Assembly Bill 111 (AB 111) into law. In addition, AB 1054 and the California Public Utilities Commission (CPUC), Decision 19-010-056, established the Wildfire Non-Bypassable Charge (NBC) and imposed it on the ratepayers of California's three largest Investor-Owned Utilities (IOUs), beginning October 1, 2020, and lasting through January 1, 2036.

- The Fund recognized $975,578 in NBCs during fiscal year 2023. The Fund transferred $973,570 of the total NBCs collected to the California Earthquake Authority (CEA) during fiscal year ended June 30, 2023.

- The Fund's total net position, as of June 30, 2023, was $124,180.

Purpose of Fund

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

(amounts in thousands unless otherwise stated)

The Fund will assist in reducing the IOU's wildfire financial risks, by providing funding for a system to spread the exposure that the three IOUs: Pacific Gas & Electric Company, Southern California Edison, and San Diego Gas & Electric Company, have from wildfire liabilities and payment of wildfire-related claims against the IOUs. The Fund also has the authority to issue revenue bonds up to $10.5 billion backed by NBCs imposed on the IOU's ratepayers.

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

AB 1054 also directed the CPUC to enter into a Rate Agreement (the "Rate Agreement") with the DWR to establish the NBC. In CPUC Decision 19-010-056, effective on October 24, 2019, the CPUC adopted the Rate Agreement. The Rate Agreement consists of a covenant that the CPUC shall calculate, revise and impose, from time to time, NBCs sufficient to fund at all times the $902.4 million annual Revenue Requirement, the covenant shall have the force and effect of a "irrevocable financing order" under Section 842(d) of the California Public Utilities Code.

CONDENSED STATEMENT OF NET POSITION

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

	2023	2022
Assets and deferred outflows of resources		
Current assets	$ 139,300	$ 206,647
Non-current assets	464	505
Deferred outflows of resources	8,962	9,625
Total Assets and deferred outflows of resources	148,726	216,777
Liabilities and deferred inflows of resources		
Current liabilities	12,568	80,231
Non-current liabilities	9,683	9,073
Deferred inflows of resources	2,295	2,138
Total Liabilities and deferred inflows of resources	24,546	91,442
Net Position		
Unrestricted	$ 124,180	$ 125,335

Current Assets

Restricted Cash

General Cash was $2,666 at the end of fiscal year June 30, 2023. General Cash represents payments of NBC in transit as of June 30, 2023.

The Administrative and Operating Cost Account was $1,611 at the end of fiscal year 2023.

The Collection Account was $29,527 at the end of fiscal year June 30, 2023. This decrease of $49,756 compared to June 30, 2022 was due to the lower NBC rate imposed on ratepayers from January to June 2023 (as compared to the higher rate from fiscal year 2022).

Accounts Receivable

The accounts receivable amount reflects NBCs collected by the IOUs from non-exempt ratepayers in the IOU's service area. The accounts receivable balance was $104,872 on June 30, 2023, as compared to $121,379 at the end of the previous fiscal year (as restated). This decrease reflects the lower NBC rate imposed on ratepayers from January to June 2023 (as compared to the higher rate from fiscal year 2022). In 2022 the NBC rate was higher than in 2023 to account for prior years shortfalls.

Non-Current Assets

The Fund implemented GASB Statement No. 96*, Subscription-Based Information Technology Arrangements (SBITA),* for the fiscal year ended June 30, 2023, and recognized the right-to-use assets related to SBITAs. The beginning balance of the right-to-use subscription IT assets was $45 for the fiscal year 2023. See Note 5 and 12.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions were $3,517 in fiscal year 2023.

Deferred outflows of resources related to Other Postemployment Benefit (OPEB) were $5,445 in fiscal year 2023.

Current Liabilities

The accounts payable balance was $12,104 on June 30, 2023. This balance mainly included NBCs required to be transferred to the CEA for the month of June 2023 only. This is after DWR's administrative and operating expenses, and any reserves, were withheld.

The liabilities of the Fund decreased by $67,663 during fiscal year 2023, as a result of the Fund changing the accrual period of the NBC payments to the CEA from monthly to a weekly basis in fiscal year 2023.

(amounts in thousands unless otherwise stated)

Net Pension Liability

The net pension liability balance was $4,838 in fiscal year 2023.

Net OPEB Liability

The net OPEB liability balance was $4,530 in fiscal year 2023.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions were $110 in fiscal year 2023.

Deferred inflows of resources related to OPEB were $2,185 in fiscal year 2023.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

	2023	2022
Operating Expenses		
Total operating expenses	$ 5,546	$ 5,239
Non Operating Revenues and Expenses		
Total non operating revenues and expenses	4,391	16,512
Change in net position	(1,155)	11,273
Net position, beginning of year as restated	$ 125,335	114,062
Net position, end of year	$ 124,180	$ 125,335

Operating Expenses

The operating expenses increased by $307 during the fiscal year ending June 30, 2023, due to more administrative activities compared to the previous year.

Non-Operating Revenues and Expenses

The Fund started collecting NBCs in October 2020 in accordance with AB 1054. The Fund recognized a total of $975,578 in NBCs during fiscal year 2023. The Fund recognized a total of $980,477 in NBCs during fiscal year 2022.

The Fund transferred $973,570 of NBCs to the CEA during fiscal year 2023, an increase of $9,140 from 2022. The Fund started transferring NBCs to the CEA weekly instead of monthly during fiscal year 2023.

Capital Assets

In fiscal year 2023, the Fund implemented GASB 96, recognizing the right to use IT subscription assets of $45, net of accumulated amortization of $17 as of June 30, 2023. The fund also reports a net right to use leased asset of $436.

Long-term Obligations

Long-term debt includes a lease liability and IT subscription liability. The lease liability at June 30, 2023 is $448, a decrease of $57 due to regular principal payments. The IT subscription liability at June 30, 2023 is $25. This is the first year the subscription liability is recorded due to the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs*), effective July 1, 2022. Additional information regarding leases and SBITA's can be found in Note 4 and 5 to the Financial Statements.

Requests for Information

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

Department of Water Resources Charge Fund
Statement of Net Position
June 30, 2023
(amounts in thousands unless otherwise stated)

Assets		
Current assets:		
Restricted cash:		
General cash	$	2,666
Administrative and operating cost account		1,611
Collection account		29,527
Wildfire transfer account		1
Accounts receivable		104,872
Interest receivable		623
Total current assets		139,300
Non-current Assets:		
Right-to-use lease asset, net of accumulated amortization		436
Right-to-use subscription IT asset, net of accumulated amortization		28
Total non-current assets		464
Total assets		139,764
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions		3,517
Deferred outflows of resources related to OPEB		5,445
Total deferred outflows of resources		8,962
Total assets and deferred outflows of resources	$	148,726
Liabilities		
Current liabilities:		
Accounts payable	$	12,104
Accrued leave time		306
Lease liability, current portion		140
Subscription IT liability, current portion		18
Total current liabilities		12,568
Non-current Liabilities:		
Lease liability, net of current portion		308
Subscription IT liability, net of current portion		7
Net pension liability		4,838
Net OPEB liability		4,530
Total non-current liabilities		9,683
Total liabilities		22,251
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions		110
Deferred inflows of resources related to OPEB		2,185
Total deferred inflows of resources		2,295
Net position:		
Unrestricted		124,180
Total Net position		124,180
Total liabilities, deferred inflows of resources and net position	$	148,726

See accompanying Notes to Financial Statements

Department of Water Resources Charge Fund
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2023
(amounts in thousands unless otherwise stated)

Operating Expenses:	
Adminstrative and operating expenses	$ 5,379
Amortization expense	167
Total operating expenses	5,546
Operating Loss	(5,546)
Non Operating Revenues (Expenses):	
Non-bypassable charges and operating transfers	975,578
Interest income	2,383
Non-bypassable charges and operating transfers - paid to CEA	(973,570)
Total non operating revenues/(expenses)	4,391
Change In Net Position	(1,155)
Net position, beginning of year, as restated	125,335
Net position, end of year	$ 124,180

See accompanying Notes to Financial Statements

Department of Water Resources Charge Fund
Statement of Cash Flows
For the year ended June 30, 2023
(amounts in thousands unless otherwise stated)

Cash Flows From Operating Activities:		
Payment to employees for services	$	(3,031)
Payment for other expenses		(962)
Net cash flows used for operating activities		(3,993)
Cash Flows From Non-Capital Financing Activities:		
Collection of non-bypassable charges from IOUs		992,084
Payment of non-bypassable charges to CEA		(1,041,142)
Net cash flows used for non-capital financing activities		(49,058)
Cash Flows From Capital Financing Activities:		
Principal repayment on lease		(164)
Interest payment on lease		(6)
Net cash flows used for investing activities		(170)
Cash Flows From Investing Activities:		
Interest received on investments		1,967
Net cash flows provided for investing activities		1,967
Changes in restricted cash and equivalents		(51,254)
Restricted cash and equivalents, beginning of period		85,059
Restricted cash and equivalents, end of period	$	33,805
Restricted cash and equivalents included in:		
Administrative and operating cost account		1,611
General cash		2,666
Wildfire transfer account		1
Collection account		29,527
Restricted cash and equivalents, end of year	$	33,805
Reconciliation of income (loss) from operation to net cash used in operating activities:		
Income (loss) from operations	$	(5,546)
Amortization of right-to-use lease buildings and subscriptions		167
Changes in assets and liabilities to reconcile loss from operations to net cash used in operations:		
Net OPEB liability and related deferred inflows/outflows		580
Net pension liability and related deferred inflows/outflows		911
Increase (decrease) in accounts payable for services		74
Increase (decrease) in accrued leave time		(179)
	$	(3,993)

See accompanying Notes to Financial Statements

1. Reporting Entity

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

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The Department of Water Resources Charge Fund (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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles, which considers the Fund a Regulated Operation under GASB Statement No. 62. The Fund is accounted for with a set of self-balancing accounts that comprise of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

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

Lease Liabilities

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

Subscription Liabilities

Subscription liabilities represent the Fund’s obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments is discounted based on a borrowing rate determined by the State of California.

Right to Use Leased Assets

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

Right to Use Subscription IT Assets

The right to use subscription IT assets are recognized at the subscription commencement date and represent the Fund's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Current Year GASB Implementations:

GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2021. The Fund has determined that there was no material impact on the financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs)*. The objective of this Statement is to establish standards of accounting and financial reporting for PPPs and APAs. The Statement requires recognition of certain assets, receivables, deferred inflows of revenues (transferor) and liabilities and deferred outflows of resources (operators) for PPP arrangements. This Statement is effective for reporting periods beginning after June 15, 2022. The Fund has determined that there was no material impact on the financial statements.

GASB Statement No. 96 - As of July 1, 2022, the Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this Statement establishes that a SBITA results in a right to use a subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on the beginning net position is disclosed in Note 12 and the additional disclosures required by this standard are included in Note 5.

GASB Statement No. 99 – In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objective of this Statement is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement related to the extension of the use of London Interbank Offered (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The Fund has determined that there was no material impact on the financial statements.

DWR Charge Fund Sub-Accounts:

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

Collection Account: All NBC revenues collected from the ratepayers of participating IOUs will be initially deposited into this account. DWR will also use this account to transfer monies to the Wildfire Fund Administrator for credit to the Wildfire Fund

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

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

Administrative and Operating Cost Account: Any required payments will be made from this account for related, reasonable administrative, general, and overhead expenses; payments for employee salaries and benefits; costs of complying with arbitrage; and any restrictions and rebate requirements relating to the Wildfire Revenue Bonds under section 148 of the Internal Revenue Code of 1986, as amended. Also, any required payments will be made for contracts, agreements, and obligations entered into by the Fund. Wildfire NBCs servicing costs: costs of preparing and providing information and reports required under any financing document, the Rate Agreement, and the Act (the Wildfire Prevention and Recovery Act of 2019, Division 28, commencing with Section 80500 of the California Water Code, along with the Rate Agreement between the DWR and the CPUC and Assembly Bill 1054 are collectively referred to as Act). Related audit, legal and consulting fees will also be made from this account.

Wildfire Transfer Account: DWR will use this account to repay loans made from SMIF to the Wildfire Fund; and repay loans made from the General Fund to the Wildfire Fund.

Restricted Cash and Cash Equivalents

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

SMIF has an equity interest in the State of California Pooled Money Investment Account (PMIA). Generally, investments in the PMIA are available for withdrawal on demand. The PMIA cash and investments are recorded at amortized cost, which approximates fair value. The PMIA funds are deposited with the State's Centralized Treasury System and are managed in compliance with the California Government Code, described in Note 8.

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 employees 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 groups within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple employers 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. Liabilities

Accounts Payable

Accounts payable are comprised of accruals for training, salaries and benefits of employees, legal and consulting fees, and June 2023 NBCs balance for transfer to the CEA. The accounts payable balance, as of June 30, 2023, was $12,104.

4. Leases

DWR entered into fifteen lease agreements for lease of office space. One lease is allocated by DWR to the Fund based on the percentage of space dedicated to the Fund. The remaining fourteen leases are allocated to the Fund by DWR based on the percentage of overhead allocation. The last lease agreement terminates in June 2035. Under the terms of the leases, the Fund pays a monthly base fee ranging from $21 dollars to $7,784 dollars, increasing up to 3.0% annually according to the terms of the agreements.

On June 30, 2023, the Fund recognized a right to use leased asset of $436 and a lease liability of $448 related to these agreements. During the 2023 fiscal year, the Fund recorded $151 in amortization expenses and $5 in interest expenses for the right to use the office spaces. The Fund used discount rates between 0.20% and 3.22% and these rates were based on the State of California incremental borrowing rate at the inception of the lease agreements. There were addition of leases in the amount of $83 and deletion in the amount of $137 for the fiscal year 2023.

The obligations associated with these leases are as follows:

(amounts in thousands unless otherwise stated)

Fiscal Year Ended June 30	Principal	Interest
2024	$ 140	$ 4
2025	119	4
2026	48	3
2027	37	3
2028	19	2
2029-2033	65	6
2034-2035	20	-
Total	$ 448	$ 22

5. Subscription Based Information Technology Arrangements

The Fund has entered into seven Subscription-Based Information Technology Arrangements (SBITA's) for the use of different software solutions. The Fund is required to make principal and interest payments through June 2025. On June 30, 2023, the Fund recognized a SBITA asset of $28 and a SBITA liability of $25 related to these agreements. During the fiscal year, the Fund recorded $17 in amortization expense and $0 of interest expense (due to rounding). The SBITA contracts have an interest rate at 2.40% and this rate was based on the State of California incremental borrowing rate at the inception of the subscriptions.

The obligations associated with these SBITA are as follows:

Fiscal Year Ended June 30	Principal	Interest
2024	$ 18	$ -
2025	7	-
Total	$ 25	$ -

6. Right-to-use Asset

Right-to-use asset activity for the year ended June 30, 2023, is as follows:

	July 1, 2022 As Restated	Additions	Deletions	June 30, 2023
Right to Use Leased Office Space	$ 641	83	$ 137	$ 587
Less Accumulated Amortization	136	151	136	151
Net Right to Use Leased Assets	505	(68)	1	436
Right to Use Subscription IT Assets	45	-	-	45
Less Accumulated Amortization	-	17	-	17
Net Right to Use IT Subscription IT Assets	45	(17)	-	28
Total leased and subscription IT assets, net	$ 550	$ (85)	$ 1	$ 464

(amounts in thousands unless otherwise stated)

7. Pass-through Interest Payments

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

The total amount of principal and interest payments received and disbursed to the SMIF, by the Fund, totaled $670,000 and $11,595 respectively, as scheduled for fiscal year 2023. CEA paid off their SMIF loan on April 26, 2023.

8. Restricted Cash and Investments

As of June 30, 2023, the Fund had the following Cash and Investments:

Cash and Investments	**June 30, 2023**	**2023**
State of California Pooled Money Investment Account - Surplus Money Investment Fund	8.5 months avg.	$ 31,139
Cash		2,666
Total cash and cash equivalents		$ 33,805
Reconciliation to Statement of Net Position:		
Cash		$ 2,666
Administrative and operating cost account		1,611
Collection account		29,527
Wildfire transfer account		1
		$ 33,805

As of June 30, 2023, the Fund had $2,666 deposited with the State Treasury in a non-interest-bearing pooled account.

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

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

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

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

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

For the fiscal year ended June 30, 2023, interest earned on the deposit in the SMIF was $2,383 at the rate of return of the underlying portfolio at 2.91%.

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

9. Commitments and Contingencies

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

(amounts in thousands unless otherwise stated)

10. 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 FY22-23 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2021
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021, to June 30, 2022

Plan Description

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

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

Benefits Provided

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

The Plan's provisions and benefits in effect on June 30, 2023, are summarized as follows:

(amounts in thousands unless otherwise stated)

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 CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2022, and 2021 (the measurement date) the employer's contribution rates are approximately 29.2% and 29.4% respectively, of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer-Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan for the fiscal year ended June 30, 2023, was $0.6.

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

As of June 30, 2023, the Fund reported a net pension liability for the proportionate share of the net pension liability of $4,838. The Fund's net pension liability for the Plan is measured as a proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2022, 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, 2021, rolled forward to June 30, 2022, using standard update procedures. The Funds' proportion of the net pension liability was based on the State Controller's Office (SCO) projection for the fund. The SCO identified a total of 29 entities that are reported in the State's ACFR which are proprietary funds (enterprise and internal service) and fiduciary funds (pension and other employee benefit trust funds), component units (discretely presented and fiduciary), and related organizations, that have State employees with pensionable compensation (covered payroll). The SCO calculated and provided these funds and organizations with their allocated pensionable compensation percentages by plan. The Fund's proportionate share of the net pension liability for the Plan measured as of June 30, 2022, was 0.01280%, and measured as of June 30, 2021, was 0.01217%.

(amounts in thousands unless otherwise stated)

For the year ended June 30, 2023, the Fund recognized pension expense of $1,545. On June 30, 2023, the Fund reported deferred outflows of resources and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 633	$ -
Changes in proportion	1,811	-
Changes in assumption	366	-
Differences between expected and actual experience	77	110
Net differences between projected and actual earnings on pension plan investments	630	-
Total	$ 3,517	$ 110

The $633 reported as deferred outflows of resources related to contributions subsequent to the measurement date on June 30, 2022, will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as a pension expense as follows:

Year Ended June 30	Amount
2024	$ 1,127
2025	1,090
2026	151
2027	406
Total	$ 2,774

Actuarial Methods and Assumptions

The June 30, 2021, valuation was rolled forward to determine the June 30, 2022 (measurement date). The total pension liability, is based on the following actuarial method and assumptions:

(amounts in thousands unless otherwise stated)

Valuation Date:	June 30, 2021
Actuarial Cost Method:	Entry age Normal
Discount Rate:	6.90%
Inflation:	2.30%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation.
Mortality Rate Table:	The mortality table used was developed based on CalPERS-specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions.
Retirement Age:	The probabilities of Retirement are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019.
Payroll Growth:	2.75%

Discount Rate

To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 6.90% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 6.90% 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 would make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

(amounts in thousands unless otherwise stated)

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

Assets class [1]	Assumed asset allocation	Real return [1] [2]
Global Equity - Cap-weighted	30.00%	4.54%
Global Equity - Non-Cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100%	

(1) An expected inflation of 2.3% used for this period.

(2) Figures are based on the 2021 Asset Liability Management study.

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 the Plan's net pension liability as of the measurement date, calculated using the discount rate of 6.90%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Discount Rate -1% 5.90%	Current Discount Rate 6.90%	Discount Rate +1% 7.90%
The Fund's Proportionate Share of Plan's Net Pension Liability	$ 6,962	$ 4,838	$ 3,065

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

Plan Description – The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California under the Public Employees' Medical and Hospital Care Act.

Dental benefits are provided under the State Employees' Dental Care Act. Departments and agencies within the State, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. Since all State agencies and certain related organizations, including the Fund, are considered collectively to be a single employer for plan purposes, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Fund employees cannot be determined.

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

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

The State also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by retirees, there are no GASB Statements No. 74 or 75 liabilities 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 for multiple employers defined benefit another 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 early of 2046 or the year that actuarial liabilities are fully funded. The State also makes pay-as-you-go contributions for benefits paid to current retirees and the portion of benefits paid to future retirees that are not prefunded.

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

On June 30, 2023, the Fund reported a liability of $4,530 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2022, 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. On June 30, 2023, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.05%. On June 30, 2022, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.06%.

For the year ended June 30, 2023, the Fund recognized OPEB expense of $834. On June 30, 2023, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

(amounts in thousands unless otherwise stated)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 254	$ -
Change of assumptions	252	950
Difference between expected and actual experience	216	482
Changes in proportion	4,678	736
Difference between projected and actual earnings on investments	45	17
Total	$ 5,445	$ 2,185

A total of $254 was reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Fund subsequent to the measurement date. This amount will be recognized as a reduction of the Net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2024	$ 593
2025	668
2026	714
2027	729
2028	430
Thereafter	(128)
	$ 3,006

Actuarial Assumptions and Methods

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

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

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

Discount Rate

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

The sponsor's pre-funding policy provides for a 50 percent cost sharing of the normal cost, between active members and the plan sponsor, graded over several years since the adoption of the pre-funding policy. Pre-funding normal cost contributions are deposited into the CERBT and are expected to earn 6.00 percent per year. Pre-funding normal costs and investment income are not available to pay benefits until the earlier of 2046 or the year that the total actuarial liability is fully funded. The sponsor finances benefits on a pay-as-you-go basis prior to the year that pre-funding assets are available to pay benefits. For the purposes of developing the full-funding normal cost, actuarial liability and actuarially determined contribution, a discount rate of 6.00 percent was used. The discount rate used to develop the GASB Nos. 74 and 75 Total OPEB Liability and Service Cost was based on a blended rate for each respective actuarial valuation group comprised of 3.69 percent if pre- funding assets are not available to pay benefits and 6.00 percent if pre-funding assets are available to pay benefits.

Blended Discount Rate

For the purposes of GASB Nos. 74 and 75 financial reporting, liabilities are discounted using a blended discount rate. The blended discount rate is based on a (1) 20-year general obligation bond index if benefits are financed on a pay-as-you-go basis and (2) the expected return on trust assets if pre-funding assets are available to pay benefits. The following table shows the blended discount rates on June 30, 2021, and June 30, 2022, for each respective actuarial valuation group.

(amounts in thousands unless otherwise stated)

BLENDED DISCOUNT RATES		
Actuarial Valuation Group	**June 30, 2021**	**June 30, 2022**
Attorneys and Hearing Officers (BU2)	2.863%	4.174%
Highway Patrol (BU5)	2.952%	4.216%
Corrections (BU6)	2.848%	4.121%
Protective Services and Public Safety (BU7)	2.762%	4.148%
Firefighters (BU8)	2.907%	4.242%
Professional Engineers (BU9)	2.731%	4.105%
Professional Scientific (BU10)	2.886%	4.194%
Craft and Maintenance (BU12)	2.766%	4.127%
Stationary Engineers (BU13)	2.595%	4.063%
Physicians, Dentists, and Podiatrists (BU16)	2.951%	4.227%
Psychiatric Technicians (BU18)	2.748%	4.134%
Health and Social Services/Professional (BU19)	2.885%	4.221%
California State University	1.920%	3.690%
Judicial Branch	2.906%	4.200%
Exempt/Excluded/Executive	2.687%	4.075%
Other	1.920%	3.690%
Service Employees International Union (SEIU)	2.710%	4.121%

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

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

  For the Pre-Medicare medical and drug plans, select and ultimate trend rates were set at actual increases for 2023, 7.00 percent in 2024 grading down to 4.50 percent in 2029, 4.50 percent from 2029 to 2037, and 4.25 percent on and after 2038. The same trend rates were applied to per capita costs and premium rates.

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

  Medicare premium trend rates were set at actual increases for 2023, 7.00 percent in 2024 grading down to 4.50 percent in 2029, 4.50 percent from 2029 to 2037, and 4.25 percent after 2038.

  Medicare per capita costs trend rates for PERS Care were set at 7.21 percent for 2023, 8.06 percent in 2024 grading down to 4.65 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent after 2038. Medicare per capita costs trend rates for PERS Choice and PERS Select were set at -2.17 percent for 2023, 7.93 percent in 2024 grading down to 4.63 percent in 2030, 4.50 percent from 2031 to 2037, and 4.25 percent after 2038.

  For the dental plans, select and ultimate trend rates were set at 0.03 percent for 2023, 2.00 percent for 2024, 3.00 percent for 2025, 4.00 percent for 2026, and 4.25 percent for 2027 and beyond.

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

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

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

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

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

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

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

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

(amounts in thousands unless otherwise stated)

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

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

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

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

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

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

	1% Decrease	Blended Discount Rate	1% Increase
Net OPEB Liability	$ 4,841	$ 4,530	$ 3,541

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

(amounts in thousands unless otherwise stated)

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 3,495	$ 4,530	$ 4,919

12. Restatement of Net Position

As of July 1, 2022, the Fund adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA's). The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITA's that previously were recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96.
The Fund also restated net position to correct the beginning balances of account receivables.

Net Position, July 1, 2022, as previously reported	$ 202,290
Recognition of right-to-use subscription IT assets	45
Recognition of subscription IT liabilities	(45)
Adjustment to accounts receivables	(76,955)
Net Position, July 1, 2022, as restated	$ 125,335

Change in Net Position, June 30, 2022 as previously reported	$ 88,228
Adjustment to revenues	(76,955)
Change in Net Position, June 2022, as restated	$ 11,273

REQUIRED SUPPLEMENTARY INFORMATION

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

	Fiscal Year 2023	Fiscal Year 2022
Measurement Period	June 30, 2022	June 30, 2021
The Fund's proportion of the net pension liability	0.01280%	0.01217%
The Fund's proportionate share of the net pension liability	$ 4,838	$ 2,712
The Fund's covered payroll	$ 1,618	$ 1,571
The Fund's proportionate share of the net pension liability as a percentage of their covered payroll	299.01%	172.63%
Plan fiduciary net position as a percentage of the total pension liability	71.63%	82.39%

Notes to Schedule:

*Fiscal year 2022 is the first year of implementation for the Fund; therefore, only two fiscal years are reflected.

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

	Fiscal Year 2023	Fiscal Year 2022
Contractually required contribution	$ 633	$ 544
Contribution in relation to the contractually required contribution	(633)	(544)
Contribution deficiency (excess)	-	-
Fund's covered payroll	$ 1,941	$ 1,618
Contributions as a percentage of covered payroll	32.60%	33.62%

*Fiscal year 2022 is the first year of implementation for the Fund; therefore, only two fiscal years are reflected.

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

	Fiscal Year 2023	Fiscal Year 2022
The fund's proportion of the net OPEB liability	0.05%	0.06%
The fund's proportionate share of the net OPEB liability	$ 4,530	$ 5,984
The fund's covered employee payroll	$ 1,091	$ 1,022
The fund's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	415.215%	585.519%
Plan fiduciary net position as a percentage of the total OPEB liability	6.226%	4.206%
Measurement date	June 30, 2022	June 30, 2021

*Fiscal year 2022 is the first year of implementation for the Fund; therefore, only two fiscal years are reflected.

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

	Fiscal Year 2023	Fiscal Year 2022
Contractually required contribution	$ 254	$ 239
Contribution in relation to the contractually required contribution	(254)	(239)
Contribution deficiency (excess)	-	-
Fund's covered payroll	$ 1,023	$ 1,091
Contributions as a percentage of covered employee payroll	24.8%	21.9%

*Fiscal year 2022 is the first year of implementation for the Fund; therefore, only two fiscal years are reflected.

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 Charge Fund
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Department of Water Resources Charge Fund (Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated July 29, 2024. Our report contained an emphasis of matter paragraph noting 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, 2023. Our report also included emphasis of matter paragraphs related to the correction of errors in the previously issued financial statements and regarding the Fund's adoption of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs*), effective July 1, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 Fund'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The Fund's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Fund's response to the finding identified in our audit and described in the accompanying Schedule of Findings and Responses. The Fund's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
July 29, 2024

2023-001 **Financial Reporting**

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria

Management is responsible for establishing and maintaining an effective system of internal control over financial reporting, including the review of year-end balances.

Condition

During the audit, management noted an adjustment needed in the balances reported for the accounts receivables (and related non bypassable charges remittances) as of June 30, 2022. Accordingly, a restatement has been made to the beginning net position as of June 30, 2022.

Cause:

The Fund's prior year closing procedures did not detect the adjustment needed to properly report the accounts receivable balance, resulting in amounts not being recorded in accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

Effect:

The beginning net position had to be restated in the current year to correct the beginning balance of accounts receivables.

Context:

Management identified an adjustment needed during the year-end reconciliation of receivables and revenues.

Recommendation:

We recommend that the Fund develop review and reconciliation procedures to ensure that receivables is accurately reported at year end.

View of Responsible Officials and Planned Corrective Action:

As a result of the Department of Water Resources (DWR) Fiscal staff identifying an overstatement to the DWR Charge Fund's (DCF) fiscal year 2021/2022 Net Position, enhancements to DWR's internal controls are being implemented to prevent this issue from reoccurring in the future.

The accounts receivable accrual balance was overstated by $77 million as a result of an unknown variation in the quarterly data provided by one of the Fund's Investor-Owned Utilities (IOU). In addition, none of the parties involved in the fiscal year 2020/2021 audit identified this overstatement before the completion of the audit.

These enhancements include:

- The creation of a year-end accrual template that identifies the specific data needed from each of the IOUs.
- Both Fiscal and Program staff will review the data received from each IOU and validate whether it meets the criteria requested.
    - Supporting documentation will also be requested from each IOU for validation purposes.
- Any variances of +/- 10% between the previous fiscal year's IOU data and the current year's data will be further analyzed by both the Fiscal and Program staff.
- Finally, the Fiscal staff will retain all documentation related to the IOU accruals for recordkeeping purposes.

The DCF's Net Position ending balance for FY2021/2022 and beginning balance for FY2022/2023 have been restated/adjusted as necessary.