Department of Water Resources
Charge Fund
Financial Statements
For the year ended June 30, 2025

Department of Water Resources Charge Fund
Table of Contents

Page

Independent Auditor's Report 1

Management Discussion and Analysis (Required Supplementary Information) 4

Fund's Financial Statements:

Statement of Net Position 9

Statement of Revenues, Expenses and Changes in Net Position 10

Statement of Cash Flows 11

Notes to Financial Statements 12

Required Supplementary Information:

Schedule of the Fund's Proportionate Share of the Net Pension Liability (Last 10 years) 33

Schedule of the Fund's Contributions for Pensions (Last 10 years) 34

Schedule of the Fund's Proportionate Share of the Net OPEB Liability (Last 10 years) 35

Schedule of the Fund's Contribution for OPEB (Last 10 years) 36

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* 37

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, 2025, 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, 2025 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, 2025, 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.

eidebailly.com
2150 River Plaza Dr., Ste. 150 | Sacramento, CA 95833-4131 | 916.570.1880 | F 916.570.1875 | EOE

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 November 18, 2025, 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
November 18, 2025

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 on 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 similar accounting methods, although not identical to those used by private sector companies. For the financial statements to be complete, they must be accompanied by a complete set of Notes. The Notes to Financial Statements provide disclosures that are required to conform to Generally Accepted Accounting Principles (GAAP). The Fund is required to follow accounting standards promulgated by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- Fiscal Year 2025 is the sixth 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, until January 1, 2036.
- The Fund recognized $917,413 in NBCs during fiscal year 2025. The Fund transferred $922,367 of the total NBCs collected to the California Earthquake Authority (CEA) during the fiscal year ending June 30, 2025.
- The Fund's total net position, as of June 30, 2025, was $112,339.

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 twenty-five 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 state's IOUs with a source of funding to pay eligible wildfire claims. The states three largest IOUs, Pacific Gas & Electric Company, Southern California Edison, and San Diego Gas & Electric Company participate in the fund.

The Fund will assist in reducing the participating IOU's wildfire financial risks, by providing funding for a system to spread the exposure that the three IOUs. The Fund also has the authority to issue revenue bonds up to $10.5 billion backed by NBCs imposed on the IOUs' ratepayers.

(amounts in thousands unless otherwise stated)

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 NBCs are to equal 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 until 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 an "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, 2025 are summarized as follows:

	2025	2024
Assets and deferred outflows of resources		
Current assets	$ 154,381	$ 144,621
Non-current assets	611	382
Deferred outflows of resources	4,791	7,262
Total Assets and deferred outflows of resources	159,783	152,265
Liabilities and deferred inflows of resources		
Current liabilities	35,921	18,648
Non-current liabilities	9,376	9,683
Deferred inflows of resources	2,147	2,203
Total Liabilities and deferred inflows of resources	47,444	30,534
Net Position		
Unrestricted	$ 112,339	$ 121,731

Current Assets

Restricted Cash

General Cash was $3,694 as of June 30, 2025. General Cash represents payments of NBC in transit as of June 30, 2025.

The Administrative and Operating Cost Account was $1,756 as of June 30, 2025.

The Collection Account was $41,199 as of June 30, 2025.

Accounts Receivable

The accounts receivable amount reflects the NBCs collected by the IOUs from non-exempt ratepayers in the IOU's service areas. The accounts receivable balance was $107,331 on June 30, 2025, as compared to $103,480 at the end of the previous fiscal year. This increase reflects the higher NBC rate imposed on ratepayers from January to June 2025 (as compared to the lower rate from fiscal year 2024). The higher NBC rate imposed in January 2025 was to make up for prior years' shortfalls.

Deferred Outflows of Resources

Deferred outflows of resources related to pensions was $999 in fiscal year 2025.

Deferred outflows of resources related to Other Postemployment Benefits (OPEB) was $3,792 in fiscal year 2025.

Current Liabilities

The accounts payable balance was $35,639 on June 30, 2025. This balance mainly included NBCs in transit to the CEA for the month of June 2025 only. This is after DWR's administrative and operating expenses, and any reserves, were withheld.

The liabilities of the Fund increased by $17,273 during fiscal year 2025, due to transfers to the CEA still in transit.

Net Pension Liability

The net pension liability balance was $3,660 as of June 30, 2025.

Net OPEB Liability

The net OPEB liability balance was $4,971 as of June 30, 2025.

Deferred Inflows of Resources

Deferred inflows of resources related to pensions was $524 as of June 30, 2025.

Deferred inflows of resources related to OPEB was $1,623 as of June 30, 2025.

(amounts in thousands unless otherwise stated)

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Fund's activities for the year ended June 30, 2025 are summarized as follows:

	2025	2024
Operating Expenses:		
Adminstrative and operating expenses	$ 6,048	$ 5,004
Amortization expense	178	141
Total operating expenses	6,226	5,145
Operating Loss	(6,226)	(5,145)
Non Operating Revenues (Expenses):		
Non-bypassable charges and operating transfers	917,413	839,502
Interest income	1,788	1,433
Non-bypassable charges and operating transfers - paid to CEA	(922,367)	(838,239)
Total non operating revenues/(expenses)	(3,166)	2,696
Change In Net Position	(9,392)	(2,449)
Net position, beginning of year	121,731	124,180
Net position, end of year	$ 112,339	$ 121,731

Operating Expenses

The operating expenses increased by $1,081 during the fiscal year ending June 30, 2025, primarily due to increased administrative expenses for the fiscal year ending June 30, 2025.

Non-Operating Revenues and Expenses

The Fund recognized a total of $917,413 in NBCs during fiscal year 2025. The Fund recognized a total of $839,502 in NBCs during fiscal year 2024, an increase of $77,911 due to a higher NBC rate imposed in January 2025 to make up for the prior years' shortfalls.

The Fund transferred $922,367 in NBCs to the CEA during fiscal year 2025. The Fund transferred $838,239 in NBCs to the CEA during fiscal year 2024, an increase of $84,128 due to a higher NBC rate imposed as noted above.

Capital Assets

The Fund recognizes the right to use IT subscription assets of $76, net of accumulated amortization of $19 as of June 30, 2025. The fund also reports the right to use leased assets of $713 net of accumulated amortization of $159. Additional information regarding capital assets can be found in Note 6.

Long-term Obligations

Long-term debt includes lease and IT subscription liabilities. As of June 30, 2025, the lease liability is $566, an increase of $192 resulting from the addition of a new contract and renewal of existing leases, impacting principal payments. The IT subscription liability is $45 as of June 30, 2025, reflecting an increase of $35 due to the addition of new contracts related to principal payments. Additional information regarding leases and Subscription-Based Information Technology Arrangements (SBITAs) can be found in Note 4 and 5 of 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 state's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Branch Manager, State Water Project Cost Analysis and Billing Branch, 715 P Street, 6th Floor, Sacramento, CA 95814.

Department of Water Resources Charge Fund
Statement of Net Position
June 30, 2025
(amounts in thousands unless otherwise stated)

Assets		
Current assets:		
Restricted cash:		
General cash	$	3,694
Administrative and operating cost account		1,756
Collection account		41,199
Accounts receivable		107,331
Interest receivable		401
Total current assets		154,381
Non-current Assets:		
Right-to-use lease asset, net of accumulated amortization		554
Right-to-use subscription IT asset, net of accumulated amortization		57
Total non-current assets		611
Total assets		154,992
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions		999
Deferred outflows of resources related to OPEB		3,792
Total deferred outflows of resources		4,791
Total assets and deferred outflows of resources	$	159,783
Liabilities		
Current liabilities:		
Accounts payable	$	35,639
Compensated Absences		104
Lease liability, current portion		154
Subscription IT liability, current portion		24
Total current liabilities		35,921
Non-current Liabilities:		
Lease liability, net of current portion		412
Subscription IT liability, net of current portion		21
Net pension liability		3,660
Net OPEB liability		4,971
Compensated Absences		312
Total non-current liabilities		9,376
Total liabilities		45,297
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions		524
Deferred inflows of resources related to OPEB		1,623
Total deferred inflows of resources		2,147
Net position:		
Unrestricted		112,339
Total Net position		112,339
Total liabilities, deferred inflows of resources and net position	$	159,783

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, 2025
(amounts in thousands unless otherwise stated)

Operating Expenses:	
Adminstrative and operating expenses	$ 6,048
Amortization expense	178
Total operating expenses	6,226
Operating Loss	(6,226)
Non Operating Revenues (Expenses):	
Non-bypassable charges and operating transfers	917,413
Interest income	1,788
Non-bypassable charges and operating transfers - paid to CEA	(922,367)
Total non operating revenues/(expenses)	(3,166)
Change In Net Position	(9,392)
Net position, beginning of year	121,731
Net position, end of year	$ 112,339

See accompanying Notes to Financial Statements

Department of Water Resources Charge Fund
Statement of Cash Flows
For the year ended June 30, 2025
(amounts in thousands unless otherwise stated)

Cash Flows From Operating Activities:		
Payment to employees for services	$	(2,913)
Payment for other expenses		(1,309)
Net cash flows provided for operating activities		(4,222)
Cash Flows From Non-Capital Financing Activities:		
Collection of non-bypassable charges from IOUs		913,562
Payment of non-bypassable charges to CEA		(905,007)
Net cash flows used by non-capital financing activities		8,555
Cash Flows From Capital Financing Activities:		
Principal repayment on lease		(196)
Interest payment on lease		(17)
Net cash flows used for investing activities		(213)
Cash Flows From Investing Activities:		
Interest received on investments		1,785
Net cash flows provided for investing activities		1,785
Changes in restricted cash and equivalents		5,905
Restricted cash and equivalents, beginning of period		40,744
Restricted cash and equivalents, end of period	$	46,649
Restricted cash and equivalents included in:		
Administrative and operating cost account		1,756
General cash		3,694
Collection account		41,199
Restricted cash and equivalents, end of year	$	46,649
Reconciliation of income (loss) from operation to net cash provided in operating activities:		
Income (loss) from operations	$	(6,226)
Amortization of right-to-use lease buildings and subscriptions		178
Changes in assets and liabilities to reconcile loss from operations to net cash used in operations:		
Net OPEB liability and related deferred inflows/outflows		784
Net pension liability and related deferred inflows/outflows		832
Increase (decrease) in accounts payable for services		110
Increase (decrease) in accrued compensated absenses		100
	$	(4,222)

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 twenty-five million acres of high-risk areas, Governor Newsom convened a Strike Force in 2019 to develop 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 CEA was designated the California Wildfire 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 California Wildfire Fund (the "Wildfire Fund") to facilitate payment of wildfire-related IOUs liabilities, 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 DWR 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 newly created DWR Charge Fund in the same manner as the DWR 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 is comprised 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 is recognized at the lease commencement date and represents the Fund's right to use an underlying asset for the lease term. The right to use leased assets is measured at the initial value of the lease liability plus any payments made to the lessor before the 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. The right to use leased assets is 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 is recognized at the subscription commencement date and represents the Fund's right to use the underlying IT asset for the subscription term. The 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. The right to use subscription IT assets is 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.

Compensated Absences (Accrued Leave Time)

Compensated absences represent employees' unpaid vacation, annual leave, sick leave and other similar paid leave programs which are more likely than not to be used or paid. As of June 30, 2025, the accrued liability for compensated absences was $416, of which $104 is expected to be paid with one year.

Current Year GASB Implementations:

GASB Statement No. 101 – As of July 1, 2024, the Fund adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The Fund has determined that there was no material impact on the financial statements as a result of the implementation of this standard.

GASB Statement No. 102 – As of July 1, 2024, the Fund adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. The Fund has determined that there was no material impact on the financial statements as a result of the implementation of this standard.

DWR Charge Fund Sub-Accounts:

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

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

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

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

<u>Administrative and Operating Cost Account:</u> Any required payments will be made from this account for related, reasonable administrative, general, and overhead expenses; payments for employee salaries

and benefits; costs of complying with arbitrage; and any restrictions and rebate requirements relating to the Wildfire Revenue Bonds under section 148 of the Internal Revenue Code of 1986, as amended. Also, any required payments will be made for contracts, agreements, and obligations entered into by the Fund and 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 AB 1054 are collectively referred to as Act). Related audit, legal, and consulting fees are also disbursed 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 include cash on hand and deposits in SMIF. The Fund considered cash held in the bank and investments with an 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 7.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will report a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future periods. Deferred inflows of resources represent an acquisition of net assets that applies to future periods.

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, 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

(amounts in thousands unless otherwise stated)

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 administrative and operations expenses, and the June 2025 NBCs balance for transfer in transit to the CEA. The accounts payable balance, as of June 30, 2025, was $35,639.

Compensated Absences

Changes in the compensated absences liability for the fiscal year ended June 30, 2025, are summarized as follows:

	Balance Beginning of Year	Changes	Balance End of Year	Amount Due within one year
Compensated Absences, net	$ 316	$ 100	$ 416	$ 104

4. Leases

DWR entered into fourteen lease agreements for the 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 thirteen 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 $23 dollars to $9,216 dollars, increasing up to 3.0% annually according to the terms of the agreements.

On June 30, 2025, the Fund recognized a right to use leased assets of $554 net of accumulated amortization and a lease liability of $566 related to these agreements. During the 2025 fiscal year, the Fund recorded $159 in amortization expenses and $16 in interest expenses for the right to use the office spaces. The Fund used discount rates between 0.20% and 3.70% and these rates were based on the State of California incremental borrowing rate at the inception of the lease agreements. There was an addition in the amount of $219 as a result of the renewal of contracts for the fiscal year 2025.

(amounts in thousands unless otherwise stated)

The obligations associated with these leases are as follows:

Fiscal Year Ended June 30	Principal	Interest
2026	$ 154	$ 12
2027	150	9
2028	112	5
2029	30	3
2030	29	2
2031-2035	91	4
Total	$ 566	$ 35

5. Subscription Based Information Technology Arrangements

The Fund has entered into fifteen 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 March 2029. On June 30, 2025, the Fund recognized a SBITA asset of $57 net of accumulated amortization and a SBITA liability of $45 related to these agreements. During the fiscal year, the Fund recorded $19 in amortization expenses and $1 in interest expenses. The SBITA contracts have a discount rate between 2.40% and 3.16% and these rates were 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
2026	$ 24	$ 1
2027	21	-
Total	$ 45	$ 1

6. Right-to-use Asset

Right-to-use asset activity for the year ended June 30, 2025, is as follows:

(amounts in thousands unless otherwise stated)

	July 1, 2024	Additions	Deletions	June 30, 2025
Right to Use Leased Office Space	$ 494	219	$ -	$ 713
Less Accumulated Amortization	127	159	127	159
Net Right to Use Leased Assets	367	60	(127)	554
Right to Use Subscription IT Assets	28	66	18	76
Less Accumulated Amortization	13	19	13	19
Net Right to Use IT Subscription IT Assets	15	47	5	57
Total leased and subscription IT assets, net	$ 382	$ 107	$ (122)	$ 611

7. Restricted Cash and Investments

As of June 30, 2025, the Fund had the following Cash and Investments:

Cash and Investments	**June 30, 2025**	**2025**
State of California Pooled Money Investment Account - Surplus Money Investment Fund	8.2 months avg.	$ 42,955
Cash		3,694
Total cash and cash equivalents		$ 46,649
Reconciliation to Statement of Net Position:		
Cash		$ 3,694
Administrative and operating cost account		1,756
Collection account		41,199
		$ 46,649

As of June 30, 2025**,** the Fund had $3,694 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 that 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, 2025, interest earned on the deposit in the SMIF was $1,788 at the rate of return of the underlying portfolio at 4.18%.

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

8. Commitments and Contingencies

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

(amounts in thousands unless otherwise stated)

9. Subsequent Events

The California legislature passed, and the Governor signed Senate Bill 254 (SB 254) on September 19, 2025. SB 254 provides a mechanism for the collection of a wildfire charge from 2036 through 2045 and authorizes the Department to issue an additional $9 billion in bonds.

10. Pension Plan

The 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 FY24-25 report, the following timeframes are applied:

Valuation Date (VD)	June 30, 2023
Measurement Date (MD)	June 30, 2024
Measurement Period (MP)	July 1, 2023, to June 30, 2024

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, 2025, 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 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, 2024, and 2023 (the measurement date) the employer's contribution rates are approximately 30.97% and 30.81% 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 ending June 30, 2025, was $487.

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

As of June 30, 2025, the Fund reported a net pension liability for the proportionate share of the net pension liability of $3,660. 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, 2024, 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, 2023, rolled forward to June 30, 2024, 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, 2024, was 0.0106%, and measured as of June 30, 2023, was 0.01150%.

(amounts in thousands unless otherwise stated)

For the year ended June 30, 2025, the Fund recognized a pension expense of $1,317. On June 30, 2025, 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	$ 487	$ -
Changes in proportion	20	488
Changes in assumption	119	-
Differences between expected and actual experience	197	36
Net differences between projected and actual earnings on pension plan investments	176	-
Total	$ 999	$ 524

The $487 reported as deferred outflows of resources related to contributions subsequent to the measurement date on June 30, 2024, will be recognized as a reduction of the net pension liability in the year ending June 30, 2026, 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
2026	$ (42)
2027	166
2028	(86)
2029	(50)
Total	$ (12)

Actuarial Methods and Assumptions

The June 30, 2023, valuation was rolled forward to determine the June 30, 2024 (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, 2023
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Discount Rate:	6.90%
Inflation:	2.30%
Salary Increases:	Varies by Entry Age and Service
Investment Rate of Return:	6.8% 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:	2.80%

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” which 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 rates 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	$ 5,555	$ 3,660	$ 2,079

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, 2025, the Fund reported a liability of $4,971 for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of June 30, 2024, 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 employees. The pensionable compensation amounts are used to calculate each state entity's proportionate share of OPEB amounts for each valuation group. On June 30, 2025, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.05%. On June 30, 2024, the Fund's total proportionate share of the net OPEB liability for all applicable valuation groups was 0.06%.

(amounts in thousands unless otherwise stated)

For the year ended June 30, 2025, the Fund recognized OPEB expense of $958. On June 30, 2025, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	$ 244	$ -
Change of assumptions	206	575
Difference between expected and actual experience	383	222
Changes in proportion	2,942	801
Difference between projected and actual earnings on investments	17	25
Total	$ 3,792	$ 1,623

A total of $244 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, 2026. 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
2026	$ 750
2027	764
2028	465
2029	(60)
2030	(54)
Thereafter	60
	$ 1,925

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, 2024, 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 3.97 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, 2023, and June 30, 2024, for each respective actuarial valuation group.

(amounts in thousands unless otherwise stated)

BLENDED DISCOUNT RATES		
Actuarial Valuation Group	**June 30, 2023**	**June 30, 2024**
Attorneys and Hearing Officers (BU2)	4.345%	4.345%
Highway Patrol (BU5)	4.368%	4.458%
Corrections (BU6)	4.290%	4.376%
Protective Services and Public Safety (BU7)	4.284%	4.407%
Firefighters (BU8)	4.371%	4.495%
Professional Engineers (BU9)	4.283%	4.381%
Professional Scientific (BU10)	4.375%	4.467%
Craft and Maintenance (BU12)	4.303%	4.392%
Stationary Engineers (BU13)	4.210%	4.332%
Physicians, Dentists, and Podiatrists (BU16)	4.357%	4.485%
Psychiatric Technicians (BU18)	4.293%	4.375%
Health and Social Services/Professional (BU19)	4.349%	4.473%
California State University	3.860%	3.970%
Judicial Branch	4.337%	4.477%
Exempt/Excluded/Executive	4.251%	4.348%
Other	3.860%	3.970%
Service Employees International Union (SEIU)	4.259%	4.385%

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 2025, 7.00 percent in 2026 grading down to 4.50 percent in 2031, 4.50 percent from 2031 to 2039, and 4.25 percent on and after 2040. 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.
  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 2025, 6.01 percent in 2026 grading down to 4.50 percent in 2035, 4.50 percent from 2035 to 2039, and 4.25 percent after 2040.

  Medicare per capita costs trend rates for PERS Gold and PERS Platinum were set at 15.02 percent for 2025, 8.01 percent in 2026 grading down to 4.50 percent in 2035, 4.50 percent from 2035 to 2039, and 4.25 percent after 2040. Medicare per capita costs trend rates for HMO were set at 14.36 percent for 2025, 8.39 percent in 2026 grading down to 4.50 percent in 2035, 4.50 percent from 2035 to 2039, and 4.25 percent after 2040.

For the dental plans, select and ultimate trend rates were set at 0.00 percent for 2025, 2.00 percent for 2026, 3.00 percent for 2027, 4.00 percent for 2028, and 4.25 percent for 2029 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 35 percent of all other disabilities are assumed to be eligible for Medicare.

Coverage and Continuance Assumptions: It is assumed that 37.5 percent of participating members will elect one-party coverage, while 62.5 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 2.32 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 2018 through 2022. 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)

	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50	0.00266	0.00199	0.01701	0.01439	0.00430	0.00311
55	0.00390	0.00325	0.02210	0.01734	0.00621	0.00549
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	0.06111	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	0.24664	0.20364	0.24664	0.20364	0.24664	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 post-retirement 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	$ 5,393	$ 4,971	$ 3,914

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

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	$ 3,864	$ 4,971	$ 5,478

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 2025	Fiscal Year 2024	Fiscal Year 2023	Fiscal Year 2022
Measurement Period	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021
The Fund's proportion of the net pension liability	0.01060%	0.01150%	0.01280%	0.01217%
The Fund's proportionate share of the net pension liability	$ 3,660	$ 4,419	$ 4,838	$ 2,712
The Fund's covered payroll	$ 1,835	$ 1,941	$ 1,618	$ 1,571
The Fund's proportionate share of the net pension liability as a percentage of their covered payroll	199.46%	227.67%	299.01%	172.63%
Plan fiduciary net position as a percentage of the total pension liability	76.04%	72.46%	71.63%	82.39%

Notes to Schedule:

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

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 2025	Fiscal Year 2024	Fiscal Year 2023	Fiscal Year 2022
Contractually required contribution	$ 487	$ 603	$ 633	$ 544
Contribution in relation to the contractually required contribution	(487)	(603)	(633)	(544)
Contribution deficiency (excess)	-	-	-	-
Fund's covered payroll	$ 1,814	$ 1,835	$ 1,941	$ 1,618
Contributions as a percentage of covered payroll	26.83%	32.85%	32.60%	33.62%

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

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 2025	Fiscal Year 2024	Fiscal Year 2023	Fiscal Year 2022
The fund's proportion of the net OPEB liability	0.05%	0.06%	0.05%	0.06%
The fund's proportionate share of the net OPEB liability	$ 4,971	$ 5,011	$ 4,530	$ 5,984
The fund's covered employee payroll	$ 1,011	$ 1,023	$ 1,091	$ 1,022
The fund's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	491.691%	489.834%	415.215%	585.519%
Plan fiduciary net position as a percentage of the total OPEB liability	9.854%	8.036%	6.226%	4.206%
Measurement date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021

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

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 2025	Fiscal Year 2024	Fiscal Year 2023	Fiscal Year 2022
Contractually required contribution	$ 244	$ 240	$ 254	$ 239
Contribution in relation to the contractually required contribution	(244)	(240)	(254)	(239)
Contribution deficiency (excess)	-	-	-	-
Fund's covered employee payroll	$ 1,151	$ 1,011	$ 1,023	$ 1,091
Contributions as a percentage of covered employee payroll	20.9%	23.7%	24.8%	21.9%

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

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, 2025, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated November 18, 2025. 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, 2025.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

eidebailly.com
2150 River Plaza Dr., Ste. 150 | Sacramento, CA 95833-4131 | 916.570.1880 | F 916.570.1875 | EOE

Report on Compliance and Other Matters

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

Purpose of this Report

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

Eide Bailly LLP

Sacramento, California
November 18, 2025