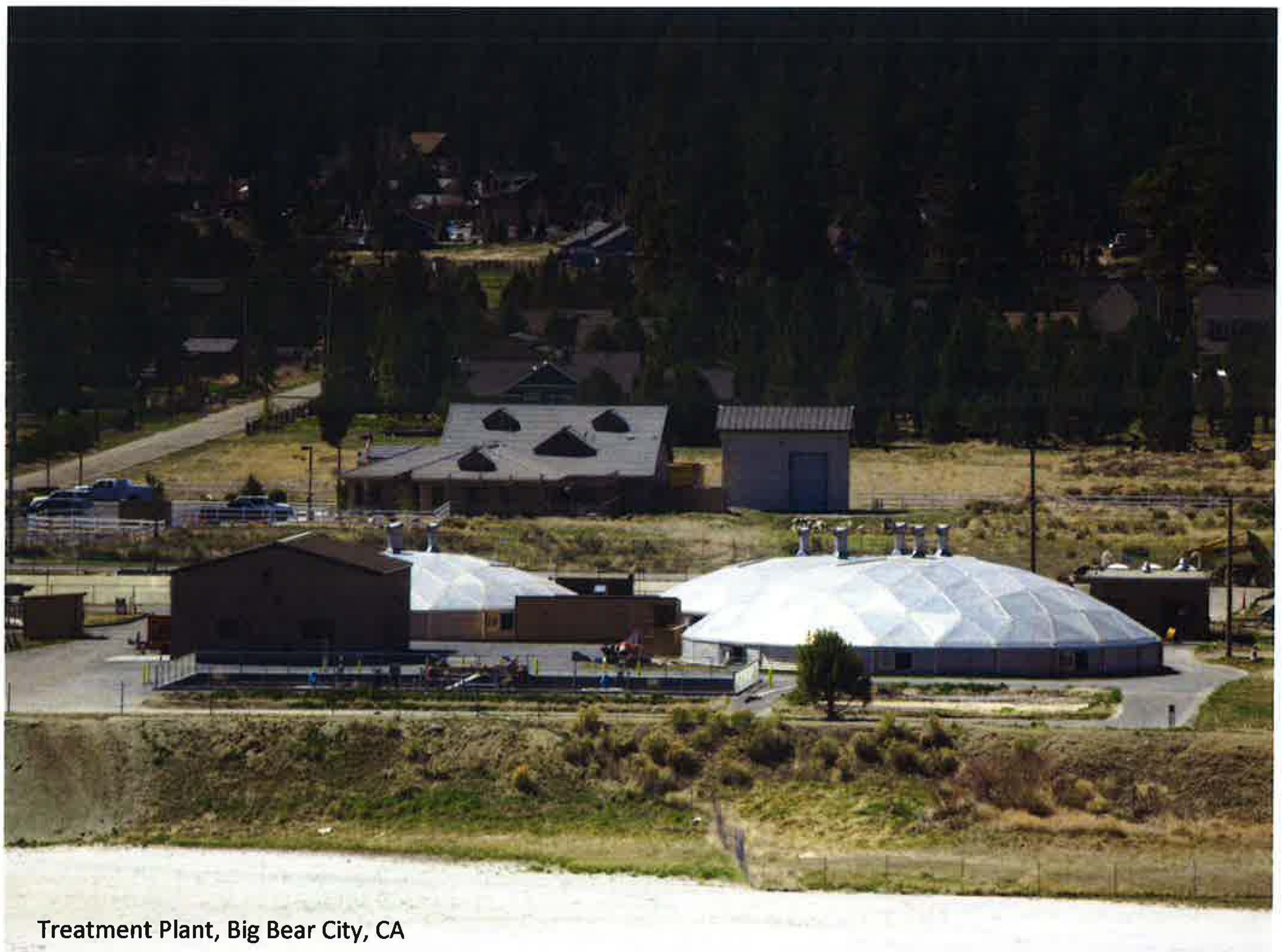
2019

Comprehensive Annual Financial Report

For the Year Ended June 30, 2019



Treatment Plant, Big Bear City, CA

Big Bear Area Regional Wastewater Agency

Big Bear City, CA 92314

"*Protecting Big Bear's Future through Responsible Planning*"

Big Bear Area
Regional Wastewater Agency
Big Bear City, California

FY 2019
Comprehensive Annual
Financial Report
For the year ended June 30, 2019

Prepared by
Jennifer D. McCullar,
Finance Manager

Big Bear Area Regional Wastewater Agency
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2019

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INTRODUCTION

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Letter of Transmittal

BIG BEAR AREA
REGIONAL WASTEWATER AGENCY
P.O. Box 517, 122 Palomino Drive, Big Bear City, CA 92314-0517
(909) 584-4018

October 15, 2019

Chair Person, Members of the Governing Board of Directors, and the Public:

The Comprehensive Annual Financial Report (the CAFR) of the Big Bear Area Regional Wastewater Agency (the Agency) for the fiscal year ended June 30, 2019 is submitted. California state law requires the Agency, as a joint powers agency and operating under special district law, to publish and file with the State Controller an audit report conforming to generally accepted auditing standards within 12 months of the end of the fiscal year or years under examination.

Management assumes full responsibility for the accuracy and reliability of the information contained in the report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable assurance, rather than absolute assurance, that the statements are free of any material misstatement. To the best of management's knowledge, the enclosed data is accurate in all material respects and presents fairly the results of operations and financial position of the Agency.

The Agency's financial statements have been audited by Rogers, Anderson, Malody & Scott, LLP. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Agency are free of material misstatement. The auditing firm has issued an unmodified opinion on the Agency's financial statements for the fiscal year ended June 30, 2019. The independent auditor's report is located at the beginning of the Financial Section of the CAFR on page 1.

Management's discussion and analysis (MD&A) follows the independent auditor's report and provides an introduction, summary and analysis of the Agency's financial performance and basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Comprehensive Annual Financial Report

This report is presented in three sections:

I. **Introduction**, which includes this letter of transmittal, principal officials and organization chart.

II. **Financial**, which includes the independent auditor's report on the financial statements, Management's Discussion and Analysis, the basic financial statements, and the required supplementary information.

III. **Statistical**, which includes information related to financial trends, revenue capacity, debt capacity, demographic and economic conditions, and multi-year operational data.

Profile of the Big Bear Area Regional Wastewater Agency

Legal and Organizational Structure

The Agency is as an enterprise, wastewater treatment facility. The Agency was established in 1974 and organized as a joint powers agency, currently operating under special districts law. The Agency was created as a management agency, obligated to provide services to three agencies: the Big Bear City Community Services District, the City of Big Bear Lake, and the County of San Bernardino Service Area 53 B (the Member Agencies). The Agency's service area encompasses a rural mountain community of approximately 79,000 acres and 25,000 sewer connections.

Governing Body

The Agency is governed by a five-member governing board appointed annually by the governing bodies of its three Member Agencies.

Services

The Agency provides wastewater collection, treatment and disposal services to the Big Bear area, serving approximately 25,000 commercial and residential customers. On average, the Agency treats approximately 788 million gallons of wastewater annually at its treatment plant. The Member Agencies convey wastewater from their respective sewer systems into the Agency's interceptors and into the treatment plant. The Agency's facilities operate under permit from the California Regional Water Control Board, Santa Ana Region, Order No. R8-2005-0044. The Agency's 640-acre disposal site is located northeast of the Agency in the desert community of Lucerne Valley. The effluent from the treatment plant is pumped to Lucerne Valley for irrigation of fodder and fiber crops under permit from the California Regional Water Quality Control Board, Colorado River Basin, Order No. 01-156. The disposal site is leased to an independent contractor.

Mission

The Agency's mission is to efficiently collect, treat and beneficially reuse wastewater and bio-solids in an environmentally and fiscally responsible manner.

To carry out this mission, the Agency will meet the needs of the regulatory agencies and our community in an open and cooperative manner.

Budget Process

Pursuant to the operating agreement among the Agency and its Member Agencies, an annual budget must be adopted by May 1 of each year. By California State Law, the Agency is required to adopt its budget by July 1 of each year.

The budget process involves long-range planning, which is essential to financial management and maximizing ratepayer value. The Agency completes a five-year financial forecast each year. The first year of the forecast, is the Agency's annual budget. The budget provides a solid picture of the Agency's expectations for the next twelve months and is an accountability tool for management and reflects its commitment to performance. The forecast is the Agency's best estimate of performance beyond the next twelve months. It is based on historical trend analysis, economic conditions, inflationary expectations, and other relevant information that may impact future performance. Each year, the Agency reviews and updates its 20-year capital plan which includes 1) the scheduled maintenance and replacement of Agency assets and 2) any planned improvement or capacity expansion projects.

The long-range financial plan indicates the adequacy of the Agency's revenues to meet debt covenant tests, fund balance targets, and capital requirements and is a critical tool in maintaining stable and adequate rates.

Economic Condition

The Agency's economic condition is determined based on the financial outlook or expected, **future financial strength** of the Agency. The Agency has maintained stable operations by 1) managing operating expenses to inflationary growth over time, 2) long-term planning for asset maintenance and 3) modifying its rates as needed. Further, based on long-range planning, the outlook for the Agency is good, with adequate revenue to cover its costs, maintain and improve its facilities, meet its debt service requirements as they come due and fund the minimum balance requirements associated with its contingency, liquidity, capital improvement and debt service reserve funds. Factors affecting the Agency's economic condition include the local economy, long-range financial planning, financial policies and practices, and major initiatives.

Local Economy

The local area is a four-season, resort community located in the San Bernardino Mountains of Southern California. The economy is driven by tourists and a large, part-time population of second homeowners. The food service, accommodation, recreation and entertainment industries are the largest employers followed by educational, healthcare and social services. The Agency serves an area that experiences relatively low growth with new connections averaging less than 1% a year over the long-term, or approximately 200 annual connections. Since the Great Recession, new connections to the system have been low with annual connections of approximately 65 per year for the last five years. An overview of the general demographics of the area can be found in the Statistical Section.

Long-Term Financial Planning

Rates are set at levels to meet operating and maintenance costs, capital costs (both debt service and capital expenditures), and minimum reserve fund balance requirements. The Agency uses a combination of cash and debt to fund its capital investments and to maintain stable rates. Annual rate adjustments through FY 2024 are projected to be 3% on average and reflect expected cost inflation for the period.

The Agency has focused on managing costs to inflationary levels which has resulted in relatively stable rates for our customers. Adequate depreciation funding, cost management, long-range planning and a history of effective financial management, have positioned the Agency to maintain stable and competitive rates and to adequately fund future capital projects.

The Agency's capital projects during the next five-year period through FY 2024 total approximately $5 million ($1 million annual average) and through FY 2039 total approximately $25 million ($1.3 million annual average). Over the long term, approximately 70% of the Agency's capital investment is for maintenance with the remaining 30% for non-maintenance improvements. Over the next five years, the Agency's major capital projects (in approximate amounts) include $1.5 million in treatment plant improvements (primarily the replacement of the Agency's headworks operation, high pressure effluent line, and headers and check valves); $1 million to rebuild the Agency's power generating equipment; $760,000 for the replacement of communications, electrical, laboratory, and security equipment; $700,000 for the replacement and repair of asphalt and paving; $390,000 for the replacement of transportation equipment; and $300,000 for the replacement of the Agency's heating, ventilation, and air conditioning system.

Financial Policies and Practices

The Agency has adopted financial policies related to debt, investment, and designated reserve funds. These policies guide the Agency through its budgeting and planning processes and provide a framework for the financial management of the Agency. The Agency maintains multiple designated reserve funds, including contingency (for variances from the budget), liquidity (for working capital), debt (for debt service) and capital and replacement (for current and future capital investment requirements). Target fund balances are set annually and are based on the Agency's operational and capital requirements. The Agency has not adopted a formal policy on a balanced budget. The Agency's practice is to balance the budget through the planned use or contribution to the Agency's capital and replacement fund. All references to Agency funds and designated fund balances are related to reserve funds maintained by the Agency for various operating and capital related purposes.

FY 2020 Major Initiatives

- **Sludge Dewatering -** The Agency will complete **the purchase and installation of new sludge dewatering equipment**, including a new belt press, conveyor and hopper system.
- **Headworks** – The Agency will complete **the engineering and begin construction to replace the headworks operations.**
- **SCADA** – The Agency will **complete the design and replacement of its supervisory control and data acquisition system**, a computer system for gathering and analyzing real time data from the Agency's operations and facilities.

Awards and Acknowledgement

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the **Certificate of Achievement for Excellence in Financial Reporting** to the Big Bear Area Regional Wastewater Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This is the 7th consecutive year BBARWA has received the award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

We wish to extend our appreciation to our independent auditors, Rogers, Anderson, Malody & Scott, LLP for their assistance in the report preparation and to the Agency's Governing Board of Directors, for its support in upholding the highest standards of professionalism and financial accountability in the management of the Big Bear Area Regional Wastewater Agency.

David Lawrence
General Manager

Jennifer McCullar
Finance Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Big Bear Area Regional Wastewater Agency

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

Governing Board of Directors

As of June 30, 2019

David Caretto, Chair
City of Big Bear Lake

John Green, Vice Chair
Big Bear City CSD

Karyn Oxandaboure,
Secretary
Big Bear City CSD

Rick Herrick, Director
City of Big Bear Lake

Jim Miller, Director
County Service Area 53 B

General Manager and Staff

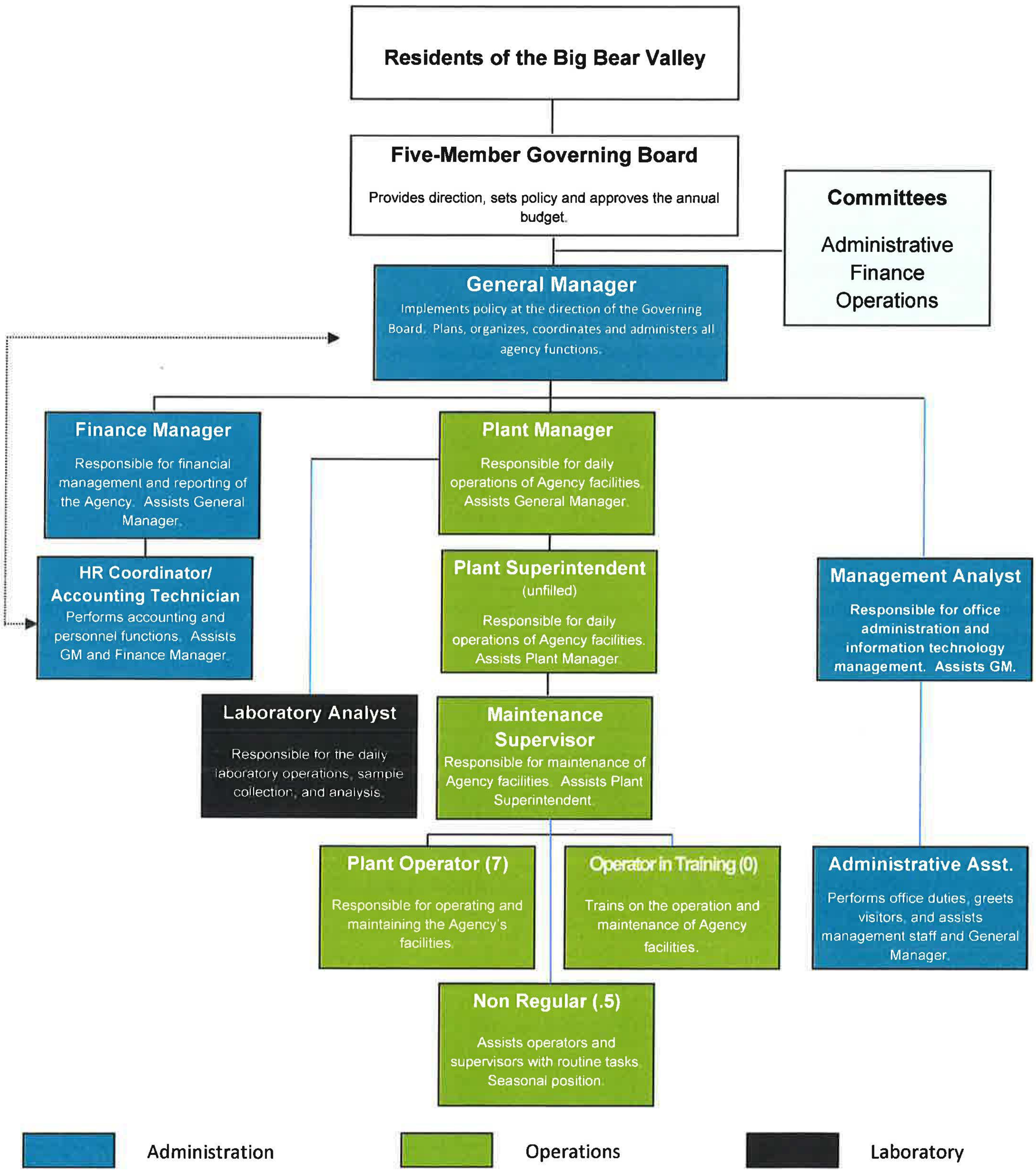
David Lawrence
General Manager

Jennifer McCullar
Finance Manager

John Shimmin
Plant Manager

David Lawrence	General Manager	909-584-4018
Jennifer McCullar	Finance Manager	909-584-4522
John Shimmin	Plant Manager	909-584-4520

Organization Chart
(as of September 2019)



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FINANCIAL SECTION

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RAMS

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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Independent Auditor's Report

To the Board of Directors
Big Bear Area Regional Wastewater Agency
Big Bear City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior year Comparative Information

We have previously audited the Agency's 2018 financial statements, and we expressed an unmodified opinion in our report dated October 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The introductory and statistical sections and the supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 15, 2019

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Management's Discussion and Analysis

This section of the financial statements for the Big Bear Area Regional Wastewater Agency provides a discussion of the Agency's financial performance for the fiscal year ended June 30, 2019 (FY 2019). These comments should be read in conjunction with and are a supplement to the financial statements identified in the accompanying table of contents.

Financial Overview

The Agency experienced lower operating income during the period as a result of the growth in operating expenses (up 5%) outpacing revenue growth (up 3%). The Agency's net position, however, was improved over the prior period as a result of higher nonoperating revenue and much lower nonoperating expense resulting in an increase in the change in net position of $1.5 million over the prior period and a positive change in net position for the period of $185,587.

The Agency's operating revenues increased $154,952 or 3% compared to the prior period. The increase was primarily due to a 2.8% increase in sewer user fees and slightly higher connections to the system. Operating expenses increased $273,391 or 5% over the prior period driven by higher repairs and replacements expense and higher power costs. As a result, operating income declined $118,439 or 43% compared to the year-ago period.

The Agency's nonoperating revenues increased $90,845 or 123% over the prior period due mostly to higher interest income resulting from higher interest rates during the period. Nonoperating expenses were lower by $1.5 million or 82% due to high losses on asset disposal in the prior period. Overall, net nonoperating revenues (expenses) had a positive variance over the prior period of $1.6 million compared to the year-ago period driven by the change in losses on asset disposal.

Capital contributions (connection fee revenue) decreased $61,460 or 25% during the period due to a decrease in connections. Current period connections were 45 compared to 68 in the prior period. The connection fee (the rate charged per connection) increased during the period from $3,670 per connection to $4,180.

The Agency had a net source of cash for the period of $1.1 million mostly due to cash generated from operations and proceeds from debt issuance that were not invested in assets during the period. The Agency generated approximately $2.8 million in cash from operations, connection fee revenue, debt proceeds and interest income. These sources of cash were offset by capital expenditures of $1.1 million and debt service payments of $597,550.

There are no restrictions, commitments, or other limitations that significantly affect the availability of resources for future use.

Statement of Net Position

The statement of net position presents information on the Agency's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The increases or decreases in net position, over time, may indicate whether the Agency's financial position is improving or deteriorating.

CONDENSED STATEMENT OF NET POSITION

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Assets:				
Current and other assets	$ 8,118,553	$ 6,801,084	$ 1,317,469	19%
Capital assets, net	14,950,800	14,797,351	153,449	1%
Total assets	23,069,353	21,598,435	1,470,918	7%
Deferred Outflows of Resources	1,065,202	1,225,376	(160,174)	-13%
Liabilities:				
Current liabilities	902,810	951,347	(48,537)	-5%
Noncurrent liabilities	6,790,262	5,684,162	1,106,100	19%
Total liabilities	7,693,072	6,635,509	1,057,563	16%
Deferred Inflows of Resources	348,922	281,328	67,594	24%
Net Position:				
Net investment in capital assets	10,947,850	12,092,923	(1,145,073)	-9%
Unrestricted	5,144,711	3,814,051	1,330,660	35%
Total net position	$ 16,092,561	$ 15,906,974	$ 185,587	1%

Summary

The Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $16.1 million at fiscal year end, an increase of $185,587 or 1% from the prior year. The increase in net position was driven by an increase in Assets and Deferred Outflows of Resources of $1,310,744 exceeding the increase in Liabilities and Deferred Inflows of Resources of $1,125,157.

Assets and Deferred Outflows of Resources

Total assets increased $1,470,918 or 7% over the prior period. The increase in assets was driven by higher current and other assets of $1,317,469 and higher capital assets, net of $153,449. The increase in current and other assets is primarily associated with higher cash and investments from debt proceeds received during the year. The increase in capital assets, net is due to higher capital investment net of depreciation during the period. Deferred outflows of resources decreased $160,174 and primarily reflects a net decrease of $112,147 from OPEB-related adjustments associated with changes in plan assumptions and contributions.

Liabilities and Deferred Inflows of Resources

Total liabilities increased $1,057,563 or 16% from the prior period. The increase is driven by an increase in noncurrent liabilities of $1,106,100 and reflects an increase in debt during the period. The Agency issued new debt to fund capital improvements, primarily the belt press, conveyor and hopper system. Deferred inflows of resources increased $67,594 or 24% due to pension-related adjustments associated with changes in assumptions and plan experience.

Net Position

There are two components of the Agency's net position. The largest portion, net investment in capital assets, represents the Agency's investment in capital assets net of any related debt (debt used to finance the purchase of capital assets) and reflects the Agency's investment in property, plant and equipment. The remaining unrestricted net position is available to the Agency to meet its ongoing obligations. The Agency's overall net position is simply a function of its assets and deferred outflows of resources minus its liabilities and deferred inflows of resources. During the period, the Agency's net position increased $185,587 primarily due to increases in assets exceeding increases in liabilities, which have been previously noted.

Statement of Revenues, Expenses and Changes in Net Position

This statement primarily reflects the Agency's revenues and expenses, with the difference between the two reported as change in net position. The order of presentation reflects the Agency's primary operations, with operating revenues and operating expenses presented first, nonoperating revenues and expenses presented second and capital contributions presented last. The change in net position shows the residual revenue (on an accrual basis) that is available to contribute toward current and future capital (both investment and debt service) and reserve funding and is an indication of the adequacy of the Agency's rates.

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change[1]
Operating revenues	$ 5,407,186	$ 5,252,234	$ 154,952	3%
Operating expenses	5,250,647	4,977,256	273,391	5%
Operating Income	156,539	274,978	(118,439)	-43%
Nonoperating revenues	164,711	73,866	90,845	123%
Nonoperating expenses	323,763	1,841,540	(1,517,777)	-82%
Income before capital contributions	(2,513)	(1,492,696)	1,490,183	-
Capital contributions	188,100	249,560	(61,460)	-25%
Change in net position	185,587	(1,243,136)	1,428,723	-
Net position at beginning of year, as restated	15,906,974	17,150,110	(1,243,136)	-7%
Net position at end of year	$ 16,092,561	$ 15,906,974	$ 185,587	1%

[1] Percent change is not provided if either the latest period or the year-ago period contains a loss or negative number. If the actual performance is improved when compared to the prior period, a "+" is given. If actual performance is worse when compared to the prior period, a "-" is given.

Summary

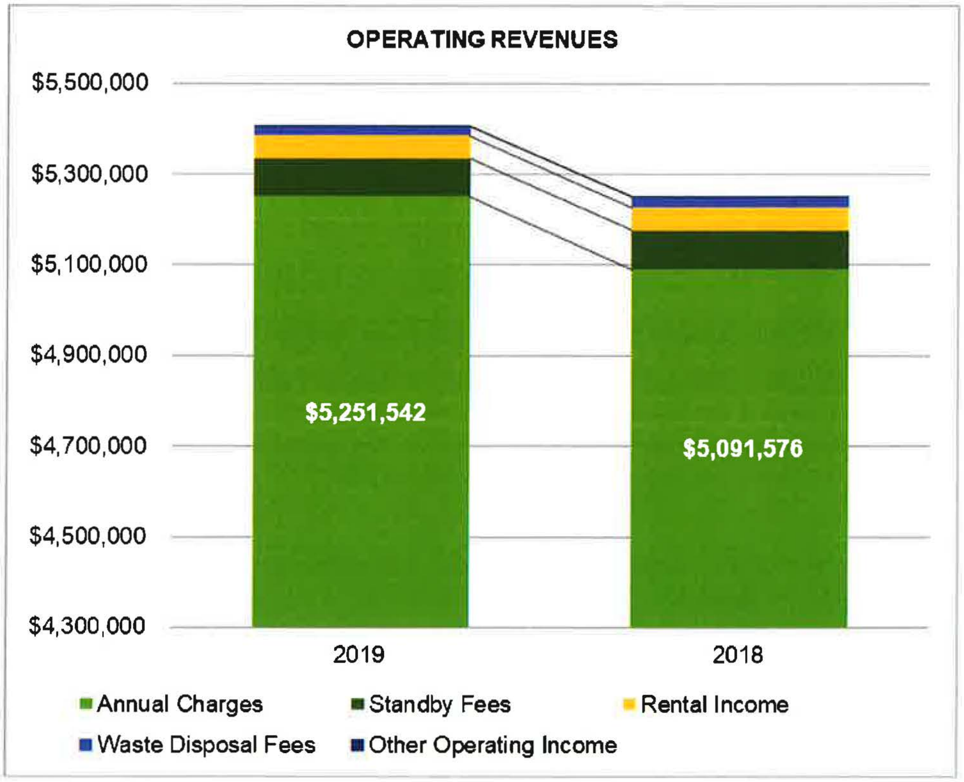
The Agency's operating revenues increased $154,952 or 3% and operating expenses increased $273,391 or 5%, resulting in a decrease in operating income of $118,439 or 43%. Change in net position increased $1,428,723 compared to the year-ago period. The improved change in net position is due to unusual nonoperating expense in the prior period of $1,841,540 and is associated with net asset losses in the period.

Operating Revenues

Changes in operating revenues are largely driven by changes in annual charges which make up 97% of total operating revenues. Annual charges are based on the established sewer user fee set by the Governing Board and the number of equivalent dwelling units connected to the system. Sewer user fees increased 2.8%, which when combined with slightly higher connections drove a 3% increase in annual charges, and the 3% overall increase in operating revenues.

OPERATING REVENUES

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Operating revenues:				
Annual charges	$ 5,251,542	$ 5,091,576	$ 159,966	3%
Standby fees	83,200	85,180	(1,980)	-2%
Rental income	51,071	50,449	622	1%
Waste disposal fees	20,608	23,113	(2,505)	-11%
Other revenue	765	1,916	(1,151)	-60%
Total operating revenues	$ 5,407,186	$ 5,252,234	$ 154,952	3%



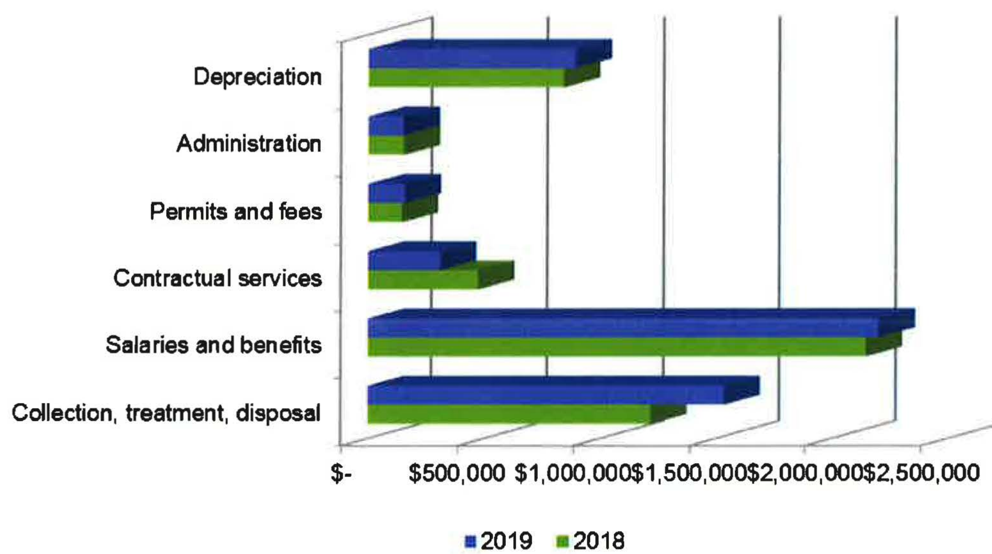
Operating Expenses

Operating expenses increased $273,391 or 5% compared to the year-ago period. The increase was driven by higher collection, treatment and disposal costs and salaries and benefits expense offset in part by lower contractual services.

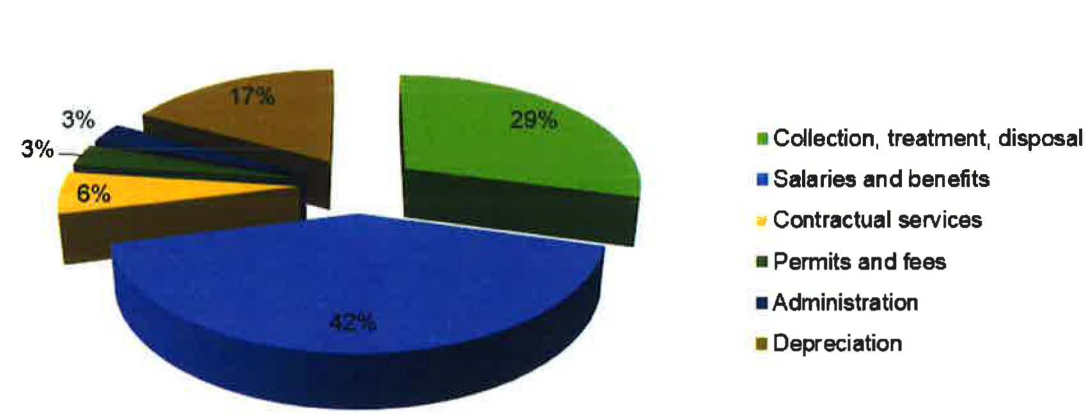
OPERATING EXPENSES

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Operating expenses:				
Collection, treatment, disposal	$ 1,535,027	$ 1,217,330	$ 317,697	26%
Salaries and benefits	2,199,428	2,144,299	55,129	3%
Contractual services	311,709	474,461	(162,752)	-34%
Permits and fees	158,528	145,515	13,013	9%
Administration	152,759	153,497	(738)	0%
Depreciation	893,196	842,154	51,042	6%
Total operating expenses	$ 5,250,647	$ 4,977,256	$ 273,391	5%

OPERATING EXPENSES BY MAJOR CATEGORY



OPERATING EXPENSES
MAJOR CATEGORIES AS A PERCENTAGE OF TOTAL - FY 2019



Collection, Treatment and Disposal Expense

Collection, treatment and disposal costs were up $317,697 or 26% over the prior period. These increases were driven by substantial increases in repairs and replacements expense and power costs offset in part by decreases in sludge removal and equipment rental expense.

- **Repairs and replacements expense** was higher by $289,593 or 186% when compared to the prior year. The increase was due in part to timing as well as higher levels of repairs. The Agency carried over approximately $210,000 in repairs from FY 2018 to FY 2019. These repairs were scheduled for FY 2018 but not complete at year end resulting in lower repairs in FY 2018 and higher repairs in FY 2019. The Agency experienced higher overall repairs related to multiple repair projects: rotor replacement, oxidation ditch reducer replacement, Clarifier 3 valve repair, belt press belt replacement, and Lucerne Valley Emergency repair work.

- **Power expense** was higher by $133,867, or 35% due to increased power usage and higher gas transportation costs. The Agency's flows increased 206 million gallons or 34% over the prior period resulting in higher pumping requirements and increased power usage. The Agency's natural gas usage increased 4% while transportation costs increased 77% or $66,492 for the period. Gas transportation cost increases were the result of Southwest Gas increasing transportation rates to compensate for prior period under collection.

- **Sludge removal expense** was lower by $99,572, or 25% due to lower sludge hauling costs. The Agency entered into a new sludge hauling contract with a new hauling company at the end of FY 2018 resulting in a lower hauling cost per ton of $27. Hauled sludge tons increased 188 for the period.

- **Equipment rental expense** was lower by $35,852 due to emergency generator rental expense in the prior period.

Salaries and Benefits Expense

Salaries and benefits expense was up $55,129 or 3% over the prior period. Both FY 2018 and FY 2019 included GASB adjustments that resulted in increased pension and/or OPEB expense. These increases were $36,572 and $156,021, in FY 2019 and FY 2018, respectively. Excluding these adjustments, salaries and benefits expense was up $174,578 or 9%.

Salaries and Benefits Expense Excluding GASB Adjustments

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Salaries and benefits	$ 2,199,428	$ 2,144,299	$ 55,129	3%
GASB Adjustments	(36,572)	(156,021)	119,449	-77%
	$ 2,162,856	$ 1,988,278	$ 174,578	9%

The increase in salaries and benefits expense, excluding the GASB adjustments, was driven by an 11% increase in salaries and wages and a 9% increase in employee benefits expense, offset by a 78% reduction in unemployment expense. The increase in salaries and wages was largely due to annual cost of living and merit adjustments. The increase in benefits expense was due to higher medical premium, pension contribution and OPEB contribution expense.

Contractual Services

Contractual services expense decreased $162,752 or 34% over the prior period. In FY 2018, the Agency incurred $186,274 of prior period adjustments. Excluding these adjustments, the change over the prior period was $23,522 and was primarily driven by higher testing and HVAC expense.

Permits and Fees

Permits and fees expense increased $13,013 or 9% largely due to a 7% or $9,415 increase in the Agency's State Water Resources Control Board annual fees.

Administration

Administration expense was down $738 or 0% from the prior period.

Depreciation

Depreciation expense increased $51,041 or 6% from the prior period and is due to a higher level of depreciable assets during the period.

Nonoperating Revenues (Expenses)

Non-operating revenues (expenses) had a positive variance of approximately $1,608,622 compared to the prior period. The improvement was due to a lower net loss on asset disposal and higher interest income, offset in part by higher other expense, debt issuance costs and interest expense. The Agency experienced zero losses from asset disposals in the current period compared to a $1.7 million loss on assets related to its cannibal system operations in FY 2018. The Agency had higher interest income during the period mostly due to higher interest rates on its Local Agency Investment Fund account. These positive variances were offset by higher other expense of $133,252 related to interagency expense. These costs are associated with 1) the efforts of the area's groundwater sustainability joint powers agency, the Bear Valley Basin Groundwater Sustainability Agency, and 2) costs related to the Replenish Big Bear Project, a water reclamation project. Debt issuance costs and higher interest expense during the period are related to the Agency's 2018 debt issuance.

NONOPERATING REVENUES (EXPENSES)

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change[1]
Nonoperating revenues:				
Investment income	$ 164,531	$ 73,866	$ 90,665	123%
Other miscellaneous revenue	180	-	180	-
Total non-operating revenues	164,711	73,866	90,845	123%
Nonoperating expenses:				
Other expense (interagency)	153,029	19,777	133,252	674%
Debt issuance costs	28,500	-	28,500	-
Net loss on asset disposal	-	1,709,527	(1,709,527)	-100%
Amortization of bond cost	7,665	11,700	(4,035)	-34%
Interest expense	134,569	100,536	34,033	34%
Total nonoperating expenses	323,763	1,841,540	(1,517,777)	-82%
Total nonoperating revenues (expenses)	$ (159,052)	$ (1,767,674)	$ 1,608,622	-

[1] Percent change is not provided if either the latest period or the year-ago period contains a loss or negative number or is zero. If the actual performance is improved when compared to the prior period, a "+" is given. If actual performance is worse when compared to the prior period, a "-" is given.

Capital Contributions (Connection Fee Revenue)

Connection fee revenue decreased $61,460 or 25% over the prior year due to decreased connections. Connections decreased by 23, bringing total connections to 45 compared to 68 in the prior period. The Agency's connection fee increased from $3,670 to $4,180 per connection at the beginning of the period.

CAPITAL CONTRIBUTIONS (CONNECTION FEE REVENUE)

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Capital Contributions	$ 188,100	$ 249,560	$ (61,460)	-25%
Number of Connections	45	68	-23	-34%

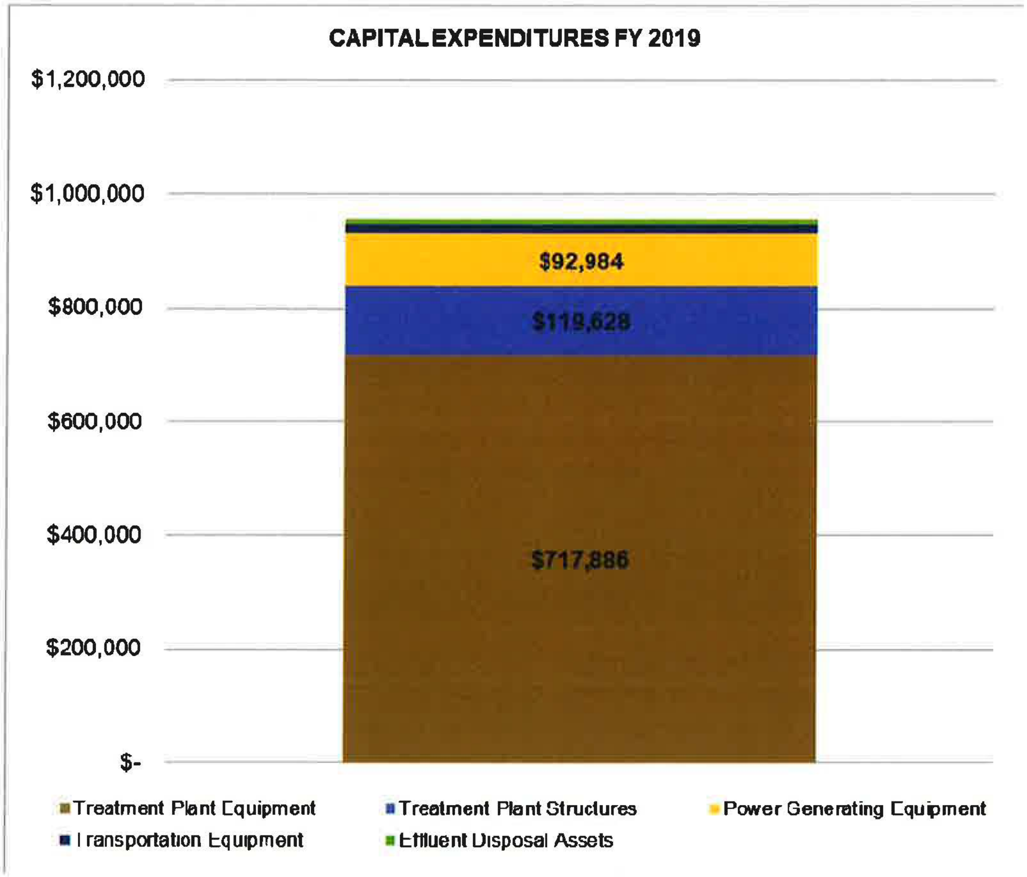
Capital Asset Activity

The Agency's net capital assets increased by $153,449 or 1% during the period. The net increase in capital assets was primarily due to capital investment exceeding annual depreciation expense and asset disposals. The Agency's capital investments for the period (including construction in progress) were approximately $1.1 million compared to annual depreciation expense of $893,196 and zero net asset disposals.

CAPITAL ASSETS, NET

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Capital assets, net	$ 14,950,800	$ 14,797,351	$ 153,449	1%

Fiscal year 2019 was a relatively normal capital investment period with $1,046,645 in capital expenditures during the period. Of this amount approximately $800,000 remained in progress at year end and is primarily related to the new belt press, conveyor and hopper system. The remaining approximately $240,000 in capital investment for the period is primarily related to completion of the pond reconstruction project, improvements to power generating equipment, asphalt and paving, and pumping and transportation equipment. See Notes 1 and 4 for additional information regarding capital assets of the Agency.



Long-Term Debt, Net Pension and Net OPEB Liability Activity

The Agency increased its long-term debt during the period by $1,290,859 or 47% which reflects new debt issuance of $1.76 million (2018 Installment Purchase Agreement) net of regularly scheduled debt amortization of $469,141. The Agency's net OPEB liability decreased by $139,427 or 11% and the Agency's pension liability decreased by $44,105 or 2%. The net change in OPEB and pension liabilities reflects the net change during the period in the respective plan assets and plan liabilities.

OUTSTANDING DEBT, NET

	As of June 30,		2019 vs 2018	
	2019	2018	Increase (Decrease)	% Change
Outstanding Debt, Net	$ 4,040,433	$ 2,749,574	$ 1,290,859	47%
Net OPEB Liability	1,182,452	1,321,879	(139,427)	-11%
Net Pension Liability	1,881,571	1,925,676	(44,105)	-2%

For additional information, see Notes 5, 7 and 8 in the accompanying financial statements

Contacting the Agency

The financial report is designed to provide our citizens, customers and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have any questions regarding this report or need additional information, contact the Agency office at 121 Palomino Drive, Big Bear City, California 92314.

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Basic Financial Statements

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Big Bear Area Regional Wastewater Agency

Statement of Net Position
June 30, 2019
(With comparative data for prior year)

	2019	2018
Assets		
Current assets:		
Cash and investments (note 3)	$ 7,840,506	$ 6,719,539
Accounts receivable	194,722	25,053
Due from member agencies	25,080	25,690
Interest receivable	43,304	28,639
Prepaid expenses	14,941	2,163
Total current assets	8,118,553	6,801,084
Noncurrent assets:		
Capital assets, not being depreciated (note 4)	1,866,710	2,178,857
Capital assets, net of depreciation (note 4)	13,084,090	12,618,494
Total noncurrent assets	14,950,800	14,797,351
Total assets	23,069,353	21,598,435
Deferred Outflows of Resources		
Deferred charges on refunding	37,482	45,146
Pension related (note 7)	654,942	695,305
OPEB related (note 8)	372,778	484,925
Total deferred outflows of resources	1,065,202	1,225,376
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	362,337	466,762
Accrued salaries and benefits	20,603	18,101
Accrued interest	17,503	11,342
Deposits	100	100
Long-term liabilities, due within one year	502,267	455,042
Total current liabilities	902,810	951,347
Noncurrent liabilities (note 5):		
Net OPEB liability	1,182,452	1,321,879
Net pension liability	1,881,571	1,925,676
Long-term liabilities, due beyond one year	3,726,239	2,436,607
Total noncurrent liabilities	6,790,262	5,684,162
Total liabilities	7,693,072	6,635,509
Deferred Inflows of Resources		
Pension related (note 7)	241,163	142,791
OPEB related (note 8)	107,759	138,537
Total deferred inflows of resources	348,922	281,328
Net position:		
Net investment in capital assets	10,947,850	12,092,923
Unrestricted	5,144,711	3,814,051
Total net position	$ 16,092,561	$ 15,906,974

The accompanying notes are an integral part of these financial statements.

Big Bear Area Regional Wastewater Agency

Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2019
(With comparative data for prior year)

	2019	2018
Operating revenues		
Member agency fees	$ 5,251,542	$ 5,091,576
Standby charges	83,200	85,180
Rental income	51,071	50,449
Waste disposal fees	20,608	23,113
Other revenues	765	1,916
Total operating revenues	5,407,186	5,252,234
Operating expenses		
Salaries and benefits	2,199,428	2,144,299
Power	520,234	386,367
Sludge removal	298,241	397,813
Chemicals	53,087	49,409
Materials and supplies	162,695	127,278
Repairs and replacements	445,040	155,447
Equipment rental	1,363	37,215
Utilities	22,207	26,737
Communications	32,160	37,064
Contractual services - other	97,296	74,947
Contractual services - professional	214,413	399,514
Permits and fees	158,528	145,515
Property tax	3,665	3,599
Insurance	100,952	99,428
Other operating	48,142	50,469
Depreciation	893,196	842,155
Total operating expenses	5,250,647	4,977,256
Operating income	156,539	274,978

(continued on next page)

The accompanying notes are an integral part of these financial statements.

Big Bear Area Regional Wastewater Agency

Statement of Revenues, Expenses and Changes in Net Position (continued)
For the year ended June 30, 2019
(With comparative data for prior year)

	2019	2018
Nonoperating revenues		
Investment income	$ 164,531	$ 73,866
Other miscellaneous revenue	180	-
Total nonoperating revenues	164,711	73,866
Nonoperating expenses		
Other	181,529	19,777
Interest	142,234	112,236
Net loss on capital asset disposals	-	1,709,527
Total nonoperating expenses	323,763	1,841,540
Income before contributions	(2,513)	(1,492,696)
Capital contributions - connection charges	188,100	249,560
Change in net position	185,587	(1,243,136)
Net position, beginning of year, as restated	15,906,974	17,150,110
Net position, end of year	$ 16,092,561	$ 15,906,974

The accompanying notes are an integral part of these financial statements.

Big Bear Area Regional Wastewater Agency

Statement of Cash Flows
For the year ended June 30, 2019
(With comparative data for prior year)

	2019	2018
Cash flows from operating activities:		
Cash received from customers and other sources	$ 5,237,517	$ 5,276,881
Cash payments to suppliers for goods and services	(2,275,226)	(1,552,838)
Cash payments for employees and benefits	(2,114,356)	(2,199,618)
Other non-operating expenses	(181,349)	(19,777)
Net cash provided by operating activities	666,586	1,504,648
Cash flows from capital and related financing activities:		
Purchases and construction of capital assets	(1,046,645)	(1,489,194)
Proceeds from sale of capital assets	-	4,700
Proceeds from capital contributions	188,710	282,590
Proceeds from 2018 Installment Agreement	1,760,000	-
Principal payments on long-term debt	(469,141)	(473,594)
Interest paid on long-term debt	(128,409)	(102,489)
Net cash provided by (used) for capital and related financing activities	304,515	(1,777,987)
Cash flows from investing activities:		
Investment income received	149,866	59,598
Net cash provided by investing activities	149,866	59,598
Net change in cash and investments	1,120,967	(213,741)
Cash and investments, beginning of year	6,719,539	6,933,280
Cash and investments, end of year	$ 7,840,506	$ 6,719,539

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows (continued)
For the year ended June 30, 2019
(With comparative data for prior year)

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 156,539	$ 274,978
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	893,196	842,155
Other expense	(181,349)	(19,777)
Abandoned construction in progress expensed	-	166,165
Prior period adjustment - new pronouncement	-	(1,514,590)
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(169,669)	24,647
Prepaid expenses	(12,778)	87
Net OPEB asset	-	277,789
Deferred outflows of resources - OPEB related	112,147	(484,925)
Deferred outflows of resources - pension related	40,363	24,370
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(104,425)	271,712
Accrued salaries and benefits	2,502	324
Compensated absences	45,998	(11,663)
Deferred inflows of resources - OPEB related	(30,778)	138,537
Deferred inflows of resources - pension related	98,372	(141,852)
Net OPEB liability	(139,427)	1,321,879
Net pension liability	(44,105)	334,812
Net cash provided by operating activities	$ 666,586	$ 1,504,648

	2019	2018
Schedule of non-cash operating, noncapital and capital related financing and investing activities		
Abandoned construction in progress	$ -	$ 166,165
Disposed capital assets	-	1,725,070

The accompanying notes are an integral part of these financial statements.

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NOTE 1: Reporting entity and significant accounting policies

(a) Description of the reporting entity

The Big Bear Area Regional Wastewater Agency (the "Agency") is a joint powers agency comprised of three members: the Big Bear City Community Services District, the City of Big Bear Lake, and the County of San Bernardino on behalf of the County Service Area 53, Zone B. The Agency was formed in 1974 to construct and operate regional sewage treatment and disposal facilities for the entire Big Bear Valley. The service area for the Agency includes most of the Big Bear Valley in the San Bernardino Mountains in Western San Bernardino County.

The Agency was formed under a joint exercise of powers agreement among the member entities for the purposes of planning and constructing sewer improvements to serve the member entities' service areas, obtaining State and Federal Clean Water grants, financing the local share of project costs, and operating the regional facilities. A regional treatment plant and disposal area were constructed and began operation in 1978.

(b) Basis of accounting

The Agency operates and reports as an enterprise utilizing the accrual method of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, taxes, and investment earnings result from non-exchange transactions or ancillary activities.

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

(c) Applicable accounting standards

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for financial statements of state and local governments. The Agency has elected to follow all pronouncements of the GASB.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Investments

Investments are reported in the accompanying statement of net position at fair value, except for certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

NOTE 1: Reporting entity and significant accounting policies, (continued)

(d) Investments, (continued)

In accordance with the Agency's investment policy, the Agency may invest in the following:

Certificates of Deposit
U.S. Treasury Bills, Notes and Bonds
Local Agency Investment Fund
Money Market Mutual Funds

(e) Statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and investments, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments, if applicable.

(f) Restricted cash and investments

Restricted cash and investments represent amounts held in trust at the bank and are set aside for construction costs as required by the loan agreement. Currently, the Agency has no restricted cash and investments.

(g) Capital assets

Assets purchased are recorded and capitalized at cost. Developer contributed capital assets are recorded at fair market value at the time received. Donated capital assets are recorded at their acquisition value at the date of acquisition. The Agency's capitalization threshold for capital assets is $5,000.

Land and construction in progress are not depreciated. All other assets are depreciated or amortized using the straight line method over the following estimated useful lives:

	Estimated Useful Life Range (in years)
Administration Building	10 - 40
Treatment Plant	15 - 99
Interceptor System	15 - 99
Effluent Disposal Assets	30 - 50
Power Generation Equipment	25 - 40
Flow Measuring Devices	10 - 15
Other Equipment	5 - 50
Transportation Equipment	15 - 20
Other Tangible Plant	30 - 30
Studies and Maps	5 - 40

(h) Employee leave benefits

Regular employees of the Agency earn from 15 to 26 vacation days per year, depending on their length of employment, and 12 sick days per year. Temporary and seasonal employees of the Agency are not eligible for vacation leave benefits.

NOTE 1: Reporting entity and significant accounting policies, (continued)

(h) Employee leave benefits, (continued)

In accordance with generally accepted accounting principles (GAAP), a liability is recorded for unused vacation and similar compensatory leave balance since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Under GAAP, a liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the Agency. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the Agency and the employee.

Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation and annual leave. Upon retirement or other honorable termination, an employee with a minimum of 5 continuous years of service is entitled to receive 50% of the value of his or her unused sick leave based on the number of hours accumulated.

The Agency has recorded a liability for the full 50% that is payable under the assumption that most employees will remain long enough to become eligible for the benefit.

(i) Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Prior year amounts

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's prior year financial statements, from which this selected financial data was derived.

(k) Pension plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website at www.calpers.ca.gov.

NOTE 1: Reporting entity and significant accounting policies, (continued)

(k) Pension plan, (continued)

GAAP requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	July 1, 2017 to June 30, 2018

(l) Inventory

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies.

(m) Contributed capital

Capital contributions typically consist of connection fees associated with the member agencies. The *Due from member agencies* account balance consists of connection fees still owed by the member agencies as of the fiscal year end.

(n) Other postemployment benefit plan (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined by an actuary. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	July 1, 2017
Measurement Date (MD)	June 30, 2018
Measurement Period (MP)	June 30, 2017 to June 30, 2018

(o) Jointly governed organization

In 2017, the Agency joined the Ground Water Sustainability Agency for the Bear Valley Basin (BVBGSA). The BVBGSA will enable the Agency to exercise the powers common and to work cooperatively and efficiently to implement the Sustainable Groundwater Management Act's requirements and provides a better opportunity for implementation of a recycled wastewater project.

NOTE 2: Budgetary data

During March, the General Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing July 1. The budget includes proposed expenses and estimated revenues. Prior to May 1, the budget is enacted legally through passage of an appropriation resolution. The Board of Directors must approve revisions that alter total appropriations. All appropriations lapse at fiscal year-end unless the Board of Directors takes formal action to continue the appropriation into the following fiscal year.

NOTE 3: Cash and investments

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	$ 7,840,506
Total cash and investments	$ 7,840,506

Cash and investments as of June 30, 2019 consist of the following:	
Cash on hand	$ 600
Deposits with financial institutions	772,594
Investments	7,067,312
Total cash and investments	$ 7,840,506

Investments authorized by debt agreements

Investments of debt proceeds held by the loan trustee are governed by provisions of the loan agreement rather than the general provisions of the California Government Code or the Agency's investment policy. The following table identifies the investment types that are authorized for investments held by loan trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment in one issuer
Money Market Mutual Funds investing in securities directly or indirectly guaranteed by the United States of America or an agency thereof	N/A	None	None

NOTE 3: Cash and investments, (continued)

Fair value measurements

The Agency 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.

The Agency does not have any recurring fair value measurements as of June 30, 2019. The Local Agency Investment Fund of $7,067,312 valued at net asset value. The Fund is not subject to the fair value hierarchy.

Investments authorized by the California Government Code and the Agency's investment policy

The following table identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Investment types authorized by State law	Authorized by investment policy	Maximum maturity*	Maximum percentage of portfolio*	Maximum investment in one issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	No	2 years	30%	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	$ 65,000,000
Certificate of Deposits	Yes	2 years	30%	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

NOTE 3: Cash and investments, (continued)

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or earning close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee, if any) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

		Remaining maturing (in months)			
Investment type	Total	12 or less	13 to 24	25 to 60	More than 60
State investment pool	$ 7,067,312	$ 7,067,312	$ -	$ -	$ -

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

				Rating as of year end		
Investment type	Total	Minimum legal rating	Exempt from disclosure	AAA	Aa	Not rated
State investment pool	$ 7,067,312	N/A	$ -	$ -	$ -	$ 7,067,312

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency did not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of total Agency investments.

NOTE 3: Cash and investments, (continued)

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its 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 (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2019, the Agency's deposits with financial institutions are non-interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to $250,000. As of June 30, 2019, the Agency deposits with financial institutions exceeded the federal depository insurance limits by $524,425 and were fully collateralized.

Investment in State investment pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a special fund of the California State Treasury through which local governments may pool investments. The Agency may invest up to $65,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The average annual yield of LAIF during the years ended June 30, 2019 and 2018 was 2.266% and 1.376%, respectively. The carrying value and estimated market value of the LAIF Pool at June 30, 2019 and 2018 was $105,325,060,682 and $105,814,483,092 and $88,813,999,646 and $88,798,232,976, respectively. The Agency's share of the Pool at June 30, 2019 and 2018 was approximately 0.00671% and 0.00716%, respectively. Included in LAIF's investment portfolio at June 30, 2019 and 2018 are structured notes and asset-backed securities totaling $900,000,000 and $977,182,000 and $825,000,000 and $1,549,080,000, respectively currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

NOTE 4: Capital assets

A summary of changes in capital assets of the Agency for the year ending June 30, 2019 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Land	$ 814,728	$ -	$ -	$ 814,728
Construction in Progress	1,364,129	806,843	(1,118,990)	1,051,982
Total capital assets, not being depreciated	2,178,857	806,843	(1,118,990)	1,866,710
Capital assets, being depreciated:				
Administration Building	2,005,705	15,962	-	2,021,667
Treatment Plant	13,536,831	1,066,565	-	14,603,396
Interceptor System	3,621,365	-	-	3,621,365
Effluent Disposal Assets	4,713,259	-	-	4,713,259
Power Generation Equipment	2,048,711	64,850	-	2,113,561
Flow Measuring Devices	125,827	24,580	-	150,407
Other Equipment	1,675,731	-	-	1,675,731
Transportation Equipment	610,093	17,657	-	627,750
Other Tangible Plant	730,970	169,178	-	900,148
Studies and Maps	106,425	-	-	106,425
Total capital assets, being depreciated	29,174,917	1,358,792	-	30,533,709
Less accumulated depreciation for:				
Administration Building	(761,857)	(59,565)	-	(821,422)
Treatment Plant	(7,048,320)	(363,598)	-	(7,411,918)
Interceptor System	(2,108,606)	(89,271)	-	(2,197,877)
Effluent Disposal Assets	(3,912,799)	(84,119)	-	(3,996,918)
Power Generation Equipment	(873,773)	(149,908)	-	(1,023,681)
Flow Measuring Devices	(96,082)	(7,095)	-	(103,177)
Other Equipment	(1,100,415)	(56,591)	-	(1,157,006)
Transportation Equipment	(285,459)	(37,487)	-	(322,946)
Other Tangible Plant	(281,969)	(44,132)	-	(326,101)
Studies and Maps	(87,143)	(1,430)	-	(88,573)
Total accumulated depreciation	(16,556,423)	(893,196)	-	(17,449,619)
Total capital assets being depreciated, net	12,618,494	465,596	-	13,084,090
Total capital assets, net	$ 14,797,351	$ 1,272,439	$ (1,118,990)	$ 14,950,800

NOTE 5: Long-term liabilities

A summary of long-term liabilities of the Agency at June 30, 2019 is as follows:

	Beginning balance	Additions	Deletions	Ending balance	Due within one year	Due beyond one year
Long-term debt - direct borrowings:						
2011 refunding agreement	$ 2,749,574	$ -	$ (380,864)	$ 2,368,710	$ 283,258	$ 2,085,452
2018 installment purchase agreement	-	1,760,000	(88,277)	1,671,723	88,970	1,582,753
	2,749,574	1,760,000	(469,141)	4,040,433	372,228	3,668,205
Other long-term liability:						
Compensated absences	142,075	183,156	(137,158)	188,073	130,039	58,034
Total	$ 2,891,649	$ 1,943,156	$ (606,299)	$ 4,228,506	$ 502,267	$ 3,726,239

2011 Refunding installment sale agreement financing with Compass Bank (2011 Refunding Agreement)

On November 15, 2011, the Agency refunded its outstanding obligations under 1) the 1998 Association of Bay Area Governments Water and Wastewater Revenue Bonds (a pooled financing program) Series B (the ABAG Bonds) and 2) the December 1, 2006 Loan Agreement between the Agency and Municipal Finance Corporation (the 2006 Agreement). The purpose of the original borrowings was to finance certain improvements to the Agency's wastewater system. The purpose of the 2011 refunding was to take advantage of the low interest-rate environment, and refinance the Agency's existing debt at a lower rate, while maintaining the same period to maturity. All Agency net revenues are irrevocably pledged for the loan repayments in accordance with the terms of the 2011 refunding agreement. In the event of default, the lender may declare the unpaid principal and accrued interests due and payable immediately.

Total proceeds under the 2011 Refunding Agreement were $5,568,142, borrowed at an interest rate of 3.3%, compared to 5.0% and 4.45%, under the ABAG Bonds and 2006 Agreement, respectively. Total proceeds included a prepayment premium under the 2006 Agreement of $42,432 and issuance costs associated with the 2011 Refunding Agreement of $47,500. Amounts borrowed under the 2011 Refunding Agreement are payable in 30 semi-annual installments, over a 15-year period through November 15, 2026 with the first payment due May 15, 2012. The installment payments range from $576,084 to $179,554. The Agency may prepay the unpaid principal on the 2011 Refunding Agreement beginning November 15, 2016. Such prepayments beginning on such date and through November 14, 2021 are subject to a make-whole provision contained in the 2011 Refunding Agreement. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $125,867. This difference is reported in the accompanying financial statements as a deduction to the 2011 Refunding Agreement payable and is being amortized through November 15, 2026 using the straight-line method of amortization. As a result of the current refunding, the Agency reduced its debt service cash flow by $450,419 through November 15, 2026, resulting in an economic gain of $333,963 (calculated as the difference between the debt service payments under the old and new debt discounted to present value using the effective interest rate).

NOTE 5: Long-term liabilities (continued)

2018 Installment purchase agreement

On September 1, 2018, the Agency entered into an Installment Purchase Agreement (the 2018 Installment Purchase Agreement), for $1,760,000 with BBVA Compass, an Alabama banking corporation (Bank), for the purpose of financing the acquisition and construction of certain improvements of the Agency's wastewater system. The 2018 Installment Purchase Agreement carries an interest rate of 3.70% on the unpaid principal with an ending term on the earlier of November 15, 2033 or the date upon which the installment payments shall be paid in full. All Agency net revenues are irrevocably pledged for the loan repayments in accordance with the terms of the 2018 Installment Purchase Agreement. In the event of default, the lender may declare the unpaid principal and accrued interests due and payable immediately and require officials of the Agency to charge and collect rates for services provided by the Agency and the System sufficient to meet all requirements of the Installment Purchase Agreement.

The Agency previously entered into a certain Loan Agreement dated as of November 1, 2011 (the 2011 Refunding agreement) by and between the Agency and the Bank under which the Agency pledged Net Revenues for the purpose of financing and refinancing certain improvements to the Agency's wastewater system.

2011 Refunding Agreement and 2018 Installment Purchase Agreement debt covenants

The Agency has covenanted to set rates, fees and charges for each fiscal year so as to yield net revenues equal to at least 120% of the annual debt service for such year. For the year ended June 30, 2019 the Agency's net revenues were 236% of the annual debt service, which exceeded the minimum requirement. The Agency also complied with all other covenants set forth in the 2011 Refunding Agreement and 2018 Installment Purchase Agreement.

Debt service requirements to maturity

Fiscal	2011 Refunding Loan Agreement			2018 Installment Purchase Agreement		
year	Principal	Interest	Total	Principal	Interest	Total
2019-2020	$ 283,258	$ 75,850	$ 359,108	$ 88,970	$ 61,038	$ 150,008
2020-2021	292,683	66,425	359,108	92,292	57,716	150,008
2021-2022	302,421	56,687	359,108	95,739	54,270	150,009
2022-2023	312,483	46,625	359,108	99,314	50,694	150,008
2023-2024	322,880	36,228	359,108	103,023	46,986	150,009
2024-2025	333,623	25,485	359,108	106,870	43,139	150,009
2025-2026	344,723	14,384	359,107	110,860	34,148	145,008
2026-2027	176,639	2,915	179,554	115,000	35,008	150,008
2027-2028	-	-	-	119,295	30,714	150,009
2028-2029	-	-	-	123,750	26,259	150,009
2029-2030	-	-	-	128,371	21,638	150,009
2030-2031	-	-	-	133,164	16,844	150,008
2031-2032	-	-	-	138,138	11,872	150,010
2032-2033	-	-	-	143,295	6,713	150,008
2033-2034	-	-	-	73,642	1,362	75,004
Total	$ 2,368,710	$ 324,599	$ 2,693,309	$ 1,671,723	$ 498,401	$ 2,170,124

NOTE 6: Related-party transactions

The Board of Directors of the Agency is composed of board members of the three government agencies that are the primary customers of the Agency. Two of the directors of the Big Bear Area Regional Wastewater Agency are directors of the Big Bear City Community Services District. Two directors are from the City of Big Bear Lake and one director is from the County of San Bernardino. The District, City and County serve as collecting agents for certain revenues of the Agency including annual charges, standby charges, and connection fee charges.

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NOTE 7: Pension plan

A. General information about the Pension plan

Plan description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The Agency sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates (reporting period)	8.00%	6.50%
Required employer contribution rates (reporting period)	13.085%	7.266%

NOTE 7: Pension plan, (continued)

A. General information about the Pension plan, continued

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. For public agency cost-sharing plans covered by Miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2019 were $223,484. The actual employer payments of $186,220 made to CalPERS by the Agency during the measurement period ended June 30, 2018 differed from the Agency's proportionate share of the employer's contribution of $312,955 by $126,735, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost Sharing Multiple Employer Plan.

B. Net pension liability

The Agency's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	Market Value of Assets
Discount Rate	7.15%
Inflation	2.50%
Salary Increase (1)	3.3% - 14.2%
Mortality Rate Table (2)	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.0% until purchasing power protection allowance floor on purchasing power

(1) Annual increase vary by category, entry age, and duration of service

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

NOTE 7: Pension plan, (continued)

B. Net pension liability, continued

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. 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 expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses

The expected real rates of return by asset class are as follows:

Asset Class	Current Target Allocation	Real Return Years 1 - 10[1]	Real Return Year 11+[2]
Global Equity	50.0%	4.80%	5.98%
Global Fixed income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
Total	100.0%		

[1] An expected inflation of 2.0% used for this period
[2] An expected inflation of 2.92% used for this period

Change of Assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

NOTE 7: Pension plan, (continued)

B. Net pension liability, continued

Discount rate

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

C. Proportionate share of net pension liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2017 (VD)	$ 9,384,095	$ 7,458,419	$ 1,925,676
Balance at: 6/30/2018 (MD)	10,097,531	8,215,960	1,881,571
Net changes during 2017-18	713,436	757,541	(44,105)

Valuation Date (VD), Measurement Date (MD).

NOTE 7: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, 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, 2017 rolled forward to June 30, 2018 using standard update procedures. The Agency's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website at www.calpers.ca.gov. The Agency's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

Proportion share of NPL - June 30, 2017	0.04885%
Proportion share of NPL - June 30, 2018	0.04993%
Change - Increase (Decrease)	0.00108%

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	$ 3,247,477	$ 1,881,571	$ 754,040

Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

NOTE 7: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2018 is 3.8 years, which was obtained by dividing the total service years of 516,147 (the sum of remaining service lifetimes of the active employees) by 135,474 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund

D. Pension expense and deferred outflows and deferred inflows of resources related to pensions

As of the start of the measurement period (July 1, 2017), the net pension liability for the Plan was $1,925,676. For the measurement period ending in June 30, 2018 (the measurement date), the Agency incurred a pension expense of $318,114.

As of June 30, 2019, the Agency has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 214,505	$ 52,571
Differences between Expected and Actual Experience	72,193	24,567
Differences between Projected and Actual Investment Earnings	9,301	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	164,025
Change in Employer's Proportion	135,459	-
Pension Contributions Made Subsequent to Measurement Date	223,484	-
	$ 654,942	$ 241,163

NOTE 7: Pension plan, (continued)

D. Pension expense and deferred outflows and deferred inflows of resources related to pensions, continued

The amounts above are net of outflows and inflows recognized in the 2017-2018 measurement period expense. Contributions subsequent to the measurement date of $223,484 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, Net
2020	$ 161,003
2021	97,539
2022	(51,321)
2023	(16,926)
2024	-
Thereafter	-

E. Payable to the pension plan

At June 30, 2019, the Agency reported a payable of $-0- for the outstanding amount of contributions to the pension plan required for year ended June 30, 2019.

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NOTE 8: Other postemployment benefits plan

A. General Information about the Pension Plan

Plan description

The Agency has established a Retiree Healthcare Plan (HC Plan), and participates in an agent multiple-employer defined benefit retiree healthcare plan. Medical coverage is currently provided through CalPERS as permitted under the Public Employees' Medical and Hospital Care ACT (PEMCHA). This coverage is available for employees who satisfy the requirements for retirement under the California Public Employees Retirement System (PERS), which is either (a) attainment of age 50 or older (age 52 for PEPRA members) with at least five years of State or public agency service or (b) an approved disability retirement. A separate financial report is not prepared for the HC Plan.

Benefits provided

The Agency pays 100% of the medical insurance costs for eligible retirees and their eligible dependents not to exceed the pre-Medicare (basic) family premium rate for the highest cost HMO plan in the LA region.

Employees retired prior to January 1, 2011 are also covered by the Agency's "Health Premium Reimbursement Plan" which, when combined with benefits provided by PEMCHA provides a benefit equal to 100% of the medical plan premiums (no maximum) for pre-2011 retirees and their dependents.

Employees covered

As of the July 1, 2017 actuarial valuation date the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	15
Inactive employees or beneficiaries currently receiving benefits	12
Total	**27**

Contributions

The Agency makes health premium contributions for eligible retirees that enroll in a CalPERS health plan during retirement. The current monthly amount paid by the Agency ranges from $360 – $1,815. These amounts change annually based on the retiree's health plan election and rates published by CalPERs. The Agency provided amounts are detailed in the Summary of Principal Plan Provisions. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the Agency's cash contributions were $203,772 payments to the trust and the estimated implied subsidy was $37,519 resulting in total payments of $241,291. The Agency has established an Irrevocable Trust with CalPERS' California Employer's Retiree Benefit Trust (CERBT). The Irrevocable Trust was required to fully implement the Agency's direction of prefunding the Agency's OPEB liability.

NOTE 8: Other postemployment benefits plan, (continued)

A. General Information about the Pension Plan, continued

Net OPEB liability

The Agency's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated July 1, 2017, based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75% per year
Salary Increases	3.25% per year, used only to allocate the cost of benefits between service years
Investment Rate of Return	7.00%
Mortality Rate	MacLeod Watts Scale 2017 applied generationally
Pre-Retirement Turnover Healthcare Trend Rate	Medical plan premiums and claims are assumed to increase once each year. 1/1/2019 is projected to be 7.50%, decreasing .50% per year until 2024. After 2024, the trend rate is projected to be 5.00%.

The long-term expected rate of return on OPEB plan investments was determined using a building–block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term expected real rate of return*
Treasury inflation-protected securities	5%	1.46%
Fixed income	25%	2.25%
Global Equity	59%	5.98%
REIT's	8%	5.00%
Commodities	3%	2.87%
Total	100%	

* based on 2014 Capital Market Assumptions

Discount Rate

The discount rate used to measure the total OPEB liability was 7.0% percent, down from 7.28% as of June 30, 2017, net of Plan investment expenses and including inflation. The projection of cash flows used to determine the discount rate assumed that Agency contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 8: Other postemployment benefits plan, (continued)

Changes in the OPEB Liability

The changes in the net OPEB liability for the HC Plan are as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2018			
(Valuation Date June 30, 2017)	$ 2,779,165	$ 1,457,286	$ 1,321,879
Changes recognized for the measurement period:			
Service Cost	92,607	-	92,607
Interest on the total OPEB liability	204,015	-	204,015
Changes of assumptions	100,635	-	100,635
Investment experience differences	-	(2,794)	2,794
Contributions - employer	-	425,765	(425,765)
Net investment income	-	116,439	(116,439)
Benefit payments	(138,739)	(138,739)	-
Administrative expenses	-	(2,726)	2,726
Net Changes	258,518	397,945	(139,427)
Balance at June 30, 2019			
(Measurement Date June 30, 2018)	$ 3,037,683	$ 1,855,231	$ 1,182,452

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Agency if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net OPEB Liability	$ 1,594,995	$ 1,182,452	$ 848,641

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the Agency if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 804,492	$ 1,182,452	$ 1,692,024

NOTE 8: Other postemployment benefits plan, (continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service lifetime (EARSL) (6.06 Years at June 30, 2018)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the Agency recognized OPEB expense of $183,233. As of fiscal year ended June 30, 2019, the Agency reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 241,291	$ -
Changes of assumptions	131,487	-
Differences between expected and actual experience	-	93,604
Net difference between projected and actual earnings on OPEB plan investments	-	14,155
Total	$ 372,778	$ 107,759

The $241,291 reported as deferred outflows of resources related to contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources, net
2019	$ 324
2020	324
2021	323
2022	5,786
2023	15,972
Thereafter	999

NOTE 9: Deferred compensation

The Agency has made available to its employees two deferred compensation plans (defined contribution plans), created in accordance with Internal Revenue Code Section 457, whereby employees authorize the Agency to defer a portion of their salary to be deposited in individual investment accounts. Funds may be withdrawn by participants upon termination of employment or retirement. If an employee elects to contribute a minimum of 6% of the employee's annual salary, the Agency will contribute 3% of the employee's annual salary. As of June 30, 2019, the deferred compensation assets were held in a trust account for the sole benefit of the employees and their beneficiaries, and accordingly have been excluded from the Agency's reported assets. The Agency's contribution to the plan for the current fiscal year is $33,124.

NOTE 10: Risk management

The Agency is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions and natural disasters. The Agency has acquired insurance coverage through Special District Risk Management Authority to finance various risks such as workers' compensation, general liability and property damage.

Insurance policies are purchased for the following exposures with the deductible or the amount of risk retention:

General and Auto Liability, Public Officials' and Employees' Errors and Omissions and Employment Practices Liability: coverage of $5,000,000, with $500 deductible per occurrence for general liability, $1,000 deductible per occurrence for auto liability, and 50% co-insurance of cost expended by SDRMA, in excess of $10,000 up to $50,000 for employment-related claims.

Employee Dishonesty: purchased from National Union Fire Insurance Company – coverage of $1,000,000 per loss and includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction.

Property Loss: purchased from Lexington Insurance Company – coverage of $1,000,000,000 per occurrence with $1,000 deductible per occurrence.

Boiler and Machinery: purchased from Lexington Insurance Company – coverage of $100,000,000 per occurrence with $1,000 deductible.

Public Officials Personal Liability: coverage of $500,000 per occurrence, with an annual aggregate of $500,000 per each elected/appointed official, with deductible of $1,000 per claim;

Worker's compensation: statutory limits per occurrence and $5,000,000 for employer's liability coverage.

The amounts of settlements did not exceed insurance coverage for each of the past three fiscal years.

Required Supplementary Information

Big Bear Area Regional Wastewater Agency

Schedule of the Agency's Proportionate Share of the Plan's Net Pension Liability and Related Ratios as of the Measurement Date
Last 10 Years*

	Measurement date				
	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Employer's proportion of the collective net pension liability[1]	0.02306%	0.03971%	0.04580%	0.04885%	0.04993%
Employer's proportionate share of the collective net pension liability	$ 1,435,154	$ 1,089,410	$ 1,590,864	$ 1,925,676	$ 1,881,571
Employer's covered payroll	$ 958,945	$ 1,082,228	$ 1,100,884	$ 1,097,657	$ 1,099,489
Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	149.66%	100.66%	144.51%	175.44%	171.13%
Pension plan's fiduciary net position as a percentage of the total pension liability	83.03%	87.32%	81.05%	79.48%	81.37%

[1] Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

* = Only five years of data is available.

Big Bear Area Regional Wastewater Agency

Schedule of Plan Contributions
Last 10 Years*

	Fiscal year 2015	2016	2017	2018	2019
Actuarially Determined Contribution	$ 179,263	$ 157,379	$ 171,414	$ 186,220	$ 223,484
Contributions in Relation to the Actuarially Determined Contribution	(179,263)	(157,379)	(171,414)	(186,220)	(223,484)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$ 1,082,228	$ 1,100,884	$ 1,097,657	$ 1,099,489	$ 1,159,628
Contributions as a Percentage of Covered Payroll	16.56%	14.30%	15.62%	16.94%	19.27%

Notes to Schedule:

Change in Benefit Terms: None

Changes in Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* = Only five years of data is available.

Big Bear Area Regional Wastewater Agency

Schedule of Changes in the Net OPEB Liability and Related Ratios
Last 10 years*

Measurement Date	2017	2018
Total OPEB Liability		
Service Cost	$ 70,271	$ 92,607
Interest on the Total OPEB Liability	197,835	204,015
Actual and expected experience difference	(139,764)	-
Changes in assumptions	70,862	100,635
Benefit payments	(134,557)	(138,739)
Net change in Total OPEB Liability	64,647	258,518
Total OPEB Liability - beginning	2,714,518	2,779,165
Total OPEB Liability - ending (a)	$ 2,779,165	$ 3,037,683
Plan Fiduciary Net Position		
Investment experience differences	$ -	$ (2,794)
Contribution - employer	419,453	425,765
Net investment income	114,707	116,439
Benefit payments	(134,557)	(138,739)
Administrative expense	(581)	(2,726)
Net change in Plan Fiduciary Net Position	399,022	397,945
Plan Fiduciary Net Position - beginning	1,058,264	1,457,286
Plan Fiduciary Net Position - ending (b)	$ 1,457,286	$ 1,855,231
Net OPEB Liability - ending (a) - (b)	$ 1,321,879	$ 1,182,452
Plan fiduciary net position as a percentage of the total OPEB liability	52.44%	61.07%
Covered employee payroll	$ 1,097,657	$ 1,099,489
Net OPEB liability as a percentage of covered employee payroll	120.43%	107.55%

Notes to schedule:
The following assumptions were changed from the prior valuation:

Discount rate and long term return on trust assets

Decreased from 7.28% to 7.0% based on updated expected return on trust assets published by CalPERS (CERBT) and reflecting the Agency's expected future projected retiree medical benefit cash flows.

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

* = Only two years of data is available.

Big Bear Area Regional Wastewater Agency

Schedule of OPEB Plan Contributions
Last 10 years*

Fiscal Year	2018	2019
Actuarially Determined Contributions (ADC)	$ 198,107	$ 203,772
Contributions in relation to the ADC	(425,765)	(241,291)
Contribution deficiency/(excess)	$ (227,658)	$ (37,519)
Covered employee payroll	$ 1,099,489	$ 1,135,222
Contribution as a percentage of covered employee payroll	38.72%	21.25%

Notes to schedule:

Actuarial methods and assumptions used to set actuarially determined contributions for fiscal year 2019 were from the June 30, 2018 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Methodology	Level % of Pay, 20 years closed
Asset Valuation Method	Market value of assets
Inflation	2.75% per annum
Payroll Growth	3.25% per year; since benefits are not related to pay, this is used only to allocate the cost of
Investment Rate of Return	7.0% per annum
Healthcare Trend	7.5% initial, decreasing to 5.0% for year 2024 and thereafter
Retirement Age	From 50 to 75
Mortality	CalPERS 2014 Experience Study, Projected with MW Scale 2017

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information

* = Only two years of data is available.

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Supplementary Information

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Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual
For the year ended June 30, 2019

	2019 Actual	2019 Final budget (unaudited)	Variance with budget	2018 Actual
Operating revenues				
Member agency fees	$ 5,251,542	$ 5,251,785	$ (243)	$ 5,091,576
Standby charges	83,200	83,200	-	85,180
Rental income	51,071	51,071	-	50,449
Waste disposal fees	20,608	21,798	(1,190)	23,113
Other revenues	765	-	765	1,916
Total operating revenues	5,407,186	5,407,854	(668)	5,252,234
Operating expenses				
Salaries and benefits	2,199,428	2,150,152	49,276	2,144,299
Power	520,234	532,036	(11,802)	386,367
Sludge removal	298,241	355,339	(57,098)	397,813
Chemicals	53,087	47,864	5,223	49,409
Materials and supplies	162,695	161,759	936	127,278
Repairs and replacements	445,040	531,400	(86,360)	155,447
Equipment rental	1,363	802	561	37,215
Utilities	22,207	20,376	1,831	26,737
Communications	32,160	47,734	(15,574)	37,064
Contractual services - other	97,296	102,054	(4,758)	74,947
Contractual services - professional	214,413	327,416	(113,003)	399,514
Permits and fees	158,528	151,465	7,063	145,515
Property tax	3,665	3,652	13	3,599
Insurance	100,952	103,132	(2,180)	99,428
Other operating	48,142	57,382	(9,240)	50,469
Depreciation	893,196	975,331	(82,135)	842,155
Total operating expenses	5,250,647	5,567,894	(317,247)	4,977,256
Operating income	156,539	(160,040)	316,579	274,978

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Big Bear Area Regional Wastewater Agency

Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual (continued)
For the year ended June 30, 2019

	2019 Actual	2019 Final budget (unaudited)	Variance with budget	2018 Actual
Nonoperating revenues				
Investment income	$ 164,531	$ 72,043	$ 92,488	$ 73,866
Other miscellaneous revenue	180	-	180	-
Total nonoperating revenues	164,711	72,043	92,668	73,866
Nonoperating expenses				
Other	181,529	260,000	(78,471)	19,777
Interest	142,234	139,964	2,270	112,236
Net loss on capital asset disposals	-	-	-	1,709,527
Total nonoperating expenses	323,763	399,964	(76,201)	1,841,540
Income before contributions	(2,513)	(487,961)	485,448	(1,492,696)
Capital contributions - connection charges	188,100	201,850	(13,750)	249,560
Change in net position	185,587	(286,111)	471,698	(1,243,136)
Net position, beginning of year, as restated	15,906,974	15,906,974	-	17,150,110
Net position, end of year	$ 16,092,561	$ 15,620,863	$ 471,698	$ 15,906,974

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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*

Independent Auditor's Report

To the Board of Directors
Big Bear Area Regional Wastewater Agency
Big Bear City, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated October 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the 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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency'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 determination of financial statement amounts. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 15, 2019

STATISTICAL SECTION

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STATISTICAL SECTION

Overview

The objective of the statistical section is to provide users with historical perspective and detail so that they may better understand and assess the Agency's economic condition.

Financial Trends

This section contains 10-year historical information related to the Agency's financial performance and is intended to assist users in understanding and assessing the Agency's financial position and how it has changed over time.

Revenue Capacity

This section contains information related to the Agency's primary operating revenues and is intended to assist users in understanding and assessing the Agency's capacity to generate revenues and its ability to collect revenues.

Debt Capacity

This section contains information related to the Agency's ability to service its current debt outstanding and provides an indication of the Agency's ability to issue additional debt.

Demographic and Economic Information

This section contains information related to the socioeconomic environment in which the Agency operates. This information facilitates comparisons of financial statement information over time and among similar government agencies.

Financial Trends

All years presented are for the fiscal year ending June 30.

NET POSITION BY COMPONENT - 10 FISCAL YEARS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NET POSITION[1]:										
Net investment in capital assets	$11,584,347	$11,360,139	$11,630,775	$11,190,103	$12,962,116	$12,812,871	$12,947,480	$12,864,383	$12,092,923	$10,947,850
Unrestricted net position	4,663,556	5,092,119	5,239,278	6,089,805	5,041,351	4,589,703	5,342,359	5,800,317	3,814,051	5,144,711
Total	$16,247,903	$16,452,258	$16,870,053	$17,279,908	$18,003,467	$17,402,574	$18,289,839	$18,664,700	$15,906,974	$16,092,561

[1] The above data was extracted from the Agency's financial statements. Net position was restated in fiscal years 2007, 2011, 2013, 2015 and 2017 to reflect a reduction in assets, the Agency's PERS side fund liability, the implementation of GASB 65, the implementation of GASB 68, and the implementation of GASB 75, respectively.

CHANGE IN NET POSITION - 10 FISCAL YEARS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OPERATING REVENUES:										
Annual Charges	$4,279,422	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542
Standby Fees	96,323	95,240	93,890	92,430	91,400	90,860	89,250	86,930	85,180	83,200
Rent, Waste Disposal Fees	59,345	63,486	64,940	68,351	70,178	68,120	72,101	71,951	73,562	71,679
Other	10,690	2,049	56	50	2,007	24,575	5,104	488	1,916	765
Total	4,445,780	4,434,819	4,665,762	4,849,143	4,941,800	5,163,245	5,157,621	5,166,439	5,252,234	5,407,186
OPERATING EXPENSES:										
Salaries and Benefits	1,830,689	1,730,583	1,714,734	1,812,835	1,797,691	1,745,042	1,843,685	2,155,804	2,144,299	2,199,428
Power	434,850	472,130	470,256	424,266	399,239	486,461	520,431	522,181	366,367	520,234
Sludge Removal[1]	297,448	219,399	185,005	242,838	221,541	162,627	225,990	281,096	397,813	298,241
Materials and Supplies	272,643	234,516	222,324	225,624	190,830	192,900	184,933	209,323	176,667	215,782
Repairs and Replacements	209,257	188,725	170,603	159,819	186,806	161,825	150,764	128,645	155,447	445,040
Equipment rental[2]	2,029	4,245	148	0	0	3,659	165	2,242	37,215	1,363
Utilities expense[3]	18,426	16,259	25,727	22,509	19,757	16,062	11,773	13,023	26,737	22,207
Communications expense[4]	39,110	49,112	51,911	34,293	45,613	33,490	38,610	44,062	37,064	32,160
Contractual services - other	74,668	80,988	82,994	75,706	95,678	81,626	102,120	94,181	74,947	97,296
Contractual services, prof[5]	112,718	294,431	141,200	136,259	224,045	99,798	151,407	191,457	399,514	214,413
Permits and fees	101,255	87,655	108,055	124,708	131,361	142,310	145,866	148,687	145,515	158,528
Property tax expense	3,100	3,120	3,130	3,488	3,265	3,426	3,476	3,523	3,599	3,665
Insurance expense[6]	97,774	108,747	93,222	86,135	89,622	83,561	87,406	85,386	99,428	100,952
Other operating expense	60,139	70,590	58,197	65,638	58,032	57,983	59,474	56,328	50,469	48,142
Depreciation	861,513	796,571	794,529	806,274	799,443	840,229	875,328	896,429	842,154	893,196
Total	4,415,619	4,357,051	4,122,035	4,220,392	4,242,923	4,110,979	4,401,428	4,832,367	4,977,256	5,250,647
OPERATING INCOME	30,161	77,768	543,727	628,751	698,877	1,052,266	756,193	334,072	274,978	156,539
NONOPERATING REVENUES:										
Net gain on asset disposal	-	-	10,050	-	-	-	-	-	-	-
Interest income	25,749	21,688	18,732	16,167	11,305	12,430	22,889	29,101	73,866	164,531
Other	-	788,361	40	-	-	-	-	-	-	180
Total non-operating revenue	25,749	810,049	28,822	16,167	11,305	12,430	22,889	29,101	73,866	164,711
NONOPERATING EXPENSES:										
Net Loss on asset disposal	148,792	22,893	0	122,718	28,326	21,553	2,678	91,973	1,709,527	0
Interest expense	285,131	271,181	223,125	165,092	111,747	145,012	130,669	115,849	100,536	134,569
Amortization debt costs	7,501	7,501	12,369	11,700	11,700	11,700	11,700	11,700	11,700	7,665
Other	-	-	-	-	-	-	-	-	19,777	181,529
Total non-operating expense	441,424	301,575	235,494	299,510	151,773	178,265	145,047	219,522	1,841,540	323,763
INCOME BEFORE CAPITAL CONTRIBUTIONS	-365,514	586,242	337,055	345,408	558,409	886,431	634,035	143,651	-1,492,696	-2,513
Capital contributions	54,562	244,923	80,740	110,100	165,150	308,280	253,230	231,210	249,560	188,100
CHANGE IN NET POSITION	-330,952	831,165	417,795	455,508	723,559	1,194,711	887,265	374,861	-1,243,136	185,587
NET POSITION										
Beginning of year	16,527,153	15,621,093	16,452,258	16,824,400	17,279,908	16,207,863	17,402,574	18,289,839	17,150,110	15,906,974
End of year	$16,196,201	$16,452,258	$16,870,053	$17,279,908	$18,003,467	$17,402,574	$18,289,839	$18,664,700	$15,906,975	$16,092,561

1 Amounts in fiscal year 2009 and 2010 include one-time warranty payments netted against sludge removal expense of $100,820 in each year.

2 Included in materials and supplies expense prior to fiscal year 2009.

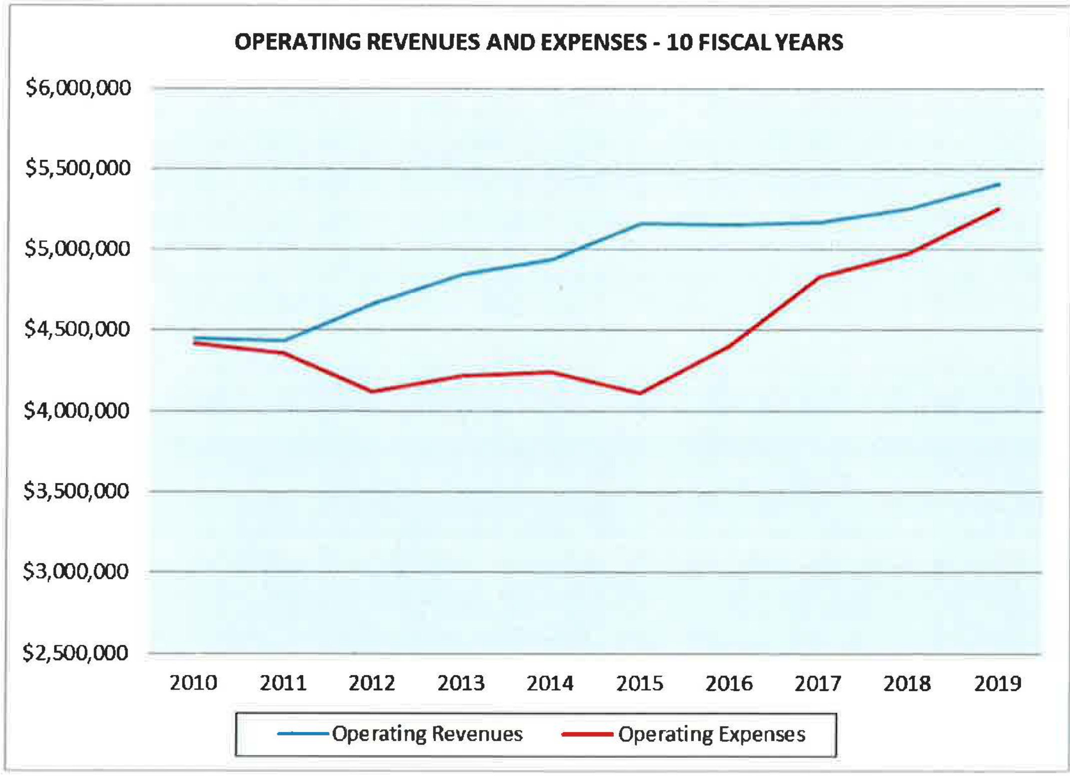
3 Included in power expense prior to fiscal year 2009.

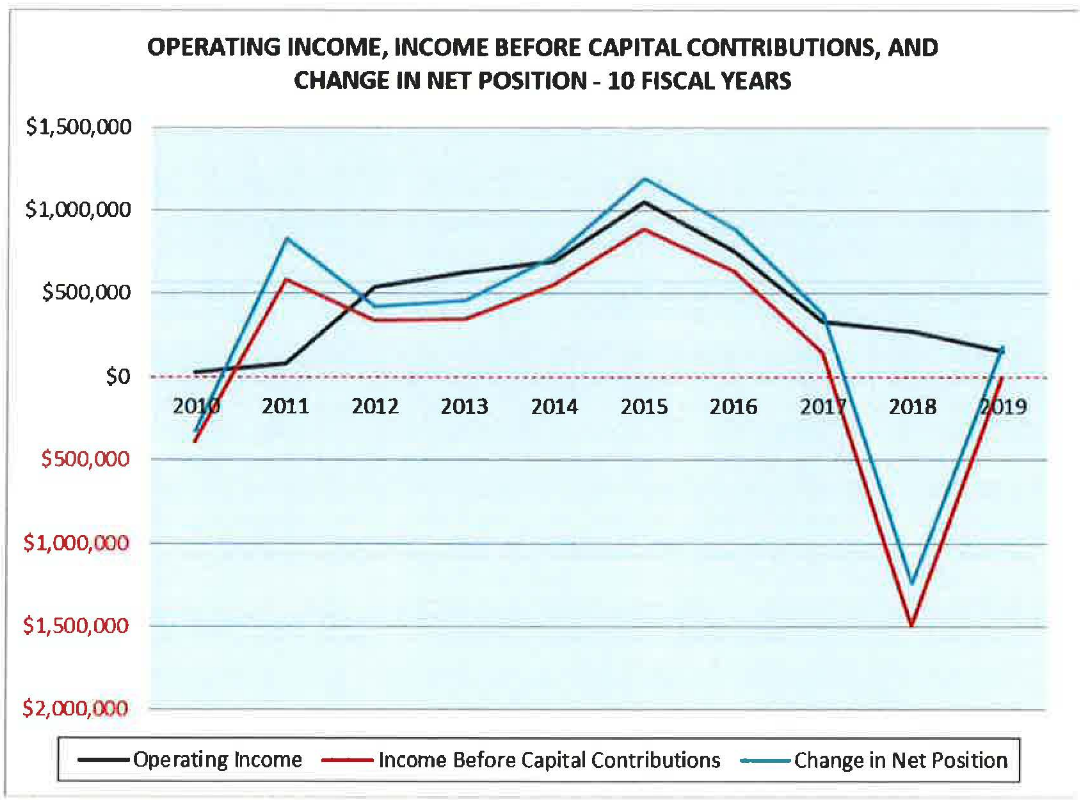
4 Included in materials and supplies expense prior to fiscal year 2009.

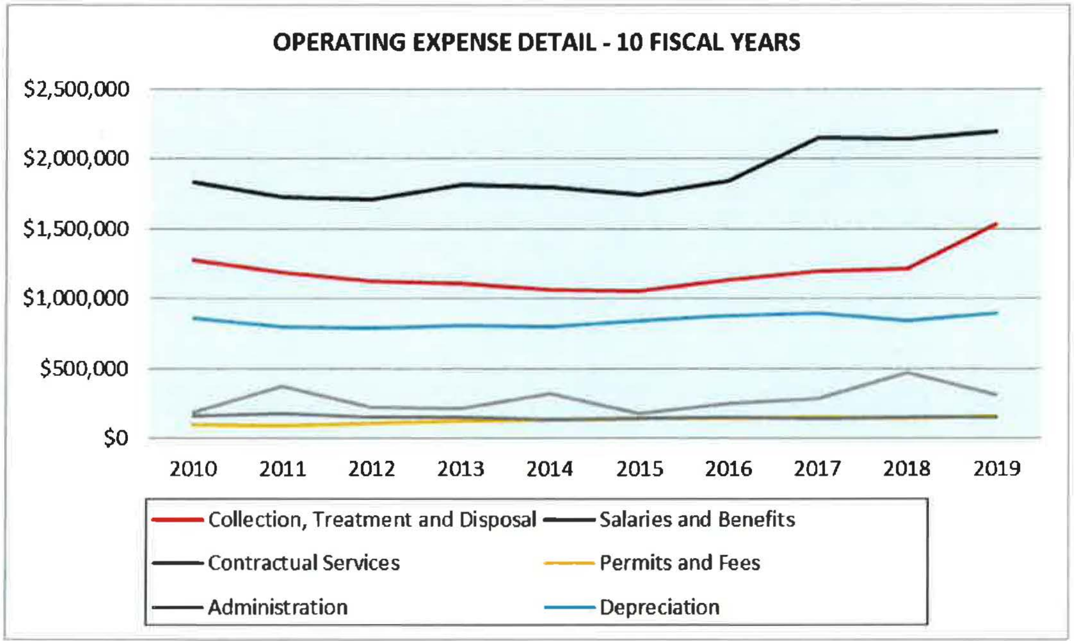
5 Amount in fiscal year 2009 includes a one-time, noncash adjustment of $149,938.

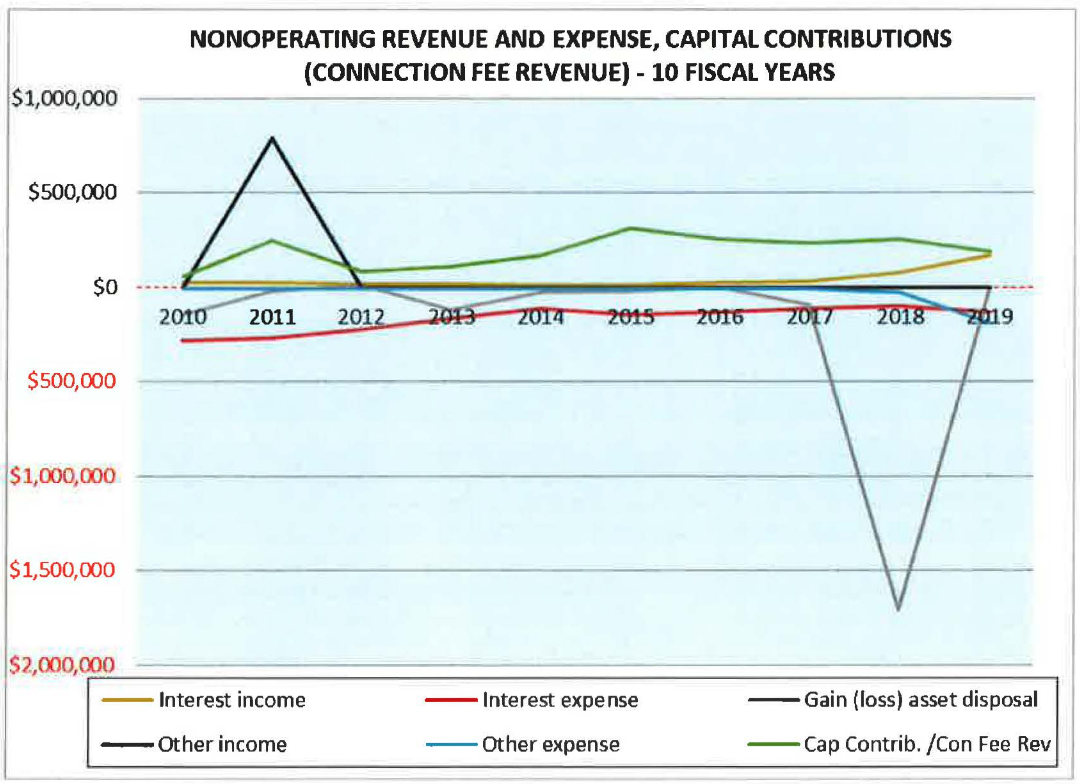
6 Includes workers' compensation insurance beginning in fiscal year 2009. In prior years, this expense was included in salaries and benefits expense.

7 The above data was extracted from the Agency's financial statements. Net position was restated in fiscal years 2007, 2011, 2013, 2015 and 2018 to reflect a reduction in assets, the Agency's PERS side fund liability, the implementation of GASB 65, the implementation of GASB 68, and the implementation of GASB 75, respectively.


OPERATING REVENUES AND EXPENSES - 10 FISCAL YEARS
$6,000,000
$5,500,000
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Operating Revenues
Operating Expenses


OPERATING INCOME, INCOME BEFORE CAPITAL CONTRIBUTIONS, AND CHANGE IN NET POSITION - 10 FISCAL YEARS
$1,500,000
$1,000,000
$500,000
$0
$500,000
$1,000,000
$1,500,000
$2,000,000
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Operating Income
Income Before Capital Contributions
Change in Net Position

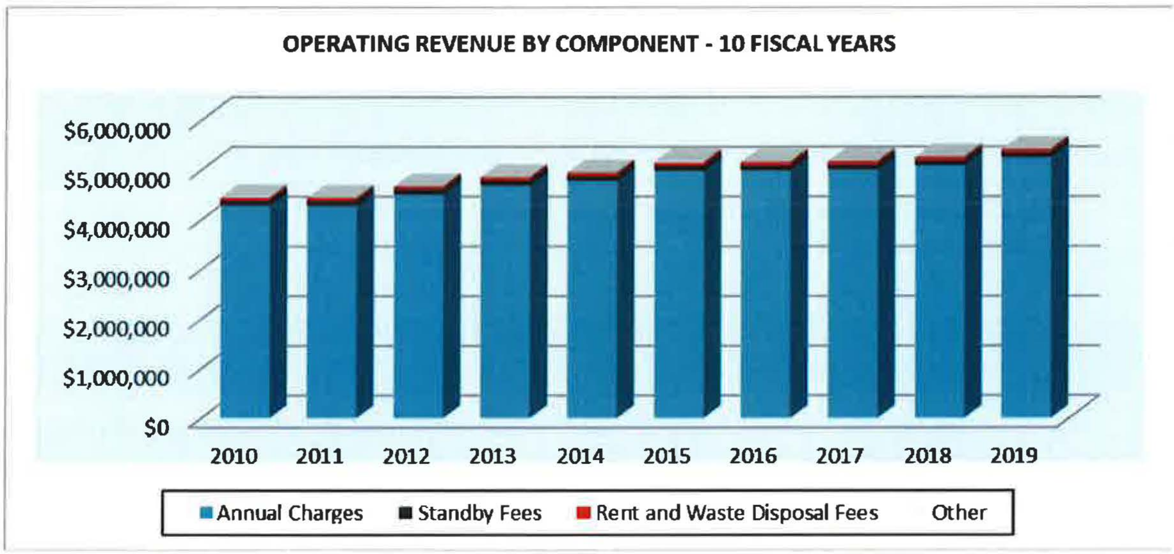

OPERATING EXPENSE DETAIL - 10 FISCAL YEARS
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Collection, Treatment and Disposal
Salaries and Benefits
Contractual Services
Permits and Fees
Administration
Depreciation


NONOPERATING REVENUE AND EXPENSE, CAPITAL CONTRIBUTIONS (CONNECTION FEE REVENUE) - 10 FISCAL YEARS
$1,000,000
$500,000
$0
$500,000
$1,000,000
$1,500,000
$2,000,000
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
Interest income
Interest expense
Gain (loss) asset disposal
Other income
Other expense
Cap Contrib. /Con Fee Rev

Revenue Capacity

OPERATING REVENUE BY CATEGORY - 10 FISCAL YEARS

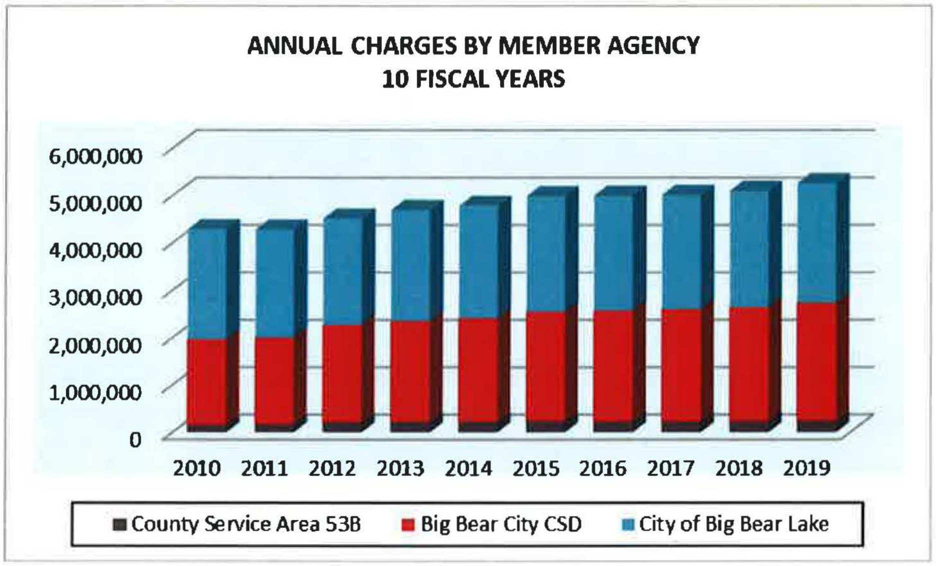
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OPERATING REVENUES:										
Annual charges	$4,279,422	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542
Standby fees	96,323	95,240	93,890	92,430	91,400	90,860	89,250	86,930	85,180	83,200
Rent, waste disposal fees	59,345	63,486	64,940	68,351	70,178	68,120	72,101	71,951	73,562	71,679
Other	10,690	2,049	56	50	2,007	24,575	5,104	488	1,916	765
Total operating revenues	$4,445,780	$4,434,819	$4,665,762	$4,849,143	$4,941,800	$5,163,245	$5,157,621	$5,166,439	$5,252,234	$5,407,186



Annual charges are the Agency's largest component of Operating Revenues and represent the Agency's charges for the collection, treatment and disposal of wastewater flow. Annual charges are charged to the Member Agencies (the Big Bear City Community Services District, the City of Big Bear Lake, and the County of San Bernardino CSA 53B), and are based on the sewer user fee (rate) established by the Governing Board of Directors, the number of equivalent dwelling units and the volume of wastewater collected, treated and disposed of.

ANNUAL CHARGES BY MEMBER AGENCY - 10 FISCAL YEARS

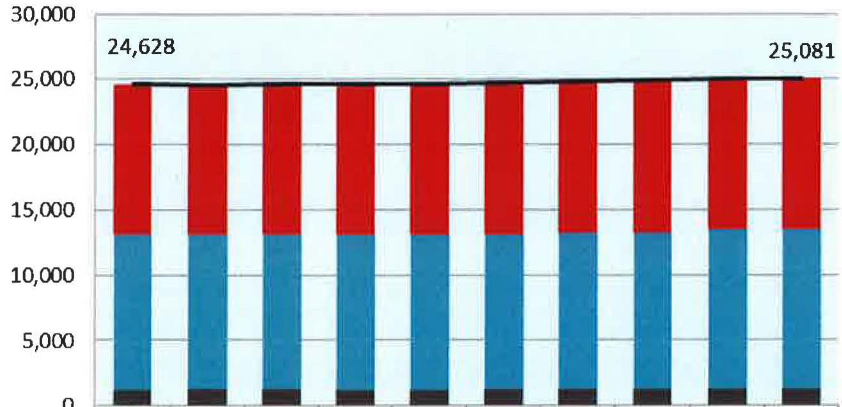
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CSA 53B	$162,501	$177,212	$224,361	$233,120	$239,091	$247,473	$241,822	$242,135	$244,697	$250,523
Big Bear City CSD	1,801,908	1,832,198	2,051,609	2,127,109	2,179,871	2,306,127	2,335,900	2,363,616	2,398,457	2,488,269
City of Big Bear Lake	2,315,013	2,264,634	2,230,906	2,328,083	2,359,253	2,426,090	2,413,444	2,401,319	2,448,422	2,512,750
Total Annual Charges	$4,279,422	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542



ANNUAL CHARGES BY MEMBER AGENCY
% OF TOTAL

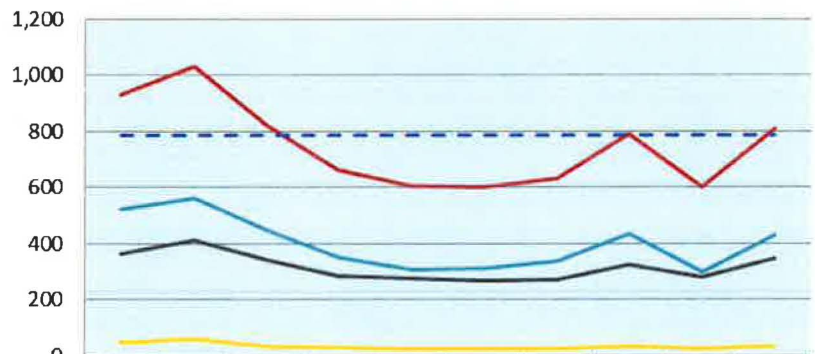
County Service Area 53B	3%	5%
Big Bear City CSD	42%	47%
City of Big Bear Lake	55%	48%
	100%	100%

EQUIVALENT DWELLING UNITS BY MEMBER AGENCY - 10 FISCAL YEARS

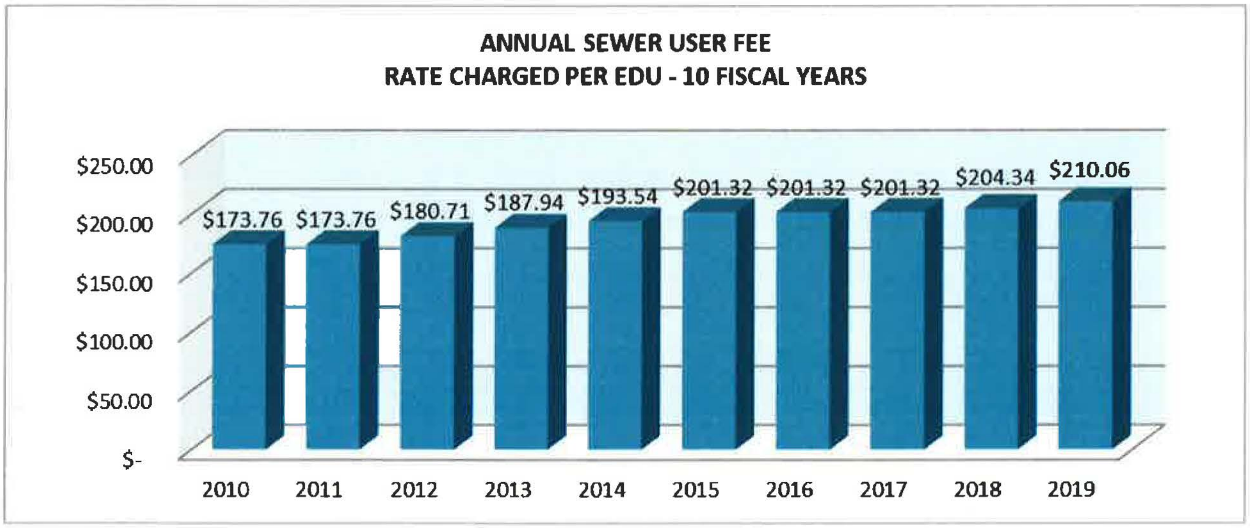


	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
City of Big Bear Lake	11,526	11,489	11,489	11,539	11,547	11,568	11,636	11,654	11,506	11,559
Big Bear City CSD	11,853	11,855	11,867	11,881	11,886	11,910	11,977	12,004	12,234	12,260
County Service Area 53B	1,250	1,253	1,287	1,248	1,251	1,257	1,258	1,259	1,260	1,262
Total EDUs	24,628	24,597	24,643	24,668	24,684	24,735	24,871	24.917	25,000	25,081

INFLUENT FLOW BY MEMBER AGENCY SERVED (MILLIONS OF GALLONS) 10 FISCAL YEARS



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
County Service Area 53B	45.272	57.766	34.300	28.633	25.978	25.563	25.211	32.277	23.686	34.111
Big Bear City CSD	364.437	413.738	341.053	285.853	274.178	267.355	271.320	324.605	281.152	344.309
City of Big Bear Lake	523.621	562.198	446.714	349.321	305.514	308.589	337.312	432.546	296.724	429.294
Total Influent Flow	933.330	1033.702	822.067	663.807	605.670	601.508	633.842	789.428	601.562	807.714
Average Dry Weather Flow	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000



Debt Capacity

DEBT RATIOS - 10 FISCAL YEARS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Principal Outstanding (1)	$6,053,093	$5,721,972	$5,371,975	$4,969,876	$4,554,398	$4,125,097	$3,681,512	$3,223,168	$2,749,574	$4,040,433
EDUs	24,628	24,597	24,643	24,668	24,684	24,735	24,871	24,917	25,000	25,081
Debt per EDU	246	233	218	201	185	167	148	129	110	161
Debt per Residential EDU	295	279	262	242	221	200	178	155	132	193
Debt as % of Household Income	0.8%	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.5%
Rate of Debt to Gross Revenue	1.34	1.04	1.13	1.00	0.89	0.75	0.68	0.59	0.49	0.70

[1] Amounts exclude debt issuance or discount costs being amortized over the life of the debt issue, and amounts related to Net Pension and OPEB Liabilities.

[2] Household income is derived from an average of the household incomes estimated for the City of Big Bear Lake and the Big Bear City Community Services District by the 2010 U.S. Census Bureau. The 2010 estimated household income is used for all periods shown.

DEBT SERVICE COVERAGE - 10 FISCAL YEARS

Year	Revenue Bonds	Revenue Bonds	Loan	Outstanding Debt	Revenues	Revenues [2]	Service [3]	Coverage
2010	$ -	$ 1,520,000	$ 4,533,093	$ 6,053,093	$ 4,526,091	$ 1,072,805	$ 601,653	1.78
2011	-	1,380,000	4,341,972	5,721,972	5,489,791	1,929,311	602,751	3.20
2012	-	-	5,371,975	5,371,975	4,795,235	1,312,754	589,321	2.23
2013	-	-	4,969,876	4,969,876	4,975,410	1,561,293	579,284	2.70
2014	-	-	4,554,398	4,554,398	5,118,255	1,674,775	579,284	2.89
2015	-	-	4,125,097	4,125,097	5,483,955	2,213,205	579,284	3.82
2016	-	-	3,681,512	3,681,512	5,433,739	1,907,640	579,284	3.29
2017	-	-	3,223,168	3,223,168	5,426,749	1,490,810	579,284	2.57
2018	-	-	2,749,574	2,749,574	5,575,660	1,440,559	579,284	2.49
2019	-	-	4,040,433	4,040,433	5,759,997	1,402,366	593,013	2.36

1 Outstanding debt balances reflect principal balances and exclude discounts, premiums and deferred amounts. All debt outstanding is secured by all the revenues of the Agency.

2 Net Revenues are defined as operating revenue plus interest income plus proceeds from the sale of assets plus other income plus connection fee revenue less operating and maintenance expense. Calculation excludes noncash depreciation expense. Net Revenues include one-time, non-operating income of $788,361 in fiscal year 2011.

3 Debt service is calculated on an accrual basis for both principal and interest in fiscal year 2012 and 2013 and may not agree with the basic financial statements.

Demographic and Economic Information

The following is general information related to the economic and demographic condition of the Agency's service area. The Agency serves a rural, tourist-based area comprised of three separate service areas: the Big Bear City Community Services District (CSD), the City of Big Bear Lake, and the County of San Bernardino County Service Area 53B (CSA 53B). The statistics presented below have been obtained from information estimated by the U.S. Census Bureau for the year 2000 and 2010. Much of the information presented is based on the combined information provided for the City of Big Bear Lake and the CSD, the Agency's largest service areas. Due to the rural, segregated nature of the area served, demographic information from sources other than the Census Bureau is not available, specifically the area's top employers. Further, it should be noted that the Agency serves a large population of second homeowners, due to the resort nature of the area. The Agency estimates that approximately 38% of the residential sewer connections represent full-time Big Bear residents.

POPULATION ESTIMATES [1]

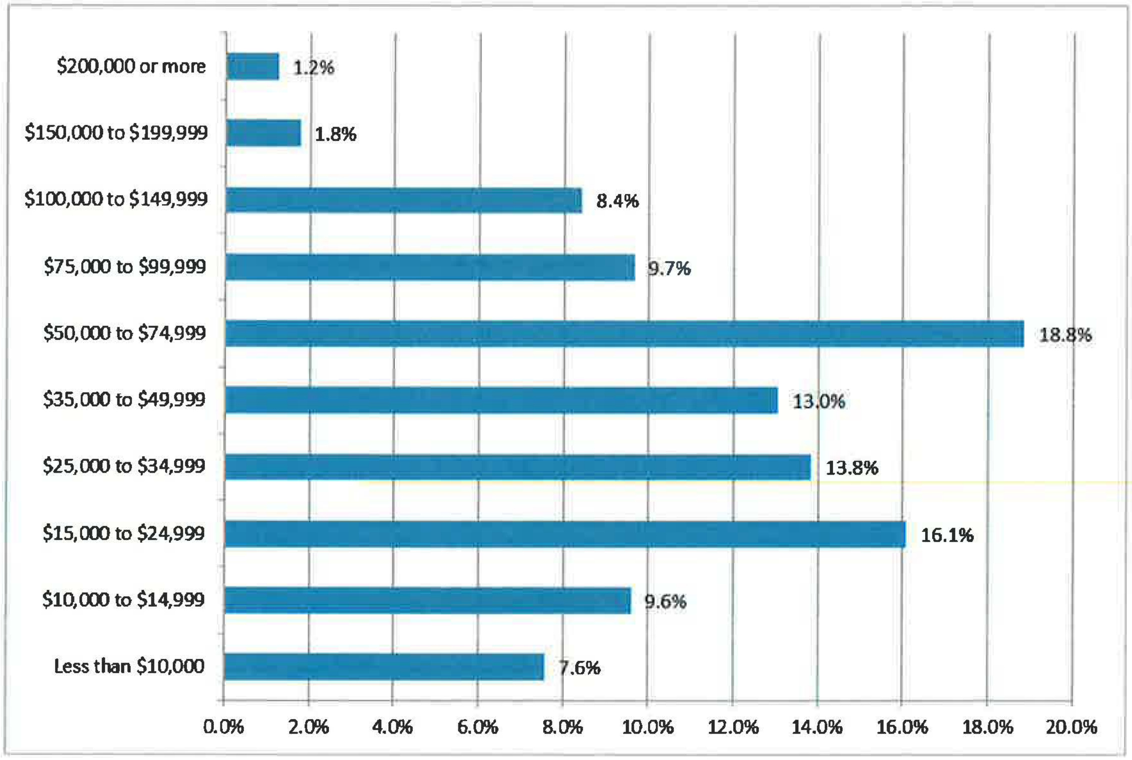
Year	City of Big Bear Lake	CSD	Total
2000	5,438	5,779	11,217
2010	5,018	12,304	17,322

1 This information was reported by the U.S. Census Bureau. Population figures for the CSD in 2000 appear to be in error and are likely closer to the population figures reported in 2010.

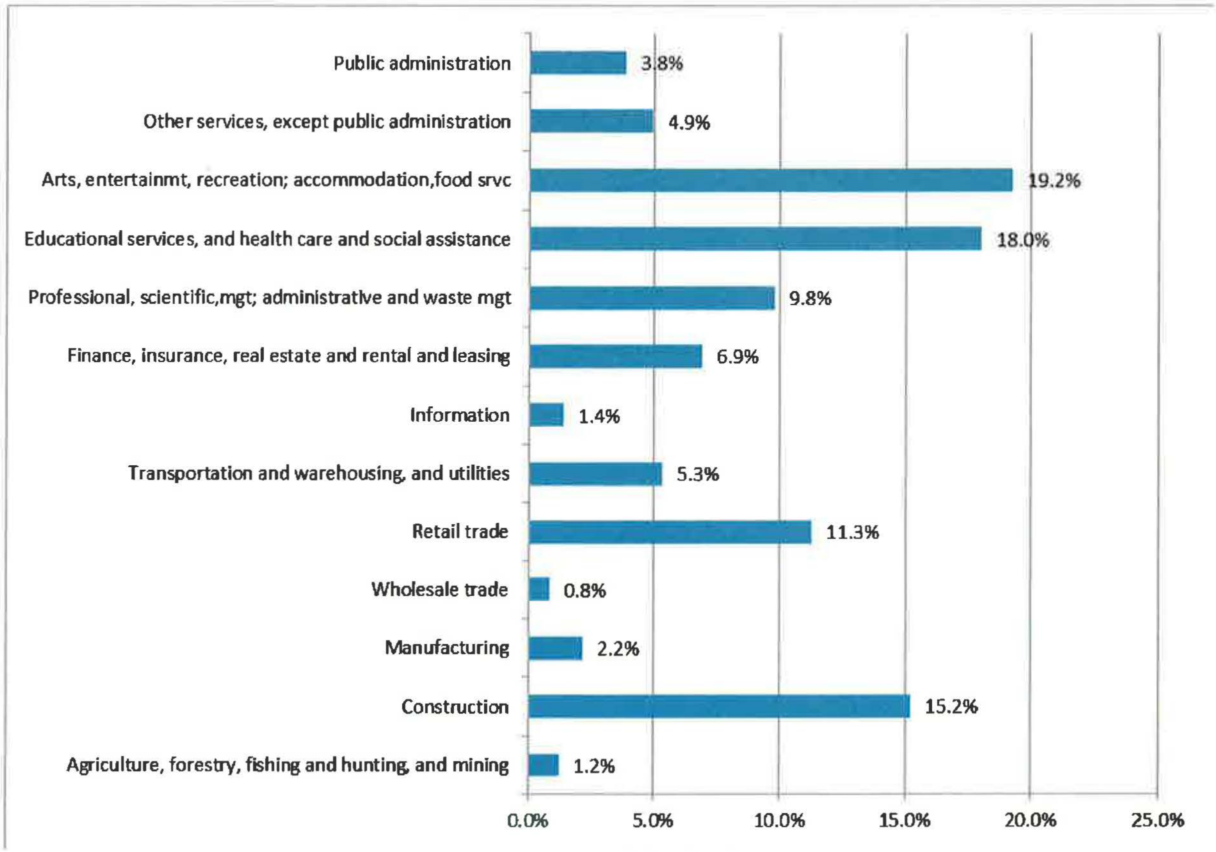
UNEMPLOYMENT ESTIMATES

Year	City of Big Bear Lake	CSD
2000	3.5%	2.8%
2010	4.7%	3.7%

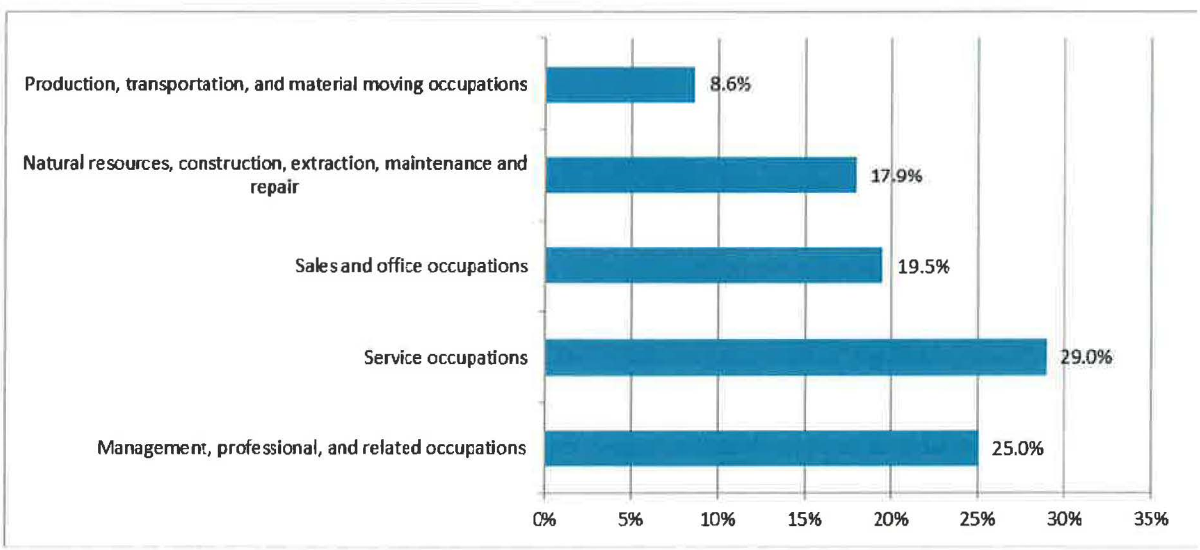
HOUSEHOLD INCOME



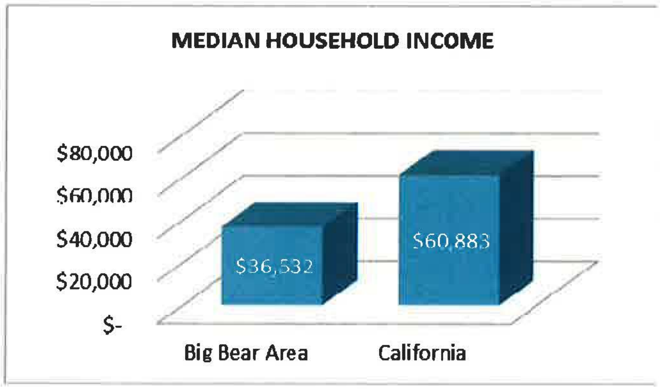
% OF EMPLOYED POPULATION BY INDUSTRY

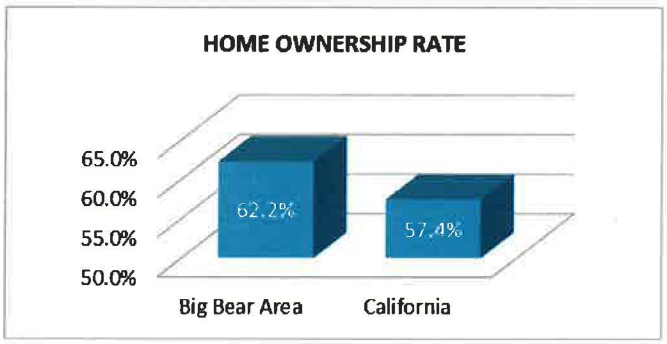


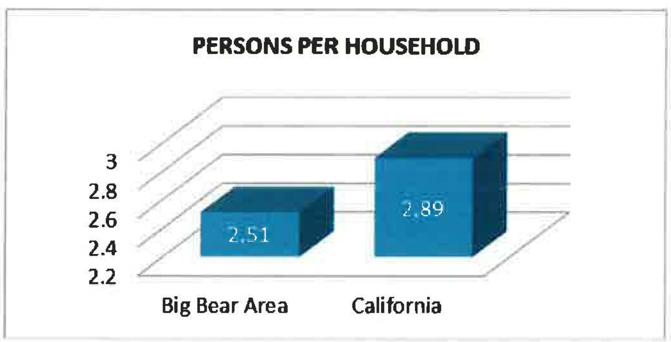
% OF EMPLOYED POPULATION BY OCCUPATION

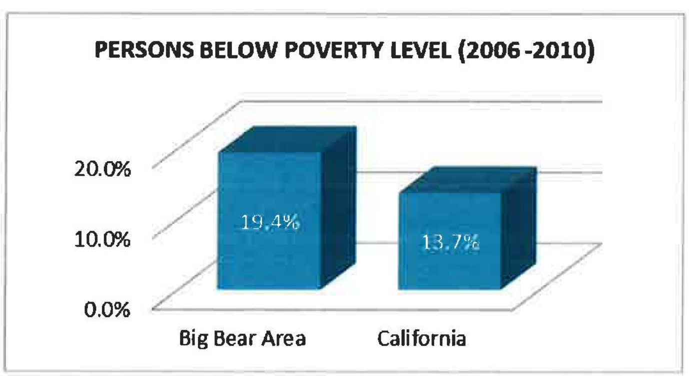


BIG BEAR AREA COMPARISON TO STATE OF CALIFORNIA



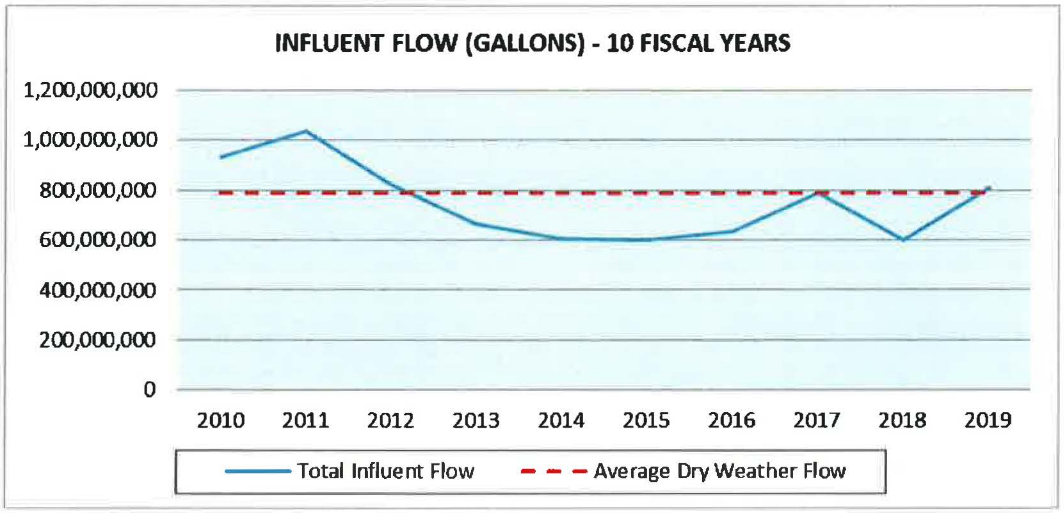


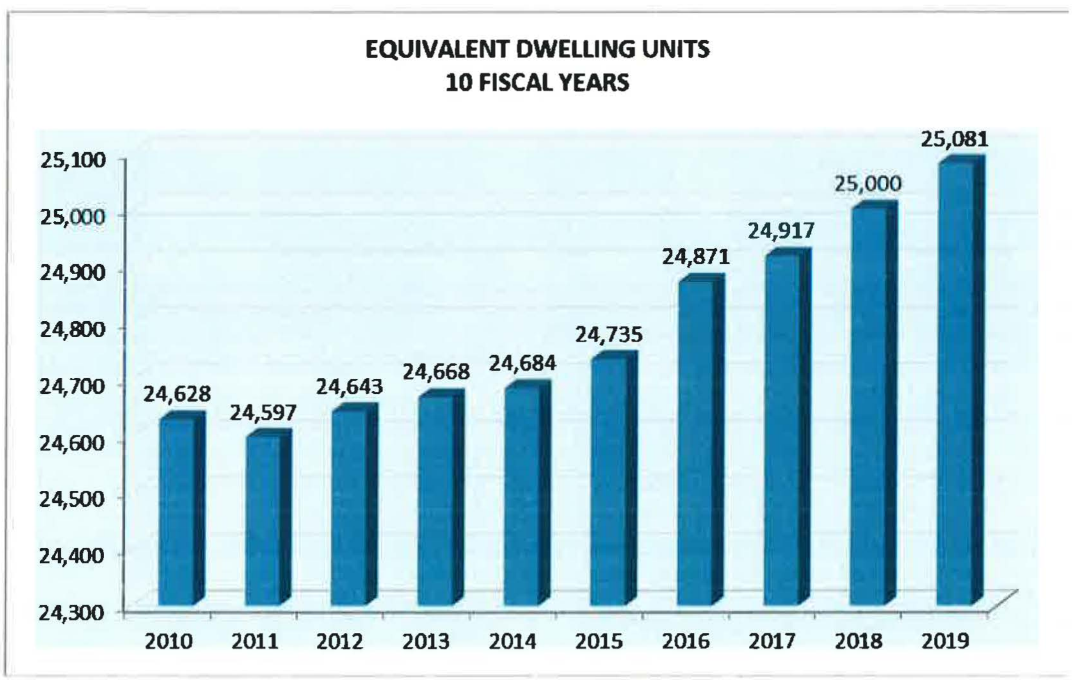




Operating Information

System Demand (annual influent flow)
The Agency's wastewater flows are primarily impacted by 1) wet weather which creates infiltration and inflow into the system, and 2) peak tourist periods. Otherwise, the Agency's wastewater flows are fairly predictable due to the mature and stable commercial and residential housing markets in the area. Long-term average annual growth in equivalent dwelling units is below 1.0%.

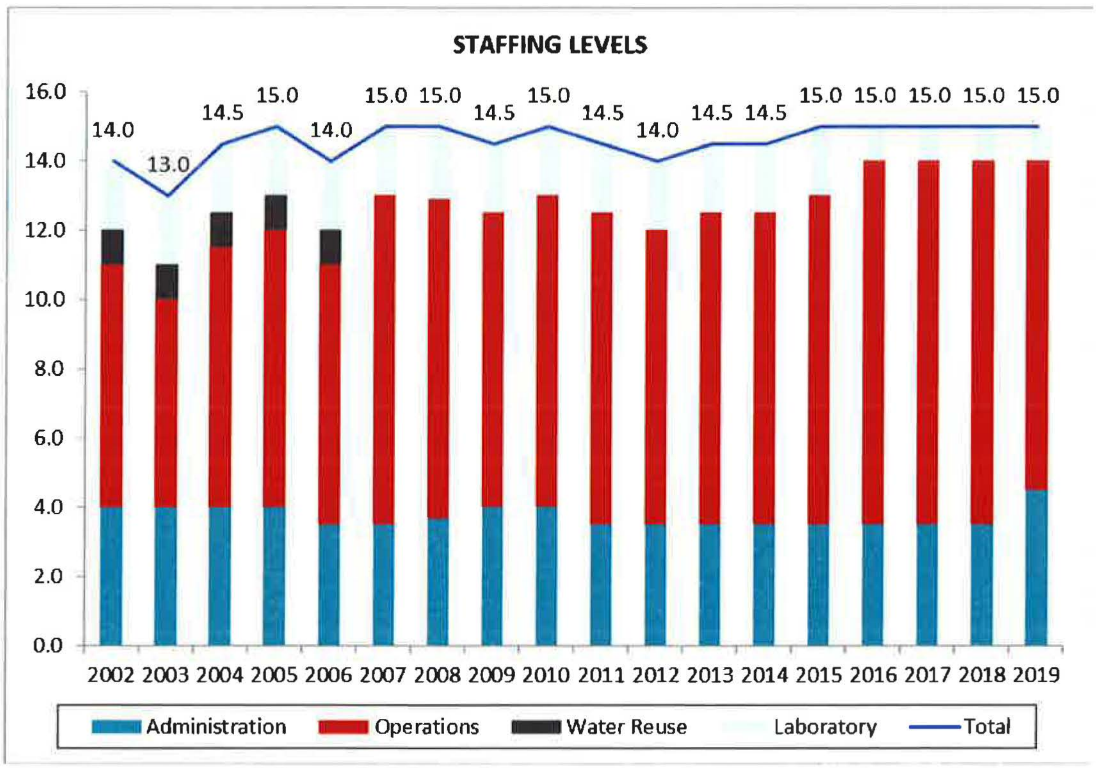




AGENCY STAFFING BY DEPARTMENT[1]

Year	Admistration	Operations	Water Reuse	Laboratory	Total
2002	4.0	7.0	1.0	2.0	14.0
2003	4.0	6.0	1.0	2.0	13.0
2004	4.0	7.5	1.0	2.0	14.5
2005	4.0	8.0	1.0	2.0	15.0
2006	3.5	7.5	1.0	2.0	14.0
2007	3.5	9.5	0.0	2.0	15.0
2008	3.7	9.2	0.0	2.1	15.0
2009	4.0	8.5	0.0	2.0	14.5
2010	4.0	9.0	0.0	2.0	15.0
2011	3.5	9.0	0.0	2.0	14.5
2012	3.5	8.5	0.0	2.0	14.0
2013	3.5	9.0	0.0	2.0	14.5
2014	3.5	9.0	0.0	2.0	14.5
2015	3.5	9.5	0.0	2.0	15.0
2016	3.5	10.5	0.0	1.0	15.0
2017	3.5	10.5	0.0	1.0	15.0
2018	3.5	10.5	0.0	1.0	15.0
2019	4.5	9.5	0.0	1.0	15.0

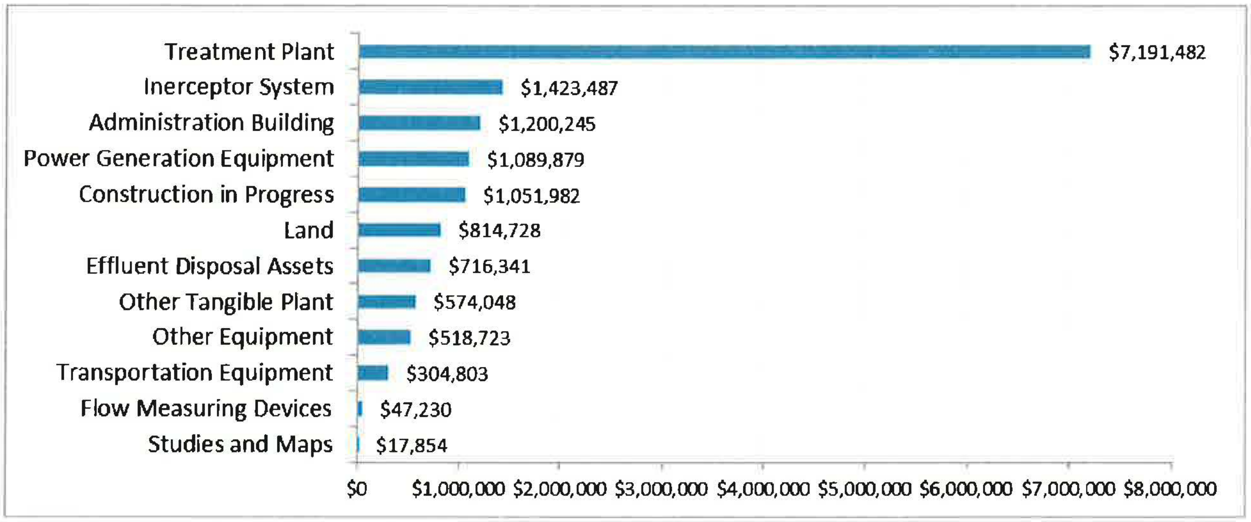
[1]Full-time regular employees are assigned a 1.0. Part-time (regular, not full-time) and Non-regular (seasonal, temporary) are assigned a 0.5, although hours worked and compensation are not equivalent, i.e. part-time employees may receive full benefits and non-regular employees may not receive benefits. Staffing levels are as of June 30 of the respective fiscal year.



Nature of Capital Assets and Capacity Utilization

The concentration of the Agency's assets directly reflects its operations with the largest investments in the wastewater treatment plant (44%) and the interceptor system (10%).

CAPITAL ASSETS (NET BOOK VALUE)



KEY ASSETS

Treatment Plant		Interceptor System	
Clarifiers	3	Miles of Pipeline	15.07
Covered Drying Bed	1	Manholes	93
Oxidation Ditches	3	Air Release Vents	12
Storage Ponds	5	Lift Stations	4

The Agency's facilities and processes have excess capacity due to the demographics of the area served. While there are approximately 21,000 residential sewer connections, the Agency estimates that only 38% or 7,980 connections reside in the Big Bear area full-time. The Agency's facilities were built to meet some of the demand associated with an increase in full-time occupancy. *Historical data is not available.*

CAPACITY UTILIZATION BY STRUCTURE

	Capacity MGD	Utilzation MGD	Utilization Rate
Capacity Utilization by Structure			
Effluent Pumping	5.6	2.4	43%
Interceptor System	2.0	0.5	25%
Lake Pump Station	8.0	4.6	58%
Load Equalization Basin	2.4	0.8	33%
Main Line	7.2	3.2	44%
North Shore Pump Station	0.9	0.3	33%
Oxidation Ditches	4.9	2.4	49%
RAS Pumping	3.8	2.4	63%
Sludge Building	6.4	2.4	38%

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