

Big Bear Area Regional Wastewater Agency

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For Fiscal Year End June 30, 2023

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**Big Bear Area
Regional Wastewater Agency
Big Bear City, California**

FY 2023
Annual Comprehensive
Financial Report
For the year ended June 30, 2023

*Protecting Big Bear's Future
through Responsible
Planning*



David Lawrence, *General Manager*

**Prepared by
Christine Bennett, *Finance Manager*
Member of the Government Finance Officers
Association of the United States and Canada and
the California Society of Municipal Finance
Officers**

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Big Bear Area Regional Wastewater Agency

**Annual Comprehensive Financial Report
Fiscal Year Ended June 30, 2023**

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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 5, 2023

Chairperson, Members of the Governing Board of Directors, and the Public:

We are pleased to submit the Annual Comprehensive Financial Report (the Financial Report) of the Big Bear Area Regional Wastewater Agency (the Agency) for the fiscal year ended June 30, 2023. California Government Code Section 26909(a)(2) 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 is responsible for the accuracy and reliability of the information contained within the report, based upon a comprehensive framework of internal controls that have been established for this purpose. The cost of internal controls should not exceed anticipated benefits; therefore, 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 the financial position of the Agency.

The auditing firm of Rogers, Anderson, Malody & Scott, LLP have conducted an independent audit of the Financial Report. 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, 2023. The independent auditor's report is located at the beginning of the Financial Section of the Financial Report 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 to enhance the readers' understanding of the information provided.

The Annual Comprehensive Financial Report

This report is presented in three sections:

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

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.

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 which 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 800 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. R7-2021-0023. The disposal site is leased to an independent contractor.

Mission

The Agency's mission is to efficiently collect, treat, and beneficially reuse wastewater and biosolids 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 between 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 primarily driven by tourists and a large, part-time population of second homeowners. Educational, healthcare, and social services are the largest employers followed closely by the food service, accommodation, recreation, and entertainment industries. The Agency serves an area that experiences relatively low growth with new connections averaging less than 1% over the long term or approximately 84 connections per year. Over the past 10 years new connections to the system have been low with the exception of the Covid19 migration which saw an influx of new construction. The annual average of new connections for the last ten years is approximately 55 per year, not including nonrecurring multi-unit connections. 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. The rate adjustment for FY 2024 is 22.5% with 18% rate adjustments projected annually through FY 2028. These rate adjustments include rate collection for the Replenish Big Bear Project. Annual rate adjustments, not including the Replenish Big Bear Project, average 4% through FY 2028 and reflect the expected cost of inflation during the projection period. These rate and inflation assumptions were developed during the FY 2024 budget process.

The Agency has focused on managing costs to inflationary levels which has resulted in relatively stable rates over the years. 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. With the addition of the Replenish Big Bear Project, a water reclamation project, it has become necessary to adjust rates above inflationary levels for FY 2024 through FY 2028 for project construction costs and additional debt service requirements. At the completion of project construction, rate adjustments are expected to follow inflationary adjustments and remain stable for future years.

The Agency's capital projects, excluding the Replenish Big Bear Project, during the next five-year period through FY 2028 total approximately \$3.9 million (approximately \$770,000 annual average) and through FY 2048 total approximately \$36.0 million (approximately \$1.8 million annual average). Over the long term, under the current capital improvement plan, 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 \$1.1 million in asphalt and paving improvements on Palomino Drive and the administrative and plant parking areas; \$415,000 for the replacement of transportation equipment; \$1.4 million for treatment plant equipment and rehabilitation which includes the oxidation ditch wall rehabilitation, headworks wash press, and miscellaneous equipment rebuilds/replacements and building improvements; \$300,000 for the replacement of mobile pumping, information technology, and electrical equipment; and \$200,000 for effluent equipment. Capital project costs for the Replenish Big Bear Project through FY 2028 are anticipated to be approximately \$68 million, a portion of which will be offset by grant proceeds of approximately \$22 million.

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 of or contribution to the Agency's capital and replacement fund and structure its rates to cover its average recurring expenses. 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 2024 Major Initiatives

Cactus Flats Outfall Line Repair – Approximately 75 feet of 18-inch outfall pipeline was exposed due to storm water runoff. The Agency will encase the pipeline in concrete to protect the pipeline from future storm water runoff and to ensure the safety of the line.

Oxidation Ditch Wall Engineering – The Agency will begin working with project engineers to devise a plan to repair the Oxidation Ditch Wall that has begun to bulge on the north side of the ditch from groundwater infiltration.

Headworks Wash Press – The Agency will replace the bar screen wash press that is at the end of its useful life.

Replenish Big Bear – Replenish Big Bear is a forward-looking water reclamation project that protects the community’s water supplies through advanced water treatment processes and will produce millions of gallons of clean water every year. This water will be used to replenish the Big Bear Valley’s water supplies. The Agency began the preliminary engineering and environmental work for the Replenish Big Bear Project in FY 2019. Pre-construction activities began in FY 2023 which include engineering, environmental, pilot facility planning and implementation, and design work. Construction of the project is expected to begin in September of 2024 with completion expected in January of 2027. The Governing Board approved rate adjustments, subject to annual review, through FY 2028 to support costs associated with the project.

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 annual comprehensive financial report for the fiscal year ended June 30, 2022. This is the 11th consecutive year BBARWA has received the award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive 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. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program’s requirements and will be submitting 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



Christine Bennett
Finance Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Big Bear Area Regional Wastewater Agency
California**

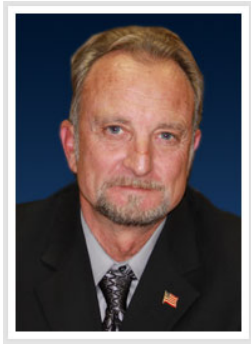
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

The Governing Board of Directors



John Green, Chair
Big Bear City CSD



Jim Miller, Vice-Chair
County Service Area 53 B



Rick Herrick, Director
City of Big Bear Lake



Bynette Mote, Director
City of Big Bear Lake



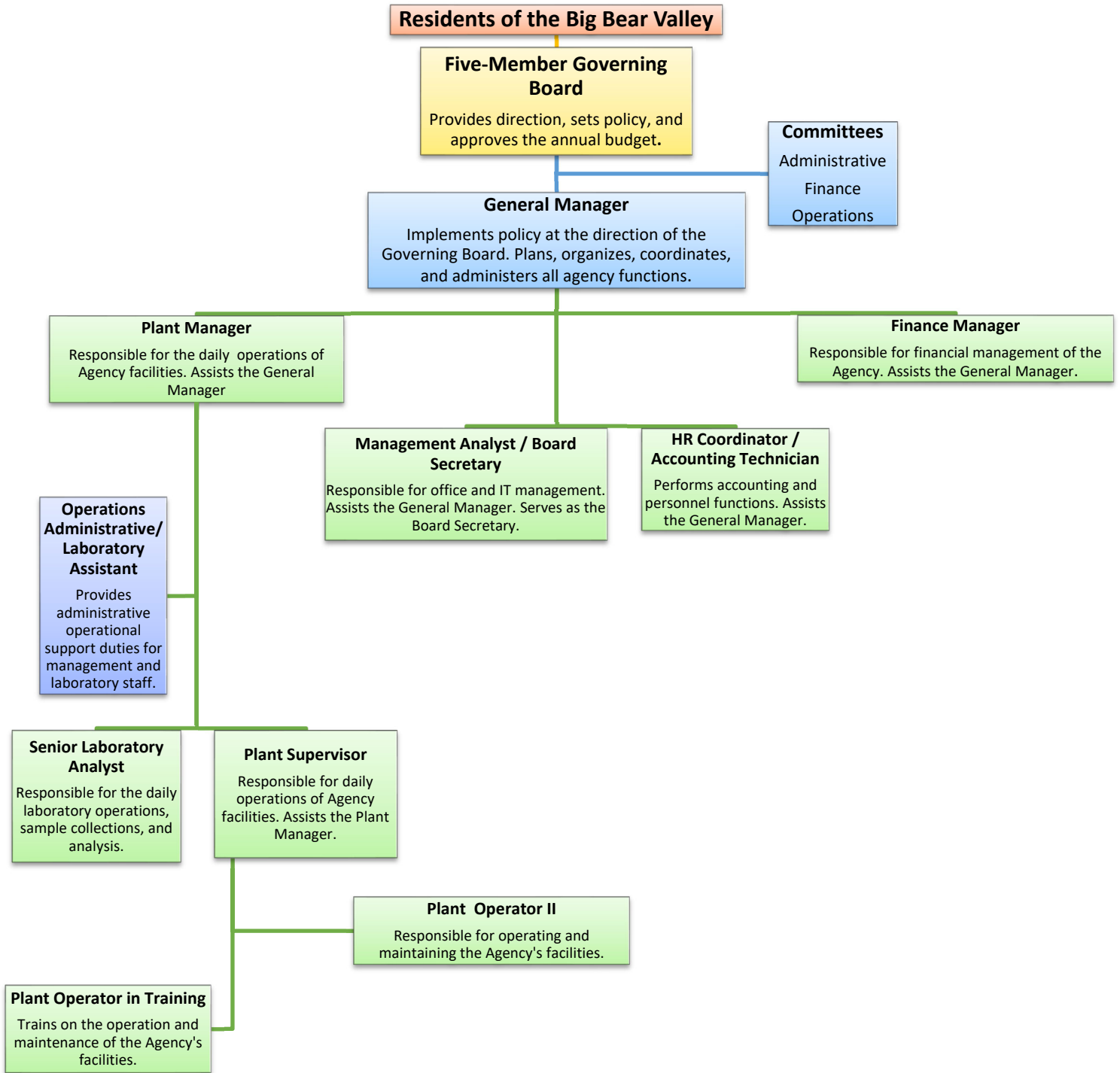
Larry Walsh, Director
Big Bear City CSD

General Manager and Management Staff

David Lawrence	General Manager	909-584-4018
Christine Bennett	Finance Manager	909-584-4522
John Shimmin	Plant Manager	909-584-4520

Organizational Chart

(as of June 30, 2023)



FINANCIAL SECTION

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Independent Auditor's Report

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San Bernardino, CA 92408
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To the Board of Directors
Big Bear Area Regional Wastewater Agency
Big Bear City, California

Report on the Audit of the Financial Statements

PARTNERS

Terry P. Shea, CPA
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Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jenny W. Liu, CPA, MST
Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA, CGMA
Brenda L. Odle, CPA, MST (Partner Emeritus)

MANAGERS / STAFF

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Laura Arvizu, CPA
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Jeffrey McKennan, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Opinion

We have audited the financial statements of the Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Agency, as of June 30, 2023, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Basis for Opinion

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

Prior Year Comparative Information

We have previously audited the Agency's 2022 financial statements, and we expressed an unmodified opinion in our report dated October 13, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary 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 schedule of revenues, expenses, and changes in net position – budget vs. actual is presented for purposes of additional analysis and is 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. The 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.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section and the statistical section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 5, 2023

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

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, 2023 (FY 2023). 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's financial performance improved compared to the prior year. Operating expenses outpaced operating revenues with operating expenses increasing by 21% and operating revenues increasing by 7%, which resulted in a decrease in operating income during the period of 50%. Even with lower operating income, when combined with improved nonoperating income (expense) and the one-time addition of Replenish Big Bear capital contribution revenue, the result is an increase in net position for the period.

The Agency's operating revenues increased \$421,489 or 7% compared to the prior period. The increase was mainly due to a 6.5% increase in sewer user fees, which included an increase for the Replenish Big Bear project debt service, and an increase in connections to the system. Operating expenses increased \$1,161,468 or 21% over the prior period primarily driven by an increase of \$711,651 in salaries and benefits expense. Higher salaries and benefits expense resulted from accounting adjustments related to pension and OPEB expense of \$136,637 in the current period. Prior period accounting adjustments related to pension and OPEB expense experienced a decrease; therefore, current period adjustments were higher than those in the prior period by \$606,845. Additionally, salaries and wages expense increased by 12%, or \$185,166, as a result of COLA adjustments, additional overtime needed due to higher than normal flows during the winter season, and the overlap of the incoming and outgoing Finance Manager. Other operating expenses increased by \$285,903 compared to the prior period due to higher repairs and replacement costs resulting from emergency repairs and an increase in insurance, utilities, and material expenses.

The Agency's nonoperating revenues increased \$583,139 or 481% over the prior period largely due to higher grant revenue (related to the Replenish Big Bear project) and an increase in interest income. Nonoperating expenses decreased \$14,265 or 6% due to a reduction in interagency expenses compared to the prior period. Overall, net nonoperating revenues (expenses) had a positive variance of \$568,874 for the period.

Capital contributions (connection fee revenue) decreased \$117,040 or 32% during the period due to a decrease in connections. Current period connections were 59, a decrease of 28 connections. The connection fee (the rate charged per connection) remained unchanged during the period at \$4,180 per connection. One-time capital contributions related to the Replenish Big Bear project were \$209,726, which offset the decline in connections.

Change in net position increased \$114,025 over the year-ago period due to the items noted above.

The Agency had positive cash flow during the period of \$3,625,696. The Agency generated approximately \$1.7 million in cash from operations, connection fee revenue, and one time Replenish Big Bear capital contributions. Additionally, the agency received loan proceeds from the Capital One loan in the amount of \$3.4 million with those proceeds not being fully expended during the period. The remaining proceeds will be expended in subsequent periods. These sources of cash were offset in part by capital expenditures and debt service of approximately \$2.1 million.

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

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

Statement of Net Position

The statement of net position presents information on the Agency's assets (including deferred outflows of resources) and liabilities (including 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,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change
Assets:				
Current and other assets	\$ 12,179,923	\$ 8,077,181	\$ 4,102,742	51%
Capital assets, net	16,106,862	15,513,106	593,756	4%
Other noncurrent assets	132,595	195,026	(62,431)	-32%
Total assets	28,419,380	23,785,313	4,634,067	19%
Deferred Outflows of Resources	2,368,139	966,288	1,401,851	145%
Liabilities:				
Current liabilities	1,100,897	1,031,601	69,296	7%
Noncurrent liabilities	9,686,291	3,916,870	5,769,421	147%
Total liabilities	10,787,188	4,948,471	5,838,717	118%
Deferred Inflows of Resources	598,410	1,910,605	(1,312,195)	-69%
Net Position:				
Net investment in capital assets	10,249,423	12,648,441	(2,399,018)	-19%
Unrestricted	9,152,498	5,244,084	3,908,414	75%
Total net position	<u>\$ 19,401,921</u>	<u>\$ 17,892,525</u>	<u>\$ 1,509,396</u>	<u>8%</u>

Summary

The Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$19,401,916 at fiscal year-end. This increased \$1,509,396 compared to the prior year driven by an increase in current asset (cash and investments) offset by increases in noncurrent liabilities (pension and OPEB liabilities and the addition of the Capital One Loan for the Replenish Big Bear project).

Assets

Total assets increased \$4,634,067 or 19% over the prior period and was the result of an increase across all asset types. The increase in current assets was driven by higher cash and investments resulting from higher cash flow during the period. Higher cash flow was driven by the addition of Capital One Loan proceeds for the Replenish Big Bear project that were not fully expended, the addition of the one-time Replenish Big Bear capital contributions, and lower investments in capital. The increase in noncurrent assets was driven by an increase in lease receivable as a result of the renegotiation of a contract. Capitalized investment for the period was \$61,377 compared to \$893,690 in asset depreciation and amortization.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

Deferred Outflows of Resources

Deferred outflows of resources increased \$1,401,851 or 145% and primarily reflects the net change from pension and OPEB-related adjustments associated with changes in investment experience and contributions related to these plans.

Liabilities

Total liabilities increased \$5,838,718 or 118% from the prior period. The increase was driven by an increase in noncurrent liabilities of \$5,769,422 reflecting higher pension and OPEB liabilities as well as higher long-term debt. Pension and OPEB liabilities increased by \$2,795,152 due to the expected reversal of market returns from the prior period as a result of lower returns for the twelve-months, ended June 30, 2022, on invested assets related to these plans. Long-term debt increased due to the addition of the Capital One loan partially offset by scheduled principal amortization.

Deferred Inflows of Resources

Deferred inflows of resources decreased \$1,312,195 or 69% driven mostly by pension and OPEB-related adjustments associated with changes in investment 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 meet the Agency's 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 by \$1,509,396 primarily due to increases in assets and decreases in liabilities for the period, 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.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Summary

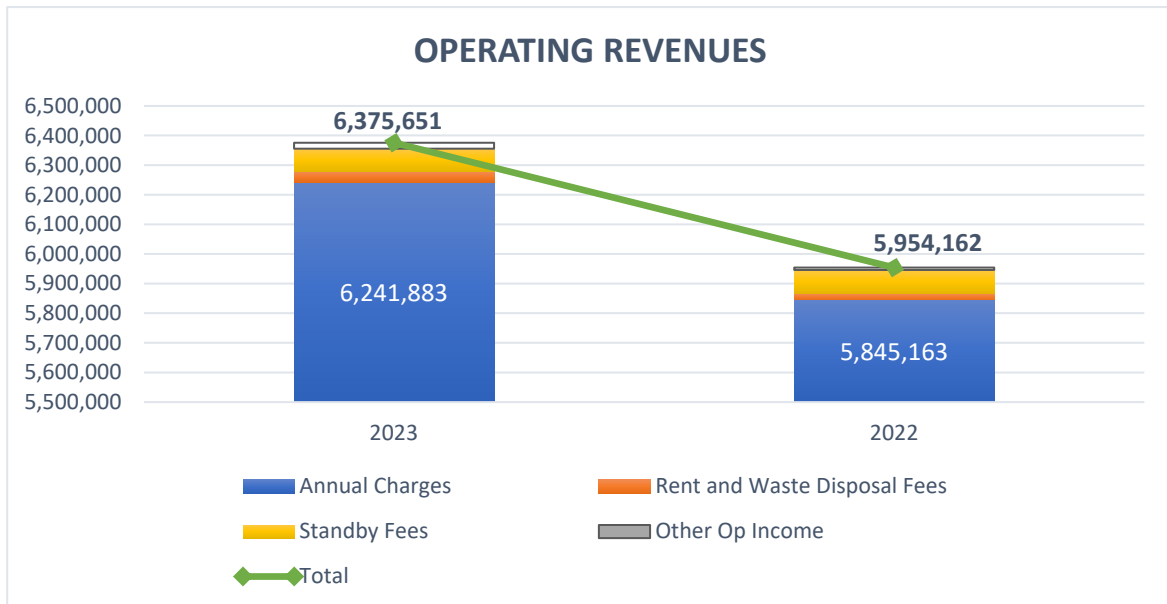
The Agency's operating revenues increased \$421,489 or 7% and operating expenses increased \$997,554 or 21%, resulting in a decrease in operating income of \$576,065 or 50% when compared to the prior period. This decrease, offset by improved nonoperating income (expense), resulted in a \$114,025 increase in change in net position for the period when compared to the prior period.

Operating Revenues

Changes in operating revenues are largely driven by changes in annual charges which make up 98% 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 6.4%, which included an increase for debt financing of the Replenish Big Bear Project. When combined with slightly higher connections the total increase in annual charges was 7%, with the overall increase in operating revenues at 7%. The increase in other revenue for the period was related to the sale of green energy credits generated by the solar production facility and rent and administrative charges during the renegotiation of lease terms for a cell tower lease.

OPERATING REVENUES

	As of June 30,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change
Operating revenues:				
Annual charges	\$ 6,241,883	\$ 5,845,163	\$ 396,720	7%
Standby fees	77,590	79,220	\$ (1,630)	-2%
Rent and waste disposal fees	36,359	22,070	\$ 14,289	65%
Other revenue	19,819	7,709	\$ 12,110	157%
Total operating revenues	\$ 6,375,651	\$ 5,954,162	\$ 421,489	7%



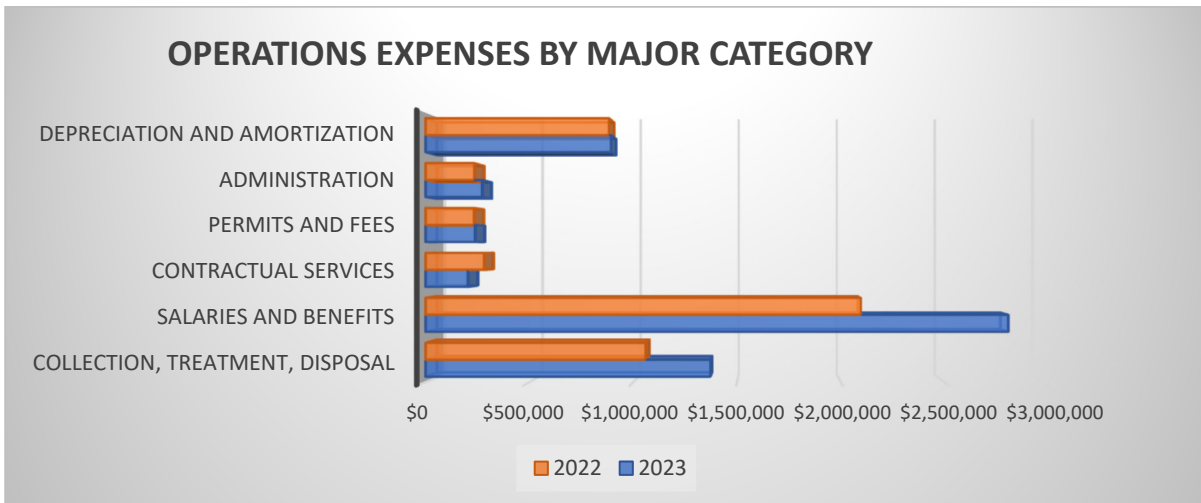
BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

Operating Expenses

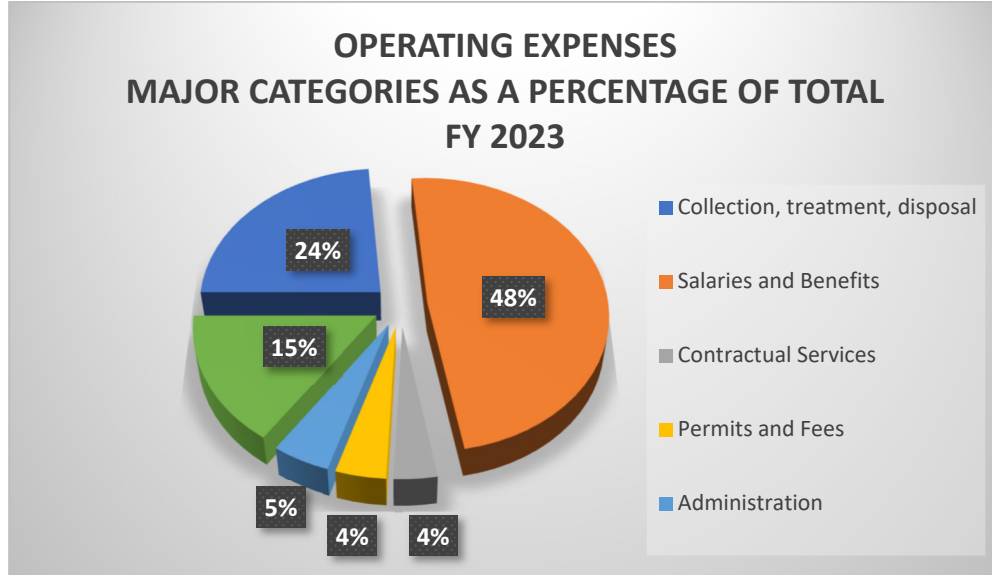
Operating expenses increased \$997,554 or 21% compared to the year-ago period. This increase was distributed across all expense accounts except contractual services. The greatest increases experienced were in salaries and benefits and collection, treatment, and disposal. The increase in salaries and benefits was largely due to accounting adjustments associated with pension and OPEB expense. The increase in collection, treatment, and disposal was primarily due to higher repairs and replacements. Further discussion regarding variances to operating expenses continues below.

OPERATING EXPENSES

	As of June 30,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change
Operating expenses:				
Collection, treatment, disposal	\$ 1,371,813	\$ 1,059,748	\$ 312,065	29%
Salaries and benefits	2,807,640	2,095,989	711,651	34%
Contractual services	204,883	282,884	(78,001)	-28%
Permits and fees	239,056	234,270	4,786	2%
Administration	273,165	235,848	37,317	16%
Depreciation and amortization	893,690	883,955	9,735	1%
Total operating expenses	<u>\$ 5,790,248</u>	<u>\$ 4,792,694</u>	<u>\$ 997,554</u>	<u>21%</u>



BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023



Collection, Treatment and Disposal Expense

Collection, treatment, and disposal expense increased \$312,065 or 29% over the prior period. This increase was primarily driven by increases in repairs and replacements, power, materials and supplies, and utilities expense.

- **Repairs and Replacement expense (including chemicals)** increased \$183,050 or 117% due to higher repairs and replacements in the period related to emergency repairs on oxidation ditch 2 rotor 4, replacement of existing doors at the plant and stations 1 through 3, and removal and replacement of concrete in the old sludge building that was used for the Replenish Big Bear Pilot project.
- **Power expense** increased \$45,636 or 12%. Higher power expense was primarily related to higher electricity costs at the plant and pump stations due to higher flow during the winter months.
- **Materials and Supplies expense** increased \$56,136 or 33% over the prior period due to higher polymer requirements, additional ground maintenance expenditures to repair parking areas, fencing, and landscaping due to the severe winter storms.
- **Utilities expense** increased \$26,555 or 118% when compared to the prior year. The increase was due to higher solid waste disposal resulting from the removal and disposal of solid waste from the scum bed.

Salaries and Benefits Expense

Salaries and benefits expense increased \$711,651 or 34% over the prior period. Excluding accounting adjustments related to GASB 68 and GASB 75, salaries and benefits expense increased \$210,405 or 8%.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

Salaries and Benefits Expense Excluding Accounting Adjustments

	As of June 30,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change ¹
Salaries and benefits	\$ 2,807,640	\$2,095,989	\$ 711,651	34%
Accounting Adjustments	(47,344)	453,902	(501,246)	-
Salaries and benefits before adjustment	<u>\$ 2,760,296</u>	<u>\$2,549,891</u>	<u>\$ 210,405</u>	<u>8%</u>

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

The increase in salaries and benefits expense (excluding accounting adjustments) largely reflects a \$185,166 or 12% increase in salaries and wages and a \$21,404 or 2% increase in employee benefits expense. Salaries and wages increased as a result of annual merit and cost-of-living adjustments, the overlap of the Finance Manager position for training purposes, and an increase in overtime due to high winter weather flows. Employee benefits expense increased due to higher pension expenses partially offset by lower medical premium expenses.

Contractual Services

Contractual services expense decreased \$78,001 or 28% over the prior period. The decrease was driven by a decrease in professional legal services as well as other professional services. The prior period included an Arc Flash Study and financial advisory services. Professional legal services and financial advisory services were focused towards the Replenish Big Bear project and as such were charged to that capital project.

Permits and Fees

Permits and fees expense increased \$4,786 or 2% largely due to increases imposed by the permitting agencies.

Administration Expense

Administration expense was up \$37,317 or 16% from the prior period reflecting an increase in insurance expense of \$37,854 partially offset by a decrease in education and training expense. Higher insurance expense was primarily related to higher general and property liability insurance stemming from higher reinsurance rates and an increase in property values. Lower education and training expense over the prior period was due to much lower travel and training than the prior period.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

Depreciation and amortization

Depreciation and amortization expense increased \$9,735 or 1% from the prior period and was due to a higher level of depreciable assets during the period as a result of asset additions for completed capital projects.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) had a positive variance of \$597,404 compared to the prior period primarily due to higher nonoperating revenues driven by higher grant proceeds (higher by \$382,571) and higher interest income (higher by \$198,060). Higher grant proceeds in the current period are related to grant reimbursements associated with the Replenish Big Bear Project.

NONOPERATING REVENUES (EXPENSES)

	As of June 30,		2023 vs. 2022	
	2023	2022	Increase (Decrease)	% Change ¹
Nonoperating revenues:				
Interest Income	\$127,719	-\$70,341	\$198,060	+
Lease Revenue	60,552	58,044	2,508	4%
Other	<u>516,044</u>	<u>133,473</u>	<u>382,571</u>	<u>287%</u>
Total nonoperating revenues	<u>704,315</u>	<u>121,176</u>	<u>583,139</u>	<u>481%</u>
Nonoperating expenses				
Net loss on asset disposal	6,029	33,519	-27,490	-82%
Interest expense	154,490	109,214	45,276	41%
Other	71,119	103,172	-32,053	-31%
Amortization of bond cost	<u>5,031</u>	<u>5,029</u>	<u>2</u>	<u>0%</u>
Total nonoperating expenses	<u>236,669</u>	<u>250,934</u>	<u>-14,265</u>	<u>-6%</u>
Total nonoperating revenues (expenses)	<u>\$467,646</u>	<u>-\$129,758</u>	<u>\$597,404</u>	<u>+</u>

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.

Capital Contributions (Connection Fee Revenue)

Connection fee revenue decreased \$117,040 or 32% over the prior year as the number of connections decreased to 59 from 87 in the prior period, a change of 28 connections. The Agency's connection fee remained unchanged at \$4,180 per connection.

CAPITAL CONTRIBUTIONS (CONNECTION FEE REVENUE)

	As of June 30,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change
Capital Contributions	\$ 246,620	\$ 363,660	\$ (117,040)	-32%
Number of Connections	59	87	-28	-32%

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

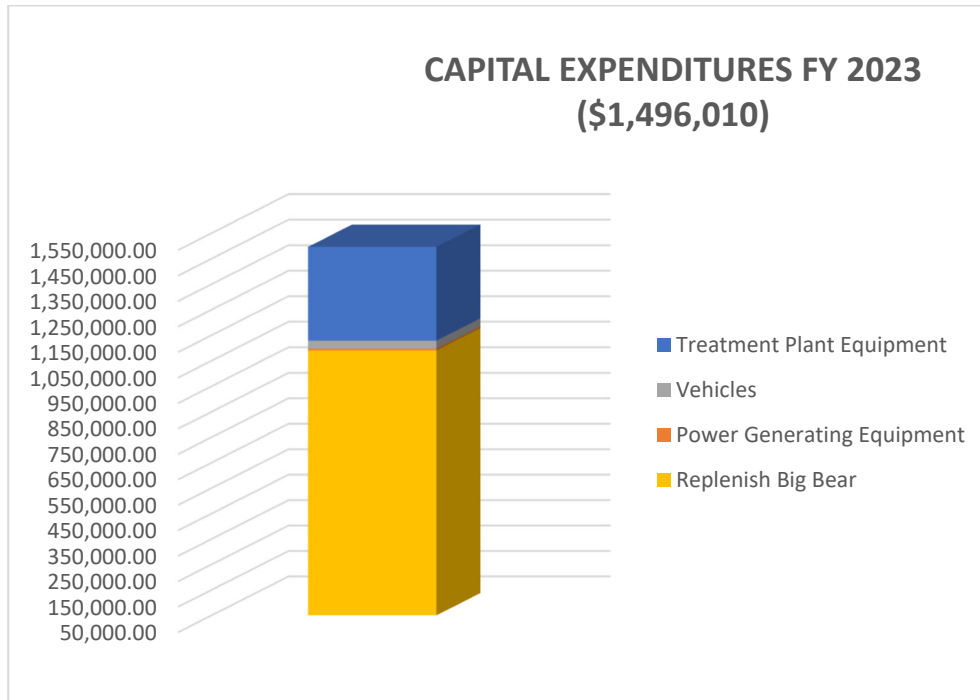
Capital Asset Activity

The Agency's net capital assets increased by \$593,756 or 4% during the period. The net increase in capital assets was due to capital expenditures greater than annual depreciation expense and asset disposals for the period. The Agency's capital expenditures during the period totaled \$1,496,010, compared to annual depreciation expense of \$820,403 and net asset disposals of \$81,851.

CAPITAL ASSETS, NET

	As of June 30,		2023 vs 2022	
	2023	2022	Increase (Decrease)	% Change
Capital assets, net	\$ 16,106,862	\$ 15,513,106	\$ 593,756	4%

During fiscal year 2023 capital investments totaled \$1,496,010. Of this amount, \$1,434,634 remained in progress at year end and was primarily related to the Replenish Big Bear Project and the Agency's Grit System Rehabilitation Project. The remaining \$61,376 in capital investment for the period was related to the replacement of treatment plant pumping equipment and the purchase of a utility cart. The Agency carried over approximately \$3 million in capital expenditures planned for FY 2023 that will be completed in FY 2024.



For additional information related to the Agency's capital assets, see note 4 in the accompanying financial statements.

BIG BEAR AREA REGIONAL WASTEWATER AGENCY
Management's Discussion and Analysis
Year ended June 30, 2023

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

The Agency increased its long-term debt during the period by \$2,988,203 or 104% which reflects a new debt issuance of \$3.4 million for the Replenish Big Bear project which was partially offset by regularly scheduled debt amortization. The Agency's net OPEB liability increased by \$950,243 or 304% and the Agency's pension liability increased by \$1,844,909 or 168%. 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,		2023 vs 2022	
	2023	2022	Increase (Decrease)	%
			Change	
Outstanding Debt, Net	\$ 5,873,273	\$ 2,885,070	\$ 2,988,203	104%
Net OPEB Liability	1,263,047	312,804	950,243	304%
Net Pension Liability	2,942,455	1,097,546	1,844,909	168%

For additional information, see note 6, 8 and 9 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 909-584-4018, 121 Palomino Drive, Big Bear City, California 92314.

Basic Financial Statements

Big Bear Area Regional Wastewater Agency

Statement of Net Position

June 30, 2023

(With comparative data for prior year)

Assets	2023	2022
Current assets:		
Cash and investments (Note 3)	\$ 11,458,134	\$ 7,832,439
Accounts receivable	512,453	113,005
Lease receivable (Note 4)	62,435	60,331
Due from member agencies	41,800	45,980
Interest receivable	90,315	12,928
Prepaid expenses	14,786	12,498
Total current assets	<u>12,179,923</u>	<u>8,077,181</u>
Noncurrent assets:		
Lease receivable (Note 4)	132,595	195,026
Capital assets, not being depreciated (Note 5)	2,771,506	1,336,874
Capital assets, net of depreciation/amortization (Note 5)	<u>13,335,356</u>	<u>14,176,232</u>
Total noncurrent assets	<u>16,239,457</u>	<u>15,708,132</u>
Total assets	<u>28,419,380</u>	<u>23,785,313</u>
Deferred Outflows of Resources		
Deferred charges on refunding	17,365	22,396
Pension related (Note 8)	1,502,866	634,989
OPEB related (Note 9)	<u>847,908</u>	<u>308,903</u>
Total deferred outflows of resources	<u>2,368,139</u>	<u>966,288</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	349,933	358,835
Accrued salaries and benefits	68,051	39,507
Accrued interest	29,144	12,598
Long-term liabilities, due within one year (Note 6)	<u>653,769</u>	<u>620,661</u>
Total current liabilities	<u>1,100,897</u>	<u>1,031,601</u>
Noncurrent liabilities:		
Net OPEB liability (Note 9)	1,263,047	312,804
Net pension liability (Note 8)	2,942,455	1,097,546
Long-term liabilities, due beyond one year (Note 6)	<u>5,480,789</u>	<u>2,506,520</u>
Total noncurrent liabilities	<u>9,686,291</u>	<u>3,916,870</u>
Total liabilities	<u>10,787,188</u>	<u>4,948,471</u>
Deferred Inflows of Resources		
Lease related (Note 4)	197,864	258,426
Pension related (Note 8)	264,177	1,137,648
OPEB related (Note 9)	<u>136,369</u>	<u>514,531</u>
Total deferred inflows of resources	<u>598,410</u>	<u>1,910,605</u>
Net position:		
Net investment in capital assets	10,249,423	12,648,441
Unrestricted	<u>9,152,498</u>	<u>5,244,084</u>
Total net position	<u>\$ 19,401,921</u>	<u>\$ 17,892,525</u>

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, 2023
(With comparative data for prior year)

	<u>2023</u>	<u>2022</u>
Operating revenues		
Member agency fees	\$ 6,241,883	\$ 5,845,163
Standby charges	77,590	79,220
Rental income	11,096	70
Waste disposal fees	25,263	22,000
Other revenues	19,819	7,709
Total operating revenues	<u>6,375,651</u>	<u>5,954,162</u>
Operating expenses		
Salaries and benefits	2,807,640	2,095,989
Power	434,357	388,721
Sludge removal	258,216	271,361
Chemicals	80,548	51,788
Materials and supplies	148,013	120,638
Repairs and replacements	339,659	156,609
Equipment rental	3,097	111
Utilities	48,982	22,427
Communications	58,941	48,093
Contractual services - other	80,920	86,212
Contractual services - professional	123,963	196,672
Permits and fees	239,056	234,270
Property tax	4,096	4,017
Insurance	226,698	188,844
Other operating	42,370	42,987
Amortization	467	399
Depreciation	893,225	883,556
Total operating expenses	<u>5,790,248</u>	<u>4,792,694</u>
Operating income	<u>585,403</u>	<u>1,161,468</u>
Nonoperating revenues		
Investment income (loss)	127,719	(70,341)
Lease revenue	60,552	58,044
Other miscellaneous revenue	516,044	133,473
Total nonoperating revenues	<u>704,315</u>	<u>121,176</u>
Nonoperating expenses		
Other	71,119	103,172
Interest	159,520	114,243
Net loss on capital asset disposals	6,029	33,519
Total nonoperating expenses	<u>236,668</u>	<u>250,934</u>
Income before contributions	1,053,050	1,031,710
Capital contributions - connection charges	456,346	363,660
Change in net position	1,509,396	1,395,370
Net position, beginning of year, as restated (Note 13)	<u>17,892,525</u>	<u>16,497,155</u>
Net position, end of year	<u>\$ 19,401,921</u>	<u>\$ 17,892,525</u>

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, 2023
(With comparative data for prior year)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from customers and other sources	\$ 5,976,203	\$ 5,876,065
Cash payments to suppliers for goods and services	(2,251,425)	(1,706,478)
Cash payments for employees and benefits	(2,622,825)	(2,528,090)
Other non-operating revenues	516,044	133,473
Other non-operating expenses	(71,119)	(103,172)
	<u>1,546,878</u>	<u>1,671,798</u>
Net cash provided by operating activities	<u>1,546,878</u>	<u>1,671,798</u>
Cash flows from capital and related financing activities:		
Purchases and construction of capital assets	(1,344,694)	(389,461)
Proceeds from sale of capital assets	2,536	13,906
Proceeds from capital contributions	460,526	372,020
Principal payments on lease liability	(460)	(459)
Principal payments on long-term debt	(411,797)	(398,160)
Proceeds from new debt issuance	3,400,000	-
Interest paid on long-term debt	(137,943)	(110,905)
	<u>1,968,168</u>	<u>(513,059)</u>
Net cash provided by (used for) capital and related financing activities	<u>1,968,168</u>	<u>(513,059)</u>
Cash flows from investing activities:		
Investment income received	50,332	(78,501)
Payments received from lease receivables	60,317	57,350
	<u>110,649</u>	<u>(21,151)</u>
Net cash provided by (used for) investing activities	<u>110,649</u>	<u>(21,151)</u>
Net change in cash and investments	3,625,695	1,137,588
Cash and investments, beginning of year	<u>7,832,439</u>	<u>6,694,851</u>
Cash and investments, end of year	<u>\$ 11,458,134</u>	<u>\$ 7,832,439</u>

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

Big Bear Area Regional Wastewater Agency

Statement of Cash Flows (continued)

For the year ended June 30, 2023

(With comparative data for prior year)

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 585,403	\$ 1,161,468
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	893,225	883,556
Amortization	467	399
Other revenues	516,044	133,473
Other expense	(71,119)	(103,172)
Construction in process in accounts payable	(151,319)	(74,442)
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(399,448)	(78,097)
Prepaid expenses	(2,288)	1,731
Deferred outflows of resources - OPEB related	(539,005)	98,828
Deferred outflows of resources - pension related	(867,877)	37,112
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(8,902)	178,983
Accrued salaries and benefits	28,544	4,608
Compensated absences	19,634	17,194
Deferred inflows of resources - OPEB related	(378,162)	467,087
Deferred inflows of resources - pension related	(873,471)	925,100
Net OPEB liability	950,243	(707,128)
Net pension liability	1,844,909	(1,274,902)
Net cash provided by operating activities	<u>\$ 1,546,878</u>	<u>\$ 1,671,798</u>
Schedule of non-cash noncapital and capital related financing and investing activities		
Disposed capital assets, net book value	\$ (8,565)	\$ (47,425)
Construction in progress in accounts payable	151,319	74,442

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

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Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

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 unrestricted resources first, then restricted 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.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

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 acquisition 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 additions, major improvements, equipment, tools, vehicles, and other capital assets that individually have an original total cost of \$10,000 or more and have a useful life of one year or more or in the case of additions and improvements, extend the useful life by one year or more. Pipeline replacement expenditures of \$20,000 or greater and have a one year or greater life expectancy. All land and buildings are capitalized.

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

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

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

(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.

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.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

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

(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.

Generally accepted accounting principles 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, 2021
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	July 1, 2021 to June 30, 2022

(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)	June 30, 2021
Measurement Date (MD)	June 30, 2022
Measurement Period (MP)	June 30, 2021, to June 30, 2022

(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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

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

(p) New accounting pronouncements

During the fiscal year ended June 30, 2023, the Agency implemented the following GASB standard:

GASB Statement No. 96 – The Governmental Accounting Standards Board (GASB) has issued Statement No. 96, Subscription based IT Arrangements (SBITA). The primary objective of this statement is to improve guidance regarding the identification of SBITA activities for accounting and financial reporting purposes and how those activities should be reported in the financial statements. The Agency however had no items that qualified for GASB 96 treatment.

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, 2023 are classified in the accompanying financial statements as follows:

Statement of net position:

Cash and investments	<u>\$ 11,458,134</u>
Total cash and investments	<u><u>\$ 11,458,134</u></u>

Cash and investments as of June 30, 2023 consist of the following:

Cash on hand	\$ 600
Deposits with financial institutions	456,340
Investments	<u>11,001,194</u>
Total cash and investments	<u><u>\$ 11,458,134</u></u>

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 3: Cash and investments, (continued)

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

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, 2023. The Local Agency Investment Fund (Fund) of \$11,001,194 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	\$ 75 Million
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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

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:

Investment type	Total	Remaining maturing (in months)			
		12 or less	13 to 24	25 to 60	More than 60
State investment pool	\$ 11,001,194	\$ 11,001,194	\$ -	\$ -	\$ -

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.

Investment type	Total	Minimum legal rating	Exempt from disclosure	Rating as of year end		
				AAA	Aa	Not rated
State investment pool	\$ 11,001,194	N/A	\$ -	\$ -	\$ -	\$ 11,001,194

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.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

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 fair 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, 2023, the Agency's deposits with financial institutions are interest bearing, and have a limited insurance coverage with the federal deposit insurance corporation up to \$250,000. Any amounts in excess of \$250,000 per institution are collateralized by the bank with pledged securities.

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 \$75,000,000 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, 2023 and 2022 was 2.170% and 0.371%, respectively. The carrying value and estimated fair value of the LAIF Pool at June 30, 2023 and 2022 was \$178,382,808,290 and \$175,676,473,336 and \$234,469,950,028 and \$231,451,246,492, respectively. The Agency's share of the Pool at June 30, 2023 and 2022 was approximately 0.00617% and 0.00309%, respectively. Included in LAIF's investment portfolio at June 30, 2023 and 2022 are structured notes and asset-backed securities totaling \$2,300,000 and \$2,660,770 and \$2,350,000,000 and \$2,051,660,000, respectively currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 4: Lease receivable

Pacific Bell Mobile Service

On June 4, 1997, the Agency entered into a 35-month lease as Lessor for the use of 122 East Palomino Drive. An initial lease receivable was recorded in the amount of \$34,440. As of June 30, 2023, the value of the lease receivable was \$116,415. The lessee is required to make annual fixed payments of \$17,117. The lease has an interest rate of 0.6240%. The land estimated useful life was 0 months as of the contract commencement. The value of the deferred inflow of resources as of June 30, 2023 was \$122,310, and the Agency recognized lease revenue of \$24,880 during the fiscal year. The most recent amendment to this agreement was executed on November 10, 2015, extending the lease for an additional 60 months with the lessee having 1 extension option for 60 months. The lessee had a termination period of 24 months as of the lease commencement.

New Cingular Wireless PCS, LLC

On June 27, 2005, the Agency entered into a 59-month lease as Lessor for the use of 122 Palomino Drive. An initial lease receivable was recorded in the amount of \$48,737. As of June 30, 2023, the value of the lease receivable is \$20,580. The lessee is required to make monthly fixed payments of \$779. The lease has an interest rate of 0.7190%. The land estimated useful life was 0 months as of the contract commencement. The value of the deferred inflow of resources as of June 30, 2023 was \$19,430, and the Agency recognized lease revenue of \$9,769 during the fiscal year. The lessee has 5 extension options each for 60 months, one extension is left remaining at June 30, 2023.

BBARWA Lucerne Valley Lease

On September 1, 2005, the Agency entered into a 62-month lease as Lessor for the use of BBARWA Lucerne Valley. An initial lease receivable was recorded in the amount of \$133,833. As of June 30, 2023, the value of the lease receivable is \$58,035. The lessee is required to make quarterly fixed payments of \$6,525. The lease has an interest rate of 0.9480%. The land estimated useful life was 0 months as of the contract commencement. The value of the deferred inflow of resources as of June 30, 2023 was \$56,124, and the Agency recognized lease revenue of \$25,903 during the fiscal year.

As of June 30, 2023, the Agency had total outstanding lease receivables of \$195,030 and related deferred inflows of \$197,864.

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Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 5: Capital & intangible assets

A summary of changes in capital assets of the Agency for the year ending June 30, 2023 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Land	\$ 1,037,626	\$ -	\$ -	\$ 1,037,626
Construction in Progress	299,248	1,434,632	-	1,733,880
Total capital assets, not being depreciated	<u>1,336,874</u>	<u>1,434,632</u>	<u>-</u>	<u>2,771,506</u>
Capital assets, being depreciated/ amortized:				
Administration Building	2,029,161	-	-	2,029,161
Treatment Plant	16,526,006	29,886	(30,579)	16,525,313
Interceptor System	3,704,643	-	(16,087)	3,688,556
Effluent Disposal Assets	4,728,589	-	-	4,728,589
Power Generation Equipment	2,352,612	-	-	2,352,612
Flow Measuring Devices	179,955	-	-	179,955
Other Equipment	2,119,785	-	(28,154)	2,091,631
Transportation Equipment	570,547	31,495	-	602,042
Other Tangible Plant	907,922	-	(1,392)	906,530
Studies and Maps	106,425	-	(5,640)	100,785
Right-of-Use Assets	2,450	-	-	2,450
Total capital assets, being depreciated/amortized	<u>33,228,095</u>	<u>61,381</u>	<u>(81,852)</u>	<u>33,207,624</u>
Less accumulated depreciation/ amortization for:				
Administration Building	(1,002,915)	(60,581)	-	(1,063,496)
Treatment Plant	(8,353,440)	(441,081)	30,579	(8,763,942)
Interceptor System	(2,328,972)	(63,985)	7,523	(2,385,434)
Effluent Disposal Assets	(4,194,169)	(62,348)	-	(4,256,517)
Power Generation Equipment	(1,149,170)	(113,079)	-	(1,262,249)
Flow Measuring Devices	(52,293)	(13,086)	-	(65,379)
Other Equipment	(1,124,861)	(76,604)	28,154	(1,173,311)
Transportation Equipment	(326,320)	(27,050)	-	(353,370)
Other Tangible Plant	(427,601)	(34,361)	1,391	(460,571)
Studies and Maps	(91,723)	(1,050)	5,640	(87,133)
Right-of-Use Assets	(399)	(467)	-	(866)
Total accumulated depreciation/ amortization	<u>(19,051,863)</u>	<u>(893,692)</u>	<u>73,287</u>	<u>(19,872,268)</u>
Total capital assets being depreciated/amortized, net	<u>14,176,232</u>	<u>(832,311)</u>	<u>(8,565)</u>	<u>13,335,356</u>
Total capital assets, net	<u>\$ 15,513,106</u>	<u>\$ 602,321</u>	<u>\$ (8,565)</u>	<u>\$ 16,106,862</u>

Depreciation and amortization expense for the year ending June 30, 2023 is as follows:

Depreciation	\$ 893,225
Amoritzation	467
Total	<u>\$ 893,692</u>

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 6: Long-term liabilities

A summary of long-term liabilities of the Agency at June 30, 2023 is as follows:

	Beginning balance	Additions	Deletions	Ending balance	Due within one year	Due beyond one year
<i>Long-term debt - direct borrowings:</i>						
2011 refunding agreement	\$ 1,490,348	\$ -	\$ (312,483)	\$ 1,177,865	\$ 322,880	\$ 854,985
2018 installment purchase agreement	1,394,722	-	(99,314)	1,295,408	103,023	1,192,385
2023 Capital One public funding	-	3,400,000	-	3,400,000	-	3,400,000
Total direct borrowings	2,885,070	3,400,000	(411,797)	5,873,273	425,903	5,447,370
<i>Other long-term liability:</i>						
Compensated absences	240,120	229,850	(210,216)	259,754	227,405	32,349
<i>Lease liability:</i>						
Postage meter	1,991	-	(460)	1,531	461	1,070
Total	\$ 3,127,181	\$ 3,629,850	\$ (622,473)	\$ 6,134,558	\$ 653,769	\$ 5,480,789

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

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.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 6: Long-term liabilities (continued)

2018 Installment purchase agreement – Direct Borrowing

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, 2023 the Agency's net revenues were 348% 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.

2023 Capital One Public Funding Loan Agreement – Direct Borrowing

On February 1, 2023, the Agency entered into a Loan Agreement (the 2023 Capital One Public Funding Loan Agreement), for \$3,400,000 with Capital One Public Funding, LLC, a limited liability company (the Lender), for the purpose of financing the Replenish Big Bear Project which consists of treatment plant upgrades and improvements to distribute treated water to the lake for re-use purposes such as landscape irrigation, dust control, and snowmaking at the golf course and ski resort and for water supply purposes such as groundwater recharge in Sand Canyon. The Capital One Public Funding Loan Agreement carries an interest rate of 4.25% on the unpaid principal with an ending term on the earlier of June 30, 2026 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 2023 Capital One Public Funding Loan 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 2023 Capital One Public Funding Loan Agreement.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 6: Long-term liabilities (continued)

2023 Capital One Public Funding Loan 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 110% of the annual debt service for such year. For the year ended June 30, 2023 the Agency's net revenues were 348% of the annual debt service, which exceeded the minimum requirement. The Agency also complied with all other covenants set forth in the 2023 Capital One Public funding Loan Agreement.

Debt service requirements to maturity

Fiscal year	2011 Refunding Loan Agreement		
	Principal	Interest	Total
2023-2024	\$ 322,880	\$ 36,228	\$ 359,108
2024-2025	333,623	25,485	359,108
2025-2026	344,723	14,384	359,107
2026-2027	176,639	2,915	179,554
Total	<u>\$ 1,177,865</u>	<u>\$ 79,012</u>	<u>\$ 1,256,877</u>

Fiscal year	2018 Installment Purchase Agreement		
	Principal	Interest	Total
2023-2024	\$ 103,023	\$ 46,986	\$ 150,009
2024-2025	106,870	43,139	150,009
2025-2026	110,860	39,148	150,008
2026-2027	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	<u>\$ 1,295,408</u>	<u>\$ 279,684</u>	<u>\$ 1,575,092</u>

Fiscal year	Capital One Public Funding Loan Agreement		
	Principal	Interest	Total
2023-2024	\$ -	\$ 144,500	\$ 144,500
2024-2025	-	144,500	144,500
2025-2026	3,400,000	144,500	3,544,500
Total	<u>\$ 3,400,000</u>	<u>\$ 433,500</u>	<u>\$ 3,833,500</u>

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 6: Long-term liabilities (continued)

Lease Liability – Postage meter

On August 23, 2021, the Agency entered into a 63-month lease as Lessee for the use of a postage meter. An initial lease liability was recorded in the amount of \$2,450. As of June 30, 2023, the value of the lease liability is \$1,531. The Agency is required to make quarterly fixed payments of \$120. The lease has an interest rate of 1.09%. The equipment estimated useful life was months as of the contract commencement. The value of the right to use asset as of June 30, 2023 of \$2,450 with accumulated amortization of \$866 is included with equipment on the Note 5.

Debt service requirements to maturity

Fiscal year	Principal	Interest	Total
2023-2024	\$ 465	\$ 20	\$ 485
2024-2025	470	15	485
2025-2026	475	10	485
2026-2027	121	5	126
	<u>\$ 1,531</u>	<u>\$ 50</u>	<u>\$ 1,581</u>

NOTE 7: 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.

NOTE 8: 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 or PERF C) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. 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 generally accepted accounting principles. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The Agency participates in 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.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 8: Pension plan (continued)

A. General information about the pension plan, continued

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 5 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, 2023, 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)	7.96%	7.25%
Required employer contribution rates (reporting period)	14.90%	7.76%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is based on the estimated amount necessary to finance the cost 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, 2023 were \$398,290. The actual employer payments of \$350,101 made to CalPERS by the Agency during the measurement period ended June 30, 2022 differed from the Agency's proportionate share of the employer's contribution of \$545,432 by \$195,331 which is being amortized over the expected average remaining service lifetime in the Public Agency Cost Sharing Multiple Employer Plan.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 8: Pension plan, (continued)

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, 2022, using an annual actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 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

All other actuarial assumptions used in the June 30, 2021 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.

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.30% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.30% thereafter.

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

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). 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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 8: Pension plan, (continued)

B. Net pension liability, continued

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

<u>Asset Class¹</u>	<u>Assumed Asset Allocation</u>	<u>Real Return Years 1 - 10²</u>
Global equity - cap-weighted	30.0%	4.45%
Global equity non-cap-weighted	12.0%	3.84%
Public Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Equity	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	(5.0%)	-0.59%

Change of assumptions

Effective with the June 30, 2021, valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

Discount rate

The discount rate used to measure the total pension liability for PERF C was 6.90%. 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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 8: Pension plan, (continued)

B. Net pension liability, continued

Subsequent events

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Based on the thresholds specified in CalPERS Funding Risk Mitigation policy, the excess return of 14.3% prescribes a reduction in investment volatility that corresponds to a reduction in the discount rate used for funding purposes of 0.20%, from 7.00% to 6.80%. Since CalPERS was in the final stages of the four-year Asset Liability Management (ALM) cycle, the board elected to defer any changes to the asset allocation until the ALM process concluded, and the board could make its final decision on the asset allocation in November 2021.

On November 17, 2021, the board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expense assumption support a discount rate of 6.90% (net of investment expense but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the board. These new assumptions will be reflected in the GASB 68 accounting valuation reports for the June 30, 2022, measurement date.

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.

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	Plan Fiduciary Net Position	Plan Net Pension Liability
	(a)	(b)	(c) = (a) - (b)
Balance at: 6/30/2021 (VD)	\$ 11,938,827	\$ 10,841,281	\$ 1,097,546
Balance at: 6/30/2022 (MD)	13,457,666	10,515,211	2,942,455
Net changes during 2021-22	<u>\$ 1,518,839</u>	<u>\$ (326,070)</u>	<u>\$ 1,844,909</u>

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

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 8: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

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 Miscellaneous Plan as of the June 30, 2021 and 2022 measurement dates was as follows:

Proportion share of NPL - June 30, 2021	0.05780%
Proportion share of NPL - June 30, 2022	0.06288%
Change - Increase (Decrease)	0.00508%

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 6.90 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 (5.90 percent) or 1 percentage-point higher (7.90 percent) than the current rate:

	Discount Rate - 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous Plan's Net Pension Liability	\$ 4,776,978	\$ 2,942,455	\$ 1,433,099

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.

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

Net difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives (EARSL) 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).

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 8: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

The EARSL for PERF C for the measurement period ending June 30, 2022 is 3.7 years, which was obtained by dividing the total service years of 574,998 (the sum of remaining service lifetimes of the active employees) by 153,587 (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, 2021), the Agency's net pension liability was \$1,097,546. For the measurement period ending in June 30, 2022 (the measurement date), the Agency incurred a pension expense of \$501,851.

As of June 30, 2023, the Agency has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 301,516	\$ -
Differences between Expected and Actual Experience	59,090	39,576
Differences between Projected and Actual Investment Earnings	538,980	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	224,601
Change in Employer's Proportion	204,990	-
Pension Contributions Made Subsequent to Measurement Date	398,290	-
	<u>\$ 1,502,866</u>	<u>\$ 264,177</u>

The amounts above are net of outflows and inflows recognized in the 2021-2022 measurement period expense. Contributions subsequent to the measurement date of \$398,290 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
2024	\$ 214,565
2025	190,613
2026	105,563
2027	329,658
2028	-
Thereafter	-

E. Payable to the pension plan

At June 30, 2023, the Agency reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for year then ended.

Big Bear Area Regional Wastewater Agency

Notes to the Basic Financial Statements For the Year Ended June 30, 2023

NOTE 9: Other postemployment benefits plan

Plan description

The Agency has established a Retiree Healthcare Plan (OPEB 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 OPEB 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 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 hired after January 1, 2020 who retire from the Agency with at least 5 years of Agency service receive a percentage of the premium for employee and their dependents (up to 90% of the highest cost Region 3 HMO plan pre-Medicare family premium rate). The percentage received is based on years of service.

Employees covered

As of the June 30, 2021 actuarial valuation date the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	15
Inactive employees or beneficiaries currently receiving benefits	13
Total	<u>28</u>

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 \$270 – \$1,835. 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, 2023, the Agency's cash contributions were \$156,660, made for health reimbursement premiums to retirees, and the estimated implied subsidy was \$44,586 resulting in total payments of \$201,246. 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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 9: Other postemployment benefits plan, (continued)

Net OPEB liability

The Agency's net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2021, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Discount Rate	6.15%
Inflation	2.50% per year
Salary Increases	3.00% per year, used only to allocate the cost of benefits between service years
Investment Rate of Return	6.95%
Mortality Rate	MacLeod Watts Scale 2020
Pre-Retirement Turnover Healthcare Trend Rate	Medical plan premiums and claims are assumed to increase once each year

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return*</u>
Treasury inflation-protected securities	5%	5.98%
Fixed income	23%	2.62%
Global Equity	49%	5.00%
REIT's	20%	1.46%
Commodities	3%	2.87%
Total	<u>100%</u>	

* based on 2014 Capital Market Assumptions

Change of Assumptions

For the current measurement period, the discount rate changed from 7.05% to 6.15%.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 9: Other postemployment benefits plan, (continued)

Discount rate

The discount rate used to measure the total OPEB liability was 6.15% as of June 30, 2023, 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.

Changes in the OPEB liability

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

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c) = (a) - (b)</u>
Balance at June 30, 2022 (Measurement Date June 30, 2021)	\$ 3,266,921	\$ 2,954,117	\$ 312,804
Changes recognized for the measurement period:			
Service Cost	119,346	-	119,346
Interest on the total OPEB liability	230,514	-	230,514
Changes of assumptions	437,365	-	437,365
Investment experience differences	-	(603,638)	603,638
Contributions - employer	-	233,129	(233,129)
Expected investment income	-	208,239	(208,239)
Benefit payments	(233,129)	(233,129)	-
Administrative expenses	-	(748)	748
Net Changes	<u>554,096</u>	<u>(396,147)</u>	<u>950,243</u>
Balance at June 30, 2023 (Measurement Date June 30, 2022)	<u>\$ 3,821,017</u>	<u>\$ 2,557,970</u>	<u>\$ 1,263,047</u>

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, 2022:

	<u>1% Decrease 5.15%</u>	<u>Discount rate 6.15%</u>	<u>1% Increase 7.15%</u>
Net OPEB Liability	<u>\$ 1,857,833</u>	<u>\$ 1,263,047</u>	<u>\$ 781,967</u>

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 9: Other postemployment benefits plan, (continued)

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, 2022:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ 777,719	\$ 1,263,047	\$ 1,874,105

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 trust earnings	5 years
All other amounts	Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits, determined as of the beginning of the Measurement Period. In determining the EARSL, all active, retired and inactive (vested) members are counted, with the latter two groups having 0 remaining service years.

OPEB expense and deferred outflows/inflows of resources related to OPEB

For the fiscal year ended June 30, 2023, the Agency recognized OPEB expense of \$234,322. A complete breakdown of OPEB expense is as follows:

Description	Amount
Service cost	\$ 119,346
Interest cost	230,514
Expected earnings on assets	(208,239)
Administrative expenses	748
Recognized assumption changes	97,117
Recognized differences in plan experience	(49,792)
Recognized differences in projected and actual investments earnings	44,628
Total OPEB expense	\$ 234,322

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 9: Other postemployment benefits plan, (continued)

OPEB expense and deferred outflows/inflows of resources related to OPEB, continued

As of June 30, 2023, 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	\$ 201,246	\$ -
Changes of assumptions	410,274	-
Differences between expected and actual experience	4,376	136,369
Net difference between projected and actual earnings on OPEB plan investments	232,012	-
Total	<u>\$ 847,908</u>	<u>\$ 136,369</u>

The \$201,246 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
2024	\$ 102,140
2025	84,341
2026	68,067
2027	160,124
2028	43,600
Thereafter	52,021
	<u>\$ 510,293</u>

NOTE 10: 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, 2023, 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 \$49,472.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 11: Net position

The Agency's net position is comprised of the following components:

	2023	2022
Net investment in capital assets:		
Capital assets, not being depreciated	\$ 2,771,506	\$ 1,336,874
Capital assets, net of depreciation	13,335,356	14,176,232
 Debt related to capital assets		
2011 Refunding agreement	(1,177,865)	(1,490,348)
2018 Installment purchase agreement	(1,295,408)	(1,394,722)
2023 Capital One public funding loan agreement	(3,400,000)	-
Copier lease	(1,531)	(1,991)
Less: Deferred charges on refunding	17,365	22,396
 Net investment in capital assets	10,249,423	12,648,441
 Unrestricted	9,152,498	5,244,084
 Total net position	\$ 19,401,921	\$ 17,892,525

NOTE 12: 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.

Big Bear Area Regional Wastewater Agency

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2023**

NOTE 13: Prior period adjustment

The Agency's net position was restated as follows due to the correction of an error related to the implementation of GASB 87, *Leases* in the prior year.

Beginning net position, as previously reported	\$ 17,887,222
Restatement due to correction of an error	<u>5,303</u>
Beginning net position, as restated	<u><u>\$ 17,892,525</u></u>

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Required Supplementary Information

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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*

<u>Measurement date</u>	<u>Employer's proportion of the collective net pension liability¹</u>	<u>Employer's proportionate share of the collective net pension liability</u>	<u>Employer's covered payroll</u>	<u>Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll</u>	<u>Pension plan's fiduciary net position as a percentage of the total pension liability</u>
6/30/2014	0.02306%	\$ 1,435,154	\$ 958,945	149.66%	83.03%
6/30/2015	0.03971%	1,089,410	1,082,228	100.66%	87.32%
6/30/2016	0.04580%	1,590,864	1,100,884	144.51%	81.05%
6/30/2017	0.01942%	1,925,676	1,097,657	175.44%	79.48%
6/30/2018	0.01953%	1,881,571	1,099,489	171.13%	81.37%
6/30/2019	0.02071%	2,122,006	1,159,628	182.99%	80.46%
6/30/2020	0.02181%	2,372,448	1,279,546	185.41%	79.45%
6/30/2021	0.02029%	1,097,546	1,300,655	84.38%	90.81%
6/30/2022	0.02547%	2,942,455	1,392,498	211.31%	78.14%

¹ Proportion of the 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.

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes available.

Big Bear Area Regional Wastewater Agency

Schedule of Pension Plan Contributions Last 10 Years*

Fiscal year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 179,263	\$ (179,263)	\$ -	\$ 1,082,228	16.56%
June 30, 2016	157,379	(157,379)	-	1,100,884	14.30%
June 30, 2017	171,414	(171,414)	-	1,097,657	15.62%
June 30, 2018	186,220	(186,220)	-	1,099,489	16.94%
June 30, 2019	223,484	(223,484)	-	1,159,628	19.27%
June 30, 2020	272,345	(272,345)	-	1,279,546	21.28%
June 30, 2021	310,799	(310,799)	-	1,300,655	23.90%
June 30, 2022	350,101	(350,101)	-	1,392,498	25.14%
June 30, 2023	398,290	(398,290)	-	1,557,221	25.58%

Notes to Schedule:

Changes in Benefit Terms: There were no changes to benefit terms that applied to all members of the Public Agency Pool. Additionally, the figures above do not include any liability impact that may have resulted from Golden Handshakes that occurred after the June 30, 2021 valuation date, unless the liability impact is deemed to be material to the Public Agency Pool.

Changes in Assumptions: Effective with the June 30, 2021 valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. There were no assumption changes for 2021. For 2020, the Plan adopted a new amortization policy effective with the 2019 actuarial valuation. The new amortization policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed as a level dollar amount. In addition, the new policy does not utilize a five-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy also does not utilize a five-year ramp-down on investment gains/losses. These changes apply only to new UAL bases established on or after June 30, 2019. There were no changes in assumptions in 2019. 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 2019. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes in the discount rate. 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.

* Measurement date 6/30/2014 (fiscal year 2015) was the first year of implementation. Additional years will be presented as information becomes 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	2019	2020	2021	2022
Total OPEB Liability						
Service Cost	\$ 70,271	\$ 92,607	\$ 101,392	\$ 114,627	\$ 118,066	\$ 119,346
Interest on the Total OPEB Liability	197,835	204,015	213,507	226,464	234,811	230,514
Actual and expected experience difference	(139,764)	-	9,864	-	(191,253)	-
Changes in assumptions	70,862	100,635	14,085	-	17,881	437,365
Benefit payments	(134,557)	(138,739)	(177,938)	(201,920)	(250,348)	(233,129)
Net change in Total OPEB Liability	64,647	258,518	160,910	139,171	(70,843)	554,096
Total OPEB Liability - beginning	2,714,518	2,779,165	3,037,683	3,198,593	3,337,764	3,266,921
Total OPEB Liability - ending (a)	2,779,165	3,037,683	3,198,593	3,337,764	3,266,921	3,821,017
Plan Fiduciary Net Position						
Contribution - employer	419,453	425,765	241,291	410,141	250,348	233,129
Net investment income	114,707	113,645	117,953	74,474	637,162	(395,399)
Benefit payments	(134,557)	(138,739)	(177,938)	(201,920)	(250,348)	(233,129)
Administrative expense	(581)	(2,726)	(403)	(997)	(877)	(748)
Net change in Plan Fiduciary Net Position	399,022	397,945	180,903	281,698	636,285	(396,147)
Plan Fiduciary Net Position - beginning	1,058,264	1,457,286	1,855,231	2,036,134	2,317,832	2,954,117
Plan Fiduciary Net Position - ending (b)	1,457,286	1,855,231	2,036,134	2,317,832	2,954,117	2,557,970
Net OPEB Liability - ending (a) - (b)	<u>\$ 1,321,879</u>	<u>\$ 1,182,452</u>	<u>\$ 1,162,459</u>	<u>\$ 1,019,932</u>	<u>\$ 312,804</u>	<u>\$ 1,263,047</u>
Plan fiduciary net position as a percentage of the total OPEB liability	52.44%	61.07%	63.66%	69.44%	90.43%	66.94%
Covered-employee payroll	\$ 1,097,657	\$ 1,099,489	\$ 1,135,222	\$ 1,317,806	\$ 1,346,813	\$ 1,443,194
Net OPEB liability as a percentage of covered-employee payroll	120.43%	107.55%	102.40%	77.40%	23.23%	87.52%

Notes to schedule:

Contributions are fixed and not based on a measure of pay, therefore covered-employee payroll is used in the schedule.

The following assumptions were changed from the prior valuation:

Discount rate: In 2023, the discount rate was changed from 7.05% to 6.15%

Change in assumptions: In the current measurement period (2022), the discount rate changed from 7.05% to 6.15%.

*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.

Big Bear Area Regional Wastewater Agency

Schedule of OPEB Plan Contributions Last 10 years*

Fiscal Year	Actuarially Determined Contributions (ADC)	Contributions in relation to the ADC	Contribution deficiency/ (excess)	Covered-employee payroll	Contribution as a percentage of covered-employee payroll
2018	\$ 198,107	\$ (425,765)	\$ (227,658)	\$ 1,099,489	38.72%
2019	203,772	(241,291)	(37,519)	1,135,222	21.25%
2020	210,141	(410,141)	(200,000)	1,317,806	31.12%
2021	205,464	(250,348)	(44,884)	1,346,813	18.59%
2022	206,603	(233,129)	(26,526)	1,443,194	16.15%
2023	156,703	(201,246)	(44,543)	1,613,198	12.47%

Notes to schedule:

Contributions are fixed and not made based on a measure of pay, therefore covered employee payroll is used in the schedule.

Actuarial methods and assumptions used to set actuarially determined contributions for fiscal year 2023 were from the June 30, 2021 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Methodology	Level % of Pay, 17 years closed
Asset Valuation Method	Market value of assets
Discount Rate	6.15%
Inflation	2.50% per annum
Payroll Growth	3.00% per year; since benefits are not related to pay, this is used only to allocate the cost of benefits between service years
Investment Rate of Return	6.95%
Healthcare Trend	5.70%, decreasing to 4.0% by 2076
Retirement Age	From 50 to 75
Mortality	CalPERS 2017 Experience Study, Projected with MW Scale 2020

*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.

Supplementary Information

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Big Bear Area Regional Wastewater Agency

**Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual
For the year ended June 30, 2023**

	2023 Actual	2023 Final budget (unaudited)	Variance with budget	2022 Actual
Operating revenues				
Member agency fees	\$ 6,241,883	\$ 6,241,883	\$ -	\$ 5,845,163
Standby charges	77,590	77,602	(12)	79,220
Rental income	11,096	54,205	(43,109)	70
Waste disposal fees	25,263	21,690	3,573	22,000
Other revenues	19,819	-	19,819	7,709
Total operating revenues	<u>6,375,651</u>	<u>6,395,380</u>	<u>(19,729)</u>	<u>5,954,162</u>
Operating expenses				
Salaries and benefits	2,807,640	2,846,457	(38,817)	2,095,989
Power	434,357	479,055	(44,698)	388,721
Sludge removal	258,216	315,295	(57,079)	271,361
Chemicals	80,548	83,084	(2,536)	51,788
Materials and supplies	148,013	146,053	1,960	120,638
Repairs and replacements	339,659	394,915	(55,256)	156,609
Equipment rental	3,097	885	2,212	111
Utilities	48,982	48,301	681	22,427
Communications	58,941	57,223	1,718	48,093
Contractual services - other	80,920	107,232	(26,312)	86,212
Contractual services - professional	123,963	197,666	(73,703)	196,672
Permits and fees	239,056	245,225	(6,169)	234,270
Property tax	4,096	4,070	26	4,017
Insurance	226,698	243,708	(17,010)	188,844
Other operating	42,370	64,749	(22,379)	42,987
Amortization	467	-	467	399
Depreciation	893,225	921,287	(28,062)	883,556
Total operating expenses	<u>5,790,248</u>	<u>6,155,205</u>	<u>(364,957)</u>	<u>4,792,694</u>
Operating income	<u>585,403</u>	<u>240,175</u>	<u>345,228</u>	<u>1,161,468</u>
Nonoperating revenues				
Investment income (loss)	127,719	83,228	44,491	(70,341)
Lease revenue	60,552	-	60,552	58,044
Other miscellaneous revenue	516,044	-	516,044	133,473
Total nonoperating revenues	<u>704,315</u>	<u>83,228</u>	<u>621,087</u>	<u>121,176</u>
Nonoperating expenses				
Other	71,119	5,028	66,091	103,172
Interest	159,520	128,948	30,572	114,243
Net loss on capital asset disposals	6,029	-	6,029	33,519
Total nonoperating expenses	<u>236,668</u>	<u>133,976</u>	<u>102,692</u>	<u>250,934</u>
Income before contributions	1,053,050	189,427	863,623	1,031,710
Capital contributions - connection charges	<u>456,346</u>	<u>188,100</u>	<u>268,246</u>	<u>363,660</u>
Change in net position	1,509,396	377,527	1,131,869	1,395,370
Net position, beginning of year, as restated	<u>17,892,525</u>	<u>17,892,525</u>	<u>-</u>	<u>16,497,155</u>
Net position, end of year	<u>\$ 19,401,921</u>	<u>\$ 18,270,052</u>	<u>\$ 1,131,869</u>	<u>\$ 17,892,525</u>

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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**

PARTNERS

Terry P. Shea, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jenny W. Liu, CPA, MST
Gardenya Duran, CPA, CGMA
Brianna Schultz, CPA, CGMA
Brenda L. Odle, CPA, MST (Partner Emeritus)

Independent Auditor's Report

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

MANAGERS / STAFF

Seong-Hyea Lee, CPA, MBA
Evelyn Morentin-Barcena, CPA
Veronica Hernandez, CPA
Laura Arvizu, CPA
John Maldonado, CPA, MSA
Julia Rodriguez Fuentes, CPA, MSA
Demi Hite, CPA
Jeffrey McKennan, CPA

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* (GAS) 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, 2023, 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 5, 2023.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control 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.

Report on 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 Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* (GAS) in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 5, 2023

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. Please note that all information presented has been sourced from Agency financial and operating information unless otherwise noted.

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									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
NET POSITION:										
Net Investment										
in capital assets	\$12,962,116	\$12,812,871	\$12,947,480	\$12,864,383	\$12,092,923	\$10,947,850	\$12,541,345	\$12,722,328	\$12,648,441	\$10,249,423
Unrestricted										
net position	<u>5,041,351</u>	<u>4,589,703</u>	<u>5,342,359</u>	<u>5,800,317</u>	<u>3,814,051</u>	<u>5,144,711</u>	<u>3,974,927</u>	<u>3,774,827</u>	<u>5,238,781</u>	<u>9,152,498</u>
Total	<u>\$18,003,467</u>	<u>\$17,402,574</u>	<u>\$18,289,839</u>	<u>\$18,664,700</u>	<u>\$15,906,974</u>	<u>\$16,092,561</u>	<u>\$16,516,272</u>	<u>\$16,497,155</u>	<u>\$17,887,222</u>	<u>\$19,401,921</u>

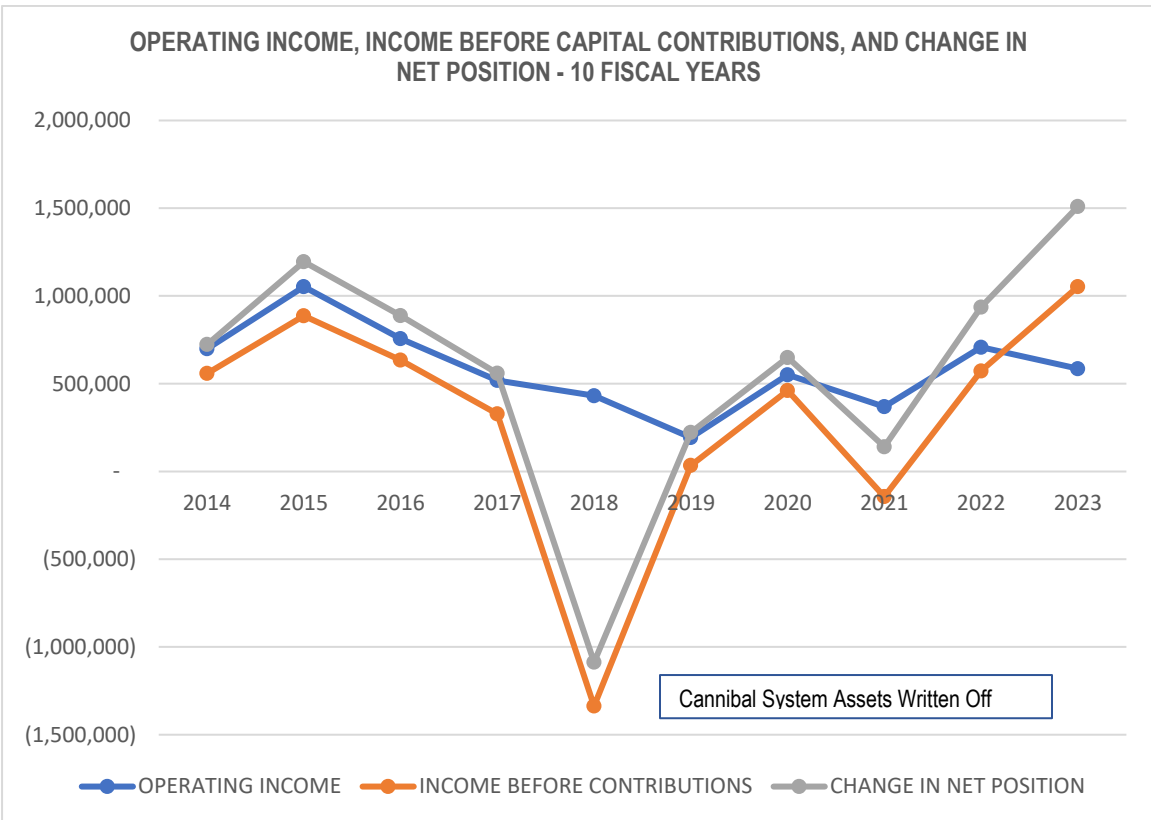
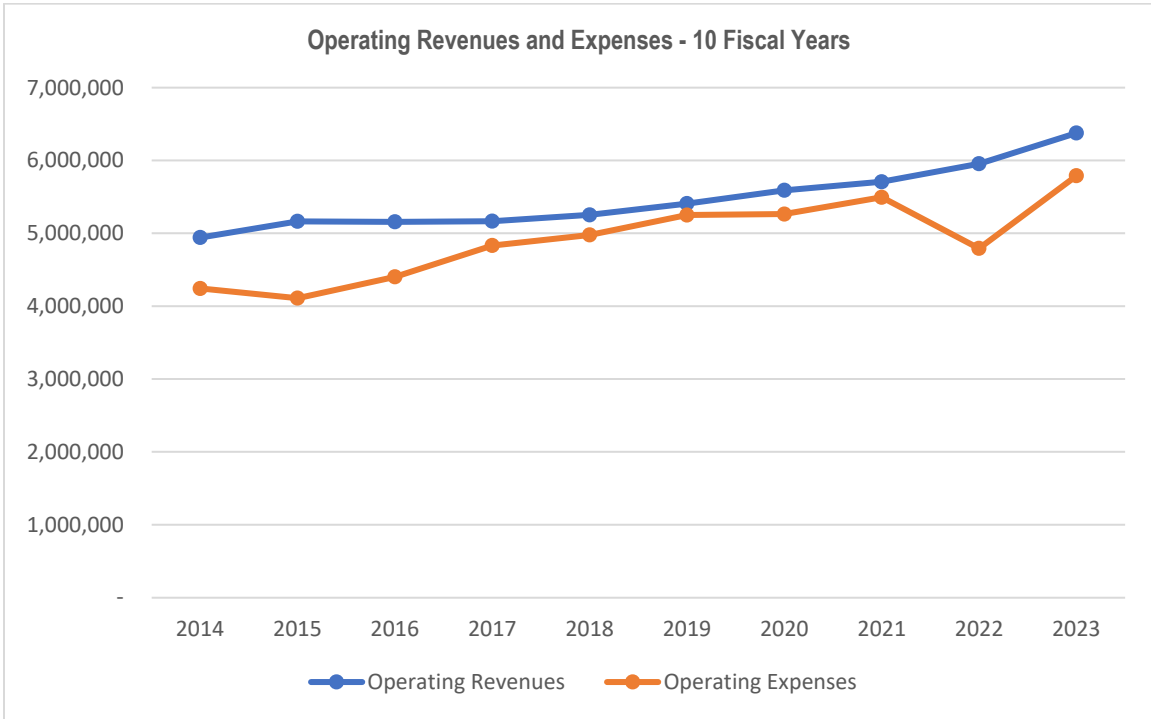
Notes: The above data was extracted from the Agency's financial statements. Net position was restated in fiscal years 2015, 2018, and 2021 to reflect the implementation of GASB 68, the implementation of GASB 75, and the implementation of GASB 87, respectively.

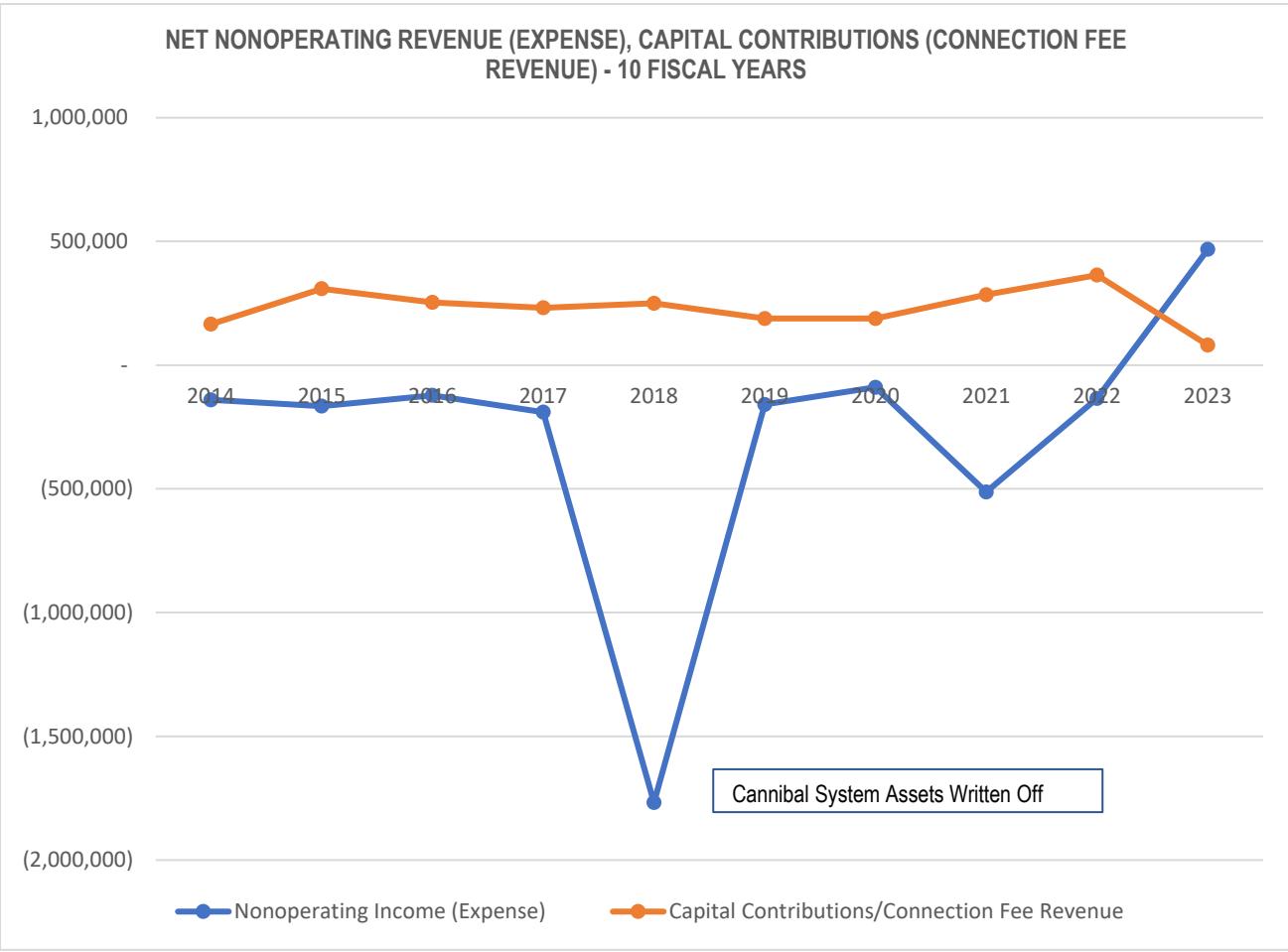
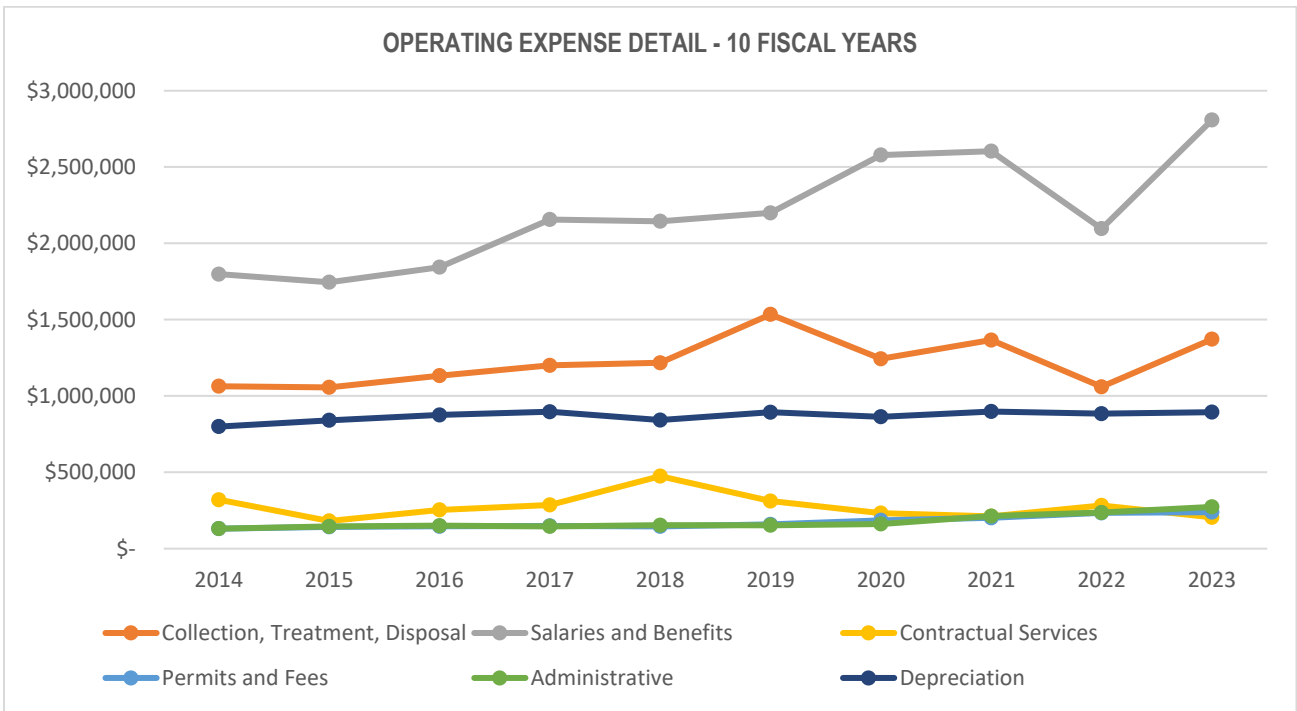
CHANGE IN NET POSITION - 10 FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
OPERATING REVENUES:										
Annual Charges	\$4,778,215	\$4,979,690	\$4,991,166	\$5,007,070	\$5,091,576	\$5,251,542	\$5,437,076	\$5,602,113	\$5,845,163	\$6,241,883
Standby Fees	91,400	90,860	89,250	86,930	85,180	83,200	81,660	80,300	79,220	77,590
Rent, Waste Disposal Fees	70,178	68,120	72,101	71,951	73,562	71,679	70,610	23,859	22,070	36,359
Other	2,007	24,575	5,104	488	1,916	765	-	793	7,709	19,819
Total	4,941,800	5,163,245	5,157,621	5,166,439	5,252,234	5,407,186	5,589,346	5,707,065	5,954,162	6,375,651
OPERATING EXPENSES:										
Salaries and Benefits	1,797,691	1,745,042	1,843,685	2,155,804	2,144,299	2,199,428	2,578,433	2,603,634	2,095,989	2,807,640
Power	399,239	486,461	520,431	522,181	386,367	520,234	453,306	459,483	388,721	434,357
Sludge Removal	221,541	162,627	225,990	281,096	397,813	298,241	276,292	319,660	271,361	258,216
Materials and Supplies	190,830	192,900	184,933	209,323	176,687	215,782	206,648	216,427	172,426	228,562
Repairs and Replacements	186,806	161,825	150,764	128,645	155,447	445,040	253,789	262,795	156,609	339,659
Equipment rental	-	3,659	165	2,242	37,215	1,363	351	835	111	3,097
Utilities	19,757	16,062	11,773	13,023	26,737	22,207	14,180	61,996	22,427	48,982
Communications expense	45,613	33,490	38,610	44,062	37,064	32,160	39,043	44,988	48,093	58,941
Contractual services - other	95,678	81,626	102,120	94,181	74,947	97,296	78,879	90,873	86,212	80,920
Contractual services, prof	224,045	99,798	151,407	191,457	399,514	214,413	153,470	120,390	196,672	123,963
Permits and fees	131,361	142,310	145,866	148,687	145,515	158,528	185,051	201,452	234,270	239,056
Property tax	3,265	3,426	3,476	3,523	3,599	3,665	3,917	3,963	4,017	4,096
Insurance	69,622	83,561	87,406	85,386	99,428	100,952	112,262	171,881	188,844	226,698
Other operating	58,032	57,963	59,474	56,328	50,470	48,142	45,018	37,216	42,987	42,370
Depreciation and Amortizati	799,443	840,229	875,328	896,429	842,154	893,196	863,233	898,422	883,955	893,690
Total	4,242,923	4,110,979	4,401,428	4,832,367	4,977,256	5,250,647	5,263,872	5,494,015	4,792,694	5,790,248
OPERATING INCOME	698,877	1,052,266	756,193	334,072	274,978	156,539	325,474	213,050	1,161,468	585,403
NONOPERATING REVENUES:										
Interest income	11,305	12,430	22,889	29,101	73,866	164,531	130,952	(1,670)	(70,341)	127,719
Lease Revenue	-	-	-	-	-	-	-	52,592	52,741	60,552
Other	-	-	-	-	-	180	101,297	24,158	133,473	516,044
Total non-operating revenue	11,305	12,430	22,889	29,101	73,866	164,711	232,249	75,080	115,873	704,315
NONOPERATING EXPENSES:										
Net Loss on asset disposal	28,326	21,553	2,678	91,973	1,709,527	-	9,178	360,999	33,519	6,029
Interest	111,747	145,012	130,669	115,849	100,536	134,569	135,308	122,823	109,214	154,490
Amortization debt costs	11,700	11,700	11,700	11,700	11,700	7,665	5,029	5,029	5,028	5,031
Other	-	-	-	-	19,777	181,529	172,597	98,876	103,172	71,119
Total non-operating expenses	151,773	178,265	145,047	219,522	1,841,540	323,763	322,112	587,727	250,933	236,668
INCOME BEFORE CAPITAL CONTRIBUTIONS										
CONTRIBUTIONS	558,409	886,431	634,035	143,651	(1,492,696)	(2,513)	235,611	(299,597)	1,026,407	1,053,050
Capital contributions	165,150	308,280	253,230	231,210	249,560	188,100	188,100	284,240	363,660	246,620
RBB Capital Contributions	-	-	-	-	-	-	-	-	-	209,726
CHANGE IN NET POSITION	723,559	1,194,711	887,265	374,861	(1,243,136)	185,587	423,711	(15,357)	1,390,067	1,509,396
NET POSITION										
Beginning of year, as restated	17,279,908	16,207,863	17,402,574	18,289,839	17,150,110	15,906,974	16,092,561	16,512,512	16,497,155	17,892,525
End of year	<u>\$18,003,467</u>	<u>\$17,402,574</u>	<u>\$18,289,839</u>	<u>\$18,664,700</u>	<u>\$15,906,974</u>	<u>\$16,092,561</u>	<u>\$16,516,272</u>	<u>\$16,497,155</u>	<u>\$17,887,222</u>	<u>\$19,401,921</u>

Notes The above data was extracted from the Agency's financial statements. Net position was restated in fiscal years 2015, 2018, and 2021 to reflect the implementation of GASB 68, im GASB75, and the implementation of GASB 87, respectively.

Fiscal Year 2023 includes one time RBB capital contributions that were received from member agencies for use towards the Replenish Big Bear Project construction.

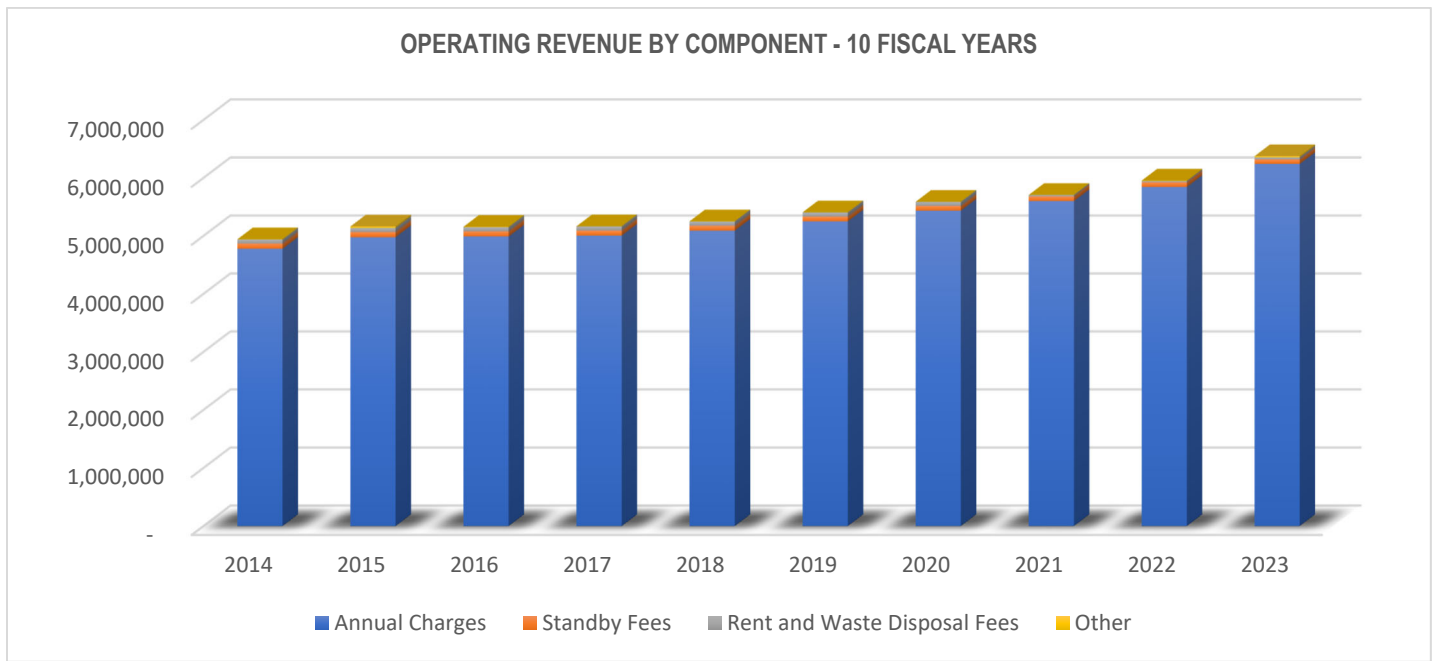




Revenue Capacity

OPERATING REVENUES BY COMPONENT - 10 FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
OPERATING REVENUES:										
Annual Charges	\$4,778,215	\$4,979,690	\$4,991,166	\$5,007,070	\$5,091,576	\$5,251,542	\$5,437,076	\$5,602,113	\$5,845,163	\$6,241,883
Standby Fees	91,400	90,860	89,250	86,930	85,180	83,200	81,660	80,300	79,220	77,590
Rent and Waste Disposal Fees	70,178	68,120	72,101	71,951	73,562	71,679	70,610	23,859	22,070	36,359
Other	2,007	24,575	5,104	488	1,916	765	-	793	7,709	19,819
Total operating revenues	\$4,941,800	\$5,163,245	\$5,157,621	\$5,166,439	\$5,252,234	\$5,407,186	\$5,589,346	\$5,707,065	\$5,954,162	\$6,375,651

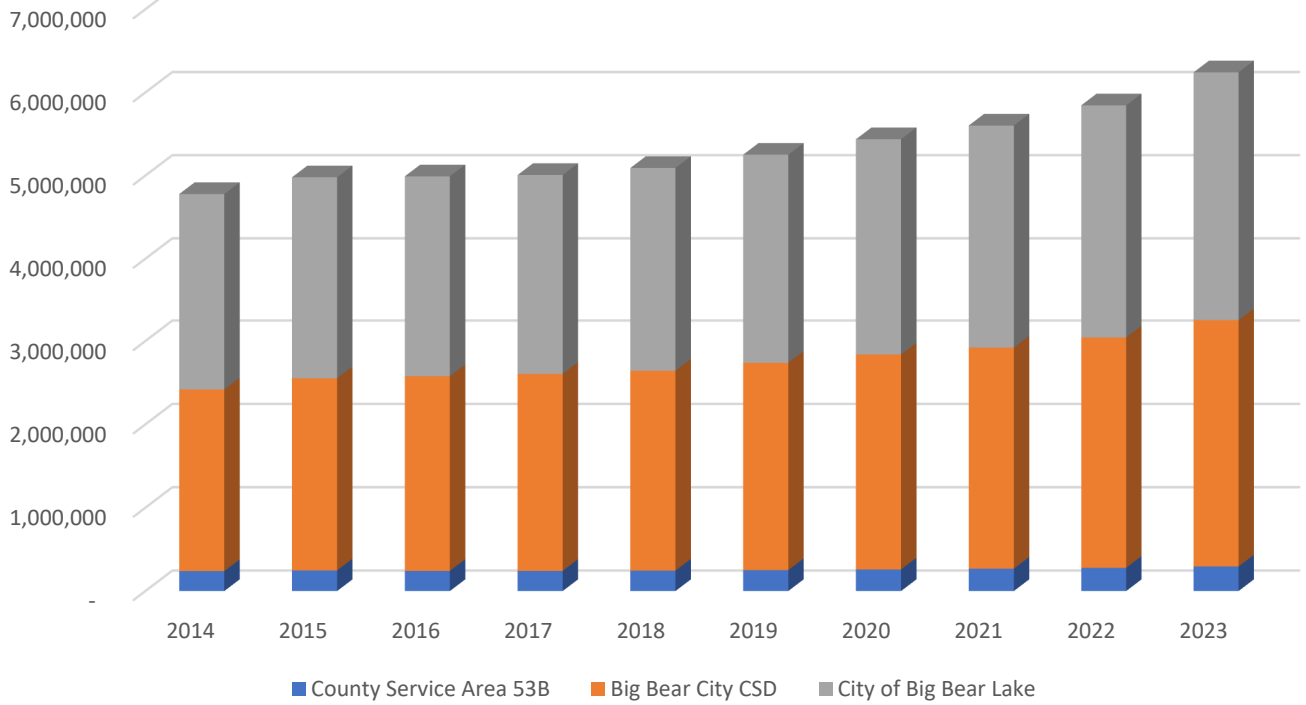


Annual charges are the Agency's largest component of Operating Revenues and represent the Agency's charges for the collection, treatment, and disposal of wastewater flow. Annual charges are charged to the Member Agencies (the Big Bear City Community Services District, the City of Big Bear Lake, and the 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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
County Service Area 53B	\$239,091	\$247,473	\$241,821	\$242,135	\$244,697	\$250,523	\$258,429	\$268,256	\$278,853	\$294,727
Big Bear City CSD	2,179,871	2,306,127	2,335,900	2,363,616	2,398,457	2,488,269	2,579,204	2,652,478	2,763,777	2,955,515
City of Big Bear Lake	2,359,253	2,426,090	2,413,444	2,401,319	2,448,422	2,512,750	2,599,443	2,681,379	2,802,534	2,991,642
Total Annual Charges	\$4,778,215	\$4,979,690	\$4,991,166	\$5,007,070	\$5,091,576	\$5,251,542	\$5,437,076	\$5,602,113	\$5,845,163	\$6,241,883

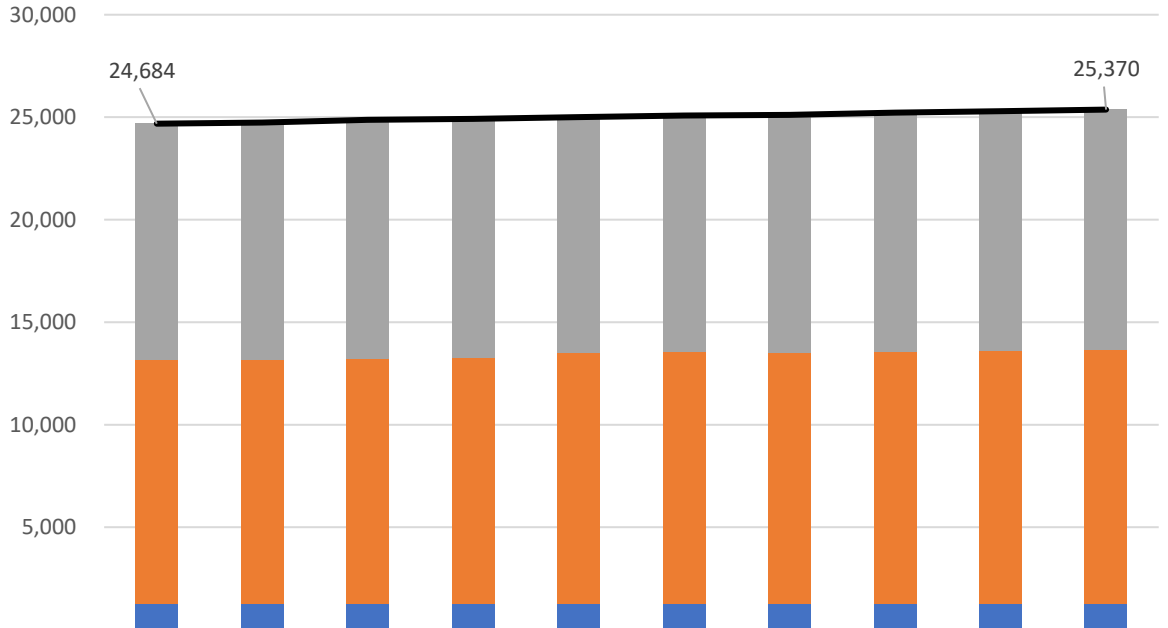
ANNUAL CHARGES BY MEMBER AGENCY - 10 FISCAL YEARS



ANNUAL CHARGES BY MEMBER AGENCY - % OF TOTAL

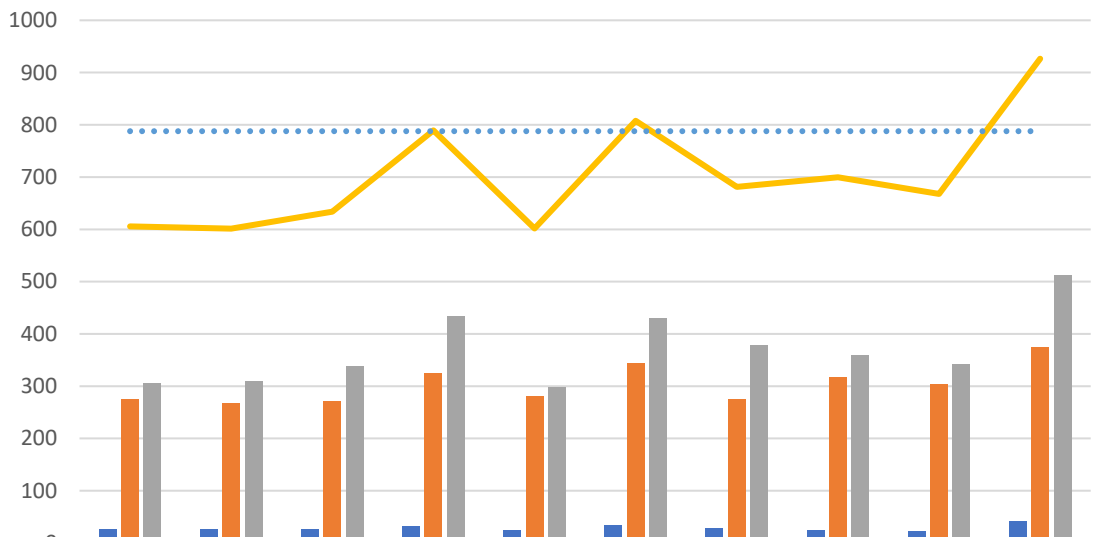
	<u>2014</u>	<u>2023</u>
County Service Area 53B	5%	5%
Big Bear City CSD	46%	47%
City of Big Bear Lake	49%	48%
	<u>100%</u>	<u>100%</u>

EQUIVALENT DWELLING UNITS BY MEMBER AGENCY - 10 FISCAL YEARS



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
City of Big Bear Lake	11,547	11,568	11,636	11,654	11,506	11,559	11,573	11,666	11,698	11,724
Big Bear City CSD	11,886	11,910	11,977	12,004	12,234	12,260	12,279	12,290	12,326	12,381
County Service Area 53B	1,251	1,257	1,258	1,259	1,260	1,262	1,262	1,264	1,264	1,265
Total EDUs	24,684	24,735	24,871	24,917	25,000	25,081	25,114	25,220	25,288	25,370

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



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
County Service Area 53B	25.978	25.563	25.211	32.277	23.686	34.111	27.756	23.942	22.315	40.248
Big Bear City CSD	274.178	267.355	271.320	324.605	281.152	344.309	275.529	316.385	304.217	374.248
City of Big Bear Lake	305.514	308.589	337.312	432.546	296.724	429.294	377.903	359.227	341.177	512.109
Total Influent Flow	605.670	601.508	633.842	789.428	601.562	807.714	681.188	699.554	667.709	926.605
Average Dry Weather Flow	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000

ANNUAL SEWER USER FEE RATE CHARGED PER EDU - 10 FISCAL YEARS



Debt Capacity

DEBT RATIOS - 10 FISCAL YEARS

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Principal Outstanding	\$4,554,398	\$4,125,097	\$3,681,512	\$3,223,168	\$2,749,574	\$4,040,433	\$3,668,205	\$3,283,230	\$2,885,070	\$5,873,273
Leases Outstanding	-	-	-	-	-	-	-	-	1,991	1,531
Total Outstanding Debt	\$4,554,398	\$4,125,097	\$3,681,512	\$3,223,168	\$2,749,574	\$4,040,433	\$3,668,205	\$3,283,230	\$2,887,061	\$5,874,804
EDUs	24,684	24,735	24,871	24,917	25,000	25,081	25,114	25,220	25,288	25,370
Debt Per EDU	\$185	\$167	\$148	\$129	\$110	\$161	\$146	\$130	\$114	\$232
Debt per Residential EDU	\$221	\$200	\$178	\$155	\$132	\$193	\$175	\$156	\$137	\$278
Debt as % of Household Income	0.6%	0.5%	0.5%	0.4%	0.3%	0.4%	0.3%	0.3%	0.3%	0.5%
Rate of Debt to Gross Revenue	0.83	0.76	0.68	0.58	0.48	0.70	0.62	0.54	0.46	0.86

Notes: 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.
Household income is derived from an average of the household income estimated for the City of Big Bear Lake and the Big Bear City Community Services District. For periods through 2017 the estimate is determined with data provided in the 2010 U.S. Census Bureau. For periods 2018 and after, data provided in the American Community Survey was used.

DEBT SERVICE COVERAGE - 10 FISCAL YEARS

OUTSTANDING DEBT ¹

Fiscal Year	Refunding Revenue Bonds	Water Revenue Bonds	Loan	Total Outstanding Debt	Gross Revenues	Net Revenues ²	Debt Service ³	Debt Service Coverage
2014	\$ -	\$ -	\$ 4,554,398	\$ 4,554,398	\$ 5,483,955	\$ 2,213,205	\$ 579,284	3.82
2015	-	-	4,125,097	4,125,097	5,433,739	1,907,639	579,284	3.29
2016	-	-	3,681,511	3,681,511	5,426,749	1,490,810	579,284	2.57
2017	-	-	3,223,167	3,223,167	5,575,660	1,440,559	579,284	2.49
2018	-	-	2,368,710	2,368,710	5,759,997	1,402,547	579,284	2.42
2019	-	-	4,040,433	4,040,433	5,759,997	1,402,366	593,013	2.36
2020	-	-	3,668,204	3,668,204	5,908,852	1,508,210	511,944	2.95
2021	-	-	3,283,230	3,283,230	6,042,227	1,446,634	511,944	2.83
2022	-	-	2,885,070	2,885,070	6,300,303	2,391,563	511,944	4.67
2023	-	-	5,873,273	5,873,273	7,012,538	2,115,980	614,229	3.44

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

²Net 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. Net Revenues are net of GASB 68 and 75 adjustments. These adjustments were material in 2022 and 2023.

³Debt service is calculated on accrual basis for both principal and interest 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). 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.

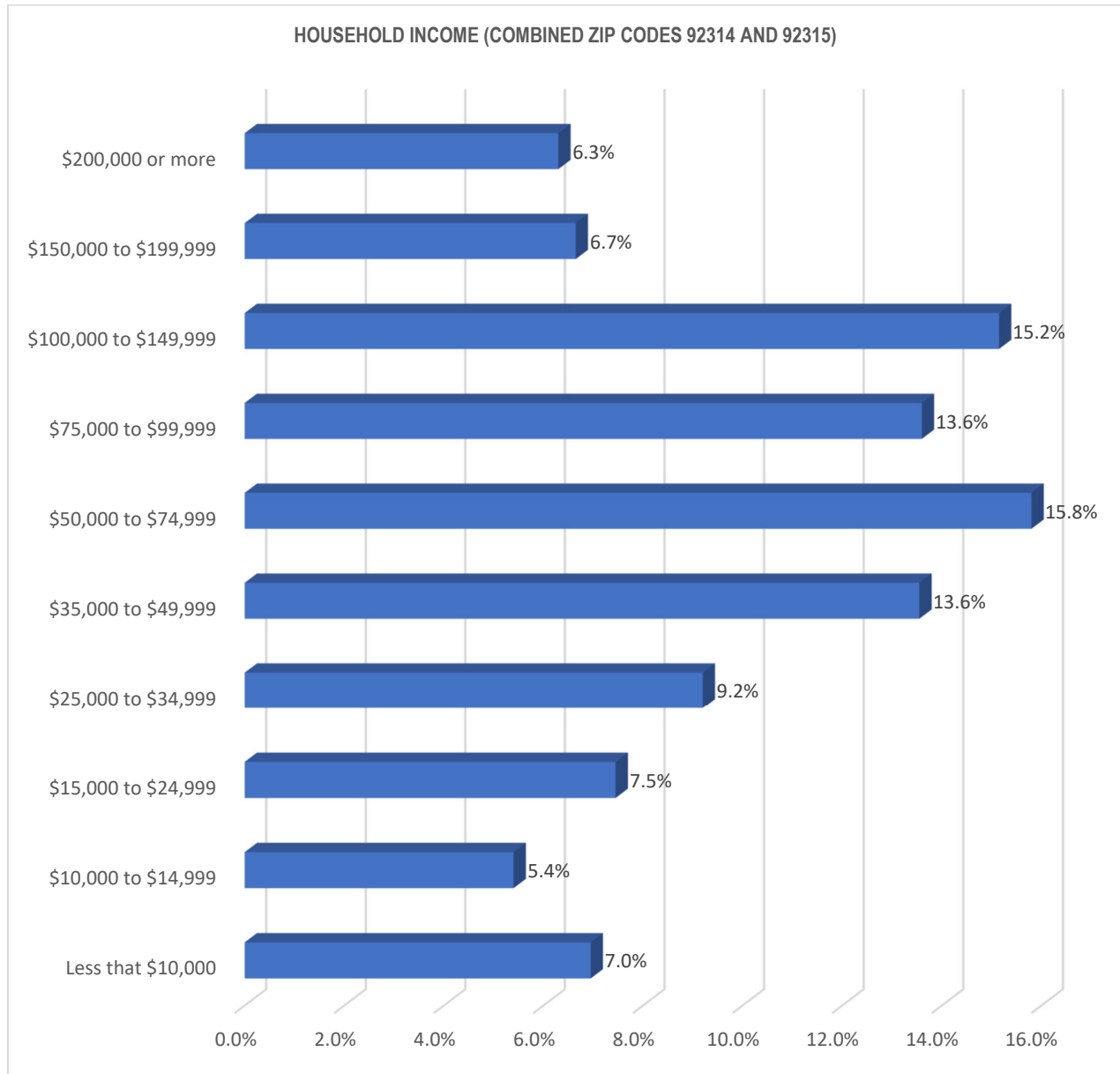
The statistics presented on the following pages have been obtained from information estimated by the U.S. Census Bureau in the 2021 American Community Survey. **It is important to note that the information presented covers the zip code areas of 92315, which is represented in the following demographic information as the City of Big Bear Lake and 92314, which is represented in the following demographic information as Big Bear City.**

POPULATION ESTIMATES

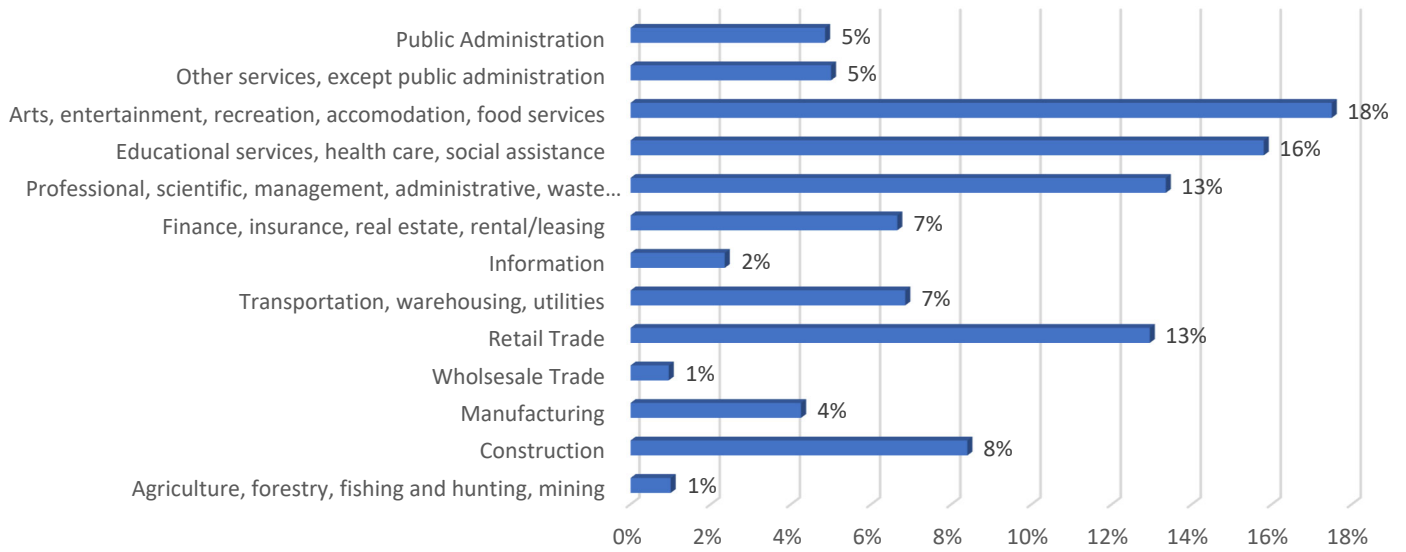
Year	City of Big Bear Lake	Big Bear City	Total
2021	5,068	12,738	17,806

UNEMPLOYMENT ESTIMATES

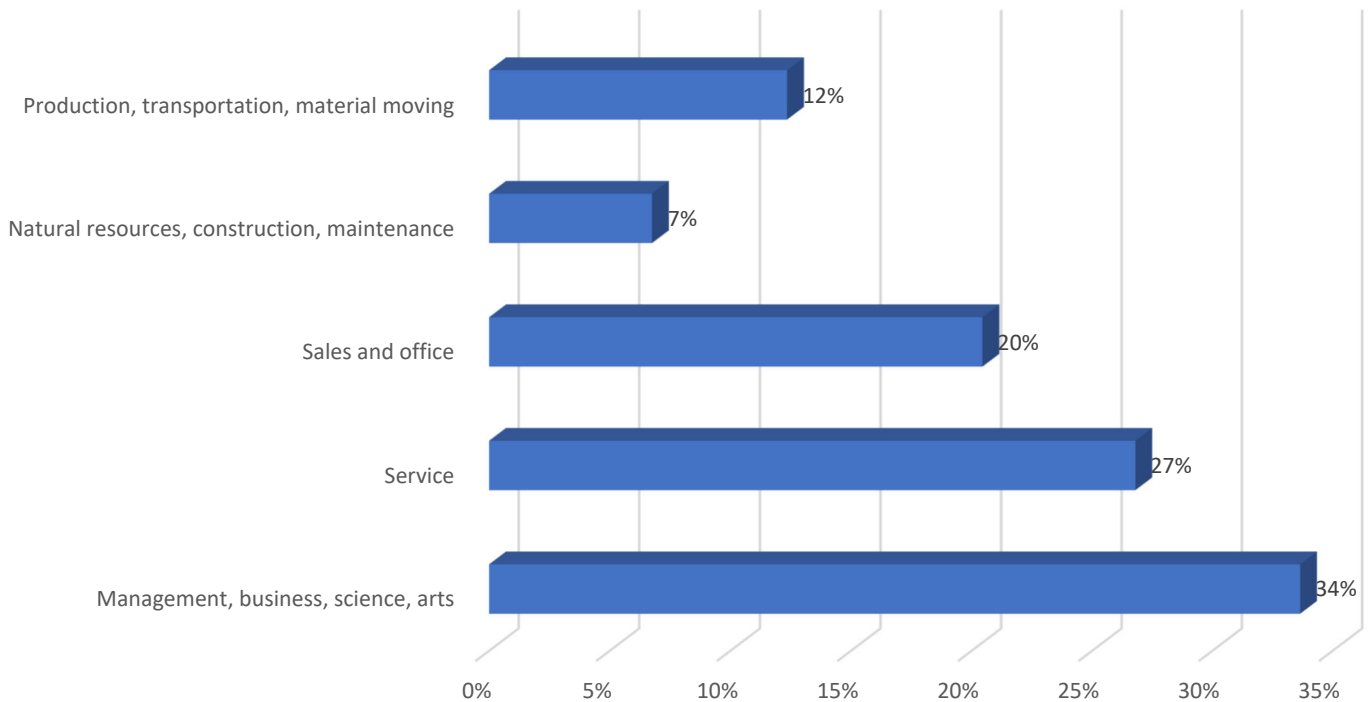
Year	City of Big Bear Lake	Big Bear City
2021	2.8%	4.4%



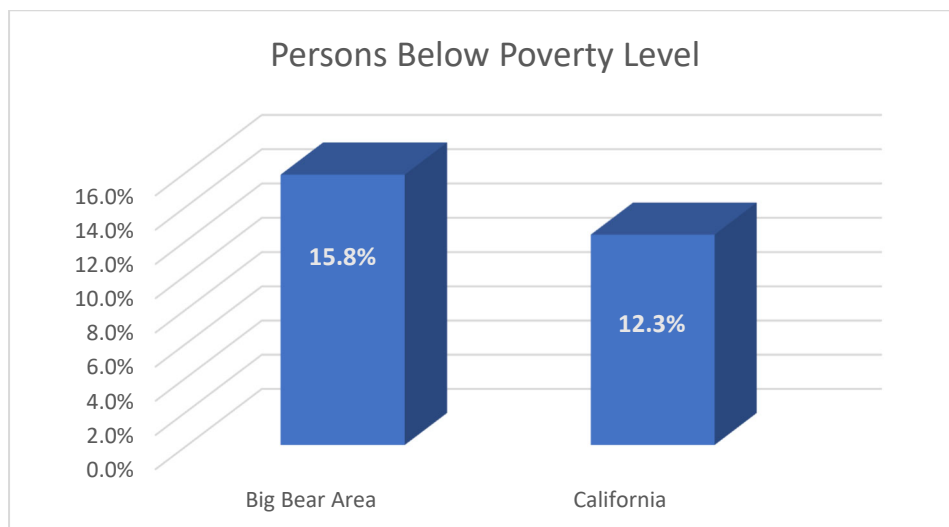
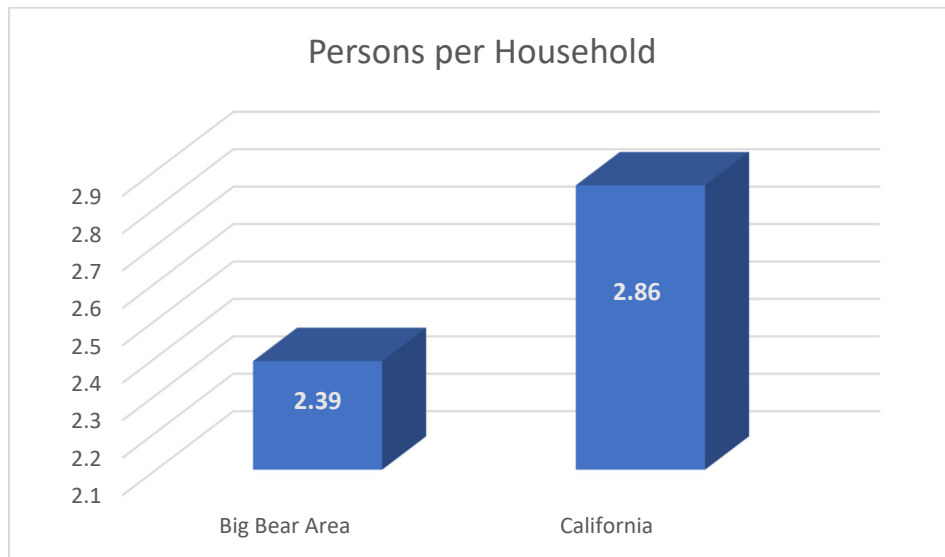
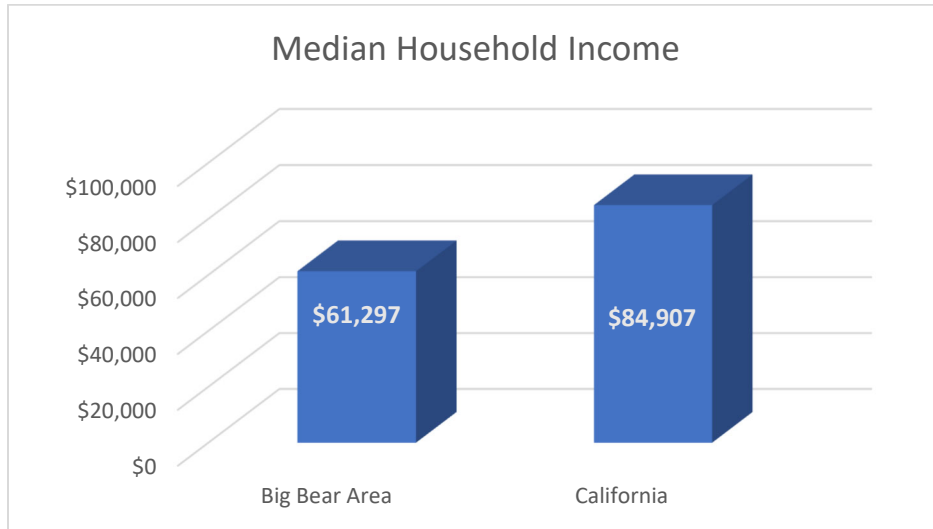
**% OF EMPLOYED POPULATION BY INDUSTRY
(COMBINED ZIP CODES OF 92314 AND 92315)**



**% OF EMPLOYED POPULATION BY OCCUPATION
(COMBINED ZIP CODES OF 92314 AND 92315)**



BIG BEAR AREA¹ COMPARISON TO STATE OF CALIFORNIA

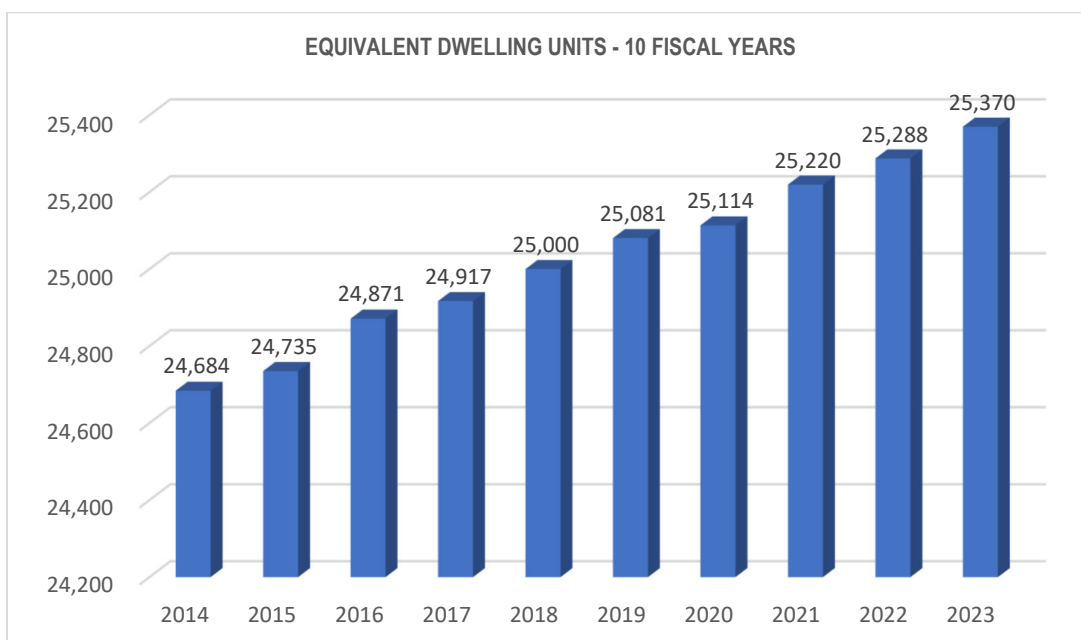
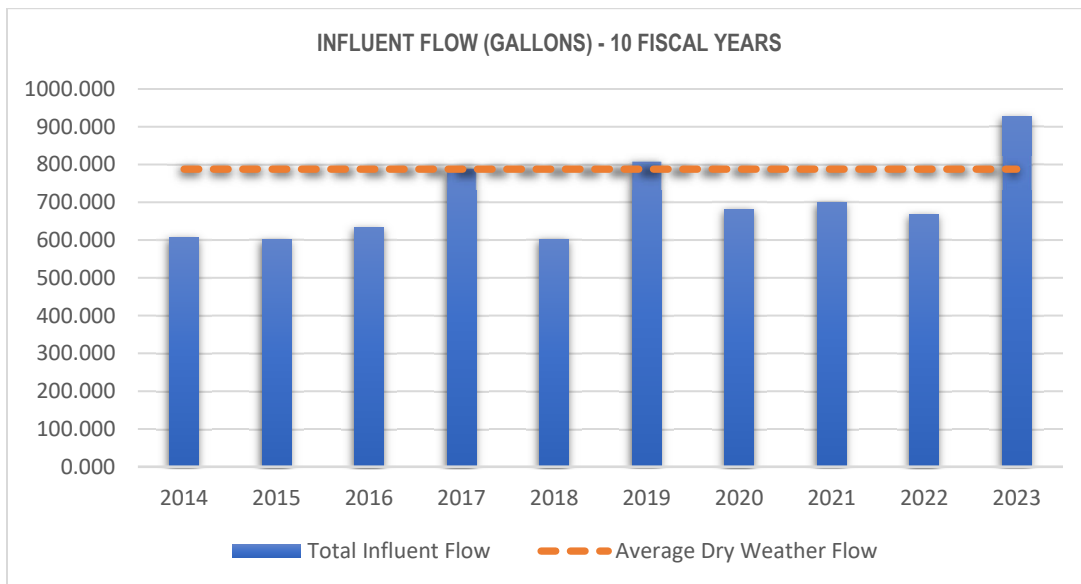


¹ Includes the zip code areas of 92314 and 92315.

Operating Information

System Demand (annual influent flow)

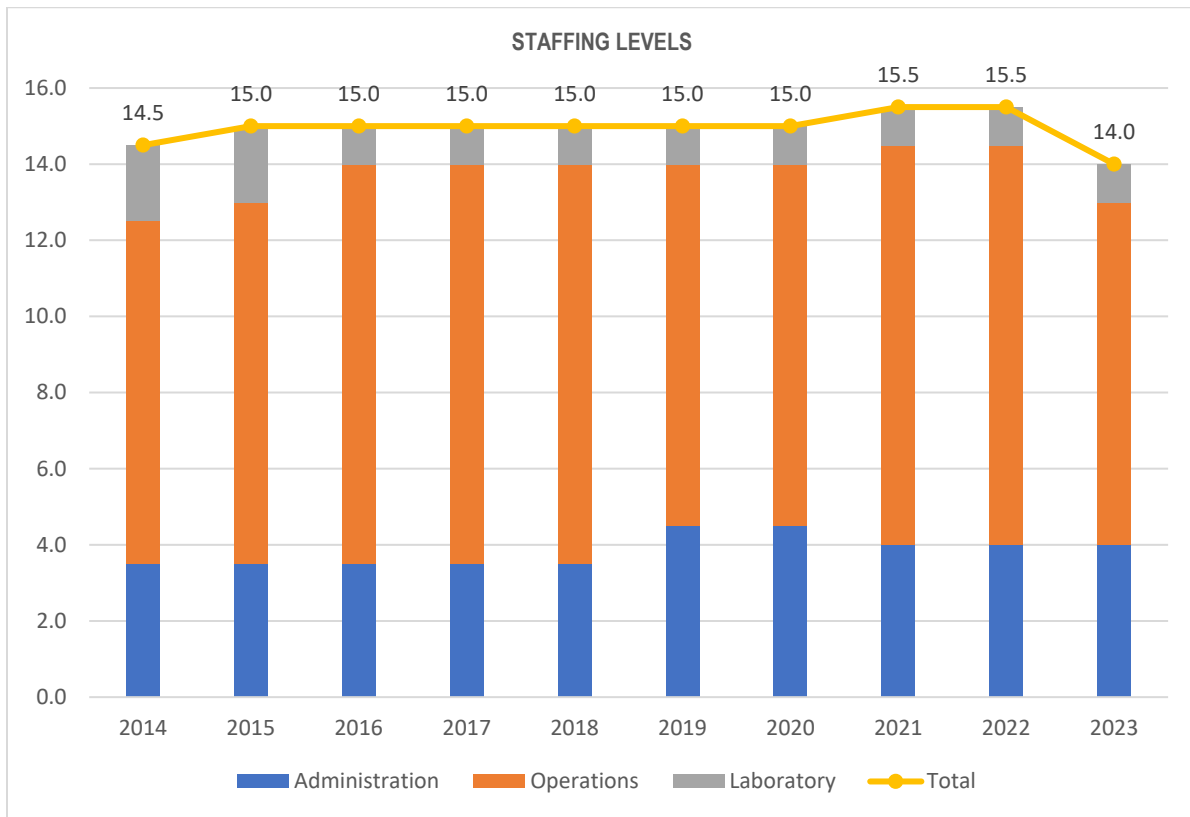
The Agency's wastewater flows are primarily impacted by 1) wet weather which creates infiltration and inflow into the system, and 2) peak tourist periods. Otherwise, the Agency's wastewater flows are fairly predictable due to the mature and stable commercial and residential housing markets in the area. The long-term average annual growth in equivalent dwelling units is below 1.0%. It is important to note that seven periods in the last ten years have been below the Agency's long-term average dry weather flow of 788 million gallons due to drought conditions.



AGENCY STAFFING BY DEPARTMENT¹

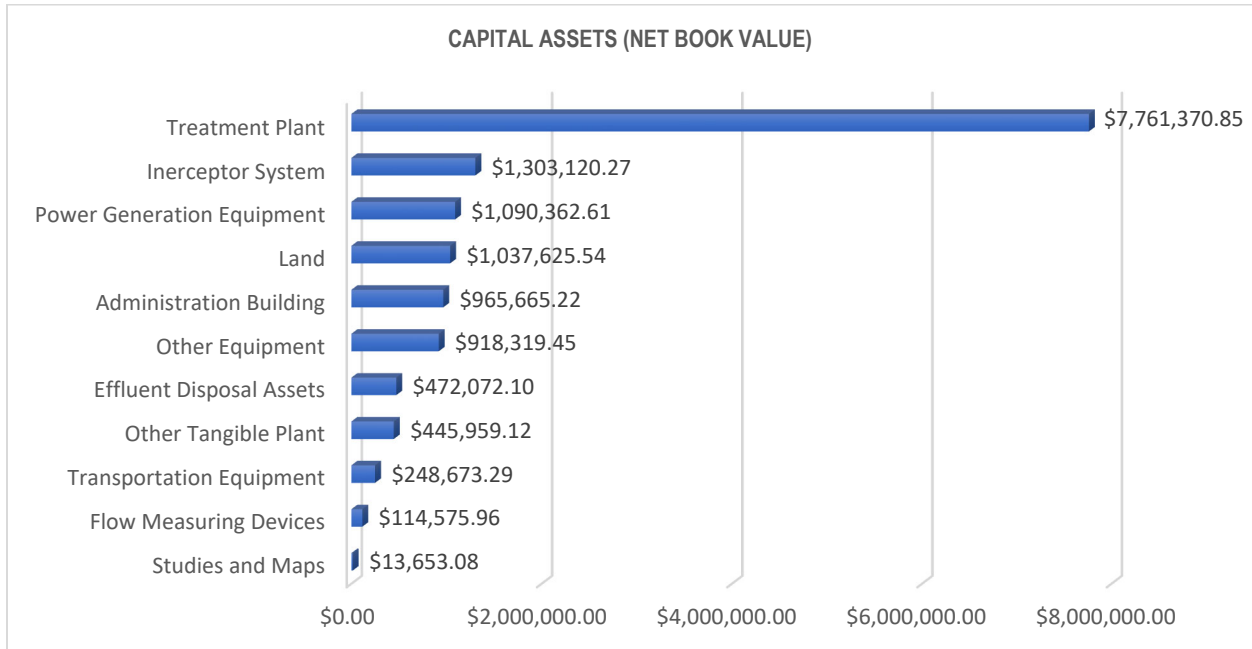
Year	Administration	Operations	Laboratory	Total
2014	3.5	9.0	2.0	14.5
2015	3.5	9.5	2.0	15.0
2016	3.5	10.5	1.0	15.0
2017	3.5	10.5	1.0	15.0
2018	3.5	10.5	1.0	15.0
2019	4.5	9.5	1.0	15.0
2020	4.5	9.5	1.0	15.0
2021	4.0	10.5	1.0	15.5
2022	4.0	10.5	1.0	15.5
2023	4.0	9.0	1.0	14.0

¹Full-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 (54%) and the interceptor system (9%).



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	4	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 demands associated with an increase in full-time occupancy. Historical data is not available.

CAPACITY UTILIZATION BY STRUCTURE

	<u>Capacity</u> MGD	<u>Utilization</u> MGD	<u>Utilization</u> Rate
Effluent Pumping	5.6	2.4	43%
Interceptor System (N. Shore Sliplining)	2.0	0.5	26%
Lake Pump Station	8.0	4.6	58%
Load Equalization Basin/Bal Chamber	2.4	0.8	33%
Main Line (manholes)	7.2	3.2	44%
North Shore Pump Station 1	0.9	0.3	36%
Oxidation Ditches	4.9	2.4	49%
RAS Pumping	3.8	2.4	63%
Old Sludge Building	6.4	2.4	38%
Outfall Line	9.6	2.4	25%
Grit Removal System (2.4 / 7.6)	10.0	2.4	24%
Clarifiers	3.04	2.4	79%
New Belt Press	18.56	2.4	13%