BIG BEAR AREA REGIONAL WASTEWATER AGENCY

2020

Comprehensive Annual Financial Report

For the year ended June 30, 2020

David Lawrence, General Manager

Big Bear City, California

Big Bear Area
Regional Wastewater Agency
Big Bear City, California

FY 2020
Comprehensive Annual
Financial Report
For the year ended June 30, 2020

"Protecting Big Bear's Future through Responsible Planning"

Prepared by
Jennifer D. McCullar,
Finance Manager

Big Bear Area Regional Wastewater Agency
Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2020

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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 19, 2020

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

The Comprehensive Annual Financial Report (the CAFR) of the Big Bear Area Regional Wastewater Agency (the Agency) for the fiscal year ended June 30, 2020 is submitted. California state law requires the Agency, as a joint powers agency and operating under special district law, to publish and file with the State Controller an audit report conforming to generally accepted auditing standards within 12 months of the end of the fiscal year or years under examination.

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

The Agency's financial statements have been audited by Rogers, Anderson, Malody & Scott, LLP. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Agency are free of material misstatement. The auditing firm has issued an unmodified opinion on the Agency's financial statements for the fiscal year ended June 30, 2020. The independent auditor's report is located at the beginning of the Financial Section of the CAFR on page 1.

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

The Comprehensive Annual Financial Report

This report is presented in three sections:

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

Governing Body

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

Services

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

Mission

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

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

Budget Process

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

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

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

Economic Condition

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

Local Economy

The local area is a four-season, resort community located in the San Bernardino Mountains of Southern California. The economy is driven by tourists and a large, part-time population of second homeowners. The food service, accommodation, recreation and entertainment industries are the largest employers followed by educational, healthcare and social services. The Agency serves an area that experiences relatively low growth with new connections averaging less than 1% a year over the long-term, or approximately 130 annual connections. Since the Great Recession, new connections to the system have been lower with annual connections of approximately 58 per year for the last five years. An overview of the general demographics of the area can be found in the Statistical Section.

Long-Term Financial Planning

Rates are set at levels to meet operating and maintenance costs, capital costs (both debt service and capital expenditures), and minimum reserve fund balance requirements. The Agency uses a combination of cash and debt to fund its capital investments and to maintain stable rates. Annual rate adjustments through FY 2025 are projected to be 3% on average and reflect expected cost inflation for the period.

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

The Agency's capital projects during the next five-year period through FY 2025 total approximately $4.4 million ($880,000 annual average) and through FY 2040 total approximately $32 million ($1.6 million annual average). The 20-year capital plan includes an estimated $7.7 million outfall line replacement, which is currently uncertain. Excluding this project, the 20-year capital plan averages approximately $1.2 million a year and is more in line with the Agency's expectations of annual capital investment. Over the long term, approximately 75% of the Agency's capital investment is for maintenance with the remaining 25% for non-maintenance improvements. Over the next five years, the Agency's major capital projects (in approximate amounts) include $1.1 million to rebuild the Agency's power generating equipment; $1.1 million of Asphalt and Paving including the Palomino Drive Repaving Project; $920,000 in treatment plant improvements (the replacement of the Agency's in-plant high pressure effluent line, headers and check valves, and a headworks carbon tower replacement); $470,000 for the replacement of transportation equipment; $310,000 for the replacement of the heating, venting and air conditioning system in the Agency's administrative building; and $140,000 for the replacement of equipment related to the laboratory and interceptor electrical system.

Financial Policies and Practices

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

FY 2020 Major Initiatives

Headworks – The Agency will complete the engineering and begin construction to rehabilitate its grit removal system (part of the headworks operations).

Power Generating Equipment – The Agency will rebuild both of its Cummins generators and replace the Pump Station 3 generator and fuel system.

Replacement of In-Plant Piping – The Agency will replace all piping in the Main Pump Building including check valves and gate valves.

Replenish Big Bear – The Agency continues its efforts on the Replenish Big Bear Project, a water reclamation project. The Agency began preliminary engineering and environmental work in FY 2019 which continued in FY 2020 and will continue in FY 2021.

Awards and Acknowledgement

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the **Certificate of Achievement for Excellence in Financial Reporting** to the Big Bear Area Regional Wastewater Agency for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This is the 8th consecutive year BBARWA has received the award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements

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

David Lawrence	Jennifer McCullar
General Manager	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 Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

Governing Board of Directors

As of June 30, 2020

John Green, Chair
Big Bear City CSD

Jim Miller, Vice Chair
County Service Area 53B

Karyn Oxandaboure, Secretary
Big Bear City CSD

David Caretto, Director
City of Big Bear Lake

Rick Herrick, Director
City of Big Bear Lake

General Manager and Staff

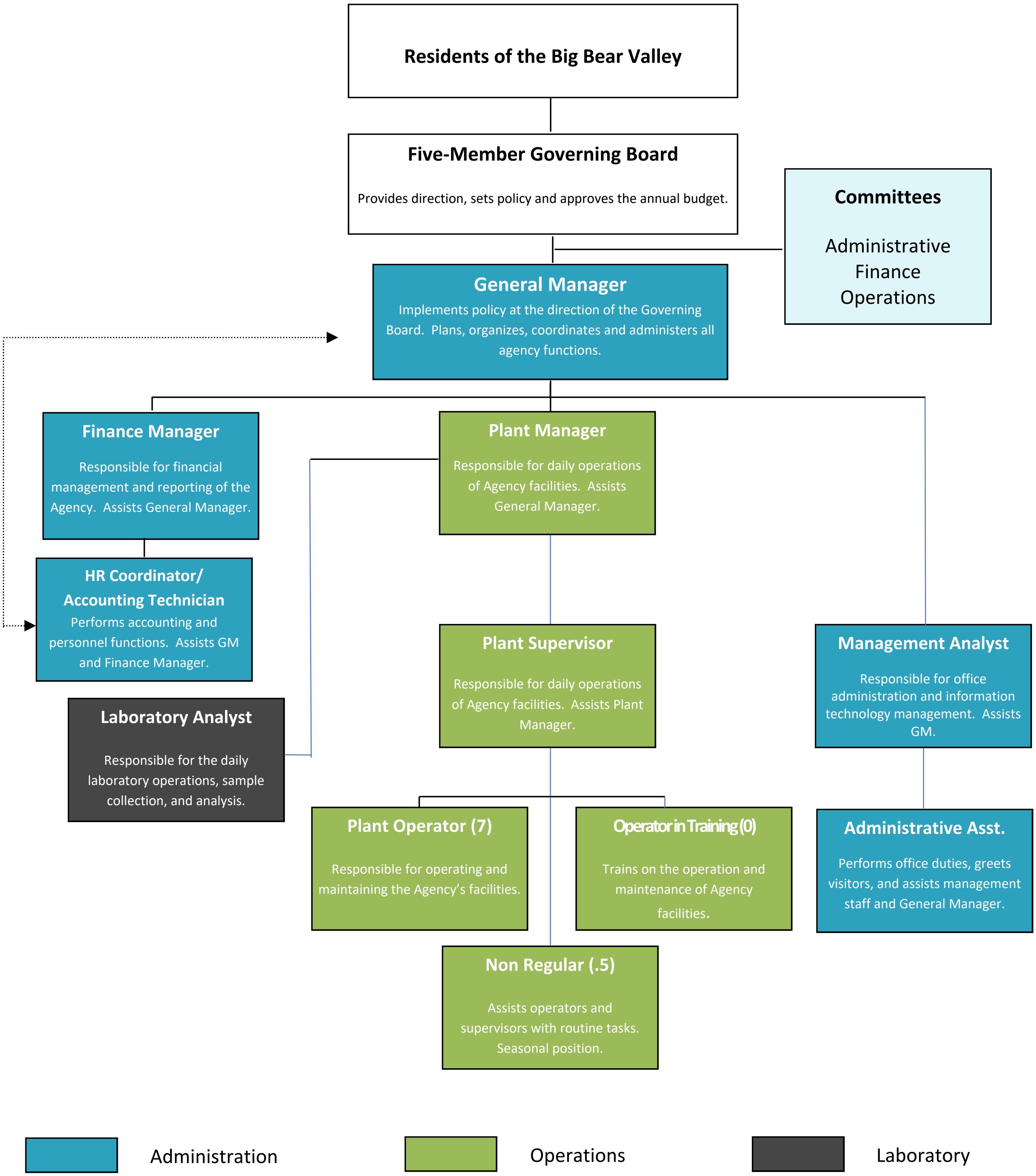
David Lawrence
General Manager

Jennifer McCullar
Finance Manager

John Shimmin
Plant Manager

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

Organization Chart
(as of September 2020)



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FINANCIAL SECTION

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior year Comparative Information

We have previously audited the Agency's 2019 financial statements, and we expressed an unmodified opinion in our report dated October 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 19, 2020

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Management's Discussion and Analysis

This section of the financial statements for the Big Bear Area Regional Wastewater Agency provides a discussion of the Agency's financial performance for the fiscal year ended June 30, 2020 (FY 2020). 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 during the period compared to the prior year. The Agency experienced higher operating revenues and flat operating expenses during the period which resulted in much higher operating income compared to the prior period. This combined with grant proceeds during the period drove a substantial increase in change in net position for the period.

The Agency's operating revenues increased $182,160 or 3% compared to the prior period. The increase was primarily due to a 3.2% increase in sewer user fees and slightly higher connections to the system. Operating expenses were relatively flat with an increase of $13,225 or 0% over the prior period. While overall expenses were flat, the Agency experienced large increases in salaries and benefits expense offset by decreases in collection and treatment costs and contractual services expense. As a result, operating income increased $168,935 or 108% compared to the year-ago period.

The Agency's nonoperating revenues increased $67,538 or 41% over the prior period largely due to grant reimbursements related to the Replenish Big Bear Project (a water reclamation project), offset by lower interest income resulting from lower cash balances and lower interest rates during the period. Nonoperating expenses were relatively flat, down $1,651 or 1% due to lower other expense (related to the Replenish Big Bear Project) and lower interest expense related to debt service offset by higher losses on asset disposal. Overall, net nonoperating revenues (expenses) had a positive variance over the prior period of $69,189 compared to the year-ago period driven by the grant reimbursements.

Capital contributions (connection fee revenue) were flat during the period due to flat connections compared to the year ago period. Current period connections were 45, the same as the prior period. The connection fee (the rate charged per connection) remained unchanged during the period at $4,180 per connection.

The Agency had negative cash flow during the period of approximately $1.1 million driven by a high level of capital expenditures, which were funded in part with debt proceeds received in the prior period. The Agency generated approximately $1.5 million in cash from operations, connection fee revenue, and interest income. These sources of cash were offset by capital expenditures of approximately $2.1 million and debt service payments of $509,116.

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

Statement of Net Position

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

CONDENSED STATEMENT OF NET POSITION

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Assets:				
Current and other assets	$ 6,950,991	$ 8,118,553	$ (1,167,562)	-14%
Capital assets, net	16,177,097	14,950,800	1,226,297	8%
Total assets	23,128,088	23,069,353	58,735	0%
Deferred Outflows of Resources	1,243,786	1,065,202	178,584	17%
Liabilities:				
Current liabilities	885,963	902,810	(16,847)	-2%
Noncurrent liabilities	6,626,161	6,790,262	(164,101)	-2%
Total liabilities	7,512,124	7,693,072	(180,948)	-2%
Deferred Inflows of Resources	343,478	348,922	(5,444)	-2%
Net Position:				
Net investment in capital assets	12,541,345	10,947,850	1,593,495	15%
Unrestricted	3,974,927	5,144,711	(1,169,784)	-23%
Total net position	$ 16,516,272	$ 16,092,561	$ 423,711	3%

Summary

The Agency's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $16.5 million at fiscal yearend, an increase of $423,711 or 3% from the prior year. The increase in net position was driven by an increase in Assets and Deferred Outflows of Resources of $237,319 and a decrease in Liabilities and Deferred Inflows of Resources of $186,392.

Assets and Deferred Outflows of Resources

Total assets were relatively flat with an increase of $58,735 or 0% over the prior period. A $1.2 million decrease in current assets was mostly offset by a $1.2 million increase in capital assets. The decrease in current assets was largely driven by a decrease in cash reflecting a high level of capital investment during the period resulting in a $1.1 million net reduction in cash and investments. The $1.2 million increase in capital assets was driven by capital investment during the period. Deferred outflows of resources increased $178,584 or 17% and primarily reflects a $163,202 increase from OPEB-related adjustments associated with changes in plan assumptions, plan experience and contributions.

Liabilities and Deferred Inflows of Resources

Total liabilities decreased $180,948 or 2% from the prior period. The decrease was driven by a decrease in noncurrent liabilities of $164,101 and reflects a decrease in debt during the period. Deferred inflows of resources decreased $5,444 or 2% driven by OPEB-related adjustments associated with changes in plan experience offset in part by pension-related adjustments associated with changes in proportionate share and 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 the Agency to meet its ongoing obligations. The Agency's overall net position is simply a function of its assets and deferred outflows of resources minus its liabilities and deferred inflows of resources. During the period, the Agency's net position increased $423,711 primarily due to increases in assets and decreases in liabilities, which have been previously noted.

Statement of Revenues, Expenses and Changes in Net Position

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

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change[1]
Operating revenues	$ 5,589,346	$ 5,407,186	$ 182,160	3%
Operating expenses	5,263,872	5,250,647	13,225	0%
Operating Income	325,474	156,539	168,935	108%
Nonoperating revenues	232,249	164,711	67,538	41%
Nonoperating expenses	322,112	323,763	(1,651)	-1%
Income before capital contributions	235,611	(2,513)	238,124	+
Capital contributions	188,100	188,100	-	0%
Change in net position	423,711	185,587	238,124	128%
Net position at beginning of year, as restated	16,092,561	15,906,974	185,587	3%
Net position at end of year	$ 16,516,272	$ 16,092,561	$ 423,711	3%

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

Summary

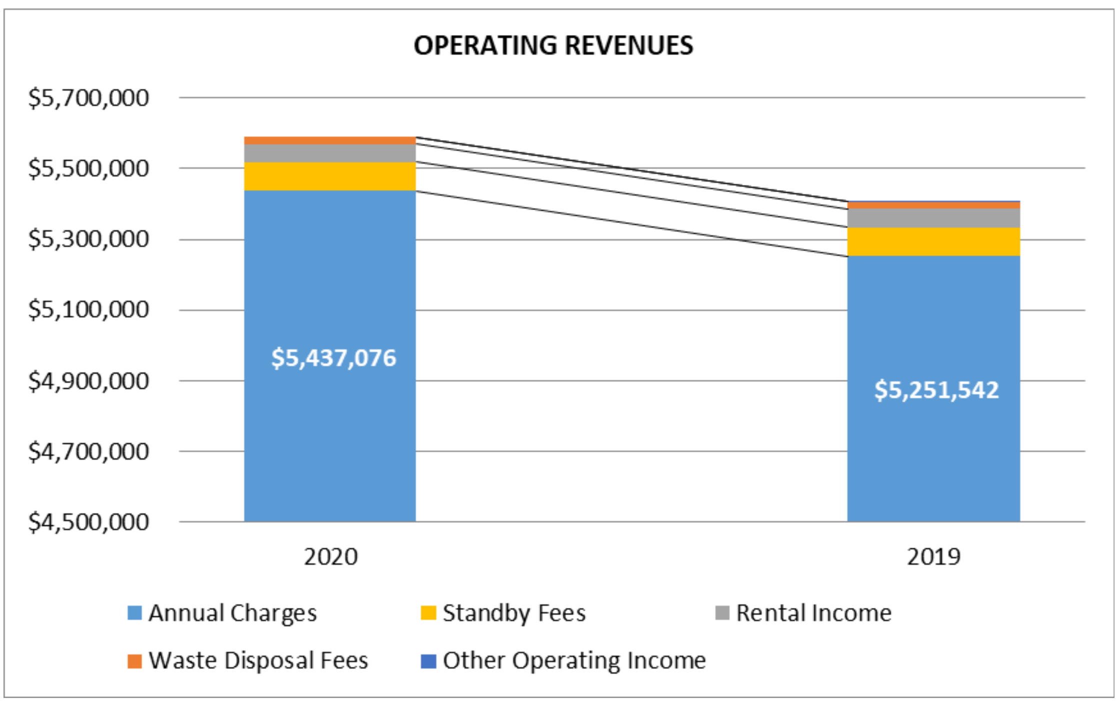
The Agency's operating revenues increased $182,160 or 3% and operating expenses were flat increasing $13,225 or 0%, resulting in an increase in operating income of $168,935 or 108%. This increase combined with a $67,538 increase in nonoperating revenues driven by grant reimbursement proceeds, resulted in an increase in the change in net position of $238,124 or 128% compared to the year-ago period.

Operating Revenues

Changes in operating revenues are largely driven by changes in annual charges which make up 97% of total operating revenues. Annual charges are based on the established sewer user fee set by the Governing Board and the number of equivalent dwelling units connected to the system. Sewer user fees increased 3.2%, which when combined with slightly higher connections drove a 4% increase in annual charges, and the 3% overall increase in operating revenues.

OPERATING REVENUES

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Operating revenues:				
Annual charges	$ 5,437,076	$ 5,251,542	$ 185,534	4%
Standby fees	81,660	83,200	(1,540)	-2%
Rental income	51,855	51,071	784	2%
Waste disposal fees	18,755	20,608	(1,853)	-9%
Other revenue	-	765	(765)	-100%
Total operating revenues	$ 5,589,346	$ 5,407,186	$ 182,160	3%



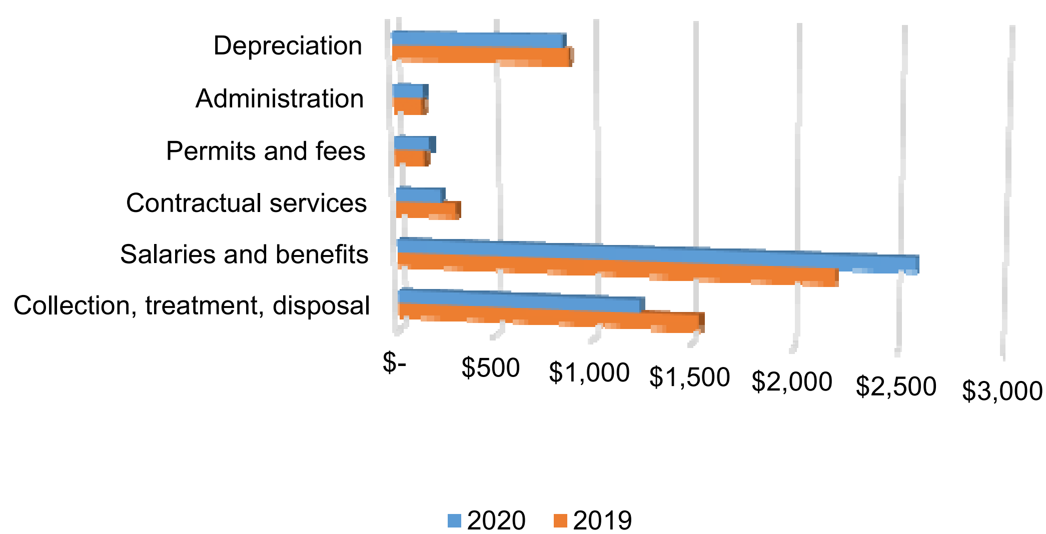
Operating Expenses

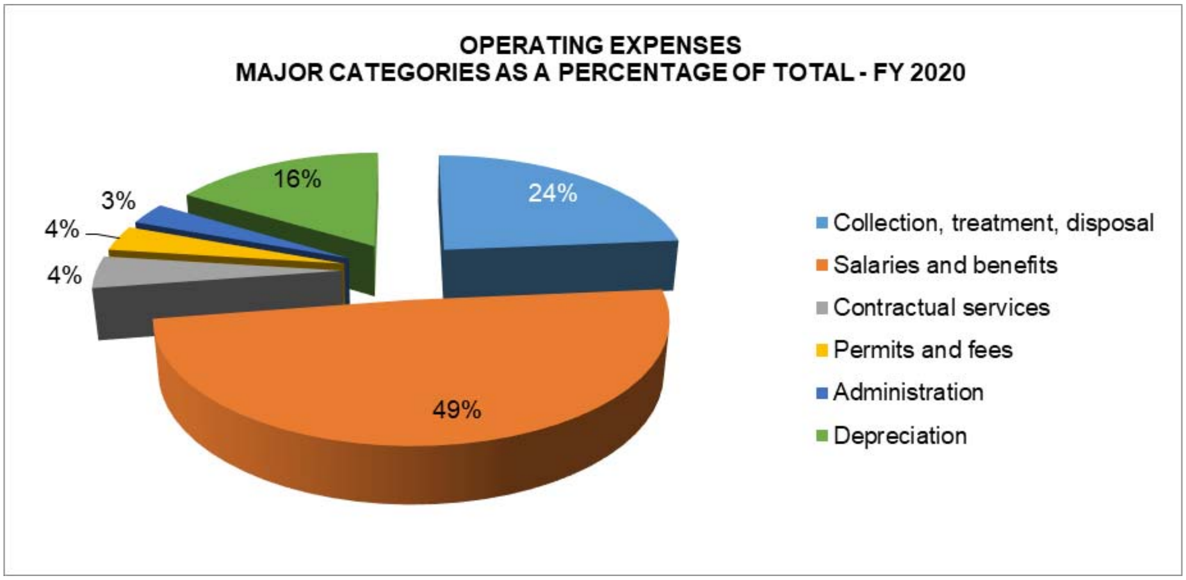
Operating expenses were relatively flat increasing $13,225 or 0% compared to the year-ago period. Decreases in collection, treatment and disposal expense and contractual services expense were largely offset by increases in salaries and benefits expense.

OPERATING EXPENSES

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Operating expenses:				
Collection, treatment, disposal	$ 1,243,609	$ 1,535,027	$ (291,418)	-19%
Salaries and benefits	2,578,433	2,199,428	379,005	17%
Contractual services	232,349	311,709	(79,360)	-25%
Permits and fees	185,051	158,528	26,523	17%
Administration	161,197	152,759	8,438	6%
Depreciation	863,233	893,196	(29,963)	-3%
Total operating expenses	$ 5,263,872	$ 5,250,647	$ 13,225	0%

OPERATING EXPENSES BY MAJOR CATEGORY
($ IN 1,000s)





Collection, Treatment and Disposal Expense

Collection, treatment and disposal expense decreased $291,418 or 19% over the prior period. This decrease was driven largely by decreases in repairs and replacements expense and to a lesser extent decreases in power and sludge removal expense.

- **Repairs and replacements expense** decreased $191,251 or 43% when compared to the prior year. During the prior year, the Agency experienced higher overall repairs related to multiple repair projects: rotor replacement, oxidation ditch reducer replacement, Clarifier 3 valve repair, belt press belt replacement, and Lucerne Valley discharge facility emergency repair work totaling approximately $207,000.

- **Power expense** was lower by $66,928, or 13% due to unusually high power costs at the treatment plant in the prior year combined with lower utility standby fees and lower flows in the current period. In FY 2019, the Agency shut down its power-producing generators temporarily due to emissions concerns which resulted in higher power costs from using utility power. During the current fiscal year, the Agency received a reduction in its utility standby fees of approximately $25,500 and experienced lower flows, down 127 million or 16% from the prior period which resulted in lower electrical demand and lower power expense.

- **Sludge removal expense** was lower by $21,949, or 7% due to lower sludge removal. Sludge tons removed were down 8% over the prior period due to in part to 1) lower flows offset somewhat by higher concentration of BOD (biochemical oxygen demand) and 2) the installation of the belt press which was in operation for four months of the year. The new belt press processes dryer solids and results in lower overall, sludge tons produced.

Salaries and Benefits Expense

Salaries and benefits expense was up $379,005 or 17% over the prior period. Excluding GASB adjustments and a one-time OPEB lump sum contribution, salaries and benefits expense increased $190,558 or 9%. The OPEB lump sum contribution is part of a five-year plan to reduce the Agency's OPEB liability by $1 million and improve the Agency's funded position to better insure that the Agency's obligations will be met, and that intergenerational equity will be maintained among ratepayers.

Salaries and Benefits Expense Excluding GASB Adjustments

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Salaries and benefits	$ 2,578,433	$ 2,199,428	$ 379,005	17%
GASB Adjustments	(25,019)	(36,572)	11,553	-32%
OPEB Lump Sum Contribution	(200,000)	-	(200,000)	-
Salaries and benefits adjusted	$ 2,353,414	$ 2,162,856	$ 190,558	9%

The increase in salaries and benefits expense, excluding the GASB adjustments and the OPEB lump-sum contribution, reflects a 9% increase in salaries and wages and a 9% increase in employee benefits expense. The increase in salaries and wages, which was largely due to annual cost-of-living and merit adjustments, was similar to what was experienced in FY 2019 and is expected to slow beginning in FY 2021. The increase in benefits expense was driven largely by higher medical premium and pension contribution expense.

Contractual Services

Contractual services expense decreased $79,360 or 25% over the prior period due to lower testing, HVAC (heating, venting and air conditioning) system servicing and safety consultant expense. Higher testing expense in the prior period was due to testing associated with Agency's generator meters related to emissions concerns, H2S main air monitor testing and the calibration of the Agency's flow meters. In the prior period, the Agency incurred higher HVAC servicing costs due to higher overall servicing requirements and higher safety consultant expenses resulting from a one-time contract to assist the Agency with its safety program.

Permits and Fees

Permits and fees expense increased $26,523 or 17% largely due to increases in the Agency's State Water Resources Control Board annual discharge permit fees. These fees increased $20,439 or 15% over the prior period.

Administration Expense

Administration expense was up $8,438 or 6% from the prior period reflecting higher insurance expense related to increases in general and property liability insurance rates.

Depreciation

Depreciation expense decreased $29,963 or 3% from the prior period and was due to large assets becoming fully depreciated in the prior period. This decrease in depreciation expense exceeded the incremental depreciation associated with new capital investment.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) had a positive variance of $69,189 compared to the prior period. The improvement was due to higher miscellaneous revenue offset by lower investment income. Other miscellaneous revenue was higher due to grant reimbursement proceeds related to the Replenish Big Bear Project (a water reclamation project). Lower interest income was driven by lower cash balances and lower interest rates during the period.

NONOPERATING REVENUES (EXPENSES)

	As of June 30,		2020 vs. 2019	
	2020	2019	Increase (Decrease)	% Change[1]
Nonoperating revenues:				
Investment income	$ 130,952	$ 164,531	$ (33,579)	-20%
Other miscellaneous revenue	101,297	180	101,117	56176%
Total nonoperating revenues	232,249	164,711	67,538	41%
Nonoperating expenses:				
Other	172,597	181,529	(8,932)	-5%
Interest	140,337	142,234	(1,897)	-1%
Net loss on capital asset disposals	9,178	-	9,178	-
Total nonoperating expenses	322,112	323,763	(1,651)	-1%
Total nonoperating revenues (expenses)	$ (89,863)	$ (159,052)	$ 69,189	+

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

Capital Contributions (Connection Fee Revenue)

Connection fee revenue remained flat over the prior year as the number of connections remained the same at 45 and the Agency's connection fee remained unchanged at $4,180 per connection.

CAPITAL CONTRIBUTIONS (CONNECTION FEE REVENUE)

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Capital Contributions	$ 188,100	$ 188,100	$ -	0%
Number of Connections	45	45	-	0%

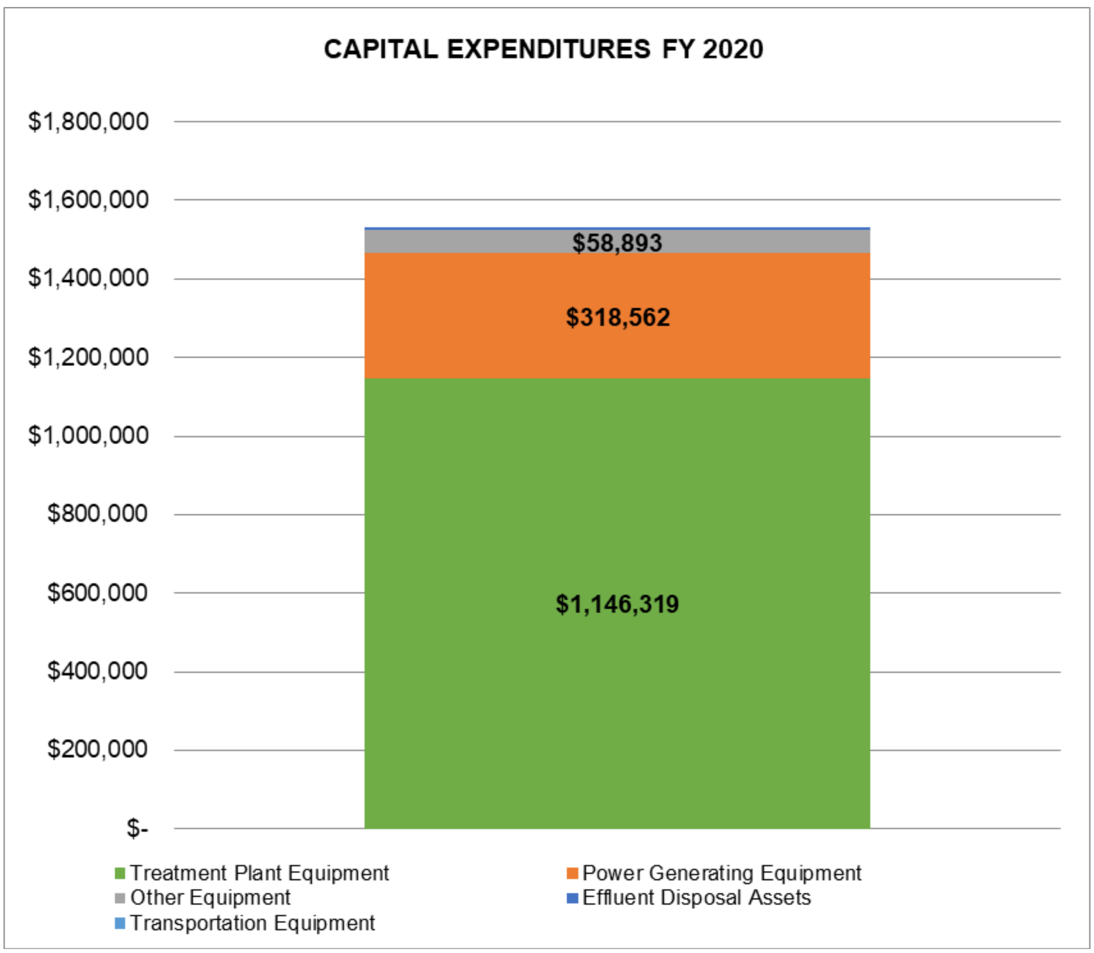
Capital Asset Activity

The Agency's net capital assets increased by $1,226,297 or 8% during the period. The net increase in capital assets was primarily due to capital expenditures exceeding annual depreciation expense and asset disposals. The Agency's capital expenditures during the period totaled $2,098,708, compared to annual depreciation expense of $863,233 and net asset disposals of $9,178.

CAPITAL ASSETS, NET

	As of June 30,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Capital assets, net	$16,177,097	$14,950,800	$ 1,226,297	8%

Fiscal year 2020 was a high capital investment period with $2,098,708 in capital expenditures during the period. Of this amount approximately $473,000 remained in progress at year end and is primarily related to the Agency's SCADA replacement project. The remaining approximately $1.6 million in capital investment for the period is primarily related to the replacement of treatment plant equipment, improvements to power generating equipment, the replacement of station generators, and the replacement of other equipment.



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

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

The Agency decreased its long-term debt during the period by $372,228 or 9% which reflects regularly scheduled debt amortization of $372,228. The Agency's net OPEB liability decreased by $19,993 or 2% and the Agency's pension liability increased by $240,435 or 13%. 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,		2020 vs 2019	
	2020	2019	Increase (Decrease)	% Change
Outstanding Debt, Net	$ 3,668,205	$ 4,040,433	$ (372,228)	-9%
Net OPEB Liability	1,162,459	1,182,452	(19,993)	-2%
Net Pension Liability	2,122,006	1,881,571	240,435	13%

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

Contacting the Agency

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

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Basic Financial Statements

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Statement of Net Position
June 30, 2020
(With comparative data for prior year)

Assets	**2020**	**2019**
Current assets:		
Cash and investments (note 3)	$ 6,769,204	$ 7,840,506
Accounts receivable	121,324	194,722
Due from member agencies	25,080	25,080
Interest receivable	20,412	43,304
Prepaid expenses	14,971	14,941
Total current assets	6,950,991	8,118,553
Noncurrent assets:		
Capital assets, not being depreciated (note 4)	1,307,119	1,866,710
Capital assets, net of depreciation (note 4)	14,869,978	13,084,090
Total noncurrent assets	16,177,097	14,950,800
Total assets	23,128,088	23,069,353
Deferred Outflows of Resources		
Deferred charges on refunding	32,453	37,482
Pension related (note 7)	675,353	654,942
OPEB related (note 8)	535,980	372,778
Total deferred outflows of resources	1,243,786	1,065,202
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	324,024	362,337
Accrued salaries and benefits	29,934	20,603
Accrued interest	15,923	17,503
Deposits	100	100
Long-term liabilities, due within one year	515,982	502,267
Total current liabilities	885,963	902,810
Noncurrent liabilities (note 5):		
Net OPEB liability	1,162,459	1,182,452
Net pension liability	2,122,006	1,881,571
Long-term liabilities, due beyond one year	3,341,696	3,726,239
Total noncurrent liabilities	6,626,161	6,790,262
Total liabilities	7,512,124	7,693,072
Deferred Inflows of Resources		
Pension related (note 7)	272,954	241,163
OPEB related (note 8)	70,524	107,759
Total deferred inflows of resources	343,478	348,922
Net position:		
Net investment in capital assets	12,541,345	10,947,850
Unrestricted	3,974,927	5,144,711
Total net position	$ 16,516,272	$ 16,092,561

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

Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2020
(With comparative data for prior year)

	2020	2019
Operating revenues		
Member agency fees	$ 5,437,076	$ 5,251,542
Standby charges	81,660	83,200
Rental income	51,855	51,071
Waste disposal fees	18,755	20,608
Other revenues	-	765
Total operating revenues	5,589,346	5,407,186
Operating expenses		
Salaries and benefits	2,578,433	2,199,428
Power	453,306	520,234
Sludge removal	276,292	298,241
Chemicals	47,596	53,087
Materials and supplies	159,052	162,695
Repairs and replacements	253,789	445,040
Equipment rental	351	1,363
Utilities	14,180	22,207
Communications	39,043	32,160
Contractual services - other	78,879	97,296
Contractual services - professional	153,470	214,413
Permits and fees	185,051	158,528
Property tax	3,917	3,665
Insurance	112,262	100,952
Other operating	45,018	48,142
Depreciation	863,233	893,196
Total operating expenses	5,263,872	5,250,647
Operating income	325,474	156,539
Nonoperating revenues		
Investment income	130,952	164,531
Other miscellaneous revenue	101,297	180
Total nonoperating revenues	232,249	164,711
Nonoperating expenses		
Other	172,597	181,529
Interest	140,337	142,234
Net loss on capital asset disposals	9,178	-
Total nonoperating expenses	322,112	323,763
Income before contributions	235,611	(2,513)
Capital contributions - connection charges	188,100	188,100
Change in net position	423,711	185,587
Net position, beginning of year	16,092,561	15,906,974
Net position, end of year	$ 16,516,272	$ 16,092,561

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

Statement of Cash Flows
For the year ended June 30, 2020
(With comparative data for prior year)

	2020	2019
Cash flows from operating activities:		
Cash received from customers and other sources	$ 5,662,744	$ 5,237,517
Cash payments to suppliers for goods and services	(1,860,549)	(2,275,226)
Cash payments for employees and benefits	(2,536,317)	(2,114,356)
Other non-operating revenues	101,297	180
Other non-operating expenses	(172,597)	(181,529)
Net cash provided by operating activities	1,194,578	666,586
Cash flows from capital and related financing activities:		
Purchases and construction of capital assets	(2,098,708)	(1,046,645)
Proceeds from capital contributions	188,100	188,710
Proceeds from 2018 Installment Agreement	-	1,760,000
Principal payments on long-term debt	(372,228)	(469,141)
Interest paid on long-term debt	(136,888)	(128,409)
Net cash provided by (used) for capital and related financing activities	(2,419,724)	304,515
Cash flows from investing activities:		
Investment income received	153,844	149,866
Net cash provided by investing activities	153,844	149,866
Net change in cash and investments	(1,071,302)	1,120,967
Cash and investments, beginning of year	7,840,506	6,719,539
Cash and investments, end of year	$ 6,769,204	$ 7,840,506

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

Statement of Cash Flows (continued)
For the year ended June 30, 2020
(With comparative data for prior year)

	2020	2019
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 325,474	$ 156,539
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	863,233	893,196
Other revenues	101,297	180
Other expense	(172,597)	(181,529)
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	73,398	(169,669)
Prepaid expenses	(30)	(12,778)
Deferred outflows of resources - OPEB related	(163,202)	112,147
Deferred outflows of resources - pension related	(20,411)	40,363
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(38,313)	(104,425)
Accrued salaries and benefits	9,331	2,502
Compensated absences	1,400	45,998
Deferred inflows of resources - OPEB related	(37,235)	(30,778)
Deferred inflows of resources - pension related	31,791	98,372
Net OPEB liability	(19,993)	(139,427)
Net pension liability	240,435	(44,105)
Net cash provided by operating activities	$ 1,194,578	$ 666,586
Schedule of non-cash operating, noncapital and capital related financing and investing activities		
Disposed capital assets	$ (9,178)	$ -

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

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NOTE 1: Reporting entity and significant accounting policies

(a) Description of the reporting entity

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

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

(b) Basis of accounting

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

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

(c) Applicable accounting standards

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

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

(d) Investments

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

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

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

(d) Investments, (continued)

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

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

(e) Statement of cash flows

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

(f) Restricted cash and investments

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

(g) Capital assets

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

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

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

(h) Employee leave benefits

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

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

(h) Employee leave benefits, (continued)

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

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

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

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

(i) Use of estimates

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

(j) Prior year amounts

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

(k) Pension plan

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

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

(k) Pension plan, (continued)

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

(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, 2019
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	June 30, 2018 to June 30, 2019

(o) Jointly governed organization

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

NOTE 2: Budgetary data

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

NOTE 3: Cash and investments

Cash and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

Statement of net position:		
Cash and investments	$	6,769,204
Total cash and investments	$	6,769,204

Cash and investments as of June 30, 2020 consist of the following:		
Cash on hand	$	600
Deposits with financial institutions		747,448
Investments		6,021,156
Total cash and investments	$	6,769,204

Investments authorized by debt agreements

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

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

NOTE 3: Cash and investments, (continued)

Fair value measurements

The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Agency does not have any recurring fair value measurements as of June 30, 2020. The Local Agency Investment Fund (Fund) of $6,021,156 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	$ 75,000,000
Certificate of Deposits	Yes	2 years	30%	None
JPA Pools (other investment pools)	No	N/A	None	None

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

NOTE 3: Cash and investments, (continued)

Interest rate risk

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

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

		Remaining maturing (in months)			
Investment type	Total	12 or less	13 to 24	25 to 60	More than 60
State investment pool	$ 6,021,156	$ 6,021,156	$ -	$ -	$ -

Credit risk

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

				Rating as of year end		
Investment type	Total	Minimum legal rating	Exempt from disclosure	AAA	Aa	Not rated
State investment pool	$ 6,021,156	N/A	$ -	$ -	$ -	$ 6,021,156

Concentration of credit risk

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

NOTE 3: Cash and investments, (continued)

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2020, 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. As of June 30, 2020, the Agency deposits with financial institutions exceeded the federal depository insurance limits by $511,556 and were fully collateralized.

Investment in State investment pool

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

LAIF is a special fund of the California State Treasury through which local governments may pool investments. The Agency may invest up to $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, 2020 and 2019 was 1.934% and 2.266%, respectively. The carrying value and estimated market value of the LAIF Pool at June 30, 2020 and 2019 was $100,978,752,029 and $101,474,839,937 and $105,739,564,676 and $105,920,568,605, respectively. The Agency's share of the Pool at June 30, 2020 and 2019 was approximately 0.00596% and 0.00667%, respectively. Included in LAIF's investment portfolio at June 30, 2020 and 2019 are structured notes and asset-backed securities totaling $1,725,000,000 and $1,675,408,000 and $900,000,000 and $977,182,000, respectively currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

NOTE 4: Capital assets

A summary of changes in capital assets of the Agency for the year ending June 30, 2020 is as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Land	$ 814,728	$ -	$ -	$ 814,728
Construction in Progress	1,051,982	473,220	(1,032,811)	492,391
Total capital assets, not being depreciated	1,866,710	473,220	(1,032,811)	1,307,119
Capital assets, being depreciated:				
Administration Building	2,021,667	7,494	-	2,029,161
Treatment Plant	14,603,396	2,175,406	(39,463)	16,739,339
Interceptor System	3,621,365	-	-	3,621,365
Effluent Disposal Assets	4,713,259	15,330	-	4,728,589
Power Generation Equipment	2,113,561	346,696	-	2,460,257
Flow Measuring Devices	150,407	30,480	(39,930)	140,957
Other Equipment	1,675,731	58,893	(45,178)	1,689,446
Transportation Equipment	627,750	-	-	627,750
Other Tangible Plant	900,148	24,000	(16,226)	907,922
Studies and Maps	106,425	-	-	106,425
Total capital assets, being depreciated	30,533,709	2,658,299	(140,797)	33,051,211
Less accumulated depreciation for:				
Administration Building	(821,422)	(60,331)	-	(881,753)
Treatment Plant	(7,411,918)	(387,020)	39,461	(7,759,477)
Interceptor System	(2,197,877)	(52,038)	-	(2,249,915)
Effluent Disposal Assets	(3,996,918)	(65,665)	-	(4,062,583)
Power Generation Equipment	(1,023,681)	(159,497)	-	(1,183,178)
Flow Measuring Devices	(103,177)	(8,280)	39,930	(71,527)
Other Equipment	(1,157,006)	(49,053)	36,002	(1,170,057)
Transportation Equipment	(322,946)	(33,930)	-	(356,876)
Other Tangible Plant	(326,101)	(46,369)	16,226	(356,244)
Studies and Maps	(88,573)	(1,050)	-	(89,623)
Total accumulated depreciation	(17,449,619)	(863,233)	131,619	(18,181,233)
Total capital assets being depreciated, net	13,084,090	1,795,066	(9,178)	14,869,978
Total capital assets, net	$ 14,950,800	$ 2,268,286	$ (1,041,989)	$ 16,177,097

NOTE 5: Long-term liabilities

A summary of long-term liabilities of the Agency at June 30, 2020 is as follows:

	Beginning balance	Additions	Deletions	Ending balance	Due within one year	Due beyond one year
Long-term debt - direct borrowings:						
2011 refunding agreement	$ 2,368,710	$ -	$ (283,258)	$ 2,085,452	$ 292,683	$ 1,792,769
2018 installment purchase agreement	1,671,723	-	(88,970)	1,582,753	92,292	1,490,461
Total direct borrowings	4,040,433	-	(372,228)	3,668,205	384,975	3,283,230
Other long-term liability:						
Compensated absences	188,073	187,824	(186,424)	189,473	131,007	58,466
Total	$ 4,228,506	$ 187,824	$ (558,652)	$ 3,857,678	$ 515,982	$ 3,341,696

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. As a result of the current refunding, the Agency reduced its debt service cash flow by $450,419 through November 15, 2026, resulting in an economic gain of $333,963 (calculated as the difference between the debt service payments under the old and new debt discounted to present value using the effective interest rate).

NOTE 5: Long-term liabilities (continued)

2018 Installment purchase agreement – 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, 2020 the Agency's net revenues were 295% of the annual debt service, which exceeded the minimum requirement. The Agency also complied with all other covenants set forth in the 2011 Refunding Agreement and 2018 Installment Purchase Agreement.

Debt service requirements to maturity

Fiscal	2011 Refunding Loan Agreement			2018 Installment Purchase Agreement		
year	Principal	Interest	Total	Principal	Interest	Total
2020-2021	$ 292,683	$ 66,425	$ 359,108	$ 92,292	$ 57,716	$ 150,008
2021-2022	302,421	56,687	359,108	95,739	54,270	150,009
2022-2023	312,483	46,625	359,108	99,314	50,694	150,008
2023-2024	322,880	36,228	359,108	103,023	46,986	150,009
2024-2025	333,623	25,485	359,108	106,870	43,139	150,009
2025-2026	344,723	14,384	359,107	110,860	34,148	145,008
2026-2027	176,639	2,915	179,554	115,000	35,008	150,008
2027-2028	-	-	-	119,295	30,714	150,009
2028-2029	-	-	-	123,750	26,259	150,009
2029-2030	-	-	-	128,371	21,638	150,009
2030-2031	-	-	-	133,164	16,844	150,008
2031-2032	-	-	-	138,138	11,872	150,010
2032-2033	-	-	-	143,295	6,713	150,008
2033-2034	-	-	-	73,642	1,362	75,004
Total	$ 2,085,452	$ 248,749	$ 2,334,201	$ 1,582,753	$ 437,363	$ 2,020,116

NOTE 6: Related-party transactions

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

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NOTE 7: Pension plan

A. General information about the Pension plan

Plan description

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

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 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, 2020, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates (reporting period)	8.00%	7.25%
Required employer contribution rates (reporting period)	13.945%	7.072%

NOTE 7: Pension plan, (continued)

A. General information about the Pension plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2020 were $272,345. The actual employer payments of $223,484 made to CalPERS by the Agency during the measurement period ended June 30, 2019 differed from the Agency's proportionate share of the employer's contribution of $366,268 by $142,784, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost Sharing Multiple Employer Plan.

B. Net pension liability

The Agency's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method:	Market Value of Assets
Discount Rate	7.15%
Inflation	2.50%
Salary Increase	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 up to 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% 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 from the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of mortality improvements using the 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.

NOTE 7: Pension plan, (continued)

B. Net pension liability, continued

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

Asset Class[1]	Current Target Allocation	Real Return Years 1 - 10[2]	Real Return Year 11+[3]
Global Equity	50.0%	4.80%	5.98%
Global Fixed income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
Total	100.0%		

1 In the System's CAFR, fixed income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

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

[3] An expected inflation of 2.92% used for this period

Change of Assumptions

There were no changes in assumptions.

NOTE 7: Pension plan, (continued)

B. Net pension liability, continued

Discount rate

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

Pension plan fiduciary net position

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

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

C. Proportionate share of net pension liability

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

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2018 (VD)	$ 10,097,531	$ 8,215,960	$ 1,881,571
Balance at: 6/30/2019 (MD)	10,961,363	8,839,357	2,122,006
Net changes during 2018-19	863,832	623,397	240,435

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

NOTE 7: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

The Agency's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The 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 June 30, 2018 and 2019 was as follows:

Proportion share of NPL - June 30, 2018	0.04993%
Proportion share of NPL - June 30, 2019	0.05299%
Change - Increase (Decrease)	0.00306%

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

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	$ 3,596,343	$ 2,122,006	$ 905,046

Subsequent events

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

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under generally accepted accounting principles, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

NOTE 7: Pension plan, (continued)

C. Proportionate share of net pension liability, continued

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

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).

The EARSL for PERF C for the measurement period ending June 30, 2019 is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (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, 2018), the net pension liability for the Plan was $1,881,571. For the measurement period ending in June 30, 2019 (the measurement date), the Agency incurred a pension expense of $524,161.

As of June 30, 2020, the Agency has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 101,187	$ 35,870
Differences between Expected and Actual Experience	147,382	11,419
Differences between Projected and Actual Investment Earnings	-	37,099
Differences between Employer's Contributions and Proportionate Share of Contributions	-	188,566
Change in Employer's Proportion	154,439	-
Pension Contributions Made Subsequent to Measurement Date	272,345	-
	$ 675,353	$ 272,954

NOTE 7: Pension plan, (continued)

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

The amounts above are net of outflows and inflows recognized in the 2018-2019 measurement period expense. Contributions subsequent to the measurement date of $272,345 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
2021	$ 136,136
2022	(22,738)
2023	9,159
2024	7,497
2025	-
Thereafter	-

E. Payable to the pension plan

At June 30, 2020, the Agency reported a payable of $-0- for the outstanding amount of contributions to the pension plan required for year then ended.

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NOTE 8: Other postemployment benefits plan

Plan description

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

Benefits provided

The Agency pays 100% of the medical insurance costs for eligible retirees and their eligible dependents not to exceed the pre-Medicare (basic) family premium rate for the highest cost HMO plan in the Los Angeles 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, 2019 who retire from the Agency with at least 5 years of Agency service receive 100% of the premium for employee and their dependents (maximum of 90% of the highest cost Region 3 HMO plan pre-Medicare family premium rate multiplied by the applicable percentage).

Employees covered

As of the June 30, 2019 actuarial valuation date the following current and former employees were covered by the benefit terms under the HC Plan:

Active employees	15
Inactive employees or beneficiaries currently receiving benefits	13
Total	28

Contributions

The Agency makes health premium contributions for eligible retirees that enroll in a CalPERS health plan during retirement. The current monthly amount paid by the Agency ranges from $360 – $1,815. These amounts change annually based on the retiree's health plan election and rates published by CalPERS. The Agency provided amounts are detailed in the Summary of Principal Plan Provisions. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2020, the Agency's cash contributions were $364,264 payments to the trust and the estimated implied subsidy was $45,877 resulting in total payments of $410,141. The Agency has established an Irrevocable Trust with CalPERS' California Employer's Retiree Benefit Trust (CERBT). The Irrevocable Trust was required to fully implement the Agency's direction of prefunding the Agency's OPEB liability.

NOTE 8: Other postemployment benefits plan, (continued)

Net OPEB liability

The Agency's net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019, based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Discount Rate	7.05%
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	7.05%
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:

Asset Class	Target Allocation	Long-term expected real rate of return*
Treasury inflation-protected securities	5%	1.46%
Fixed income	25%	2.62%
Global Equity	59%	5.98%
REIT's	8%	5.00%
Commodities	3%	2.87%
Total	100%	

* based on 2014 Capital Market Assumptions

Change of Assumptions

Assumed mortality, termination and retirement rates were updated to those provided in the 2017 CalPERS experience study and mortality improvement scales were updated to the MacLeod Watts Scale 2020.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.05% percent, up from 7.00% as of June 30, 2018, net of Plan investment expenses and including inflation. The projection of cash flows used to determine the discount rate assumed that Agency contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

NOTE 8: Other postemployment benefits plan, (continued)

Changes in the OPEB Liability

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

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	$ 3,037,683	$ 1,855,231	$ 1,182,452
Changes recognized for the measurement period:			
Service Cost	101,392	-	101,392
Interest on the total OPEB liability	213,507	-	213,507
Changes of assumptions	14,085	-	14,085
Plan experience differences	9,864	-	9,864
Contributions - employer	-	241,291	(241,291)
Net investment income	-	117,953	(117,953)
Benefit payments	(177,938)	(177,938)	-
Administrative expenses	-	(403)	403
Net Changes	160,910	180,903	(19,993)
Balance at June 30, 2020 (Measurement Date June 30, 2019)	$ 3,198,593	$ 2,036,134	$ 1,162,459

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, 2019:

	1% Decrease 6.05%	Current Discount Rate 7.05%	1% Increase 8.05%
Net OPEB Liability	$ 1,596,480	$ 1,162,459	$ 810,537

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, 2019:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 781,445	$ 1,162,459	$ 1,642,297

NOTE 8: Other postemployment benefits plan, (continued)

Recognition of Deferred Outflows and Deferred Inflows of Resources

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

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

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

Net difference between projected and actual 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, 2020, the Agency recognized OPEB expense of $189,711. A complete breakdown of OPEB expense is as follows:

Description	**Amount**
Service cost	$ 101,392
Interest cost	213,507
Expected earnings on assets	(132,069)
Administrative expenses	403
Recognized assumption changes	30,267
Recognized differences in plan experience	(21,708)
Recognized differences in projected and actual investments earnings	(2,081)
Total OPEB expense	$ 189,711

As of fiscal year ended June 30, 2020, 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	$ 410,141	$ -
Changes of assumptions	115,305	-
Differences between expected and actual experience	8,492	70,524
Net difference between projected and actual earnings on OPEB plan investments	2,042	-
Total	$ 535,980	$ 70,524

NOTE 8: Other postemployment benefits plan, (continued)

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

The $410,141 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
2021	$ 6,478
2022	6,477
2023	11,940
2024	22,127
2025	4,330
Thereafter	3,963

NOTE 9: Deferred compensation

The Agency has made available to its employees two deferred compensation plans (defined contribution plans), created in accordance with Internal Revenue Code Section 457, whereby employees authorize the Agency to defer a portion of their salary to be deposited in individual investment accounts. Funds may be withdrawn by participants upon termination of employment or retirement. If an employee elects to contribute a minimum of 6% of the employee's annual salary, the Agency will contribute 3% of the employee's annual salary. As of June 30, 2020, 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 $40,434.

NOTE 10: Net position

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

	2020
Net investment in capital assets:	
Capital assets, undepreciated	$ 1,307,119
Capital assets, net of depreciation	14,869,978
Debt related to capital assets	
2011 Refunding agreement	(3,668,205)
Less: Deferred charges on refunding	32,453
Net investment in capital assets	12,541,345
Unrestricted	3,974,927
Total net position	$ 16,516,272

NOTE 11: 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:

Gener*al 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.

NOTE 12: COVID-19 considerations

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. Although the Agency's services are considered essential, the Agency's office was closed to the public. Although the Agency's major revenue sources are not directly impacted by these events, it is uncertain whether this matter will negatively impact the Agency. Therefore, the ultimate financial impact and duration cannot be estimated at this time.

Required Supplementary Information

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

Measurement date	Employer's proportion of the collective net pension liability[1]	Employer's proportionate share of the collective net pension liability	Employer's covered payroll	Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	Pension plan's fiduciary net position as a percentage of the total pension liability
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	0.04885%	1,925,676	1,097,657	175.44%	79.48%
6/30/2018	0.04993%	1,881,571	1,099,489	171.13%	81.37%
6/30/2019	0.05299%	2,122,006	1,159,628	182.99%	80.46%

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

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

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%

Notes to Schedule:

Change in Benefit Terms: None

Changes in Assumptions: 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 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.

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

Measurement Date	2017	2018	2019
Total OPEB Liability			
Service Cost	$ 70,271	$ 92,607	$ 101,392
Interest on the Total OPEB Liability	197,835	204,015	213,507
Actual and expected experience difference	(139,764)	-	9,864
Changes in assumptions	70,862	100,635	14,085
Benefit payments	(134,557)	(138,739)	(177,938)
Net change in Total OPEB Liability	64,647	258,518	160,910
Total OPEB Liability - beginning	2,714,518	2,779,165	3,037,683
Total OPEB Liability - ending (a)	2,779,165	3,037,683	3,198,593
Plan Fiduciary Net Position			
Investment experience differences	$ -	$ -	$ -
Contribution - employer	419,453	425,765	241,291
Net investment income	114,707	113,645	117,953
Benefit payments	(134,557)	(138,739)	(177,938)
Administrative expense	(581)	(2,726)	(403)
Net change in Plan Fiduciary Net Position	399,022	397,945	180,903
Plan Fiduciary Net Position - beginning	1,058,264	1,457,286	1,855,231
Plan Fiduciary Net Position - ending (b)	1,457,286	1,855,231	2,036,134
Net OPEB Liability - ending (a) - (b)	$ 1,321,879	$ 1,182,452	$ 1,162,459
Plan fiduciary net position as a percentage of the total OPEB liability	52.44%	61.07%	63.66%
Covered employee payroll	$ 1,097,657	$ 1,099,489	$ 1,135,222
Net OPEB liability as a percentage of covered employee payroll	120.43%	107.55%	102.40%

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 2019, the discount rate increased from 7.00% to 7.05%. In 2018, the discount rate was changed from 7.28% to 7.00%

Change in assumptions : In 2019, demographic assumptions were updated based on a new CalPERS experience study; updated medical trend model and elimination of excise tax liability following December 2019 repeal.

**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.

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)	1,169,279	35.08%

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 2020 were from the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry Age Normal
Amortization Methodology	Level % of Pay, 18 years closed
Asset Valuation Method	Market value of assets
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	7.05%
Healthcare Trend	5.40%, 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.

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Supplementary Information

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Schedule of Revenues, Expenses and Changes in Net Position – Budget vs. Actual
For the year ended June 30, 2020

	2020 Actual	2020 Final budget (unaudited)	Variance with budget	2019 Actual
Operating revenues				
Member agency fees	$ 5,437,076	$ 5,437,076	$ -	$ 5,251,542
Standby charges	81,660	81,660	-	83,200
Rental income	51,855	51,820	35	51,071
Waste disposal fees	18,755	21,798	(3,043)	20,608
Other revenues	-	-	-	765
Total operating revenues	5,589,346	5,592,354	(3,008)	5,407,186
Operating expenses				
Salaries and benefits	2,578,433	2,600,884	(22,451)	2,199,428
Power	453,306	481,412	(28,106)	520,234
Sludge removal	276,292	209,564	66,728	298,241
Chemicals	47,596	104,223	(56,627)	53,087
Materials and supplies	159,052	164,512	(5,460)	162,695
Repairs and replacements	253,789	339,275	(85,486)	445,040
Equipment rental	351	819	(468)	1,363
Utilities	14,180	28,638	(14,458)	22,207
Communications	39,043	43,506	(4,463)	32,160
Contractual services - other	78,879	103,631	(24,752)	97,296
Contractual services - professional	153,470	229,503	(76,033)	214,413
Permits and fees	185,051	165,348	19,703	158,528
Property tax	3,917	3,703	214	3,665
Insurance	112,262	109,856	2,406	100,952
Other operating	45,018	48,501	(3,483)	48,142
Depreciation	863,233	895,524	(32,291)	893,196
Total operating expenses	5,263,872	5,528,899	(265,027)	5,250,647
Operating income	325,474	63,455	262,019	156,539
Nonoperating revenues				
Investment income	130,952	107,396	23,556	164,531
Other miscellaneous revenue	101,297	-	101,297	180
Total nonoperating revenues	232,249	107,396	124,853	164,711
Nonoperating expenses				
Other	172,597	356,972	(184,375)	181,529
Interest	140,337	148,548	(8,211)	142,234
Net loss on capital asset disposals	9,178	-	9,178	-
Total nonoperating expenses	322,112	505,520	(183,408)	323,763
Income before contributions	235,611	(334,669)	570,280	(2,513)
Capital contributions - connection charges	188,100	229,900	(41,800)	188,100
Change in net position	423,711	(104,769)	528,480	185,587
Net position, beginning of year	16,092,561	16,092,561	-	15,906,974
Net position, end of year	$ 16,516,272	$ 15,987,792	$ 528,480	$ 16,092,561

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Big Bear Area Regional Wastewater Agency (the Agency), as of and for the year ended June 30, 2020, 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 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
October 19, 2020

STATISTICAL SECTION

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STATISTICAL SECTION

Overview

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Financial Trends

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

NET POSITION BY COMPONENT - 10 FISCAL YEARS

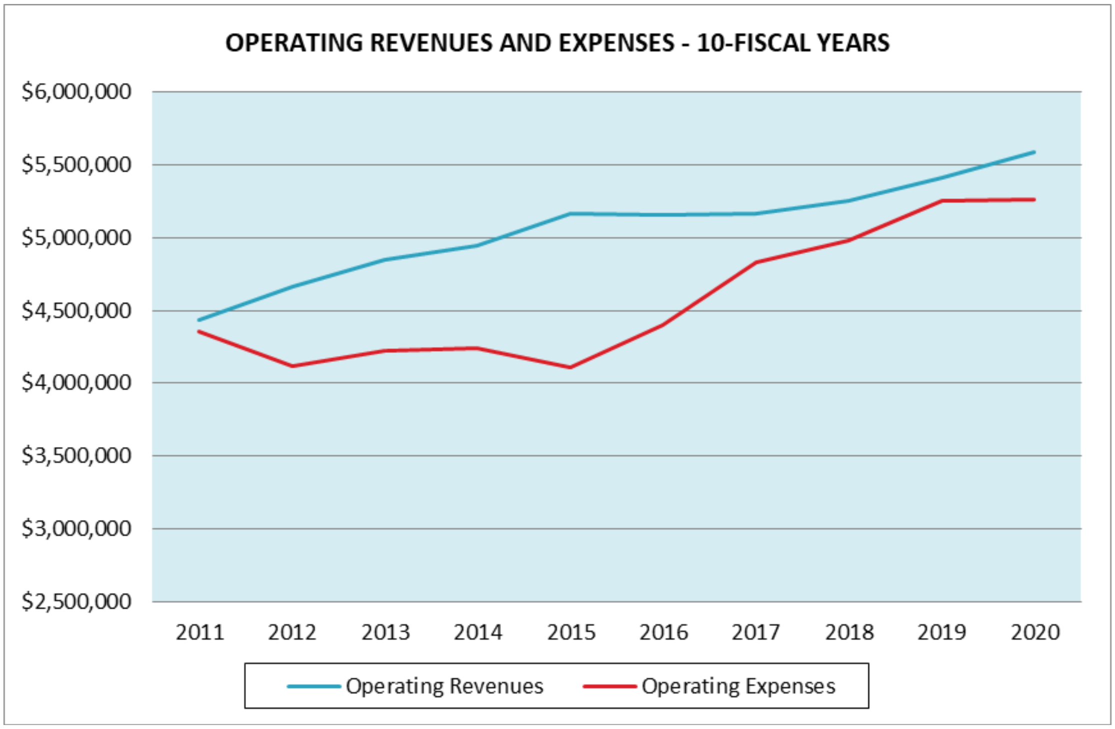
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NET POSITION[1]:										
Net investment in capital assets	$ 11,360,139	$ 11,630,775	$ 11,190,103	$ 12,962,116	$ 12,812,871	$ 12,947,480	$ 12,864,383	$ 12,092,923	$ 10,947,850	$ 12,541,345
Unrestricted net position	5,092,119	5,239,278	6,089,805	5,041,351	4,589,703	5,342,359	5,800,317	3,814,051	5,144,711	3,974,927
Total	$ 16,452,258	$ 16,870,053	$ 17,279,908	$ 18,003,467	$ 17,402,574	$ 18,289,839	$ 18,664,700	$ 15,906,974	$ 16,092,561	$ 16,516,272

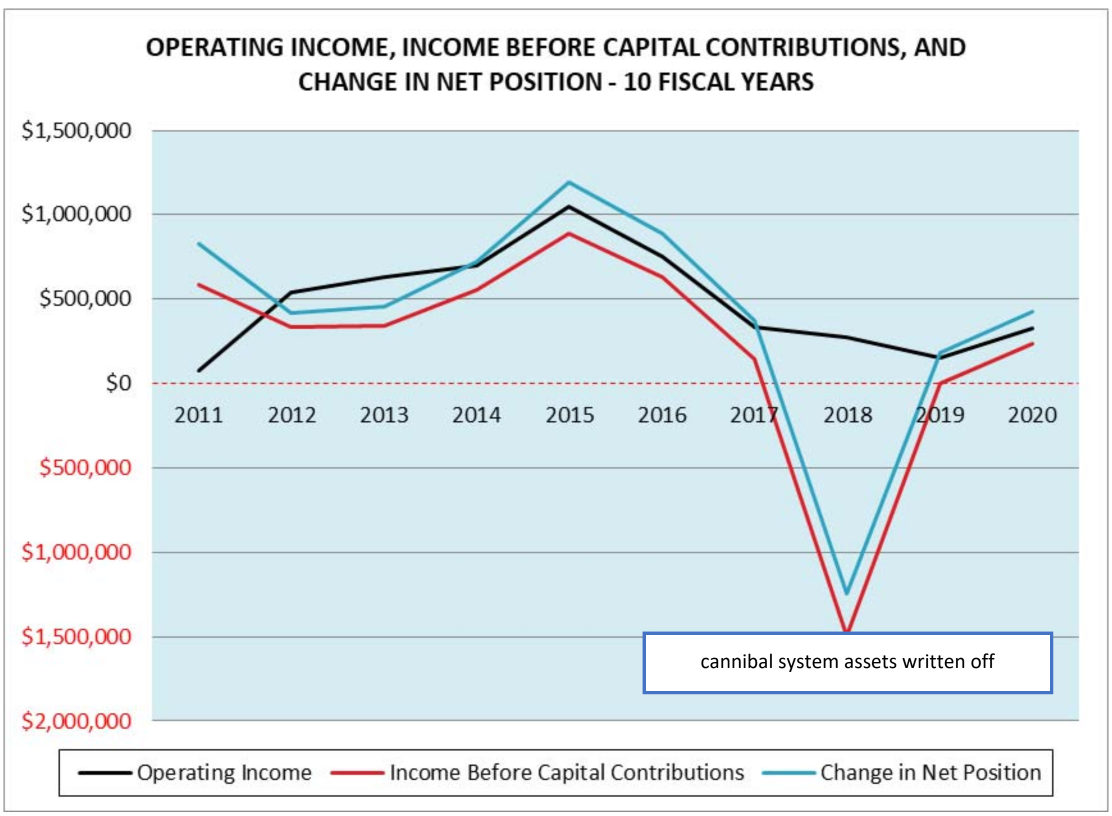
[1] The above data was extracted from the Agency’s financial statements. Net position was restated in fiscal years 2007, 2011, 2013, 2015 and 2017 to reflect a reduction in assets, the Agency's PERS side fund liability, the implementation of GASB 65, the implementation of GASB 68, and the implementation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

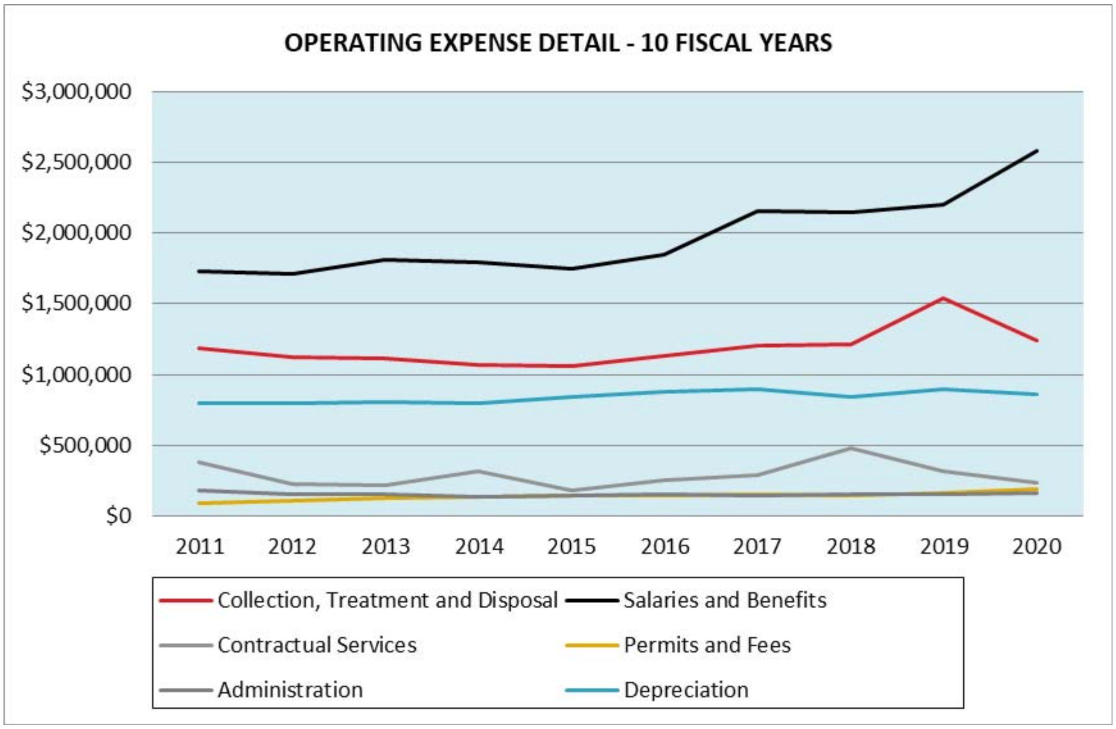
CHANGE IN NET POSITION - 10 FISCAL YEARS

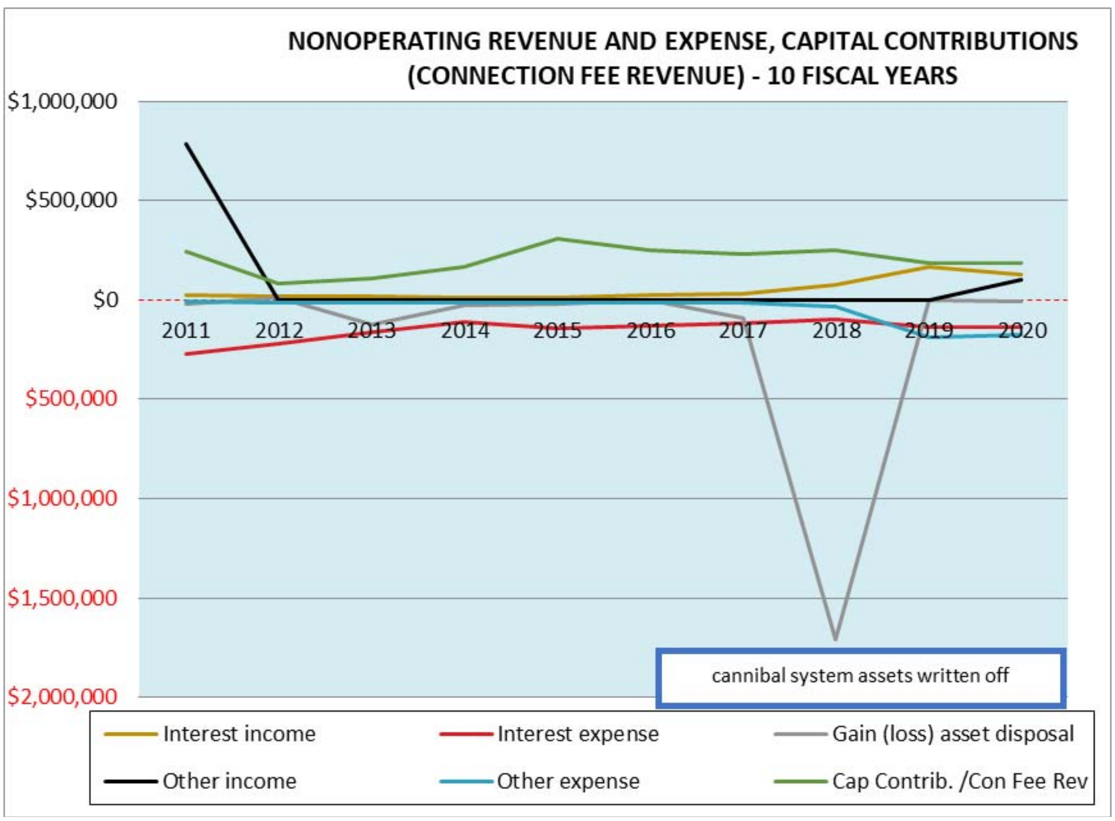
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING REVENUES:										
Annual Charges	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542	$5,437,076
Standby Fees	95,240	93,890	92,430	91,400	90,860	89,250	86,930	85,180	83,200	81,660
Rent, Waste Disposal Fees	63,486	64,940	68,351	70,178	68,120	72,101	71,951	73,562	71,679	70,610
Other	2,049	56	50	2,007	24,575	5,104	488	1,916	765	0
Total	4,434,819	4,665,762	4,849,143	4,941,800	5,163,245	5,157,621	5,166,439	5,252,234	5,407,186	5,589,346
OPERATING EXPENSES:										
Salaries and Benefits	1,730,563	1,714,734	1,812,835	1,797,691	1,745,042	1,843,685	2,155,804	2,144,299	2,199,428	2,578,433
Power	472,130	470,256	424,266	399,239	486,461	520,431	522,181	386,367	520,234	453,306
Sludge Removal[1]	219,399	185,005	242,838	221,541	162,627	225,990	281,096	397,813	298,241	276,292
Materials and Supplies	234,516	222,324	225,624	190,830	192,900	184,933	209,323	176,687	215,782	206,648
Repairs and Replacements	188,725	170,603	159,819	186,806	161,825	150,764	128,645	155,447	445,040	253,789
Equipment rental [2]	4,245	148	0	0	3,659	165	2,242	37,215	1,363	351
Utilities expense [3]	16,259	25,727	22,509	19,757	16,062	11,773	13,023	26,737	22,207	14,180
Communications expense [4]	49,112	51,911	34,293	45,613	33,490	38,610	44,062	37,064	32,160	39,043
Contractual services - other	80,988	82,994	75,706	95,678	81,626	102,120	94,181	74,947	97,296	78,879
Contractual services, prof [5]	294,431	141,200	136,259	224,045	99,798	151,407	191,457	399,514	214,413	153,470
Permits and fees	87,655	108,055	124,708	131,361	142,310	145,866	148,687	145,515	158,528	185,051
Property tax expense	3,120	3,130	3,488	3,265	3,426	3,476	3,523	3,599	3,665	3,917
Insurance expense [6]	108,747	93,222	86,135	69,622	83,561	87,406	85,386	99,428	100,952	112,262
Other operating expense	70,590	58,197	65,638	58,032	57,963	59,474	56,328	50,469	48,142	45,018
Reclamation/Tertiary	0	0	0	0	0	0	0	0	0	0
Depreciation	796,571	794,529	806,274	799,443	840,229	875,328	896,429	842,154	893,196	863,233
Total	4,357,051	4,122,035	4,220,392	4,242,923	4,110,979	4,401,428	4,832,367	4,977,256	5,250,647	5,263,872
OPERATING INCOME	77,768	543,727	628,751	698,877	1,052,266	756,193	334,072	274,978	156,539	325,474
NONOPERATING REVENUES:										
Net gain on asset disposal	0	10,050	0	0	0	0	0	0	0	0
Interest income	21,688	18,732	16,167	11,305	12,430	22,889	29,101	73,866	164,531	130,952
Other	788,361	40	0	0	0	0	0	0	180	101,297
Total non-operating revenue	810,049	28,822	16,167	11,305	12,430	22,889	29,101	73,866	164,711	232,249
NONOPERATING EXPENSES:										
Net Loss on asset disposal	22,893	0	122,718	28,326	21,553	2,678	91,973	1,709,527	0	9,178
Interest expense	271,181	223,125	165,092	111,747	145,012	130,669	115,849	100,536	134,569	135,308
Amortization debt costs	7,501	12,369	11,700	11,700	11,700	11,700	11,700	11,700	7,665	5,029
Other	0	0	0	0	0	0	0	19,777	181,529	172,597
Total non-operating expense	301,575	235,494	299,510	151,773	178,265	145,047	219,522	1,841,540	323,763	322,112
INCOME BEFORE CAPITAL CONTRIBUTIONS	586,242	337,055	345,408	558,409	886,431	634,035	143,651	-1,492,696	-2,513	235,611
Capital contributions	244,923	80,740	110,100	165,150	308,280	253,230	231,210	249,560	188,100	188,100
CHANGE IN NET POSITION	831,165	417,795	455,508	723,559	1,194,711	887,265	374,861	-1,243,136	185,587	423,711
NET POSITION										
Beginning of year, as restated	15,621,093	16,452,258	16,824,400	17,279,908	16,207,863	17,402,574	18,289,839	17,150,110	15,906,974	16,092,561
End of year	$16,452,258	$16,870,053	$17,279,908	$18,003,467	$17,402,574	$18,289,839	$18,664,700	$15,906,975	$16,092,561	$16,516,273

[1] Amounts in fiscal year 2009 and 2010 include one-time warranty payments netted against sludge removal expense of $100,820 in each year.
[2] Included in materials and supplies expense prior to fiscal year 2009.
[3] Included in power expense prior to fiscal year 2009.
[4] Included in materials and supplies expense prior to fiscal year 2009.
[5] Amount in fiscal year 2009 includes a one-time, noncash adjustment of $149,938.
[6] Includes workers' compensation insurance beginning in fiscal year 2009. In prior years, this expense was included in salaries and benefits expense.
[7] The above data was extracted from the Agency's financial statements. Net position was restated in fiscal years 2007, 2011, 2013, 2015 and 2018 to reflect a reduction in assets, the Agency's PERS side fund liability, the implementation of GASB 65, the implementation of GASB 68, and the implementation of GASB 75, respectively.


OPERATING REVENUES AND EXPENSES - 10-FISCAL YEARS
$6,000,000
$5,500,000
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Operating Revenues
Operating Expenses


OPERATING INCOME, INCOME BEFORE CAPITAL CONTRIBUTIONS, AND CHANGE IN NET POSITION - 10 FISCAL YEARS
$1,500,000
$1,000,000
$500,000
$0
$500,000
$1,000,000
$1,500,000
$2,000,000
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
cannibal system assets written off
Operating Income
Income Before Capital Contributions
Change in Net Position

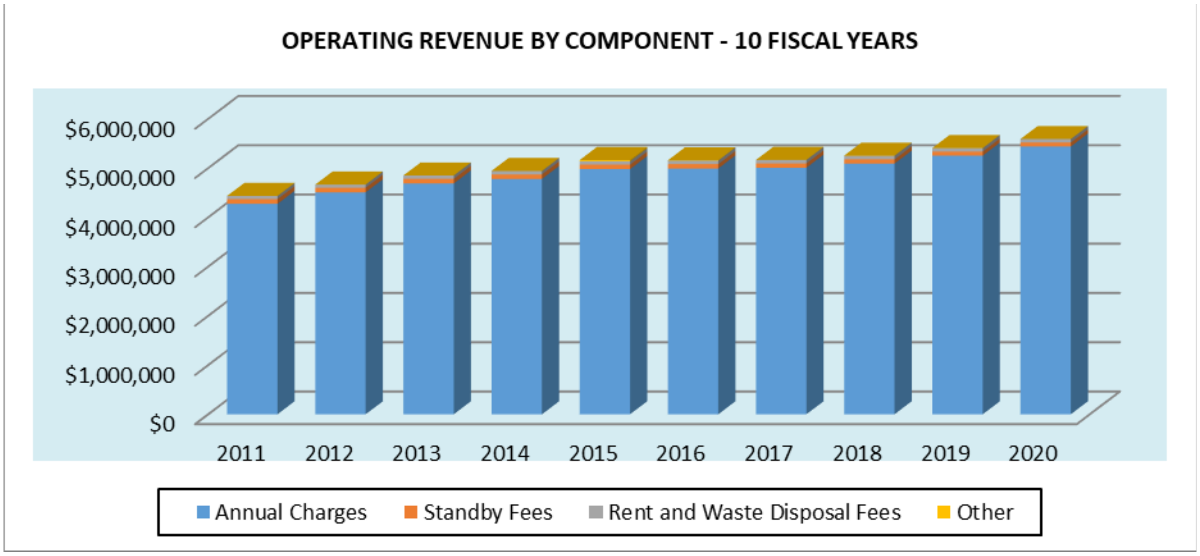

OPERATING EXPENSE DETAIL - 10 FISCAL YEARS
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Collection, Treatment and Disposal
Salaries and Benefits
Contractual Services
Permits and Fees
Administration
Depreciation


NONOPERATING REVENUE AND EXPENSE, CAPITAL CONTRIBUTIONS
(CONNECTION FEE REVENUE) - 10 FISCAL YEARS
$1,000,000
$500,000
$0
$500,000
$1,000,000
$1,500,000
$2,000,000
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
cannibal system assets written off
Interest income
Interest expense
Gain (loss) asset disposal
Other income
Other expense
Cap Contrib. /Con Fee Rev

Revenue Capacity

OPERATING REVENUE BY CATEGORY - 10 FISCAL YEARS

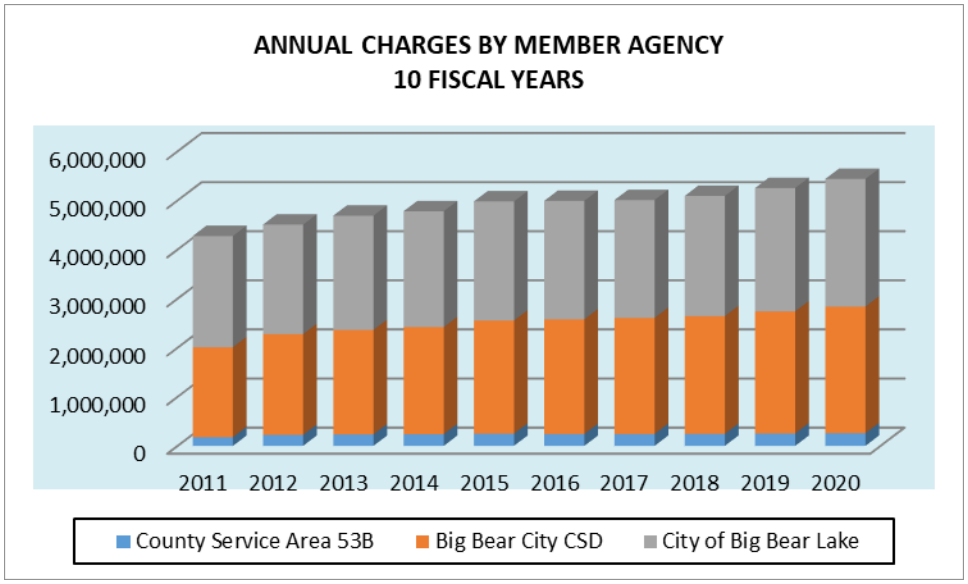
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
OPERATING REVENUES:										
Annual charges	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542	$5,437,076
Standby fees	95,240	93,890	92,430	91,400	90,860	89,250	86,930	85,180	83,200	81,660
Rent, waste disposal fees	63,486	64,940	68,351	70,178	68,120	72,101	71,951	73,562	71,679	70,610
Other	2,049	56	50	2,007	24,575	5,104	488	1,916	765	0
Total operating revenues	$4,434,819	$4,665,762	$4,849,143	$4,941,800	$5,163,245	$5,157,621	$5,166,439	$5,252,234	$5,407,186	$5,589,346



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

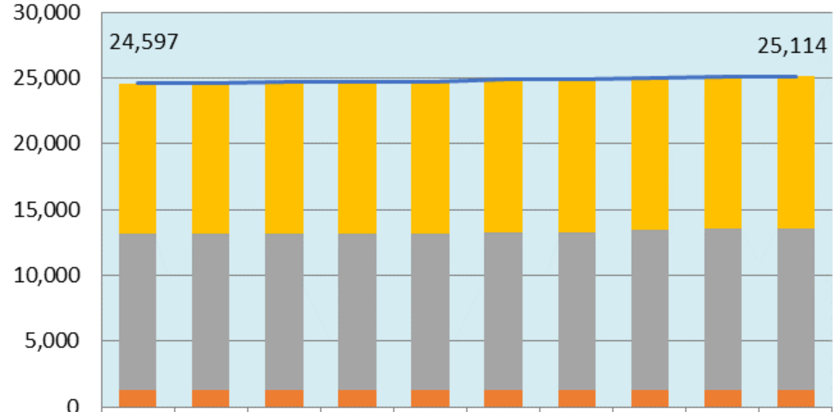
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CSA 53B	$177,212	$224,361	$233,120	$239,091	$247,473	$241,822	$242,135	$244,697	$250,523	$258,429
Big Bear City CSD	1,832,198	2,051,609	2,127,109	2,179,871	2,306,127	2,335,900	2,363,616	2,398,457	2,488,269	2,579,204
City of Big Bear Lake	2,264,634	2,230,906	2,328,083	2,359,253	2,426,090	2,413,444	2,401,319	2,448,422	2,512,750	2,599,443
Total Annual Charges	$4,274,044	$4,506,876	$4,688,312	$4,778,215	$4,979,690	$4,991,166	$5,007,070	$5,091,576	$5,251,542	$5,437,076



ANNUAL CHARGES BY MEMBER AGENCY
% OF TOTAL

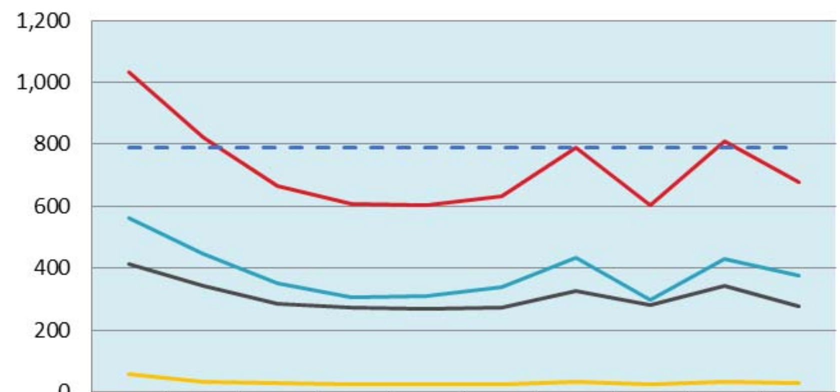
	2011	2020
County Service Area 53B	4%	5%
Big Bear City CSD	43%	47%
City of Big Bear Lake	53%	48%
	100%	100%

EQUIVALENT DWELLING UNITS BY MEMBER AGENCY - 10 FISCAL YEARS

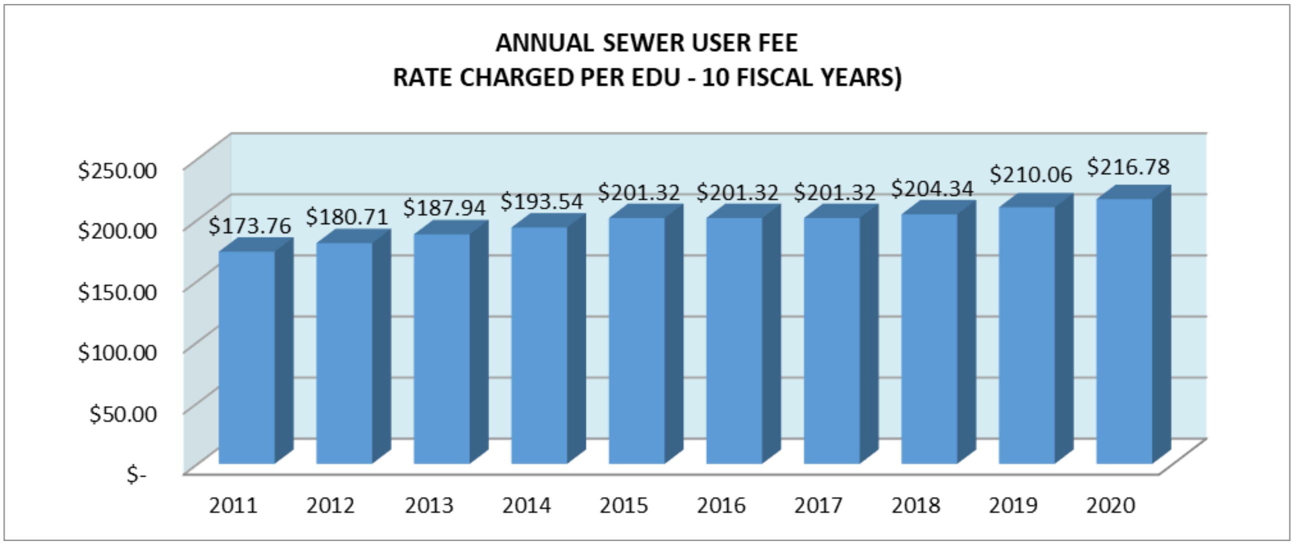


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
City of Big Bear Lake	11,489	11,489	11,539	11,547	11,568	11,636	11,654	11,506	11,559	11,573
Big Bear City CSD	11,855	11,867	11,881	11,886	11,910	11,977	12,004	12,234	12,260	12,279
County Service Area 53B	1,253	1,287	1,248	1,251	1,257	1,258	1,259	1,260	1,262	1,262
Total EDUs	24,597	24,643	24,668	24,684	24,735	24,871	24,917	25,000	25,081	25,114

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



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
County Service Area 53B	57.766	34.300	28.633	25.978	25.563	25.211	32.277	23.686	34.111	27.756
Big Bear City CSD	413.738	341.053	285.853	274.178	267.355	271.320	324.605	281.152	344.309	275.529
City of Big Bear Lake	562.198	446.714	349.321	305.514	308.589	337.312	432.546	296.724	429.294	374.903
Total Influent Flow	1033.702	822.067	663.807	605.670	601.508	633.842	789.428	601.562	807.714	678.188
Average Dry Weather Flow	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000	788.000



Debt Capacity

DEBT RATIOS - 10 FISCAL YEARS

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Principal Outstanding [1]	$5,721,972	$5,371,975	$4,969,876	$4,554,398	$4,125,097	$3,681,512	$3,223,168	$2,749,574	$4,040,433	$3,668,205
EDUs	24,597	24,643	24,668	24,684	24,735	24,871	24,917	25,000	25,081	25,114
Debt per EDU	$ 233	$ 218	$ 201	$ 185	$ 167	$ 148	$ 129	$ 110	$ 161	$ 146
Debt per Residential EDU	$ 279	$ 262	$ 242	$ 221	$ 200	$ 178	$ 155	$ 132	$ 193	$ 175
Debt as % of Household Inc[2]	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.5%	0.3%
Rate of Debt to Gross Rev	1.04	1.13	1.00	0.89	0.75	0.68	0.59	0.49	0.70	0.62

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

[2] Household income is derived from an average of the household incomes estimated for the City of Big Bear Lake and the Big Bear City Community Services District by the 2010 U.S. Census Bureau for the years 2011-2017. Beginning in 2018, information from the U.S. Census Bureau, American Community Survey for zip codes 92314 and 92315 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[4]	Net Revenues [2]	Debt Service [3]	Debt Service Coverage
2011	$ -	$ 1,380,000	$ 4,341,972	$ 5,721,972	$ 5,489,791	$ 1,929,311	$ 602,751	3.20
2012	-	-	5,371,975	5,371,975	4,795,235	1,312,754	589,321	2.23
2013	-	-	4,969,876	4,969,876	4,975,410	1,561,293	579,284	2.70
2014	-	-	4,554,398	4,554,398	5,118,255	1,674,775	579,284	2.89
2015	-	-	4,125,097	4,125,097	5,483,955	2,213,205	579,284	3.82
2016	-	-	3,681,512	3,681,512	5,433,739	1,907,640	579,284	3.29
2017	-	-	3,223,168	3,223,168	5,426,749	1,490,810	579,284	2.57
2018	-	-	2,368,710	2,368,710	5,575,660	1,440,559	579,284	2.49
2019	-	-	4,040,433	4,040,433	5,759,997	1,402,366	593,013	2.36
2020	-	-	3,668,205	3,668,205	5,908,852	1,508,210	511,944	2.95

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

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

[3] Debt service is calculated on an accrual basis for both principal and interest and may not agree with the basic financial statements.

[4] Grant proceeds received in FY 2020 have been excluded from the calculation of debt service, and are not included in the Gross Revenues or Net Revenues presented in this year.

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 below have been obtained from information estimated by the U.S. Census Bureau in the 2018 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**.

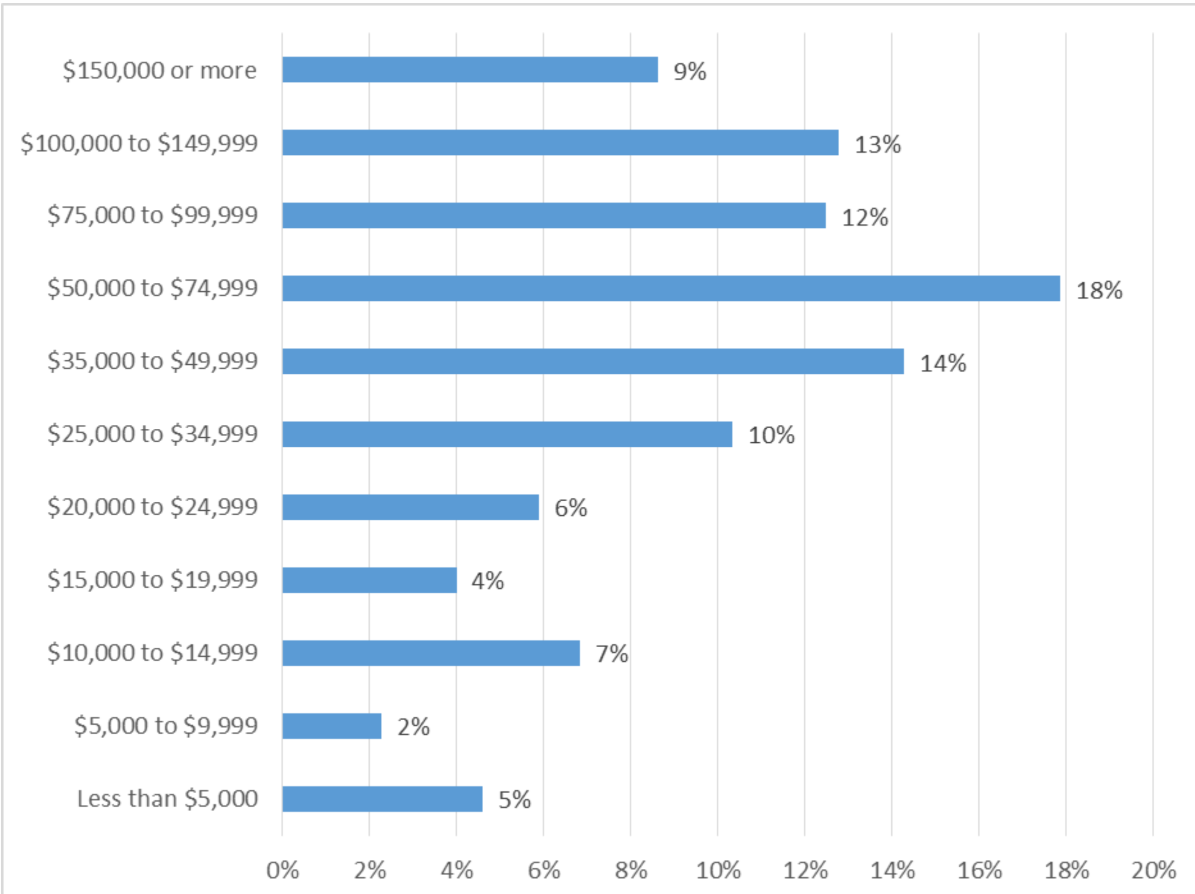
POPULATION ESTIMATES

Year	City of Big Bear Lake	Big Bear City	Total
2018	5,438	11,361	16,595

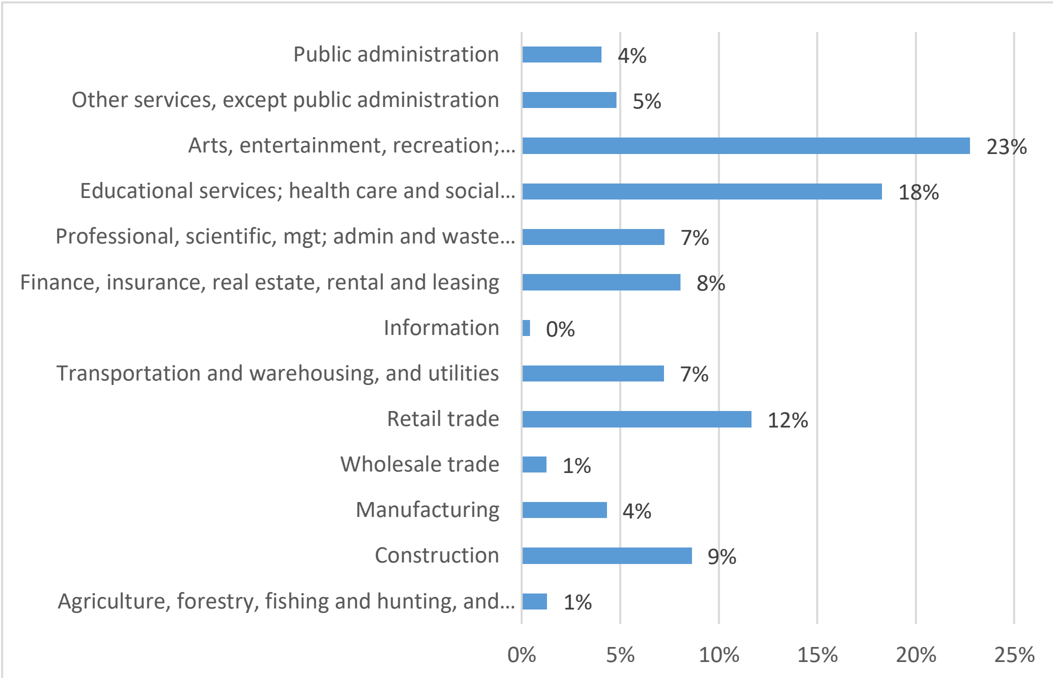
UNEMPLOYMENT ESTIMATES

Year	City of Big Bear Lake	Big Bear City
2018	3.4%	5.9%

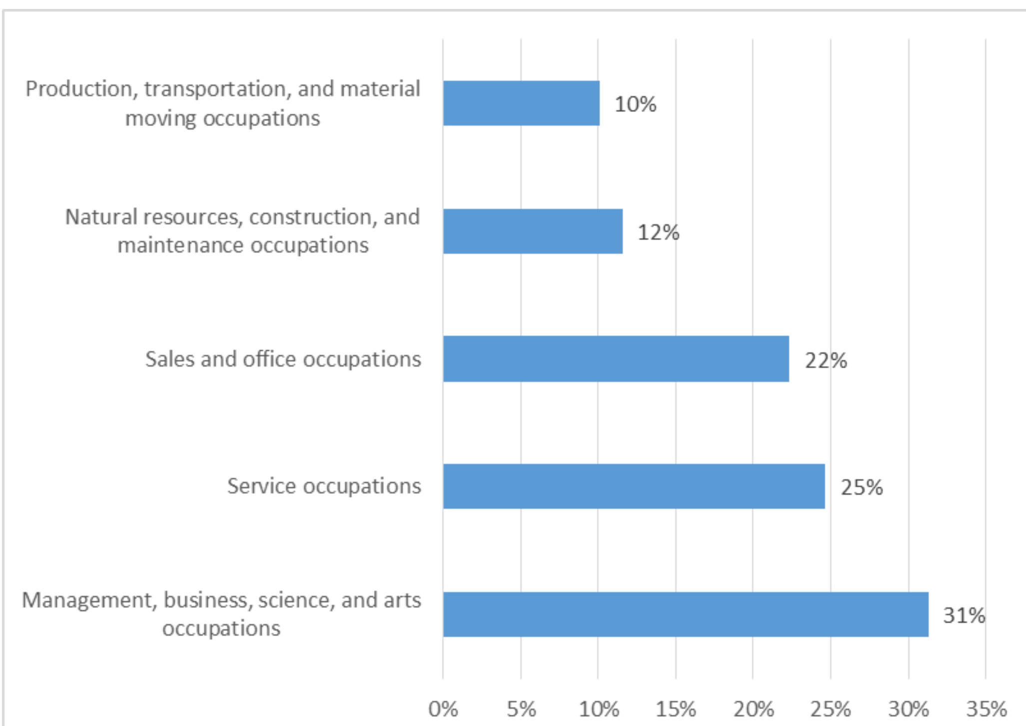
HOUSEHOLD INCOME
(combined zip codes of 92314 and 92315)



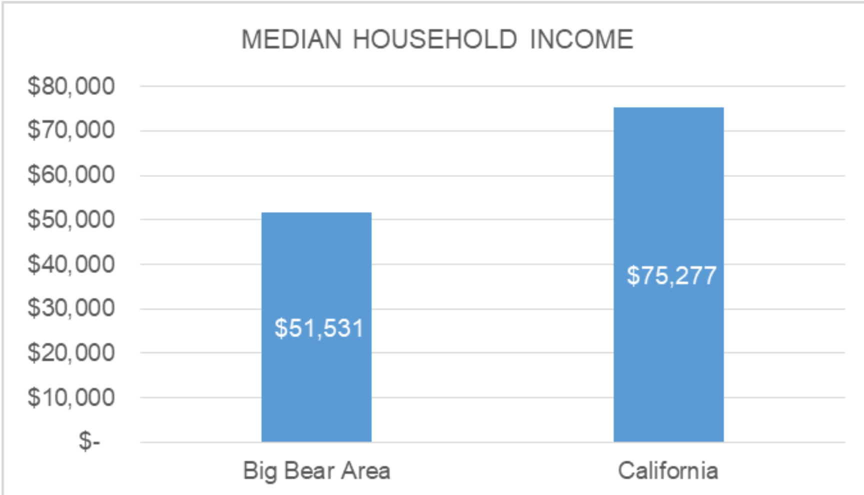
% OF EMPLOYED POPULATION BY INDUSTRY
(combined zip codes of 92314 and 92315)

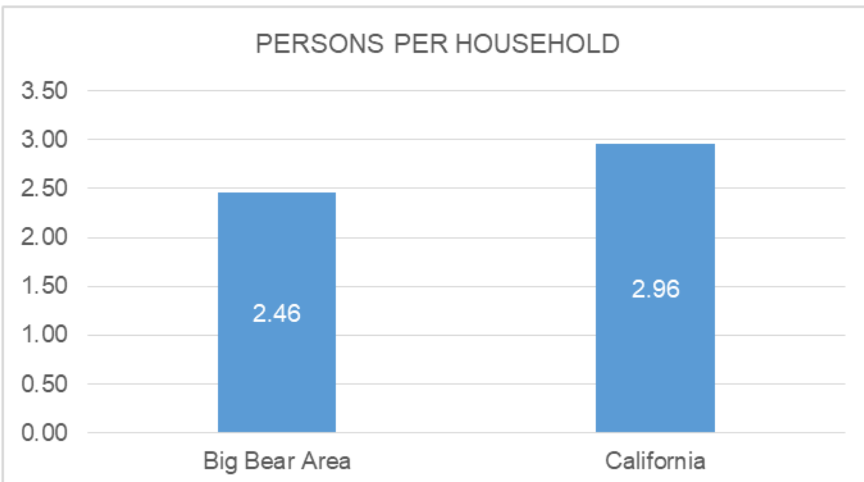


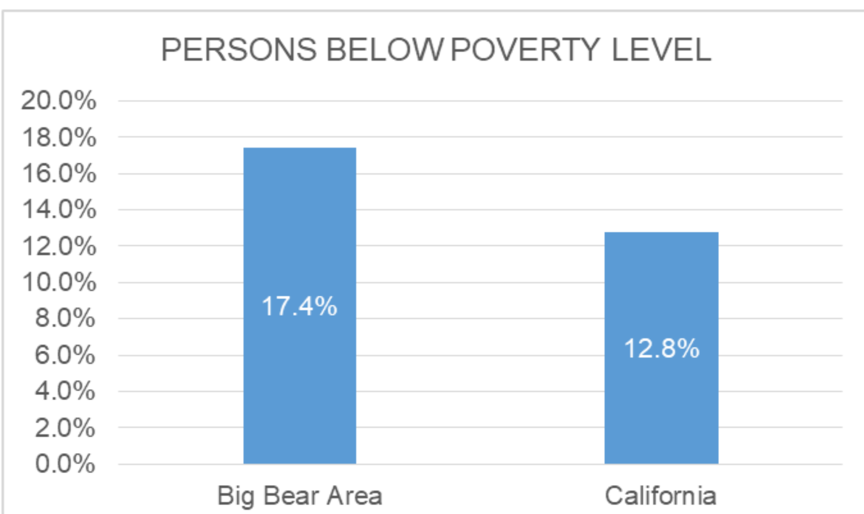
% OF EMPLOYED POPULATION BY OCCUPATION
(combined zip codes of 92314 and 92315)



BIG BEAR AREA[1] COMPARISON TO STATE OF CALIFORNIA





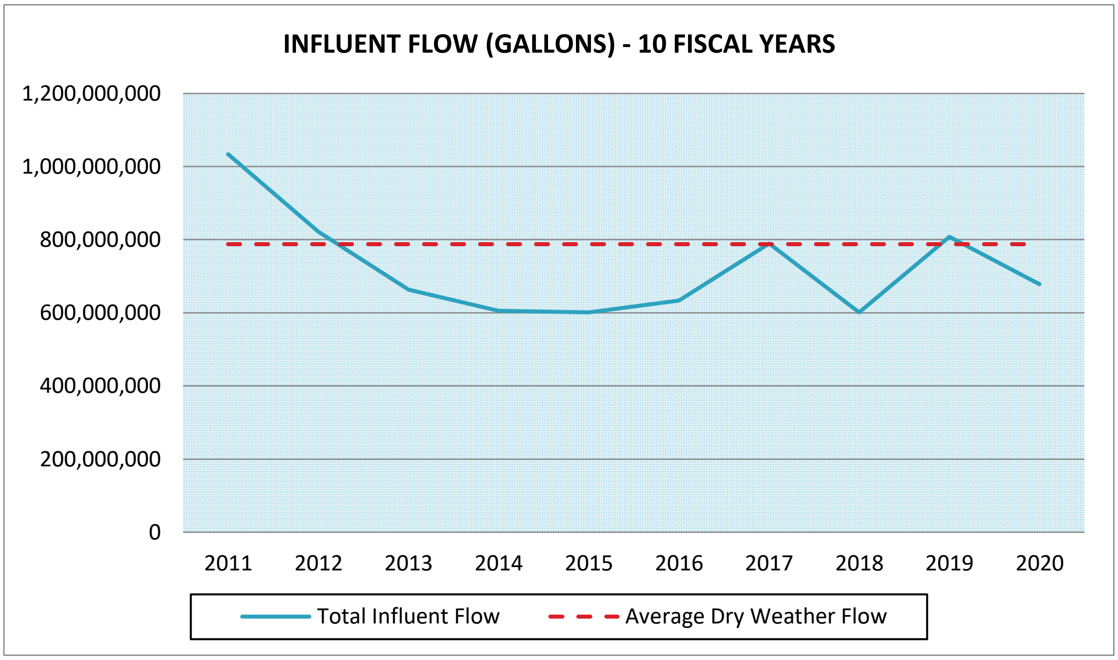


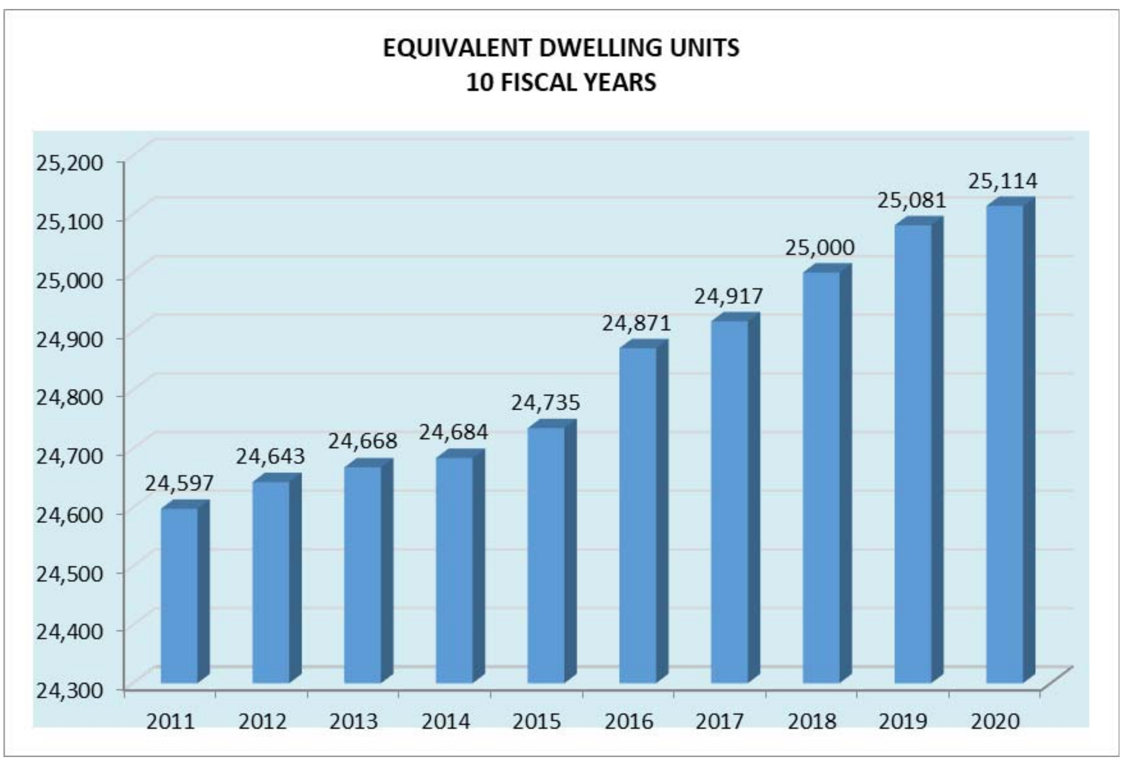
[1] Includes the zip code areas of 92314 and 92315.

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. Long-term average annual growth in equivalent dwelling units is below 1.0%.

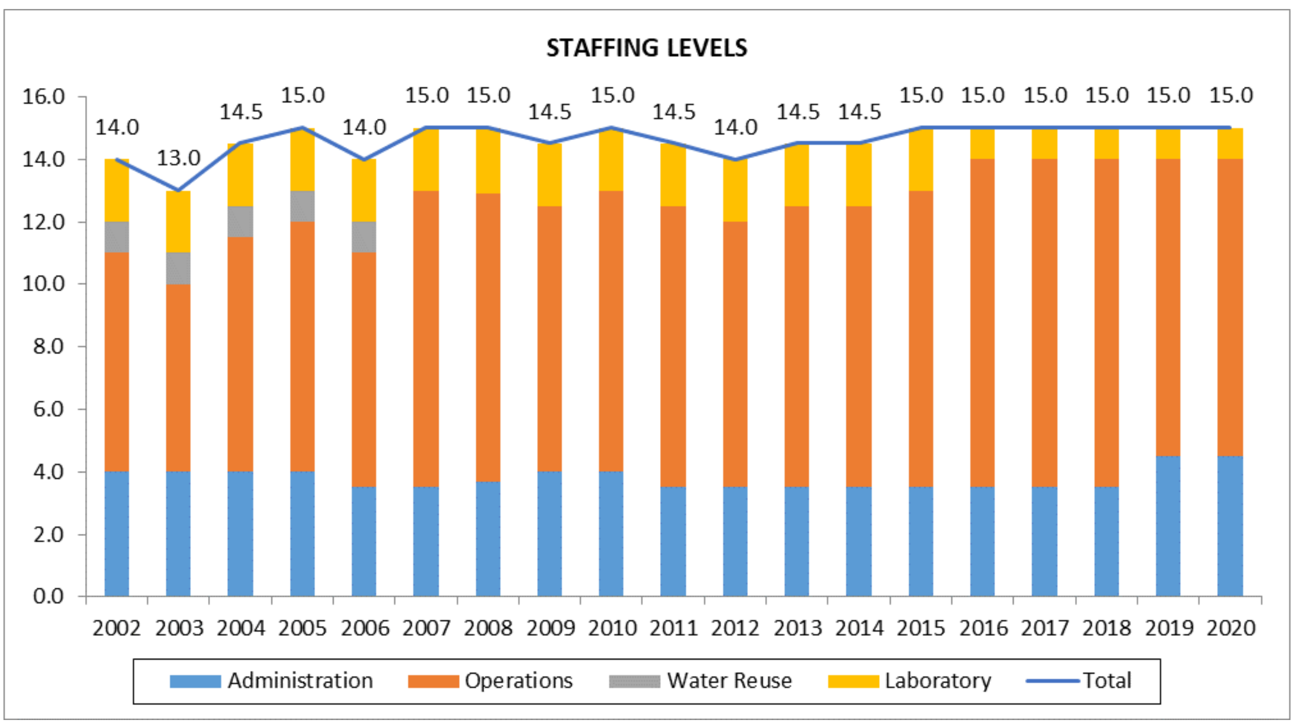




AGENCY STAFFING BY DEPARTMENT[1]

Year	Admistration	Operations	Water Reuse	Laboratory	Total
2002	4.0	7.0	1.0	2.0	14.0
2003	4.0	6.0	1.0	2.0	13.0
2004	4.0	7.5	1.0	2.0	14.5
2005	4.0	8.0	1.0	2.0	15.0
2006	3.5	7.5	1.0	2.0	14.0
2007	3.5	9.5	0.0	2.0	15.0
2008	3.7	9.2	0.0	2.1	15.0
2009	4.0	8.5	0.0	2.0	14.5
2010	4.0	9.0	0.0	2.0	15.0
2011	3.5	9.0	0.0	2.0	14.5
2012	3.5	8.5	0.0	2.0	14.0
2013	3.5	9.0	0.0	2.0	14.5
2014	3.5	9.0	0.0	2.0	14.5
2015	3.5	9.5	0.0	2.0	15.0
2016	3.5	10.5	0.0	1.0	15.0
2017	3.5	10.5	0.0	1.0	15.0
2018	3.5	10.5	0.0	1.0	15.0
2019	4.5	9.5	0.0	1.0	15.0
2020	4.5	9.5	0.0	1.0	15.0

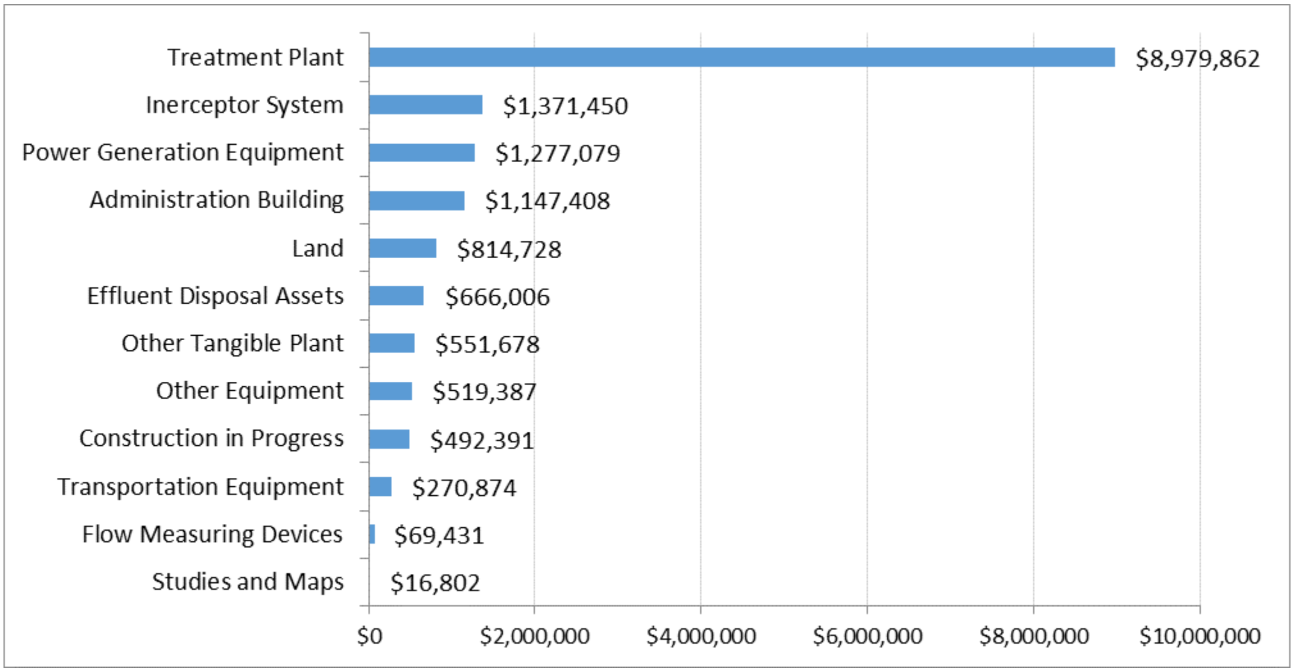
1Full-time regular employees are assigned a 1.0. Part-time (regular, not full-time) and Non-regular (seasonal, temporary) are assigned a 0.5, although hours worked and compensation are not equivalent, i.e. part-time employees may receive full benefits and non-regular employees may not receive benefits. 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 (56%) and the interceptor system (8%).

CAPITAL ASSETS (NET BOOK VALUE)



KEY ASSETS

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

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

CAPACITY UTILIZATION BY STRUCTURE

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

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